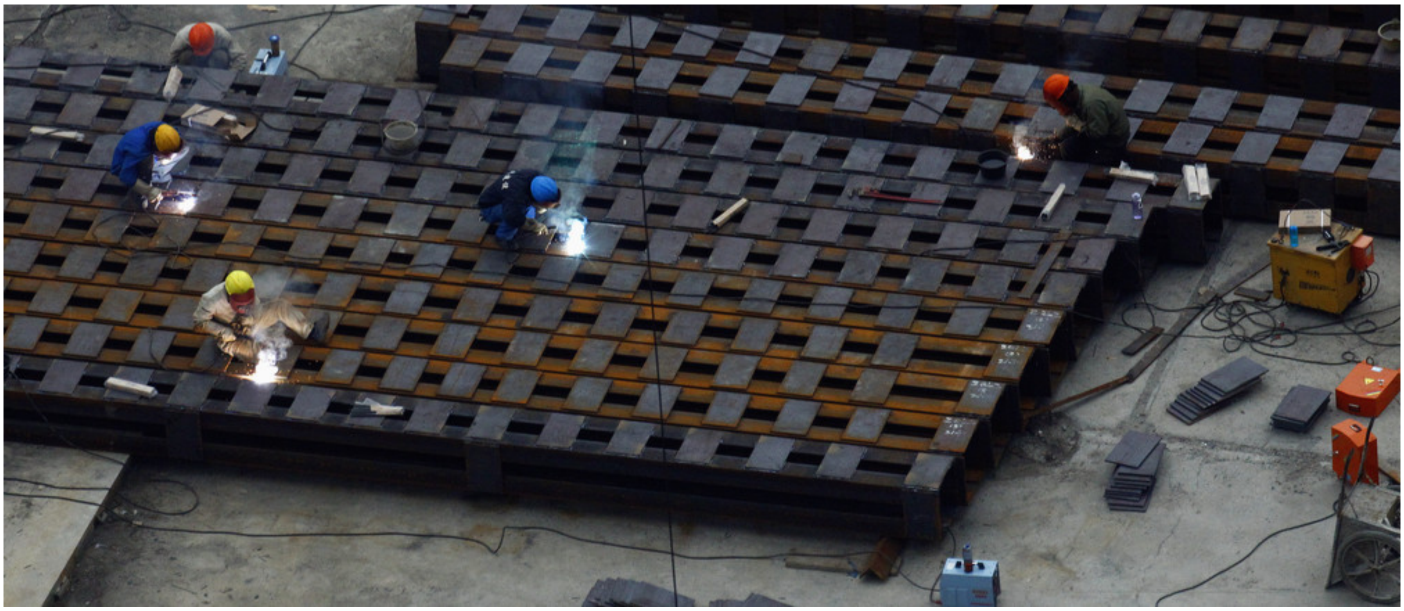
How China's social enterprises can prosper alongside the country's state-run businesses



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27 Jun 2017

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This article is part of the **Annual Meeting of the New Champions**

Globally, the consensus about social enterprise is that this new type of organization, possessing both social purpose and business traits, and combining innovation with entrepreneurship, can play an important role in poverty alleviation.

It can also enhance participation and capacity building for vulnerable and disadvantaged groups, establishing social capital and ensuring sustainable development.

The notion of social enterprise was formally introduced to China around 2004; since then a series of forums and conferences, plus social entrepreneur skills training initiated by British Council, have promoted the theoretical studies and the practice of social enterprise.

More and more NGO leaders and intellectuals believe that social enterprise will be a remedy for many social problems and unmet social needs, and a boost for social sector development in China.

As a result, hundreds of social enterprises have emerged in the last eight years. Yet there is still no formal recognition and legal structure for them in China.

Wide variety

SEFORÏS is a research programme conducted between April and Dec 2015, which surveyed over 1,000 social enterprises in China and nine EU member countries, and included interviews with 102 Chinese social enterprises.

Its findings show that Chinese social entrepreneurial activities span a wide variety of fields, but the majority of the these activities fall in to three broad categories: Education, (21%), Community and Social Services (21%), and Business Services for SMEs, (29%). It also found that over 75% of social entrepreneurs are under 39 years old.

When it comes to state-owned enterprises (SOEs) development in China, it is a totally different story.

SOEs dominated the whole country from the mid-1950s until the end of the 1970s, manufacturing every industrial item from small sewing needles, to massive hydropresses.

When the nation shifted from a planned economy to its open door policy in 1979, the private sector emerged and grew fast – in less than 27 years, the private sector (domestic private enterprises and foreign-invested enterprises) had generated more than 65% of total GDP and hired more than 80% of the workforce.*

However, the last decade has seen the resurgence of SOEs in China.

The percentage of GDP generated by the private sector has not grown, and in many fields has even declined since 2006.

SOE transformation

One of the key reasons is that SOEs have drastically improved their operational efficiency and effectiveness through massive redundancies and more market-oriented approaches.

However, during this process, no clear evidence has been seen that this better performance by SOEs actually provides more job opportunities and makes a direct contribution to poverty alleviation. On the contrary, it has often resulted in the lay–off of less-productive staff, including many disadvantaged people.

Internationally, the social enterprise movement is still evolving quite fast and has no fixed model.

Social enterprise in its current form is a new phenomenon in China; but a similar practice existed much earlier in the country.

For example, newspaper articles from the 1920s and 30s show that some charities that focused on poverty alleviation in big cities such as Beijing and Shanghai, set up workshops and stores that provided on-the-job training and job placements for orphans and physically disabled young people.

Especially during the planned-economy era, from the mid-1950s to the 1970s, SOEs provided jobs for nearly 100% of urban dwellers, including those in underprivileged groups, and physically challenged people.

Social Welfare Enterprise

There was also a particular type of SOE called a Social Welfare Enterprise that hired the majority of handicapped people in every major city.

Unfortunately, over 90% of Social Welfare Enterprises vanished following the open-door policy. The major reason was that during the planned-economy era, these special type of SOEs were focused only on providing as many jobs as possible for handicapped people without consideration for product design or marketing, nor the efficiency of the whole operation.

Some did survive, however, and transformed themselves into privately owned companies. But even these are now failing because of the less favourable taxation policy for social welfare enterprises introduced in 2008.

Most people have already forgotten the term, social welfare enterprise; only retired staff, and especially the physically challenged who once worked for this special type of SOE, can recall their glory days.

Ants and elephants

Comparing the number, size, revenue and impact of social enterprise with SOEs in China nowadays is like watching an ant compete with an elephant.

This is because SOEs in China still generate approximately 40% of GDP, and are in control of every important industry, including infrastructure, telecom, petrochemicals, energy, all kinds of financial institutions and more.

The products and services provided by SOEs affect everyone's daily life.

The development of social enterprise is still in its infancy. According to a 2016 Asia Venture Philanthropy Network (AVPN) report on the status of Asian social enterprises, only 530 social enterprises have been identified in China, and the majority are SMEs.

No wonder then that not only is the concept of social enterprise unclear to the general public, but there are also many disputes in the social sector over its definition and how to measure its impact.

Small-scale beginnings

However, as an old Chinese saying goes: a little spark may kindle a great fire.

Many social enterprises are rising stars with great potential due to their unique positioning and innovative approach to tackling societal challenges, and satisfying unmet social needs, especially from underprivileged groups in China.

In that sense, the overarching goals of SOEs (to better serve the country and its citizens) and social enterprises are connected and can be complementary to each other.

For example, CFPA Microfinance, one of the largest social enterprises in China, has provided more than two billion RMB in loans to over 300,000 poor farmers since 2008, and has collaborated with many banks and other financial institutions (most of them SOEs), plus multiple government agencies, while carrying out its operations.

This is the new trend for the development of social enterprise and I believe, in the near future, both social enterprises and SOEs can benefit from this kind of cooperation.

**China Private Sector development report, 2005 – 2006, complied by the All-China Federation of Industry and Commerce.*

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The views expressed in this article are those of the author alone and not the World Economic Forum.

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