

DEVELOPMENT OF ENTREPRENEURSHIP IN DEVELOPED ECONOMIES; a case of China

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INTRODUCTION

The purpose of this paper is to explore the key factors that are impacting on the growth of Chinese entrepreneurial enterprise.

The national economies of most countries in the world are considered to be essentially enterprise or market economies in which individual economic activity is rewarded liberally and the role of the individual in the production process is central (Golay, 1960), thus in this regard in the past, the Chinese economy was essentially a government economy. In a government economy, economic activities are always controlled by the government, not by the enterprises themselves or by the market. In the early stages of the economic reform in China, there was an emphasis on the independence of operations and options for both enterprises and individuals. While the situation has changed a great deal, the government still intervenes in some microeconomic activities in a redundant fashion.

In 1978, after years of state control of all productive assets, the government of China embarked on a major program of economic reform. In an effort to awaken a dormant economic giant, it encouraged the formation of rural enterprises and private businesses, liberalised foreign trade and investment, relaxed state control over some prices, and invested in industrial production and the education of its workforce. Nearly all accounts, the strategy has worked spectacularly.

There are several issues underlying the development of entrepreneurship in China. The first is the role of private entrepreneurship in China's national economic growth, while the second is the role of cultural and demographic factors on private entrepreneurial activities in China. The third concerns the business environment for private entrepreneurial activities in China in recent years, and the fourth is an analysis of government policies that support or hinder entrepreneurial activities in China. Finally, the support from given by the International Monetary Fund (IMF) in the initial stages of development.

It is also paramount to discuss the consequences of the economic reform programs in planned in China's entrepreneurial development. It should be looked at the way the Soviet Union, China, and other Eastern European countries, have been a substantial change in environmental conditions associated with the creation of new ventures. Finally, it is eminent that China initiated the entrepreneurial support.

The common myth is that today's rich countries got rich through free-market, free-trade policies while today's poor countries are poor because they have not used such policies.

Key words: Entrepreneurship, creativity, vocational training, per capita income, incubator program

(A) ISSUES THAT IMPACT CHINA'S ENTREPRENEURSHIP GROWTH.**(i) The role of private sector in entrepreneurship development in China's national economic growth.**

The private sector in China became an important part of the economy after the economic reforms in 1978. Although in the early stage of establishing the People's Republic of China in 1949 there were about 9 million individual business units in China, they were one of the objects of the revolution during that time. After the socialist reconstruction from 1953-56, there was in practice almost no private and individual business. During "the three years adjustment period from 1963-65," some individual business households were established, but until the end of 1978, only about 150,000 existed in the whole country.

The first turning point of private sector development in China began in 1978. The Third Plenum of the Chinese Communist Party's (CCP's) 11th Central Committee, which convened in December 1978, was a milestone in Chinese socio-economic development. This Plenum distinguished itself by marking the beginning of the official revival of private business. Although the Plenum itself did not make any specific announcements concerning private business, it signified the official adoption of economic modernization and growth as the paramount concern of the CCP.

It emphasized economic development and individual incentives, which gave impetus to the revival of private business. Before this Plenum, the mainstream society considered private and individual business activity to be the root of evil behaviour—the so called "Capitalist tail"—which should be cut down by "revolutionary thought." After this Plenum, the rapid development of individual and private activities had a strong experimental flavour since during that period this sector was still thought to play a marginal, stopgap role in the national economy as a supplement to the state and collective sectors. In practice, private businesses played the role of "filling in the gaps" in the national economy, particularly in the distribution of consumer goods and services and in employment. During that period, the main component of the private sector was individual household businesses (getihu).

The individual business (getihu) was a new business category in China during the early stages of economic reform. It was also called single industrial and commercial proprietor at that time. Until 1988, there were two types of individual or private businesses in China. The first was individual business, defined as a single unit that could hire no more than five employees, announced by a government document in July 1981. If a private unit hired more than five employees, it was counted as a private enterprise. During that period, private enterprise was not a favoured concept and hiring more than five employees was prohibited. But since this prohibition was not based on any economic reason, in June 1988, the central government issued a very important document, the Tentative Stipulations on Private Enterprises (TSPE). According to this document, if a unit with privately owned assets hired more than eight employees, it was regarded as a private enterprise. Private enterprise meant "a for-profit organization that is owned by individuals and employs more than eight people."

According to the TSPE, there were three models of private firms: sole ownership, partnership and limited liability incorporation. These models of enterprise act as supplements to the socialist public-owned economy. Regarding other firms hiring eight or fewer employees, these are still registered as individual businesses (getihu). All of these can be called private sector businesses. We also refer to them as the "non-public economy" or "non-governmental economy."

From 1978 to 1988, the number of individual businesses and private enterprises grew rapidly. According to a 300-village survey conducted by a research institute under the State Council in 1987, more than 0.2 percent of farm households hired more than eight people in 1986. If we take this Bureau of Labour, Bureau of Urban Construction, Ministry of Public Security, and Bureau of Industry and Commerce Management, Directives on

Issues Related to Land Used by Urban Collective and Individual Economy, 6 May 1981.

(ii) Second, is the role of cultural and demographic factors on private entrepreneurial activities in China.

Marx concept of capitalist production and surplus process.

This is a very funny and arbitrary definition. It is based on an example by Marx in his *Das Kapital* in 1865. In his example, he seeks to illustrate the capitalist production and surplus producing process. Marx discusses the need for a certain number of people to be employed before the employer can get the surplus value and accumulate capital. So, he gives a purely hypothetical example in which the employer has to employ eight people in order to extract enough surplus value to make twice the employees' normal living standard, plus the same again to use as capital. In this example, his main presuppositions are that the surplus value rate is 33 percent and a half of the total surplus will be accumulated as capital, and that the employer wants to have a higher living standard, twice that of a normal employee. (Karl Marx, *Das Kapital*, Chinese version, 1972, Vol. 1, 341-342). Obviously if the preconditions changed the conclusion should be changed, too. So, the definition given by China's government document is arbitrary and not based on any economic practice or theoretical reason.

(iii) Entrepreneurial Environment In China.

The environment is an important initial factor in influencing the strategy, Structure and processes of any organized endeavours, including entrepreneurial start-ups. Some researchers suggest that the socio/political environment may be so powerful as to create or destroy entrepreneurship in a country. By applying social cognitive theory to entrepreneurship, demonstrates how environmental dynamism and hostility significantly discourage entrepreneurial outcomes of economies.

The changes in China have made entrepreneurial behaviours legitimate and thus promoted the founding of new ventures. The transition of China from planned economy to a market-based economy represents a major paradigm shift and during which substantial improvement has occurred in the political, legal, and administrative environment to meet the needs for new economic, structure. This is an empirical evidence of how environmental; changes in China may support a climate that facilitates the birth of new, entrepreneurial ventures. Also addressed is the important role that entrepreneurial self-efficacy plays in process of entrepreneurial outcomes.

(B) Consequences of the economic reform programs in planned economy.

Economies, such as the former Soviet Union, China, and other Eastern European countries, have been a substantial change in environmental conditions associated with the creation of new ventures. This has been true to such an extent that Johnson and Loveman (1995) have argued that the creation of new business through entrepreneurial development is the principal source of economic renewal at the enterprise level in transition countries. Among transition economies, China may provide process that uniquely supports new venture creation.

In contrast to the "back to zero" approach exhibited in countries such as the former Soviet Union, in which the entire prior economic system is broken down and a market economy structure built, China seeks to integrate a market-driven economic structure in its previously centrally-planned economic system step by step, resulting in a "soft landing." Recent statistics strongly support China's approach. Since 1979, the Chinese economy has experienced growth of over eight percent a year (Bruton, Lan, Lu, & Yu, 2000). This rapid economic growth, combined with the fact that the nation has an estimated twenty-five percent of world's population, makes China an emerging economic giant (Bruton, et al., 2000). China's entry to the WTO is expected to fuel the speeding economic growth. Despite the probability of periodic corrections, most observers expect this rapid growth will continue.

China will continue to be of increasing importance to the future global marketplace (Ralston Holt, Terpstra &

Kaicheng, 1999). Some scholars predict that the 21st century will see China emerging as the world's largest economy (Leonard, 1997). Undoubtedly, these positive environmental factors provide a warm "bed" for Chinese entrepreneurs to be born. Of course, as with the other transitional economies, China has also faced a combination of factors such as resistance to change in their prevailing bureaucratic- administrative business culture, underdeveloped legal and financial infrastructure, considerable administrative discretion and corruption by some government officials, restrictive taxation, high interest rates, and a lack of management expertise and skills (Connor, 1991; Kaser, 1995; Kornai, 1995; Luthans, et al., 2000). Thus, it can be expected that environmental context also partly impedes new venture creation in China.

Because an entrepreneur exists within a complex matrix of social interactions within an even larger context of community, society, and culture, Carsrud & Johnson (1989) see the entrepreneurial process as a response to environmental conditions. Aldrich & Wiedenmayer (1993) suggest that the socio-political environment may be so powerful as to create or destroy entrepreneurship in a country. Stinchcombe (1965) argues that environmental forces significantly affect organizations during their emergence, constraining and imprinting the new form in distinctive ways. The environmental changes in the recent twenty years in China have made entrepreneurial behaviours legitimate and thus promoted the founding of new ventures.

(C) The government policies that support or hinder entrepreneurial activities in China.

While the transition from China's planned economy to a market-based economy represents a major paradigm shift, rapid changes and substantial improvement have occurred in the political, legal, and administrative environment in order to meet the needs for new economic structure. Thus there is need to identify and analyze the effect of China's political, economic, legal, and cultural environment on the Chinese new venture creation and then examine the role that entrepreneurial self-efficacy may play in the relationship between this external context and new venture.

The Chinese Communist Party (CCP) was built by a few young and idealistic students in 1921, who sought to establish a new China in order to rescue the people from the "deep water and fiery fire" (poor living conditions and high compression). These same idealists became the Chinese Party leaders in 1949. The newly built, complex Chinese political system combined the rich culture and history of the country with a similarly deep-rooted feudal political and social heritage (Hodgetts & Luthans, 1996).

Since that time, Chinese society has experienced a pattern of "ups and downs" or "speed-ups and slow-downs" as it adjusts and readjusts on the political, economic, and business scenes.

This "bumpy ride" has been due in large part to the poor fundamentals resulting from the previous underdeveloped economy and a lack of managerial knowledge and skills in CCP members (Schermerhorn and Nyaw, 1990). A broad array of political struggles (Chinese people defined as "the Massive Movements") such as "the Great Jumping," "Fighting the Left," "Fighting the Right," and the worst, "the Cultural Revolution," resulted in a long series of consolidations in Chinese politics and economics. Over time, the communist ideology became seriously distorted even for those who used to be very loyal to the CCP, and particularly for those who suffered during any of "Massive Movements." Moreover, outrage over the Tiananmen Square incident in Central Beijing on June 4, 1989, weakened support from the international community. Along with the changes in CCP leadership came political diversity. Since 1979, a new age headed by Deng Xiaoping started with redirecting government focus from politics to economic development. This change in focus led China into an "open-door" policy, which dramatically sped China's economic development and brought China into the global market stage. Consequently, Chinese enterprises have had to face the pressure to increase productivity and business performance (Schermerhorn, 1987).

The Chinese economic system that is encouraging post Marxist-Leninist form is characterized by the independence of government and economic enterprises, and has led to a uniquely Chinese form of capital (Leonard, 1997). Even though there still is a socialist suit on the body, the political essence has already been changed to market-based development. For example, China's entry into WTO, an issue that China struggled with for thirteen years, clearly demonstrates the political leaders' determination for economic development.

However, because the heritage of face-saving, connection, and private interest are still ingrained in Chinese politics, the current leaders understand that it is treacherous for them to use internal power to destroy existing political patterns too quickly. Therefore, the leaders promoted the WTO issue to "open the door, let the wolf come in" to use external power to weaken entrenched internal coalitions which resist the economic reform. For doing this, they have earned extra credit from the majority of the Chinese population.

Even though the general enterprise still maintains an internal authority structure parallel to the communist party, the essence of the economic structure has dramatically changed in the power system. The directors or managers of the enterprises, who substantially run the factories, have the real power.

The previous party cadre members have gradually lost control of the core economic operations and their power is on the wane. Particularly in the southern part of China, political influence on both personal life and business has been limited or absent since the China's open policy in 1978. People in this area shifted their interest from politics to profit-seeking business. Work centrality has clearly become market-based business development. For example, the per capita GNP of Candon Province is the same as that of France. Independence of business operations, less political influence from the central Government, and geographical advantage (close to Hong Kong and Taiwan), entrepreneurs have been mushrooming in the last twenty years and have become the mainstream of economic growth. These developments suggest the following:

The practices of the past, such as the dominance of personal over institutional control in politics and lack of organized democratic forces, made the reconstruction of the political and economic environment at best contradictory and inconsistent, and at worst chaotic and destructive (Luthans, et al., 2000). The ongoing political and economic reforms in China have been changing the traditional administrative, bureaucratic structures to private ownership. Thus, the structural heritage of socialism is in many ways fundamentally incompatible with new market changes, which make reform a partial and lengthy process (Luthans, et al., 2000).

Authorities, the post communist governments (many of which consists with change rhetoric) still have countless administrative and ideological instruments to control not only the state, but also the private sector. The conflict between a new political and economic reform construct and old ideological instruments results in the absence of well-designed policies and infrastructure to support the private sector and often forces fledgling entrepreneurs to quit their business early on Peng & Heath (1996) argue that the necessary legal framework of a market economy such as well-defined property rights is still lacking in transition economies. Without a legal regulatory framework, both efficiency and equity are adversely affected and crime and corruption are encouraged. Therefore, potential entrepreneurs may believe that the new system is not on their side because they are not protected from the powerful old party holdovers and new criminal outfits (Luthans, et al., 2000).

Merrifield (1991) claims that in a socialist redistributed economy, state banks and official sources of credit generally offer loans more on the basis of political rather than economic considerations. The legitimacy and legality of entrepreneurial development become a privilege that must be bought by illegal bribes and expensive forms of compliance. Li Ruihuan, the Chairmen of Central Political Consulting Committee, pointed out that China still has many officials who use their personal discretion over the law in judging and solving economic disputes. Even though commercial laws, such as those guiding domestic and international contracts, joint ventures, and sole

investment, have been reformed and formally adopted for a long time, local protectionism still exists in many parts of China, particularly in the remote areas. Some lawyers who investigated for court cases in these areas are often blocked or even physically harmed.

The central government in China is not unaware that the conflict between the ideological needs for new economic structure and the existing ideology embedded in the old economic system impedes the economic development. A large number of emerging economic criminal structures with state power have been in the court systems.

Many high-ranking officials across the whole country of China have been sued for taking illegal bribes and other unearned money. The Chinese central government realizes that the turbulence of economic development, enhanced by the globalization and competition, is challenging the both the political and economic system to “feed” the fledgling Chinese entrepreneurs in order not to be “eaten” by the Western “wolves”.

A significant achievement of the central government in the recent years has been attacking smuggling. One case, investigated by Prime a basic requirement for entrepreneurs to conduct business is autonomy or freedom. Entrepreneurs need to use their own discretion over resources to seize business opportunities.

Moreover, aspiring entrepreneurs need to have the freedom to “pitch” their new ideas to capital holders for financial support, who are critically important for entrepreneurs because capital holders are always looking for the most profitable business. In addition, entrepreneurs require protection from the illegal activities of others that reduce the incentive to choose business ownership. While still early, there are indications that the Chinese government is pursuing legal policies that impact both business discretion and protection. Enforcing commercial law and reducing personal discretion over legal issues may facilitate Chinese entrepreneurship, suggesting that:

Entrepreneurship has not enjoyed a high standing in the Chinese socialist regime (Armstrong, 1983). The previous Chinese power system placed a particularly strong emphasis on officially recognized ranks. In the socialist culture, persons involved in commerce were held in low esteem. Even more seriously, private business in China used to be considered as the “tail of the Capitalism,” which was regarded as one of the most serious antirevolutionary criminal activity.

The size of unemployment in China has also influenced new venture creation. China has three distinct classes of business that operate in different institutional environments: state business, joint ventures, and village and township enterprises (Bruton et al, 2000).

(D) The support from the International Monetary Fund (IMF) in the initial stages of development.

After the world war 11, the rule of imperialism ended and developing countries in Asia and Africa started acquiring independence. In the 1970's, a mixture of post-colonial guilt and the competition with the Soviet block meant the developed countries were willing to allow quite a lot of policy freedom to developing countries. These were attached to their bilateral aids and to loans from the multilateral financial organizations (like the World Bank and IMF) that the rich countries control.

With the rise of neo-liberalism in the developed countries (especially the US and the UK), the Soviet bloc, the rich countries increased pressure on the developing countries to adopt what they saw as ‘good’ policies, namely free-market policies, comprised of international trade and investment, de-regulation of economic industries, privatization of state-owned enterprises and opening of capital market.

These policies were forced upon the developing countries through the conditions attached to the loans by the World Bank and IMF.

(E) China's entrepreneurial support.

Entrepreneurship has become vital to the success of a company and economic growth. There is increasing evidence to show significant correlation between entrepreneurship and economic growth. Countries in the world are experiencing a surge of interest in the formation of new businesses especially in the developing world. This escalating interest of entrepreneurship has become a focal strategy of regional and national economic development in many regions and countries. Strong emphasis on enterprise development as a platform for economic development is thus an important dimension in development policy.

The People's Republic of China (hereafter China), an original planned economy, has demonstrated rapid economic success during the past few decades. Entrepreneurs are playing a significant role in contributing to national economy. Despite the limited access to resources and financial capital and services, Chinese entrepreneurs have continuously presented their strength and energy. In addition to their strength and energy, Chinese entrepreneurs' success to a certain degree results from China's previous and current policies which are intended to create an environment in which entrepreneurship and new small and medium-sized enterprises (SMEs) can thrive and flourish.

China's entrepreneurship and enterprise development has progressed in two directions at the same time. The first thread is to gradually liberalize the market toward a more market-oriented economy and consequently increase the proportion of private enterprises which have been typically comprised of SMEs. The other thread is to encourage technological innovations and support technology-based enterprises through strong technology-oriented strategies, policies and operational incubation programs.

More than 20 million workers were employed by private enterprises and more than 311 million participated in individual business activities.

Parallel to its efforts to gradually yet continuously liberalize its market, China has also adopted a technology-oriented strategy to promote entrepreneurship and enterprise development. Since the late 1970s, China has been reconstructing its science, technology, and enterprise development. The primary goals were to invest and promote basic research, to apply them, and to advance and contribute to China's economic reform. Various programs, therefore, have been carried out to strengthen China's basic science and technology capabilities and to commercialize research output. These programs include the National Technology Research and Development Program (1986), which is also referred as "863" program, the Spark Program (1986), the Torch Program (1988), and the Program of Key Basic Research (1997), which is also called "973" program. As in other countries, these programs are closely related, linking technological innovations to entrepreneurship assistance in order to promote high-tech start-ups and to facilitate commercialization of technological innovations.

This technology-oriented strategy and associated enterprise assistance programs echoed Porter's national competitiveness building and upgrading theories.¹³ Despite China's lower-cost advantage, China is facing increasing competition from other developing countries that have utilized the similar advantage of lower labour cost as this advantage may be easily duplicated in other labour-rich or resource-abundant countries. In addition to the international labour cost competition, China has also faced rising wages domestically, particularly in large.

These various programs implementing China's technology-oriented enterprise development strategy have different policy orientations. The "863" plan was devoted to critical technologies which could have significant impacts on China's economic reform or even national security. Large state-owned enterprises (SOEs) were then chosen to carry out the "863" plan due to the criticality of the technologies, the ability of SOEs to gather capital, human, and technological resources, and the dominance of SOEs in China's economy. In the following two years after its initiation in 1986, 500 million RMB yuan were mobilized and channelled into the program and thousands

of scientists participated in the research. Consequently, major breakthrough was documented in the fields of new materials, biotechnology, information technology, lasers, and space technology. The research breakthrough, however, was not smoothly transferred into final outputs in production processes. This was partly because of large SOE's rigid bureaucratic management¹⁵ and partly because of the underdeveloped connections between research and production

Beside the "863" plan, the Spark program is also an integral part of China's science, technology, and enterprise development policies. The major targets of the Spark program were China's huge rural population and the vast number of Township and Village Enterprises (TVEs). TVEs, which were primarily developed by peasants, were created to employ surplus agricultural labour force, financially support the peasants, and promote economic growth in the rural areas. The development and contribution of TVEs, however, were constrained by their crude technological abilities, low quality products, and unprofessional management. The primary goals of the Spark program were, therefore, to introduce and spread scientific and technological "sparks" to the rural areas, to help the TVEs with new technologies, new designs, new equipment, and new management.

To achieve these goals, a number of policy measures have been implemented. First, the Spark program has intended to support key applied techniques. For example, the initial support for livestock production has been extended to disease prevention, slaughter management, and even meat packaging and cooking. This all-inclusive approach well facilitated the diffusion of new techniques in the rural economies. Second, the Spark program was intended to improve TVEs' competitiveness and reap scale efficiency by offering incentives for TVEs to combine their efforts on research, marketing, and warehousing. Finally,

The Spark program has established Spark Technology Zones, concentrating limited resources to enhance their technological and investment environments. These zones, like China's other specialized zones, enjoy advantageous policy treatments on technologies, talented personnel, taxation, and infrastructure.

Parallel to the efforts dedicated to large SOEs, policy attention was also drawn to small and nongovernmental enterprises. Complementary to the "863" plan, the Torch program was aimed to support new start-ups in high-tech innovation and commercialization. Unlike the "863" plan, the target technology of the Torch program was not those highly critical ones, but a wide range of new technologies which were advanced, readily producible, and marketable. In addition, the Torch program had much broader funding sources than the "863" plan. Beside the national government, local governments, China's domestic banks, and international organizations, like the World Bank.

Another important component of the Torch program is high-tech and/or new technology development zones (HTDZs). The purposes of the creation of the HTDZs were two fold. On one hand, these HTDZs served as an additional funding source to the Torch program, linking promising new high-tech start-ups to any potential domestic and overseas capital resource. On the other hand and more importantly, these HTDZs worked as "incubators of high and new technology".¹⁷ tremendous efforts have been implemented to improve the investment and innovation environment in these HTDZs.

To further strengthen China's basic research ability and to meet the challenges of a knowledge-based economy, China launched its 973 program (National Basic Research Program) in 1997. The 973 Program has gathered extensive expertise to implement innovative studies of major scientific issues to meet China's long-term economic needs and to upgrade China's science and technology research capability. Tremendous efforts have been devoted to scientific and technological issues which are closely related to China's sustainable economic development and superior national competitiveness, for example, information technology, energy production and reproduction, environment protection, and population and health. By 2002, the 973 program has deployed 133 projects, attracted

and appointed 175 well-recognized scientists, and mobilized financial support up to 20-30 million RMB yuan.¹⁹

Incubator Programs

China's incubator programs experimented prior to the initiation of the Torch program but have been its integral part since its inception. The original form of China's business incubation programs was High and New Technology Venture Service Centres (HNTVSC), which were established and administered jointly by the State Science and Technology Commission (predecessor of the Ministry of Science and Technology (MOST)) and local governments. The first HNTVSC (Wuhan Eastlake Venture Centre) came into existence in 1987 in Wuhan, Hubei Province. Since the inception of the Torch program in 1988, HNTVSCs have been incorporated into the Torch program, primarily through the HTDZs. Over the past two decades, China has witnessed continuously increasing numbers of high-tech incubators – from merely 73 in 1994 to 534 in 2005. The increase of incubation facilities strongly suggests that infrastructure to support the SMEs development has expanded. These incubators have played a crucial role in technological commercialization, job and wealth creation, and economic growth.

China's high-tech incubators can be roughly categorized into five types. They are 1) comprehensive and general technology business incubators; 2) specialized technology business incubators; 3) university incubators; 4) incubators for returned overseas students and/or scholars; and 5) international business incubators. The majority of Chinese incubators fall into the first category. Comprehensive and general technology business incubators assist SMEs in the transfer and communalization of technological achievements through various services, such as floor space and facilities, financing, marketing, and other business management consultation and training, laws and policies, and sometime, direct financial support. All these create a favourable environment for the transformation of scientific achievements and the creation and development of SMEs.

Specialized technology business incubators focus on; Average number of Employees per Tenant Company business assistance in a single or a few closely related technological fields, for example, bio-medical incubators, software incubators, and new material incubators. University incubators are mainly established within university campuses and generally set up to take advantage of technological resources in universities. Businesses within such incubators are typically founded by university faculty and students based on their research results. These university incubators have demonstrated their superior abilities to link readily available faculty and students to entrepreneurship assistance, to accelerate the development of innovative high-tech firms, and to facilitate the commercialization process of technical innovations. Incubators for returned overseas students and or scholars, initiated in 1997, focus primarily on attracting Chinese scholars and students abroad to start their own ventures in China. International business incubators promote international cooperation by both helping foreign enterprises enter the Chinese market and by helping Chinese domestic businesses explore overseas markets and develop international operations.

In addition to the government financial supports, China's incubators are also sponsored by other financial sources, including university subsidies, SOEs, private funds, and international donor organizations. But these additional fund sources only account for a small portion of the entire finance.

Fostering Entrepreneurship and Enterprise Development in China:

A Policy Review China results partly from the inadequate venture capital in China. As a result, most of Chinese incubators, which are exclusively funded by the governments, are not for profits.

Despite the dramatic increase of incubators in China, their successful role in connecting entrepreneurship and technological innovations, and their significant impacts on technological commercialization, China's incubator

programs still have their weaknesses;-

First, China's incubators over-rely on government financial sources. This over-reliance may enable the governments to impose their political mandates on the operations of incubators. For example, incubator managers may avoid supporting "risky" start-ups, due to their concern of losing future governmental resources.

Second, excessive attention and emphasis have been put on incubators' "hardware," like brand new buildings, new roads, and broadband Internet. As a result, the improvement of their "software" is overlooked. Though physical infrastructures are important to the development of new enterprises, the major benefits of incubators come from the nurturing environment and professional assistance provided by well-trained staff in incubators. In China, unfortunately, professional management assistance is lacking. For example, an incubator has only staff members on average, who have to be responsible for over 50 tenant companies at the same time. Due to the insufficient entrepreneurship support, the essential advantage of incubators may merely be lower rent costs and preferential bank loans. The lack of management talent in incubators may seriously limit their positive impacts in China.

Third, most of China's incubators, directed by the not-for-profit operation rationale, do not provide their services on a cost-recovery basis and may, therefore, face long-term self-sufficiency problems. In addition, the not-for-profit approach may not offer enough motivations for incubator staff to provide their best services. Finally, there is not enough attention to new kinds of incubators. Scaramuzzi identified three "generations" of incubators, i.e., science and technology parks are the first generation, and virtual incubators and incubator networks are the second and third generation respectively.

Trend of China's growth.

While pre-1978 China had seen annual growth of 6 percent a year (with some ups and downs along the way), post 1978 China saw average real growth of more than 9 percent a year with fewer and less painful ups and downs. In several peak years, the economy grew more than 13 percent, per capita income has nearly quadrupled in the last 15 years, and a few analysts are predicting that the Chinese economy will be larger than that of the United States in about 20 years. Such growth compares very favourably to that of the "Asian tigers"; Hong Kong, Korea, Singapore, and Taiwan province of China, which as a group had an average growth rate of 7-8 percent over the 15 years.

China has done well continuously since 1978, an IMF research shows that sources of that nation's growth is as a result of a country's stock of capital assets, such as new factories, manufacturing machinery, and communications systems was improved, the Chinese workers, a sharp. Sustained increase in productivity (that is increased worker efficiency) was the driving force behind the economic boom. During 1979-94 productivity gains accounted for more than 42 percent of China's growth and by the early 1990s had overtaken capital as the most significant source of that growth. This marks a departure from the traditional view of development in which capital investment takes the lead. This jump in productivity originated in the economic reforms begun in 1978.

Conclusions and Policy Implications

Enterprise development has become a central component of regional and national development strategy around the globe. This paper reviewed China's existing policies and programs to promote science and technology innovations and enterprise development. Among China's enterprise development policy approaches, tremendous efforts have been made to enhance China's science and technology innovation capabilities and commercialization of technological innovations. These efforts not only cover both critical and daily technologies but also support a variety of enterprises, like, SOEs, TVEs, and university spin-offs. In addition to the programs targeted at science and technology capacities in China, China has also established a comprehensive incubator program to boost

enterprise development. This program has experienced rapid growth and demonstrated significant impacts on entrepreneurship development, job creation, and economic growth.

With regard to the weaknesses of China's existing incubator program, it is recommended that future enterprise development programs stress the cultivation of nurturing investment and entrepreneurship environments, to attract private fund sources and venture capitalists, and to promote virtual incubators and incubator networks.

Curious about China why China has done so well, an IMF research team examined the sources of that nation's growth and arrived at a conclusion; although capital accumulation is a necessary resource, the country's stock of capital assets, such as new factories, manufacturing machinery, and communications systems were important, as were the number of Chinese workers, a sharp, sustained increase in productivity (that is, increased worker efficiency) was the driving force behind the entrepreneurial and economic development.

In the Chinese context there has been rapid and continued economic growth over the 2 to 3 decades. However China is home to millions of the world's poorest people. Many of the poor live in impoverished rural areas with mild prospects of economic improvement. There has been a deepening inequality between the urban and rural population. The Chinese government has been attempting in the recent past to tackle this problem by promoting economic development in rural areas through creating small and medium sized enterprises. The promotion has been by provision of micro-finance services. The government of China has granted licenses to companies offering micro-finance services in rural areas to bridge the gap between the rural poor and the urban population. The People's Bank of China and the China Banking Regulatory Commission has encouraged the creation of rural credit cooperatives and village microfinance banks by offering big subsidies to them to offer micro credit at affordable and friendly conditions. According to Christein 2005, micro-credit has demonstrated that people can save, borrow and meet their financial obligations in cities and rural areas. Besides the government of China has facilitated the creation of specialized and dedicated micro-credit companies.

Finally, China occupies a unique position in the world's political economy- it has populace and large physical size alone mark it as a powerful global presence. It is still possible to look at Chinese experience and draw some general lessons for other developing countries. Most important, while capital investment is crucial to growth, it becomes even more potent when accompanied by market-oriented reforms that introduce profit incentives to rural enterprises and small private businesses. For countries with a large segment of the population underemployed in agriculture, the Chinese example may be particularly instructive. By encouraging the growth of rural enterprises and not focusing exclusively on the urban industrial sector, China has successfully moved millions of workers off farms and into factories without creating an urban crisis. Lastly, China's open-door policy has spurred foreign direct investment in the country, creating still more jobs and linking the Chinese economy with international markets.

Recommendation.

In sum, since the late of 1980s, China has implemented systematic policies to promote technological innovations and enterprise development. Consequently, China has established various programs targeted especially at different types of technologies and enterprises. Among these efforts, a large number of incubators have been set up to provide a nurturing entrepreneurship environment to high-tech start-ups. Despite the rapid increase of these incubation facilities, the available facilities can only work with a small portion of new enterprises, and the remainder of promising companies is still lacking sufficient entrepreneurship assistance. Further, many incubators have insufficient staff and program support to assist their companies, which suggests that the benefits of these incubation programs may be limited to mere rent reduction over current market rates.

It is very significant that the developing countries should adopt the Chinese systematic policies that have taken her economy to this far. Such economies that lag behind where they were at the same level with China on the era of independence. More study to be done by sending people to China and various governments to encourage on the citizens, change their mind, skill and attitude towards entrepreneurship. Yet it remains the kind of education associated with entrepreneurship skill to be included in the curriculum.

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