

*The Development of Private Enterprise in Contemporary China: Institutional Foundations and Limitations**

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Abstract

This paper is an attempt to analyse the rapid development of private enterprises in the reforming era, with particular emphasis on the role of trust. We argue that trust in China, although family centred, has an extraordinary capacity to extend and be network-based. It is this capacity for trust and the shared family ethics and social norms that underlie it which provide new institutions for the growth of the private sector. The concept of trust therefore is further divided into three types, namely, trust in one's own person, trust in interpersonal relations, and trust in systems, which correspond to three forms of capital, i.e. human capital, relational capital and institutional capital. Based on several reported cases of bankrupted private enterprises, the limitations of these institutions are discussed. These include some common problems that have surfaced among private enterprises, such as the high debt ratio of enterprises, familistic management and the weakness of personal trust.

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