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What Makes Small Business Develop in U.S. and China? ——An Exploratory Comparative Analysis of Georgia, US and Guangxi, China

Dongjin Zhang

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What Makes Small Business Develop in U.S. and China?

——An Exploratory Comparative Analysis of Georgia, US and Guangxi, China

Dongjin Zhang

An Internship Paper

Submitted in Partial Fulfillment of the Requirements for the

Master of Public Administration

Advisor: William E. Baker, Ph. D.

Supervisor: Lydia C. Jones, Area Director at KSU SBDC, MBA.

Kennesaw State University

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Acknowledgement

The graduate life in Kennesaw State University will be over. I have finished writing my internship paper. During the writing process, I got many help from others. Here, I would like to thank all those who have directly contributed their time to instruct or help me over the past year and who have taught me a lot.

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What Makes Small Business Develop in U.S. and China?

——An Exploratory Comparative Analysis of Georgia, US and Guangxi, China

Executive Summary

As the U.S. Small Business Administration (SBA) points out, small business is critical to U.S. economic recovery and strength, to building America's future, and to helping the U.S. compete in today's global marketplace. In 2007, U.S. small business constituted 99.7 percent of all businesses, about half of all private sector employees, nearly 45 percent of total U.S. private payroll, 60 to 80 percent of net new jobs annually over the last decade, and half of non-farm private gross domestic product (GDP). It is similar to China. In 2007, the firms called small and medium-sized enterprise (SME) contributed to 99.8 percent of all employer firms, more than 75 percent of all non-farm employees, and about 60 percent of gross domestic product. Small businesses are full of energy and enthusiasm compared with large firms.

U.S. federal and state governments provide small business with systematic, effective, and efficient services which are primarily delivered via the SBA. The SBA is an independent agency of the federal government. It is different in China. The China Small and Medium-sized Enterprise Department (SMED) is not an independent state agency. It is just a branch of the China Ministry of Industry and Information Technology. The China SMED just provides some macro-guidance services for SMEs. The SMEs services mainly focus on the local government. But the services which local governments deliver are as poor as the national level. However, the SBA has an extensive network of field offices and partnerships with public and private organizations throughout the U.S. and its territory. SBA programs and services support small business owners by means of SBA-backed loans, government

contracting opportunities, disaster assistance, training programs, advocacy, laws and regulations, national ombudsman, and civil rights compliance. More importantly, most of them are of good practicability and can meet a wide variety of small business needs. These measures are promoting small business development. However, Chinese SMEs are not given any priority over all large firms and state-owned firms. Indeed, they are given unfair treatment in loans, access to some industries, tax breaks, and so on.

I think there are three primary factors which promote small businesses development; including market opportunities, entrepreneur environment, and entrepreneurship wisdom. Entrepreneurship wisdom is more important than entrepreneur environment, and entrepreneur environment is more important than market opportunities. The services that the SBA provides for small business just meet these needs. But why on the whole can China SMEs achieve success in difficult circumstances? Perhaps this is because they primarily rely on their entrepreneurship wisdom to put efforts into their business. Another reason might be the initial development points for SMEs is very low, almost zero, and so that China SMEs are experiencing a rapid period of development, as like as China's economic growth.

To conclude, many SBA approaches to aid, counsel, assist, and protect the interests of small business concerns can apply to China, especially to local governments to improve service systems for China SMEs. In China, local governments have the major responsibility to develop the local economy, which is the biggest difference from the U.S. This paper will make four suggestions for China's local government; which includes access to capital, entrepreneurial development, government contracting, and advocacy.

What Makes Small Business Develop in U.S. and China?

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Table of Contents

Acknowledgement	ii
Executive Summary	iii
Table of Contents	v
1 Introduction.....	1
2 Findings.....	2
2.1 Definitions of Small Business and Its Roles in Economy	2
2.1.1 Size Standards by Industry Category in US.....	2
2.1.2 Size Standards by Industry Category in China	5
2.1.3 The Roles of Small Business in Economic Growth.....	8
2.2 The Characteristics of Service System of SBA in US and SMED in China...	11
2.2.1 An Introduction to the U.S. Small Business Administration (SBA).....	11
2.2.2 An Introduction to the Small and Medium-sized Enterprise Department (SMED) of Ministry of Industry and Information Technology of the P.R. China	14
2.2.3 The Differences between SBD and SMED	15
2.3 Policy Suggestion.....	18
2.3.1 Introduction to Liuzhou, Guangxi China and Its SMEs Service System.....	19
2.3.2 Some Suggestions on SMEs Services for Liuzhou, Guangxi, China	21
3. Conclusion	24
Notes	26

What Makes Small Business Develop in U.S. and China?

——An Exploratory Comparative Analysis of Georgia, US and Guangxi, China

1 Introduction

As one of the important components of the MPA program, I have enjoyed my internship at the KSU Small Business Development Center (SBDC). My main task for the internship is to evaluate public policies of small business development in the U.S. and China, and find some way in which we can improve the system of small business service. I have learned a lot in the internship at KSU SBDC, and I have achieved my internship goals.

The KSU SBDC is funded by the U.S. Small Business Administration (SBA) and the University of Georgia. Among the funds, the University of Georgia system provides about two-thirds and the US SBA one-third. Thus, it is a cooperative program between the state and federal level. ¹ As a district service center, KSU SBDC delivers its services for three county's residents. In 2008, the total population was 1,041,822, which included Cherokee County 210,529, Cobb County 698,158, and Paulding County 133,135. ² KSU SBDC just has three consultants.

US SBA was created in 1953. It is an independent agency of the federal government. Its mission is to aid, counsel, assist, and protect the interests of small business concerns, to preserve free competitive enterprise, and to maintain and strengthen the overall economy of the nation. Although it has grown since 1953, its basic mission remains the same. In practice, it helps Americans start, build, and grow businesses through an extensive network of field offices and partnerships with public and private organizations. ³

As an important component of the SBA service system, there are approximately

1,000 SBDCs throughout the United States, Puerto Rico, the U. S. Virgin Islands and Guam. The SBDCs are hosted by leading universities, colleges, and state economic development agencies, and funded in part through a partnership with the U.S. SBA, which provides no-cost consulting and low-cost training.⁴ The KSU SBDC is one of the eighteen SBDCs in the Georgia SBDC network.⁵ It offers a lot of training, provides face-to-face consulting, conducts economic development related market research, and provides technical assistance to assist existing and prospective business owners to start or grow a business. The KSU SBDC also offers expertise in international trade and special programs and consulting for minority entrepreneurs.

The training and technical assistance are two main services that the KSU SBDC provides entrepreneurs. The training includes classroom training and SmallBizU on-line business training programs. About technical assistance, its main aspects are as follows: develop and update business plans; identify sources of capital; set up record-keeping systems and analyze financial records; identify foreign markets for products or services; conduct specialized research geared to specific needs of the business-owner; create marketing strategies and advertising campaigns; explore suitable ways to conform to government regulations; increase opportunities to sell to federal, state, and local governments; and analyze statistical and demographic data.

2 Findings

2.1 Definitions of Small Business and Its Roles in Economy

2.1.1 Size Standards by Industry Category in US

In the U.S., “Size standards”, or numerical definitions, which represent the largest size that a business (including its subsidiaries and affiliates) could be classified as a small business, were established by the SBA for all for-profit industries. If the SBA

has some financial assistance or other programs, or if the federal government has some procurement programs, and these programs are just available to small businesses, these size standards could differentiate whether a business is a small business. Also, the Small Business Act states that unless specifically authorized by statute, no federal department or agency could decide a different size standard for categorizing a business concern as a small business concern, unless such proposed size standard meets certain criteria and is approved by the Administrator of the SBA.

A size standard is usually stated in number of employees or average annual receipts. SBA has established two widely used size standards—500 employees for most manufacturing and mining industries, and \$7 million in average annual receipts for most nonmanufacturing industries. While there are many exceptions, these are the primary size standards by industry.⁶

Construction

- General building and heavy construction contractors: \$33.5 million
- Special trade construction contractors: \$14 million
- Land subdivision: \$7 million
- Dredging: \$20 million

Manufacturing

- About 75 percent of the manufacturing industries: 500 employees
- A small number of industries: 1,500 employees
- The balance: either 750 or 1,000 employees

Mining

- All mining industries, except mining services: 500 employees

Retail Trade

- Most retail trade industries: \$7 million
- A few (such as grocery stores, department stores, motor vehicle dealers, and electrical appliance dealers), have higher size standards, but none above \$35.5 million.

Services

- Most common: \$7 million
- Computer programming, data processing, and systems design: \$25 million
- Engineering and architectural services and a few other industries have different size standards.
- The highest annual-receipts size standard in any service industry: \$35.5 million
- Research and development and environmental remediation services: the only service industries with size standards stated in number of employees.

Wholesale Trade

- For small business Federal contracts: 100 employees and the firm must deliver the product of a small domestic manufacturer, as set forth in SBA's no manufacturer rule, unless waived by the SBA for a particular class of product. For procurements made under the Simplified Acquisition Procedures of the FAR and where the purchase does not exceed \$25,000, the non-manufacturer may deliver the goods of any domestic manufacturer.
- For loans and all other programs: 100 employees are applicable for all industries.

Other Industries

- Divisions include agriculture; transportation, communications, electric, gas, and sanitary services; and finance, insurance, and real estate.
- Because of wide variation in the structure of industries in these divisions, there is no common pattern of size standards.
- For specific size standards as of January 1 of each year, refer to the size regulations in 13 CFR §121.201. SBA's Table of Small Business Size Standards includes all changes and modifications made since January 1 of the most recent year.

There is more complete information on size standard in the SBA's Small Business Size Regulations (13 CFR §121) or the Table of Small Business Size Standards. On January 1 of each year, SBA release the size regulations in 13 CFR §121.201. SBA's Table of Small Business Size Standards includes all changes and modifications made since January 1 of the most recent year.⁷

Usually, SBA's Office of Advocacy defines a small business for research purposes as an independent business having fewer than 500 employees.⁸

2.1.2 Size Standards by Industry Category in China

The Interim Categorizing Criteria on Small and Medium-sized Enterprises (SMEs), which were jointly written by the State Economic and Trade Commission, the State Development Planning Commission, Ministry of Finance and National Statistics Bureau, were approved by the State Council and then published in February 2003, and have been in use up to today in China.

The criteria were designed in accordance with the SMEs Promotion Law. They mainly consider the following elements: payrolls, revenues, and total assets of enterprises. The criteria apply to industrial sectors (including mining, manufacturing,

power, gas, and water utilities), construction, transportation and posts, wholesale and retail, and hotels and restaurants.

The following are industry-specific criteria for SMEs: ⁹

Industrial Sector

- Industrial SMEs should employ less than 2,000 people, or with annual revenue less than RMB 300 million (approximately 43.91 million dollars, according to the exchange rates on July 22, 2009), or with total assets less than RMB 400 million (approximately 58.55 million dollars). Medium-sized enterprises in this category should employ 300 or more people, with annual revenue and total assets exceeding RMB 30 million (approximately 4.39 million dollars) and 40 million (approximately 5.86 million dollars) respectively. The rest are classified as small enterprises.

Construction

- SMEs in the construction sector should employ less than 3000 people, or with annual revenue less than RMB 300 million (approximately 43.91 million dollars), or total assets less than RMB 400 million (approximately 58.55 million dollars). Medium-sized enterprises in this sector should employ 600 or more people, with annual revenue and total assets more than RMB 30 million (approximately 4.39 million dollars) and 40 million (approximately 5.86 million dollars) respectively. The rest are classified as small enterprises.

Wholesale and retail

- SMEs in the retail sector should employ less than 500 people or with annual revenue less than RMB 150 million (approximately 21.96 million dollars).

Medium-sized enterprises in this sector should employ 100 or more people, with annual revenue exceeding RMB 10 million (approximately 1.46 million dollars). The rest are classified as small enterprises. SMEs in the wholesale sector should employ less than 200 people or with annual revenue less than RMB 300 million (approximately 43.91 million dollars). Medium-sized enterprises in this sector should employ 100 or more people, with annual revenue exceeding RMB 30 million (approximately 4.39 million dollars). The rest are classified as small enterprises.

Transportation and post

- SME in the transportation sector should employ less than 3000 people or with annual revenue less than RMB 300 million (approximately 43.91 million dollars). Medium-sized enterprises in this sector should employ 500 or more people, with annual revenue exceeding RMB 30 million (approximately 4.39 million dollars). The rest are classified as small enterprises. SME in the posts sector should employ less than 1000 people or with annual revenue less than RMB 300 million (approximately 43.91 million dollars). Medium-sized enterprises in this sector should employ 400 or more people, with annual revenue exceeding RMB 30 million (approximately 4.39 million dollars). The rest are classified as small enterprises.

Hotels and restaurants

- SMEs in this sector should employ less than 800 people or with annual revenue less than RMB 150 million (approximately 21.96 million dollars).

Medium-sized enterprises in this sector should employ 400 or more people, with annual revenue exceeding RMB 30 million (approximately 4.39 million dollars). The rest are classified as small enterprises.

These interim criteria have been implemented since 2003 until now, without any changes.

Most of China local government simply defines a medium-sized enterprise as an independent business having fewer than 500 million RMB (approximately 73.19 million dollars) annual sales or receipts, and a small-sized enterprise fewer than 50 million RMB (approximately 7.32 million dollars) annual sales or receipts. Roughly speaking, in this paper, I view small businesses in the U.S. and SMEs in China for research and comparison purposes as the same level of business.

2.1.3 The Roles of Small Business in Economic Growth

Small businesses play an important role in economic and social development in both U.S. and China.

The U.S. SBA points out that “small business is critical to our economic recovery and strength, to building America's future, and to helping the United States compete in today's global marketplace.” The following figures from 2007 represent that small businesses made huge contributions to the U.S. economy. ¹⁰

- (1) Represent 99.7 percent of all employer firms
- (2) Employ about half of all private sector employees
- (3) Pay nearly 45 percent of total U.S. private payroll
- (4) Have generated 60 to 80 percent of net new jobs annually over the last decade
- (5) Create more than half of nonfarm private gross domestic product (GDP)
- (6) Hire 40 percent of high tech workers (such as scientists, engineers, and computer workers)

(7) Are 52 percent home-based and 2 percent franchises

(8) Made up 97.3 percent of all identified exporters and produced 28.9 percent of the known export value in FY 2006

(9) Produce 13 times more patents per employee than large patenting firms; these patents are twice as likely as large firm patents to be among the one percent most cited.

To some extent, it is similar to China. Since reform and opening up to the outside world, China SMEs have become one of the most important driving forces for China's economic growth, representing the most active and vigorous part of the socialist market economy. They play important roles in the technological innovation of products, industry structure adjustments, development of the regional economy, creating job opportunities, and the transfer of surplus labor to the countryside.

The following figures coming from China SMED are the contributions of SMEs in 2007: ¹¹

(1) Represent 99.8 percent of all employer firms

(2) Employ more than 75 percent of all non-farm employees

(3) Create about 60 percent of gross domestic product (GDP)

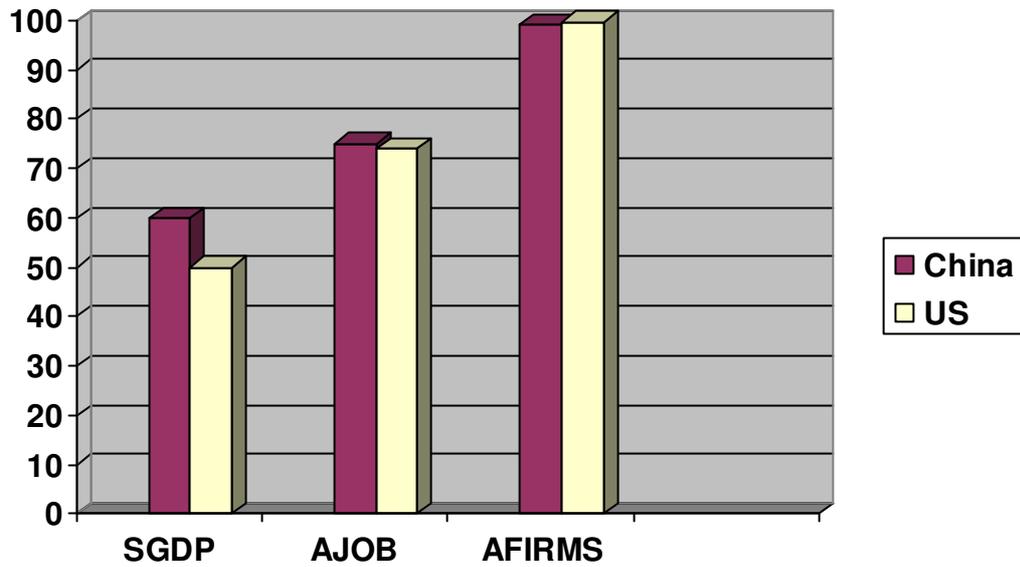
(4) Establish about 70 percent of high tech development centers

(5) Made up about 68 percent of the known import and export value in FY 2007

(6) Produce 66 percent of patents

The major comparison results are illustrated in Figure 1 and Figure 2.

Figure 1: The Comparison between U.S. and China



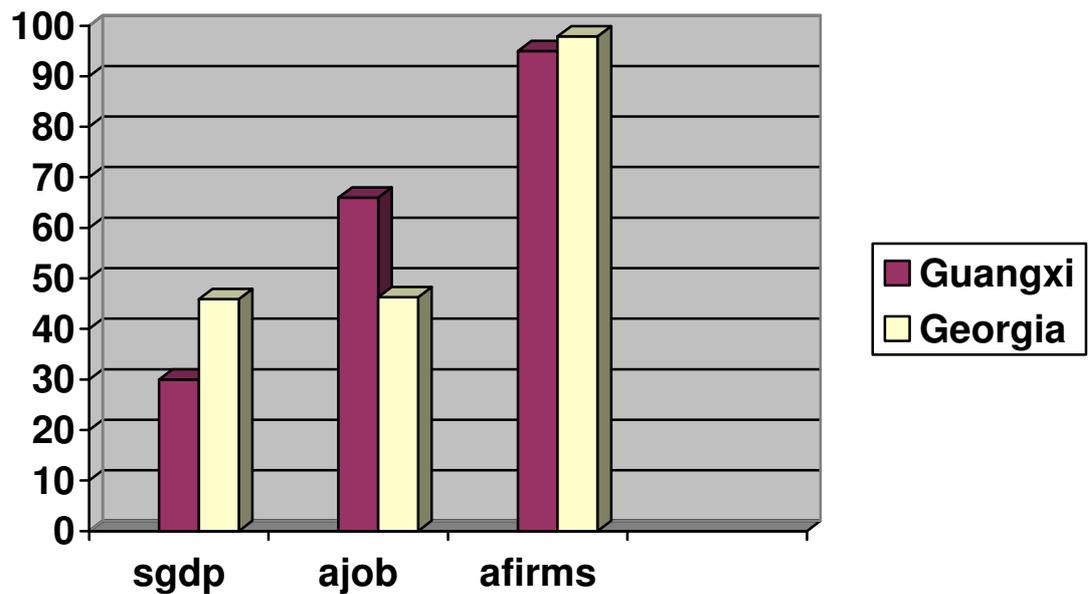
SGDP: Percent of GDP that small businesses contribute

AJOB: Percent of all non-farm employees that small businesses contribute

AFIRMS: Percent of all employer firms that small businesses contribute

Sources: U.S. SBA Office of Advocacy,¹² China SMED.¹³

Figure 2: The Comparison between Georgia, U.S. and Guangxi, China



SGDP: Percent of GDP that small businesses contribute

AJOB: Percent of all non-farm employees that small businesses contribute

AFIRMS: Percent of all employer firms that small businesses contribute

Sources: U.S. SBA Office of Advocacy,¹⁴ China Guangxi SMED.¹⁵

2.2 The Characteristics of Service System of SBA in US and SMED in China

2.2.1 An Introduction to the U.S. Small Business Administration (SBA)

The U.S. SBA is an independent Agency of the Executive Branch of the Federal Government. The details about its organizational form could be seen from the following chart.¹⁶

As mentioned in the introduction, the mission of the US SBA is to help Americans start, build, and grow businesses as well as to protect the interests of small business concerns. They deliver its services to people throughout the United States, Puerto Rico, the U. S. Virgin Islands, and Guam through an extensive network of field offices and partnerships with public and private organizations.

The SBA mainly provides four areas of assistance to American Small Business. They are advocacy, management, procurement, and financial assistance. Every service that the SBA delivers is feasible and practical. As an instance, we discuss the financial assistance. The financial assistance is delivered primarily through SBA's investment programs, business loan programs, disaster loan programs, and bonding for contractors.

United States Small Business Administration Organizational Chart

United States Small Business Administration



September 2008

First, for the SBA's business loan programs, SBA administers three separate, but equally important, loan programs. The guidelines of the loans are set by the SBA, but the application of the loans is made by its partners, including Lenders, Community Development Organizations, and Micro-lending Institutions. Though it doesn't make loans to small businesses, it still backs those loans with a guaranty to eliminate some of the risk to the lending partners. However, the Loan guaranty requirements and practices can change with the government's changed fiscal policy and priorities. Therefore, when small businesses seek assistance in today's market, they can not completely rely on past policies.

The SBA also could get federal appropriations to provide guarantees on loans. After receiving the guaranty of the Federal Government, the relevant lenders provide a portion of the loan to small businesses independently.

As mentioned before, because the SBA provides loan guaranties, the risk that the borrowers may not pay back the money is transferred from the lenders to the SBA. Therefore, applying for an SBA Loan is actually applying for a commercial loan, which is structured according to SBA requirements.

Community development organizations can get the government's full backing on their loans. But they just supply a portion of the overall financing needs of an applicant small business.

Second, as for the SBA's investment programs, in 1958, a company managing investment firms was created by Congress. It is The Small Business Investment Company (SBIC) program. SBICs are privately owned and licensed by the Small Business Administration. They provide financing to small business by raising private capital and borrowing funds through the SBA. The financing has usually taken the form of debt or equity.

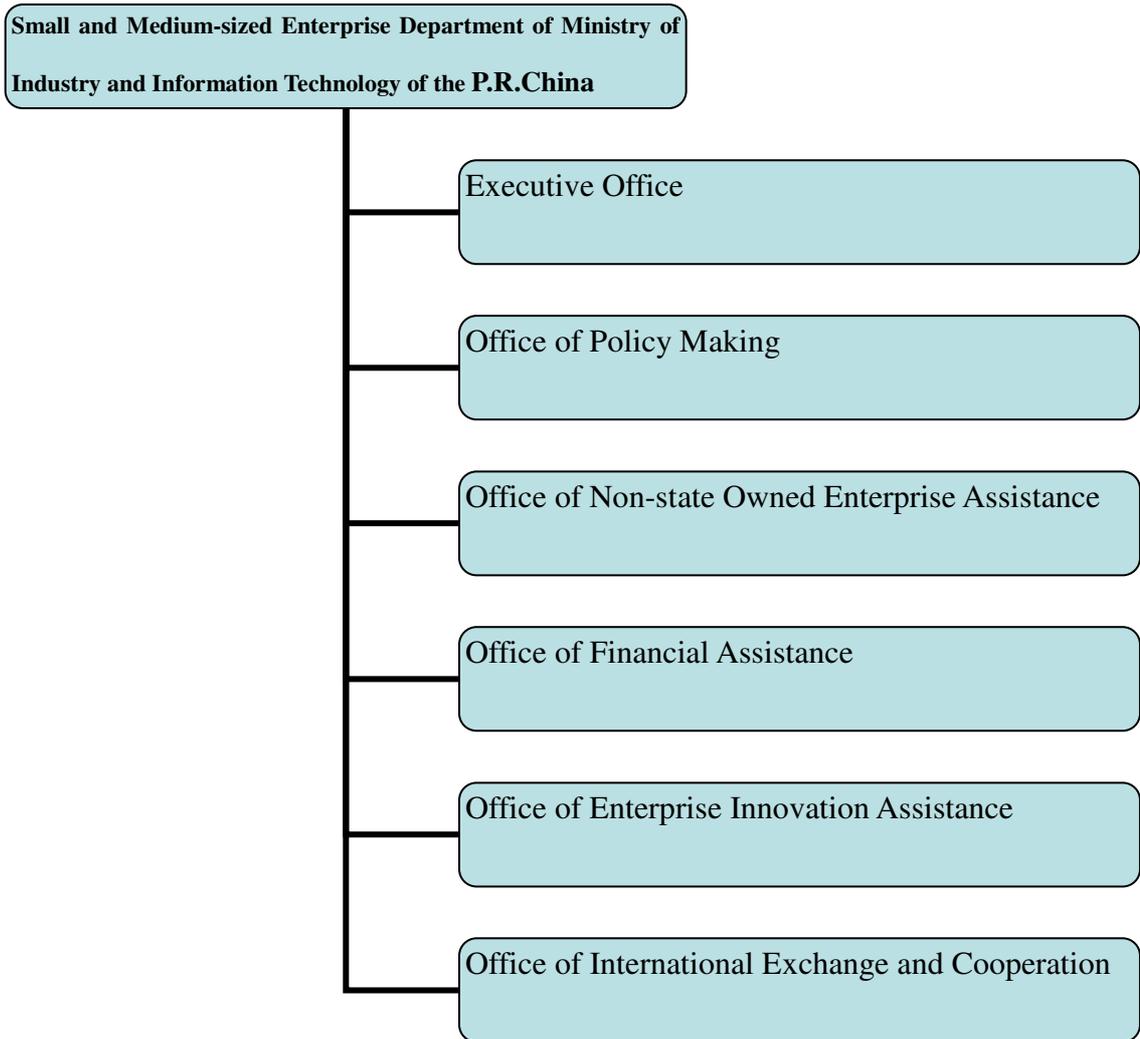
Third, concerning the SBA's bonding programs, the SBA can provide surety guarantees for small contractors who cannot obtain bonds by regular commercial channels. The bonds for contracts are up to \$2 million, covering bids, performance, and payment bonds. Because of SBA's guarantee, sureties have an incentive to provide bonding for eligible contractors, and thereby strengthen a contractor's ability to obtain bonding and greater access to contracting opportunities. However, because of the surety guarantee, an agreement between a surety and the SBA, if the contractor breaches the terms of the contract, the SBA will assume a percentage of loss.

Generally, The SBA provides small business with systematic, effective, and efficient services, and achieved great effectiveness. The evidence showed entrepreneurs that utilize SBDC assistance experience employment growth greater than the state average. For example, in 2005, the study showed that the employment base of SBDC's existing business clients grew by 22.93 percent, while other employment in Georgia grew by only 3.35 percent. Also, during the same time period, SBDC existing business clients increased their sales by an average of 29.66 percent, while the average Georgia business experienced only a 4.76 percent growth in sales. "These results show that entrepreneurs are succeeding and thriving in Georgia and that the SBDC is helping maximize their potential," said Allan Adams, state director of the Georgia SBDC Network.¹⁷

2.2.2 An Introduction to the Small and Medium-sized Enterprise Department (SMED) of Ministry of Industry and Information Technology of the P.R. China

In China, the SMEs are controlled by SMED. The organizational forms of SMED are as follows.¹⁸

Chinese SMED organizational Chart



The mission of Chinese SMED includes the following aspects: first, supply macro-guidance to small and medium-sized enterprise development, with the relevant parties, which promote the policies and measures to promote SMEs and non-state owned enterprise development; second, promote foreign exchanges and cooperation; third, promote the establishment of perfect service system; and fourth, address the major issues of SMEs.

2.2.3 The Differences between SBD and SMED

It is different with the U.S. SBA; Chinese SMED isn't an independent agency of the national government. SMED is only one department of the Ministry of Industry and Information Technology. So there will be many restrictions when it delivers their

services to SMEs. In China, there are not so effective and complete services networks to SMEs as in the US. The SMEs legislation is many years younger than US. Small and Medium-sized Enterprise (SME) Promotion Law of the People's Republic of China was adopted on June 29, 2002, while U.S. Small Business Act was adopted on July 30, 1953. In China, the policies and measures for SMEs are also of relatively poor practicability in implementation, because most of them are based on macro-guidance, but lack of specific measures. While in the US, most of measures are of good practicability.

In China, the services for SMEs are based on the local government, not central government or state government, because local governments have the major responsibility to develop local economies, which is the biggest difference from the US. The measures stimulating economic growth rely on local government more. But the local government has a limited leeway to make relevant policy, because they have few rights to make policies. In addition, different governments have different services to the SMEs, which may confuse entrepreneurs.

In fact, Chinese SMEs are not be given any priority over all large firms and state-owned firms. Sometimes they are given unfair treatment in loans, access to some industries, tax breaks, and so on. According to Li Yizhong [李毅中], the minister of the Ministry of Industry and Information Technology of China, the nationwide new loans for small business are only 22.5 billion RMB (approximately 3.29 billion dollars) last year [2008], an increase of only 1.4 percent, while the total nationwide loans increase by 14.9 percent. The first three months of this year [2009], the size of the national total loans increased by 4.8 trillion RMB (approximately 0.7026 trillion dollars), among which the amount of loans to SMEs accounted for less than 5%. These loans did not meet the SME growth at the same pace, and “it is very difficult for small and medium-sized enterprises to finance.”¹⁹.

According to Chinese Guangxi Economic and Trade Commission's a survey of the financing situation of 1119 SMEs in 2008, 30 percent of them can obtain loans from bank, 40 percent is more difficult, and 30 percent could not. ²⁰

However, according to the SBA Office of Advocacy research reports: ²¹

Small business loans outstanding (loans under \$1 million) were valued at \$711.3 billion in June 2008, up \$26.7 billion or 4.0 percent from the previous year—half the increase of \$50.6 billion or 8.0 percent from June 2006 to June 2007.

The value of loans under \$100,000 increased by 6.8 percent, or \$10.8 billion between June 2007 and June 2008. The number of loans increased by 15.7 percent. Increases in both the dollar amount and volume may be attributed to continued efforts to promote small business credit cards.

The value of loans of \$100,000 to \$1 million increased by just 3.2 percent, while the number of these loans decreased by 23.3 percent, from 2.9 million to 2.2 million over the June 2007 to June 2008 period.

The dollar volume of borrowing by large corporations in loan sizes over \$1 million increased by 12.2 percent between June 2007 and June 2008, compared with 11.7 percent the previous year.

In addition, the China central government has invested 4 trillion RMB (approximately 0.5855 trillion dollars) in dealing with the worldwide financial crisis and stimulating economic growth since last year. However, “most of these funds went into the Government's large projects and large enterprises,” Li Zibin, chairman of the Association of SMEs in China, said “SMEs does not exactly stand to benefit from these 4 trillion RMB (approximately 0.5855 trillion dollars), and there is only indirect benefit to SMEs.” ²²

However, according to the data from Chinese SMED, the annual average GDP

volume of SMEs has increased by 28 percent since 2003, compared with 9.5 percent of the general enterprise level.²³

Why could Chinese SMEs achieve such results in so difficult circumstances? There are some major factors causing these achievements.

First, in the past, because of restrictions of the planned economic system, the initial development point for the SMEs is very low, almost zero. Once deregulated markets, the original development desires for business will be stimulated greatly. From the beginning, as long as government does not limit it, it will be a long period of rapid expansion. However, when development has reached a certain stage, the speed will come down, which is a basic economic law. Now China is experiencing a rapid period of development.

Second, there are three primary factors which promote small businesses' development. They are market opportunities, entrepreneur environment, and entrepreneurship wisdom. Entrepreneurship wisdom is more important than entrepreneur environment, and entrepreneur environment is more important than market opportunities. Chinese entrepreneurs might lack market opportunities or entrepreneur environment or both of them in some cases, compared with the US. But they rely on their entrepreneurship wisdom to put efforts into their businesses and had finally achieved success in difficult cases.

If Chinese entrepreneurs can obtain better conditions for survival and development, Chinese small businesses will be able to develop better; and will be more effective and efficient.

2.3 Policy Suggestion

As mentioned above, the local government had the main responsibility to develop small businesses in China. Thus, the suggestions on SMEs services will focus

on the local government-- Liuzhou, Guangxi municipality government and the service system for SMEs.

The specific situations are different between China and the US. But as the common achievements to the whole human civilization, China can learn a lot from U.S. small business development experiences. We just need to pay attention to adapt to the specific situation in China, especially to the particular cultural and political status quo.

2.3.1 Introduction to Liuzhou, Guangxi China and Its SMEs Service System

Liuzhou is a comprehensive territorial city center and communication hinge, with industry as its pillar industry, as well as a historical and cultural city commanding unique sceneries. Liuzhou city consists of six counties and four districts, covering an area of 18,600 square km². 3.625 million People of 48 ethnic groups live there, including Han, Zhuang, Miao, Yao, and Dong. The minority population accounts for 44.51 percent of the total population of Liuzhou city.

Liuzhou is an industry base in southwest China. By late 2007, the number of companies and factories in the Liuzhou is 2,875, including 9 large-sized industrial companies, 651 companies with certain scale, and 5 listed companies. Now a complete industry system dominated by automobile, machinery, and metallurgy and supported by chemical industry, sugar refining, paper making, medicine, building material, and chemicals. The total industrial output of Liuzhou takes up 1/4 of that of Guangxi.

Liuzhou is the communication hub in southwest China. Liuzhou is a railway hub that connects middle-south China, East China, and South China. It is also one of the 45 road hubs in China, and now a modern tri-dimension of railway, road, waterway and airplane has been constructed.

Liuzhou is the logistic center of commerce and Business in Southwest China. Liuzhou has been the distributing center of goods in Southwest China throughout

history and has won the title “Business Center in Guangxi” for long. By far, Liuzhou has established all kinds of large-sized wholesale market concerning automobile and its share parts, steel material, building material, agricultural products, and daily articles. The Sugar Wholesale Market is the biggest physical sugar transaction market in China, and the sugar price in Liuzhou determines the price in China. The production of sugar in Guangxi takes up 2/3 of that in China, and 2/3 of sugar produced in Guangxi is sold and distributed out in Liuzhou.

Liuzhou is a National Historical and Cultural City as well as the Excellent Tourism City in China. Liuzhou is the birthplace ancestors of South Chinese ancestors. Liujiang People and Bailiang Cave People lived there 50 thousand years ago. Liuzhou was set up in the West Han Dynast over 2,100 years ago.

In the past five years, the annual economic increasing rate has surpassed 14%. In 2007, the total output value all over Liuzhou reached 73.88 billion RMB(approximately 10.82 billion dollars) and per capital GDP was over 20 thousand RMB(approximately 2.93 thousand dollars), 16.5% higher; the financial revenue amounted to 11.64 billion RMB(approximately 2.93 billion dollars), 22.3% higher; gross industrial output value was 138.91 billion RMB(approximately 20.33 billion dollars), 24.8% up; the overall investment in fixed assets amounted to 30.55 billion RMB(approximately 4.47 billion dollars), up 52.2%; per capital disposable income was 12,866 RMB(approximately 1,883 dollars), 16.9% higher; net income of farmers reached 3,390 RMB(approximately 496 dollars), 16.4% higher. By far, the industrialization rate and urbanization in Liuzhou are separately 50.63% and 47.13%. The government aims at increasing its gross output value reaching 120 billion RMB (approximately 17.57 billion dollars), gross industrial output value 240 billion RMB (approximately 35.13 billion dollars), industrialization rate reaching 53% and urbanization 50% in 2010.²⁴

The Liuzhou SMEs service system currently includes Liuzhou SME Bureau (just in nominal), Liuzhou SME Service Center (SMESC), and Liuzhou SME Guaranty Company (SMEGC). They were established, and were funded by the Liuzhou Municipality Government. The services that the Liuzhou SMESC provides entrepreneurs only include some training and assistance with SMEs access to licenses. There are 36 staffers in Liuzhou SMESC. Liuzhou SMEGC provides the loan guaranty program for Liuzhou SMEs, but the effectiveness is poor.

2.3.2 Some Suggestions on SMEs Services for Liuzhou, Guangxi, China

1. Sets annual goal of 23 percent in prime government contract to SMEs and provides with subcontracting procurement opportunities

As legislation, it should be adopted by the local People's Congress and report the annual implementation status to the local People's Congress. It is similar to the United State government, and the local government also is the single largest purchaser of goods and services in Liuzhou city. These contracts should include the government-invested projects and state-owned firms. This is a very huge amount in Liuzhou. In Liuzhou, the state-owned firm accounts for about 70 percent of the citywide total amount of the economy. If so, it will provide entrepreneurs with good market opportunities.

2. Assists with small business access to capital

In my opinion, the concept of SMEs is an over-generalized concept that will in practice confuse the issues. In fact, small business financing is a prominent issue in China, while medium-sized enterprises are much better in general. So my suggestion will focus on small business. Generally, the measures that SBA assists with small business access to capital can be applied to Liuzhou. Similarly, Liuzhou SMEB can provide small business three kinds of business financing: Loan Guaranty Program,

investment, and emergency recovery. But the agency should not directly provide capital to small businesses except the disaster assistance.

Loan Guaranty Program includes loans which are made by commercial banks to small firms with a guaranty by the SMEB, and these loans should offer longer terms than typical commercial loans, which generally mean lower monthly payments at competitive interest rates.

Investment (Venture Capital) Program includes capitals which are made by Small Business Investment Companies (SBICs) which make equity or debt/equity investments in small businesses. As similar as U.S., SBICs should be privately owned and managed investment funds, licensed and regulated by the SMEB.

Micro loan Program provides very small loans to small businesses that have had difficulty obtaining conventional financing for small amounts. These loans should be provided exclusively by approved intermediaries, typically non-profit or economic development organizations. Under this program, SMEB makes or guarantees loans to intermediaries, who use the money to make micro-loans to eligible borrowers.

3. Provides a best possible service for entrepreneurial development

As one of the important factors that constitute the friendly entrepreneurship environment, Liuzhou SMEB should establish a complete system that can provide entrepreneurial development technical assistance and outreach. Technical Assistance Programs include one-on-one counseling, free of charge to residents interested in starting a small business, training, and/or workshops on a wide variety of business related subjects at minimal cost. For delivering these services, SMEB should build a number of specific organizations to form system network for small businesses. This network should consist of Small Business Development Centers (SBDCs), Counselors

Centers to Small Business (**CCSB**), Women's Business Centers (**WBCs**), Minority Business Development Centers (**MBDCs**), Veterans Business Development Centers (**VBDCs**), University graduate entrepreneurship Centers (**UGECS**), Export Assistance Centers (**EACSS**), and Small Business Training Network Online (**SBTNO**).

4. Advocacy (Voice for SMEs)

A special office should be created in Liuzhou. This office would review the authorities' policy-making and regulations and assess the impact of the regulatory burden on behalf of SMEs. Additionally, it should conduct a vast array of research on SMEs and the small business environment.

Liuzhou also needs to establish the ombudsman office. This office would be charged to foster a more SMEs-friendly government regulatory enforcement environment, conduct hearings and roundtables across the country designed to increase input from SMEs, function as a liaison between SMEs and government agencies, rate government regulatory agencies and send a "report card" to authorities, and coordinate the activities of relevant agencies.

5. Raises funds for Liuzhou SMEs development

To carry out these suggestions, much money is necessary. According to the case of Liuzhou, the government should be able to raise 1 billion RMB (approximately 0.1464 billion dollars), and then annually appropriate 2% of 1% of total government budget for Liuzhou SMEs development. According to the current status of local government in China, the local government is able to raise a large sum of money.

6. Reform the local government institution

We need to reform the functions of Liuzhou SMEB. The main duties from these suggestions should be implemented by SMEB. In addition, the right of running the state-owned SMEGC should be vested in the SMEB.

3. Conclusion

As Professor Fangfo[仿佛], the founder of Chonghua Taijics, argues, life is a combination [生命是一种组合],²⁵ and every thing in the world is life [天地万有, 皆为生命].²⁶ So the business as an organic organization is also a life, and as well as consists of certain factors. These factors make business develop both small-sized and large-sized.

Actually, I think there are three most primary factors which promote small businesses developments as well as large-sized companies. They are market opportunities which constitute the necessary conditions of business survival; entrepreneur environment which include all sorts of the states for generating, supporting, and cultivating entrepreneurship; and entrepreneurship wisdom. Generally, entrepreneurship wisdom is more important than entrepreneur environment, and entrepreneur environment is more important than market opportunities.

The services that SBA provides for small business just meet these needs. The SBA has an extensive network of field offices and partnerships with public and private organizations throughout U.S. and its territory. The SBA programs and services support small business owner by means of SBA-backed loans, government contracting opportunities, disaster assistance, training programs, advocacy, laws & regulations, national ombudsman, and civil rights compliance. More importantly, most of them are of good practicability and can meet a wide variety of small business needs. In deed, these measures are promoting small business development successfully.

However, the services for small business are poor in China. Chinese SMEs are not given any priority over all large firms and state-owned firms. Indeed, they are given unfair treatment in loans, access to some industries, tax breaks, and so on. Why on the

whole can China SMEs achieve success in difficult circumstances? Perhaps this is because they primarily rely on their entrepreneurship wisdom into put efforts to their business. Another reason might be the initial development points for SMEs is very low, almost zero, and so that China SMEs are experiencing a rapid period of development, as like as China economic growth.

The specific situations are different between China and the US. But as the common achievements to the whole human civilization, China can learn a lot from U.S. small business development experiences. We just need to pay attention to adapt to the specific situation in China, especially to the particular cultural and political status quo.

Generally, many SBA approaches to aid, counsel, assist, and protect the interests of small business concerns can apply to China, especially to local governments to improve service systems for China SMEs. In China, local governments have the major responsibility to develop the local economy, which is the biggest difference from the U.S. This paper has made four suggestions for China's local government; which includes access to capital, entrepreneurial development, government contracting, and advocacy.

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