Constitutional Endorsement and Entrepreneurship Development in China's Economic Transformation

Shiyong Zhao[*] & Ruitian Wu

School of Business, Macau University of Science and Technology
*corresponding author: syzhao@must.edu.mo

Abstract: In this paper we provide empirical evidence on the impact of Constitution endorsement of private ownership on local entrepreneurship development in China's economic transition era. Employing the data from China's 31 provinces between 1992 and 2019, we found that the amendment to the Constitution in 2004, which declared explicitly to protect private property rights for the first time in the history of the People's Republic of China since it's founding in 1949, had significantly promoted the development of China's entrepreneurship in all relevant sample periods. The Constitution amendment in 1999, which upgraded private ownership from "a supplement to socialist public ownership economy" to "an important component of socialist market economy," also had a significant and positive effect on entrepreneurship development over the sample period 1992-2019 (and 1989-2019 as well). But this effect was less significant both statistically and economically than the 2004 amendment. This finding is robust to various sensitivity tests. Our study adds some basic evidence to a growing literature emphasising the role of institutions in promoting entrepreneurship development.

Keywords: Constitution endorsement, Entrepreneurship, China

1. INTRODUCTION

The reemergence of entrepreneurship in China is a phenomenon after China launched its economic transformation in the late 1970s. Before that, private entrepreneurship was virtually eradicated and public ownership absolutely dominated the national economy. For example, in 1978 only 0.16 per cent

of the urban employment was in the private sector (NBS, 1984). During the reform and opening-up, institutions influencing entrepreneurship had undergone significant changes in China. The government policies and legal institutions on entrepreneurship had gone through "strict prohibition, tolerance, accommodation, and encouragement" (Peng, 2004). Consequently, China's private business has been growing remarkably over the past four decades. By the end of 2019, employment in urban private enterprises and self-employed had accounted for about 60 per cent of total urban employment (NBS, 2020).

In the literature some authors have recognised the critical role of institutions (including institutional environments and arrangements) in shaping entrepreneurship (Djankov et al., 2006; Kshetri, 2007; Lu & Tao, 2010). The difficulty of empirical study lies in the fact that institutions influencing entrepreneurship are too broad to be measured accurately by a single variable such as rule of law index. In countries like China with a deep-rooted discrimination against private ownership, official recognition of private business and Constitutional endorsement of private property matter for entrepreneurship decisions.

In this paper we have used Constitution amendments on private business and private property rights protection as landmarks of institutional changes affecting entrepreneurship. The Constitution in China, as in many other countries, has the supreme status, authority, and validity. Therefore, amendments to the Constitution signal important institutional changes. Policies and practices that are included in the Constitution embody the most authoritative recognition from the government. Predictably, new policies endorsed by the Constitution will produce stable and persistent incentives to stakeholders.

The current Constitution of China was passed in 1982 and has undergone five times of amendments in 1988, 1993, 1999, 2004, and 2018, respectively. Except the latest amendment in 2018, all the previous four amendments contained landmark institutional changes relevant to private entrepreneurship. The 1988 Constitution amendment for the first time allowed "the existence and development of private-ownership economy," although private economy was positioned as a supplement to public ownership. The 1993 amendment endorsed market economy in China. The 1999 Constitution amendment upgraded private business and placed them on an equal footing with the public sector. And the 2004 amendment declared to protect private property rights. We conjecture that these amendments produced a positive effect on China's entrepreneurship development.

In this paper, we provide empirical evidence on the role of Constitutional amendments in the entrepreneurship development of China in the period of 1992-2019. Using both one-way and two-way fixed effects estimation techniques, we found that the Constitution amendment in 2004 (endorsement of private property rights protection) exhibited a significant positive impact on entrepreneurship development in all relevant models. The estimated coefficient of Constitution amendment in 1999 was also significantly positive in two-way fixed effects models over 1992-2001 and 1992-2019. In our extended sample period 1989-2019, Constitution amendments in 1993, 1999, and 2004 all showed positive effect on local entrepreneurship with the coefficients ascending in magnitude and with significance levels of 1%, 5% and 10%, respectively.

Our paper is closely related to studies recognising the critical importance of institutional environment in the emergence and development of China's private enterprises, such as Lu and Tao (2010). They stressed that protection of private property and contract enforcement, as part of institutional environment, together with personal attributes of would-be entrepreneurs, are determinants of entrepreneurial activities in China. This is in sharp contrast with developed nations where the institutional environment is already conducive to entrepreneurial activities. Kshetri (2007) also argued that the evolution of entrepreneur-friendly institutions had influenced China's entrepreneurship. Constitution amendments are the most official and authoritative recognition of institutional changes.

The rest of the paper is organised as follows. Section 2 briefly presents the institutional background pertaining to Constitutional amendments and their possible effects on local entrepreneurship. Section 3 presents econometric specification and detailed descriptions of variables. Section 4 describes the data. Section 5 reports empirical results and conducts some robustness tests. Section 6 concludes.

2. INSTITUTIONAL BACKGROUND

China's entrepreneurship is heavily influenced by China's institutional environment, including ideology, policy, and law (Lu & Tao, 2010). In China, important policy initiatives and practices proposed are written into the Constitution. For example, one-child (or family-planning) policy and household contracting responsibility system, as important policy changes, were written into the Constitution in 1982 and 1993 respectively. As a convention since 1975, every Constitutional amendment was proposed by the Chinese

Communist Party Central Committee to the Standing Committee of the National People's Congress. Then through the amendment procedure of the National People's Congress, the Constitution is amended (Han, 2000). Constitution is a country's most fundamental and important law. Therefore, amendments to the Constitution receive great attention from the public. Arguably, *ceteris paribus*, Constitutional endorsement of private business and private property serve as a stimulus for potential entrepreneurs to start a business and existing entrepreneurs to expand investment.

The first Constitution of the People's Republic of China was passed in 1954, the second and the third, in 1975 and 1978 respectively. The current Constitution, which is the fourth, was passed in 1982, has undergone five times of amendments in 1988, 1993, 1999, 2004 and 2018 (Xie, 2020). The Constitution amendment in 1988, as a response to 13th Congress of the Communist Party in 1987, endorsed the existence of private enterprises. It stated that "*the private sector of the economy is a supplement to the socialist public economy.*" As a response to this amendment, in June of the same year the central government issued *Tentative Regulations on Private Enterprises,* and private enterprises could be legally registered from July 1, 1988. Notwithstanding this amendment, private enterprises established earlier were still regarded as illegal. A well-known story happened in Wuhu city of East China's Anhui province. On September 13, 1989, a private entrepreneur named Nian Guangjiu in Wuhu was arrested and put in custody for nearly three years in the name of "embezzlement of the public funds and corruption." He established a private business parching sunflower seeds several years ago and became rich by the then standard. He was arrested just because he employed more workers than the standard number for socialist business (Ji, 2018).

The Constitution amendment in 1993 was a response to the 14th Party Congress held in September 1992. The Party Congress for the first time endorsed "socialist market economy" as the country's reform goal. The Constitution amendment made it clear that "*the country implements a socialist market economy,*" replacing the previous version which said that "*the country implements a planned economy based on socialist public ownership.*" Even so, state ownership was still regarded as the dominating force in the national economy while private ownership was just a supplementary component of the economy.

The Constitution amendment in 1999 could be considered as a response to the 15th CCP Congress held in 1997. The amendment recognised for the first time that "*the nonpublic sector, including individual and private businesses,*

is an important component of the socialist market economy" and "*the state protects their legal rights and interests.*" As Qian (2000) remarked, till then the official ideology towards private ownership became friendly.

The Constitution amendment in 2004 declared that "*the legal private property of citizens will not be infringed upon,*" and "*the state protects the private property rights and inheritance of the citizens according to the law.*" This amendment has been widely recognised as "one of the most significant changes" in the development of the private sector since 1978 as the protection of private property was officially endorsed by the Party and government (Li et al., 2005). As argued by Djankov et al. (2006), insecurity of property rights hinders entrepreneurship. Entrepreneurs' concern about the prospect of their property is an important determinant of their entrepreneurial decisions, especially in China where private entrepreneurs had lacked legal protection (Yang, 2002).

The Constitution amendment in 2018 has little to do with the economy and private sectors, therefore we ignored it here. And because our data starts from 1992, we ddn't take into consideration the 1988 Constitution amendment in the regressions. Therefore, we focused on the middle three times of Constitution amendments with an emphasis on the 1999 and 2004 amendments given that the 1993 amendment is an endorsement of a market economy in general rather than private businesses.

To summarise, Constitution endorsements of private business served as an incentive mechanism for China's local entrepreneurs. The Constitution amendments in 1999 and 2004 were supposed to spur entrepreneurship because they upgraded the status of private ownership and claimed to protect private property rights.

3. ECONOMETRIC SPECIFICATION

3.1. The econometric model

We constructed the following econometric model and estimated it with fixed effects methods:

$$
\begin{aligned}
entrepreneurship_{it} \\
&= \beta_1\ constitution_{93} + \beta_2\ constitution_{99} \\
&+ \beta_3\ constitution_{04} + \beta_4\ \ln(fdi_{it}) + \beta_5 L.growth_{it} \\
&+ \beta_6\ elderly_{it} + \beta_7\ birth_{it} + \beta_8\ urban_{it} + \beta_9\ (govt/gdp)_{it} \\
&+ \beta_{10}\ \ln(education_{it}) + \beta_{11}\ \ln(road_{it}) \\
&+ \beta_{12}\ (loan/gdp)_{it} + \beta_{13}\ (invest/gdp)_{it} + \lambda_t + \eta_i + \varepsilon_{it}
\end{aligned}
$$

where i stands for province (i = 1, ..., 31), and t denotes year, representing years (different sample periods). Here, η_i is a province fixed effect: it represents the individual effects that may affect provincial entrepreneurship that do not change over time. λ_t are year dummies. ε_{it} are idiosyncratic errors. Definitions (or measurements) of all variables are summarized in Table 1.

Table 1: Variables and definitions

Variable	Definition
entrepreneurship	Private employment as a share of total urban employment (%)
fdi	Stock of FDI utilised per capita (1980 constant price, USD)
L.growth	GDP growth rate of the previous year (%)
elderly	Elderly dependency ratio (%)
birth	Birth rate (1‰)
urban	Urban residents as a share of total population (%)
govt_gdp	Government expenditure as a share of GDP (%)
education	University student enrollments per 10,000 people
road	Mileage (km) of road per 10,000 km squared of land
loan_gdp	Total loans of financial institutions divided by GDP (%)
invest_gdp	Fixed asset investment as a share of GDP (%)
Constitution93	Equals 1 after 1993 (inclusive) Constitution amendment; 0 otherwise
Constitution99	Equals 1 after 1999 (inclusive) Constitution amendment; 0 otherwise
Constitution04	Equals 1 after 2004 (inclusive) Constitution amendment; 0 otherwise

Note: (1) "birth rate" is calculated as: (new babies in a year / average population in the year) ×1000‰. (2) "elderly dependency ration" is calculated as: (population aged 65 and above / population aged between 15 and 64).

3.2. The Dependent Variable

The dependent variable, *entrepreneurship*, was to be measured by "persons employed in private enterprises and self-employed individuals in urban areas as a share of total urban employment," or urban private employment share for short. This measurement has been used in the literature (Li et al., 2009; Zhao, 2018; Jian et al. 2021). There is not a perfect and universally accepted measurement of entrepreneurship. Self-employment rate, for example, as often used in the literature (Evans & Jovanovic, 1989; Blanchflower & Oswald, 1998), was particularly oriented towards the smallest businesses and thus was not a good proxy for entrepreneurship (Levine & Rubinstein, 2017). It made no distinction between a vendor's booth in the street selling hotdogs and Elon

Musk's business empire (or high-tech giants like Apple and Huawei). Audretsch (1995) used the employment share of surviving "young firms" to measure entrepreneurial activity in manufacturing industries. Carree and Thurik (1998) used the share of "small firms" as a proxy for entrepreneurship. These measures suffered the same or similar shortcomings as self-employment rate.

China's private sector includes not only *de novo* private enterprises but also many public enterprises (state-owned enterprises and township and village enterprises) that were privatised since 1993 (Brandt & Li, 2003). Entrepreneurs not only started new businesses but also expanded existing businesses. In transition economies like China, they also participated in privatising state and collective owned enterprises (Zhao, 2018). Privatisation means that majority ownership of public firms shifted from the government to private individuals (Brandt & Li, 2003). All these undertakings, namely, establishing a new private firm, expanding an existing private firm, or purchasing a public firm, belong to entrepreneurial activities. The common consequence of these activities is that they create jobs in the private sector. Based on this argument, we used urban private employment share to measure entrepreneurship since this measure considered all three types of entrepreneurial activities mentioned here.

Our measurement is not perfect either. Entrepreneurship is a micro-level or individually based behaviour. That using macro-data aggregated across a province to measure entrepreneurship blurs the differences between various types of entrepreneurial activities, such as their different technology intensities. Some high-tech private firms may not bring many jobs, but they contribute high value-added to the economy. Microdata, however, are difficult to obtain. Surveys of individuals (entrepreneurs) have their own problems. Given the above arguments and data limitations, we used the urban private employment share defined above to measure the level of entrepreneurship in China's provinces. Logically, more entrepreneurial activities bring about more jobs in private firms.

3.3. The Independent Variables

Constitutional amendments are indicator variables. We divided the entire sample period 1992-2009 into two sub-periods, i.e., 1992-2001, and 2001-2019. We chose 1992 as the starting year because private business was very moderate in the 1980s. Besides, Deng Xiaoping toured South China in early 1992 and delivered famous remarks, signaling that China would continue its reform and opening-up policy. Deng's tour mattered because several twists and

turns happened in the 1980s in government policy toward private businesses and foreign investors, which aroused doubts and suspicions at home and abroad about China's reform and future. Deng's Southern Tour, as argued by Li et al. (2008), represented a critical turnaround in the Chinese Communist Party's policy toward the development of private businesses.

Year 2001 is regarded as the dividing line because China entered the World Trade Organisation (WTO) in that year. The accession to the WTO mattered because China was required to protect private property rights and private entrepreneurship if China intended to gain legitimacy from international organisations such as the WTO (Kshetri, 2007).

In the first sub-period 1992-2001, we only included 1999 Constitutional amendment dummy. In the second sub-period, we only included 2004 Constitution amendment dummy. In the entire period, we included both. In robustness test, we extended the sample period to 1989-2019, then we included all three Constitution amendment dummies, which are 1993, 1999, and 2004 amendments.

Besides Constitution amendments, we also controlled for different sets of variables that may affect people's entrepreneurship decisions and entrepreneurial activities.

FDI is an important key explanatory variable in our regression equation. FDI has two statistical figures in China, one is called *contracted FDI*, and the other is *utilised FDI*. We choose utilised FDI in our model. Second, FDI is a flow in official statistics. We used the stock of FDI in our model because all the existing foreign firms played a role. But capital depreciates over time and thus we chose a 5 per cent annual depreciation rate, which was usually adopted in the literature (e.g. Li et al., 2009). The choice of 5 per cent may seem arbitrary, but when we changed the deprecation rate from 1-10 per cent, the significance of the regression coefficients did not vary. Third, we used FDI per capita rather than total FDI of a province because vast differences exist among different provinces in population. For example, Guangdong province has a population of 110 million, while Tibet only has 3 million. Fourth, we used real FDI rather than nominal FDI. We deflated current price FDI into constant price FDI using consumer price index (CPI) of the United States (1980 as the base year).

We controlled for GDP growth rate of each province in the previous year (*L.growth*) to examine the effect of previous year's economic situation on this year's entrepreneurial decisions. In the literature, studies have been distinguishing between "necessity entrepreneurship" and "opportunity

entrepreneurship" (Acs, 2006). Necessity entrepreneurship is caused by the lack of other opportunities; opportunity entrepreneurship is driven by an apparent business opportunity. Faster economic growth usually creates more business opportunities. The sign and significance of this coefficient can reveal the business environment of a country.

Demographic factors affect entrepreneurship. For example, having too many older people in society may slow entrepreneurship, as argued by Liang et al. (2018). We controlled for three demographic variables in our model, namely, elderly dependency ratio (*elderly*), birth rate (*birth*), and urbanisation rate (*urban*). From 1992 to 2019, China's elderly dependency ratio had increased from 9.3 per cent to 17.8 per cent, while birth rate dropped from 18.2 per cent to 10.5 per cent. Urbanisation rate increased from 27.5 per cent to 60.6 per cent. Large variations also existed across provinces. For example, in 2019 Shanghai's urbanisation rate was as high as 88 per cent, while in Tibet it was only about 32 per cent. Birth rates in Ningxia, Qinghai, Guizhou, and Guangxi were as high as 13-14 per cent, while in Heilongjiang, as low as 5.7 per cent.

To control for the government's role in shaping the institutional environment in which entrepreneurs operate businesses, we included government budget expenditure as a share of GDP (*govt/GDP*) in the equation. This ratio is usually used to measure the size of a government (Friedman & Friedman, 1980), which also serves as an indicator of macroeconomic stability (Easterly & Rebelo, 1993). We then control fixed asset investment as a share of GDP (*invest/GDP*), which captures the capital accumulation rate of a province.

We then controlled for human capital, infrastructure, and financial service in the equation, which are all relevant to entrepreneurial activities. We used college student enrollments per 10,000 people (*education*) to proxy for a region's level of human capital. This proxy has been widely used in the literature (Yao & Wei, 2007; Li et al., 2009; Zhao, 2013). Lu and Tao (2010) even argued that human capital was a determinant of entrepreneurship development. As to the infrastructure, we used mileage of road per 10,000 square kilometers of land (*road*). Good infrastructure has been used to attract foreign investors, but infrastructure is a public good, which may affect all investors' decisions. We used loan as a share of GDP (*loan/GDP*) to partly measure financial services offered by financial institutions of a province. Entrepreneurial necessities entail financial support given that entrepreneurs are usually liquidity-constrained (Zhang, 2000).

To summarise, we included the following control variables in the model that estimates the effect of Constitution endorsement of private business and private property and foreign direct investment on entrepreneurship: the lagged economic growth rate, elderly dependency ratio, birth rate, urbanisation rate, government expenditure as a share of GDP, fixed asset investment as a share of GDP, college enrollment per 10,000 people, mileage of road per 10,000 square kilometers of land, and loan granted as a share of GDP, and a set of provincial and year indicators.

4. DATA

Unless we say otherwise, all data used in this paper are from *China Statistical Yearbooks* (relevant years) and Statistical Yearbooks of each province (relevant years). The former was compiled and published by the National Bureau of Statistics (NBS), China's central statistical authority, and the latter, provincial-level statistical bureaus. Data on urbanisation rates came from *China Population and Employment Statistics Yearbook* (relevant years). Our data set consists of 31 provinces of China over 1992-2019. Tables 2 and 3 present summary statistics and correlation matrix of the key variables.

Table 2: Summary statistics (1992-2019)

Variable	Obs.	Mean	Std. Dev.	Min	Max
entrepreneurship	835	34.3	19.5	0	88.9
fdi	868	268	434	0	3064
growth	868	10.8	3.34	0.5	41.5
elderly	868	11.9	3.27	4.97	24.5
birth	868	12.7	3.91	4.28	24.9
urban	850	45.0	17.5	12.5	94.1
govt/gdp	868	20.6	17.0	4.92	135
education	868	119	85.9	7.94	399
road	868	5873	4803	157	25149
loan/gdp	868	113	40.7	29.2	300
invest/gdp	868	57.8	29.4	17.4	162
Constitution99	868	0.18	0.38	0	1
Constitution04	868	0.54	0.50	0	1

Table 3: Correlation matrix (1992-2019)

	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
1. entrepreneurship										
2. ln(fdi)	0.40									
3. L.growth	-0.14	-0.05								
4. elderly	0.54	0.57	-0.13							
5. birth	-0.30	-0.66	0.03	-0.50						
6. urban	0.25	0.69	-0.17	0.45	-0.62					
7. govt/gdp	0.35	-0.11	-0.13	-0.01	0.10	-0.02				
8. ln(education)	0.60	0.71	-0.11	0.61	-0.68	0.63	0.26			
9. ln(road)	0.47	0.70	-0.01	0.71	-0.52	0.44	-0.22	0.65		
ln(loan/gdp)	0.24	0.26	-0.36	0.16	-0.16	0.42	0.33	0.34	0.14	
11. invest/gdp	0.51	0.23	-0.09	0.30	-0.13	0.17	0.64	0.56	0.19	0.27

5. CONSTITUTION ENDORSEMENT AND ENTREPRENEURSHIP: THE EVIDENCE

5.1. Basic Results

In this section, we present the evidence on the impact of Constitution endorsement of private ownership and private property on local entrepreneurship. Table 4 reports one-way fixed effect results of estimating Eq. (1) using two subsamples, 1992-2001 and 2001-2019. To allow for heterogeneity and autocorrelation, we estimated all the models with the Driscoll-Kraay standard errors, which are robust to very general forms of cross-sectional and temporal dependence when the time dimension becomes large (Driscoll & Kraay, 1998).

The Constitutional amendment in 1999, however, does not exhibit a significant effect on entrepreneurship in 1992-2001 sub-sample. It may be because Deng Xiaoping toured South China in 1992 and confirmed that China would continue the reform and opening-up policy and in 1993 the Constitution endorsed market economy in China, which dwarfed the incentive effect of 1999 Constitution amendment. Also, it may be because there were only two years after 1999 in this subsample. In the second subsample (2001-2019), the 2004 Constitutional amendment shows a significant positive effect on entrepreneurship as private property rights protection was endorsed by the Constitution for the first time in the history of People's Republic of China. Entrepreneurs were sensitive to this change because the communist regime had been resisting ownership of private property.

Table 4: Impact of Constitution endorsement on local entrepreneurship

Regressors	Dependent variable: Entrepreneurship (1992-2001) One-way fixed effects			Dependent variable: Entrepreneurship (2001-2019) One-way fixed effects		
	(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
Constitution99	1.94*	1.72	1.71	-	-	-
	(0.87)	(1.05)	(1.13)			
Constitution04	-	-	-	6.60***	3.64**	4.11**
				(1.59)	(1.33)	(1.55)
ln(fdi)	6.16***	6.30***	6.27***	5.80***	4.58***	4.28***
	(0.87)	(0.73)	(0.73)	(0.99)	(1.13)	(1.03)
L.growth	-0.13**	-0.15**	-0.18*	-0.58**	-0.75***	-0.69***
	(0.05)	(0.06)	(0.08)	(0.20)	(0.20)	(0.22)
elderly	1.48**	1.45**	1.40**	-0.39*	-0.48**	-0.50*
	(0.48)	(0.47)	(0.45)	(0.21)	(0.23)	(0.24)
birth	-0.89***	-0.80***	-0.82***	-0.07	-0.09	0.09
	(0.17)	(0.22)	(0.21)	(0.16)	(0.16)	(0.17)
urban	-0.40**	-0.41**	-0.41**	0.32*	0.16	0.14
	(0.15)	(0.16)	(0.16)	(0.16)	(0.16)	(0.18)
govt_gdp	0.30***	0.27**	0.23**	0.05	-0.09	-0.17***
	(0.07)	(0.09)	(0.09)	(0.05)	(0.06)	(0.05)
ln(education)	-	2.68	2.37	-	8.77***	7.33**
		(2.79)	(2.77)		(2.36)	(2.75)
ln(road)	-	-4.13*	-3.68*	-	0.75	1.07
		(1.84))	(1.96)		(1.46)	(1.58)
Ln(loan/gdp)	-	-	0.35	-	-	2.29*
			(2.16)			(1.30)
invest_gdp	-	-	0.06	-	-	0.04**
			(0.05)			(0.02)
Constant	6.78	28.8**	24.7	3.40	-26.7***	-31.3***
	6.07)	(11.5)	(21.2)	(4.41)	(7.31)	(9.39)
Observations	246	246	246	523	523	523
Within R-sq.	0.675	0.679	0.680	0.506	0.520	0.523
Adj. R-sq.	0.815	0.816	0.814	0.761	0.767	0.768

Note: The numbers in parentheses are Driscoll and Kraay (1988) standard errors. All regressions include provincial indicators (one-way fixed effects). The significance levels of 1%, 5%, and 10% are noted by ***, **, and *.

5.2. Robustness Tests

In this subsection, we conducted several robustness tests to make sure that our findings in Table 4 are robust to alternative specifications. First, we included year indicator variables in the subsample regressions (the first two columns

of Table 5). We then estimated our equation using the entire sample (1992-2019). Finally, we extended the sample period three years ahead to test the effect of 1993 Constitution amendment and do both one-way and two-way fixed effects regressions (the last two columns of Table 5).

The Constitutional amendment in 2004, which claimed to protect private property rights, significantly increased local entrepreneurship development. The estimated coefficients in all nine models which included this indicator variable (models (4-12) showed positive effect of this Constitution amendment on local entrepreneurship, and all were significant at 1% or 5% level. This result was consistent with the finding of Lu and Tao (2010), who presented strong support for the role of institutional environment, including protection of private properties and contract enforcement, for the entrepreneurship decision in China. Our finding here confirms that China's entrepreneurs are sensitive to the security of their private property rights. The inclusion of private property protection in the Constitution significantly stimulates entrepreneurial activities in China.

The Constitutional amendment in 1999, which upgraded the status of private ownership, also showed positive effect on entrepreneurship development in China, but the magnitudes of the coefficients were smaller than that of 2004 amendment. And the estimated coefficients were statistically significant at the 5% level in the last three models (models (10)-(12)). In model (9), it did not show a significant effect on entrepreneurship. These findings implied that the Constitutional amendment in 1999 was weaker in promoting entrepreneurship than the 2004 amendment. This is reasonable because private property is the vital interest of entrepreneurs and is more pertinent to individuals than an overall upgrade of private ownership status.

In the last two models (models (11)-(12)), Constitutional amendment in 1993, which endorsed market economy as China's economic reform goal, also showed a positive effect on entrepreneurship development. The magnitudes of the coefficients were even smaller than that of 1999 amendment, and the coefficients were only significant at the 10% level. The Constitutional amendment in 1993 was a confirmation of the decision made in the 14th Congress of the Chinese Communist Party (CCP), which was held in October 1992. As a herald of the 14th CCP congress, Deng Xiaoping toured South China in early 1992, confirmed that China would continue the reform and opening-up and declared that both market and planning were economic means. Our findings here show that the market economy endorsement in 1993 was weaker in promoting entrepreneurship than the 1999 and 2004 amendments.

Table 5: Impact of Constitution endorsement on local entrepreneurship

Regressors	Dependent variable: Entrepreneurship					
	1992-2001	2001-2019	1992-2019	1992-2019	1989-2019	1989-2019
	(7)	(8)	(9)	(10)	(11)	(12)
Constitution93	-	-	-	-	3.34*	3.26*
					(1.75)	(1.85)
Constitution99	4.72***	-	3.86	4.18**	5.67**	6.51**
	(1.03)		(2.35)	(2.00)	(2.61)	(2.77)
Constitution04	-	4.68**	10.7***	31.8***	7.22***	7.50***
		(1.90)	(2.65)	(5.55)	(1.58)	(1.72)
ln(fdi)	4.87***	4.18***	4.14***	3.49***	2.14**	2.09**
	(0.97)	(1.34)	(0.76)	(0.99)	(1.03)	(0.97)
L.growth	-0.15**	-0.81***	-0.47***	-0.35***	-0.35**	-0.22*
	(0.06)	(0.26)	(0.15)	(0.13)	(0.17)	(0.12)
elderly	1.08*	-0.61**	0.01	-0.28	0.32	-0.07
	(0.50)	(0.25)	(0.26)	(0.35)	(0.36)	(0.44)
birth	-0.67***	0.02	-0.32*	-0.72***	-0.04	-0.10
	(0.20)	(0.19)	(0.19)	(0.23)	(0.19)	(0.20)
urban	-0.41**	0.07	-0.04	-0.08	0.05	0.03
	(0.16)	(0.23)	(0.08)	(0.08)	(0.10)	(0.10)
govt_gdp	0.21	-0.21***	-0.01	-0.15	-0.09	0.07
	(0.14)	(0.06)	(0.09)	(0.09)	(0.11)	(0.11)
ln(education)	2.38	7.12**	4.19*	-0.71	2.77	2.65
	(2.52)	(2.57)	(2.12)	(2.40)	(1.95)	(1.93)
log(road)	-4.32*	1.81	1.73	0.71	3.61**	3.73**
	(1.98)	(3.56)	(1.36)	(1.99)	(1.35)	(1.34)
ln(loan_gdp)	-1.52	2.34	5.48***	2.34*	4.32***	2.69**
	(1.40)	(1.47)	(1.26)	(1.32)	(1.12)	(1.13)
invest_gdp	0.04	0.06**	0.01	0.01	1.11	0.97
	(0.05)	(0.02)	(0.02)	(0.03)	(2.38)	(2.46)
year dummies	Yes	Yes	No	Yes	No	Yes
constant	42.5**	-30.4	-38.3***	12.2	-33.8***	30.0***
	(17.2)	(22.4)	(13.5)	(22.1)	(10.8)	(10.8)
Observations	246	523	769	769	871	871
Within R-sq.	0.692	0.537	0.750	0.770	0.794	0.799
Adj. R-sq.	0.820	0.768	0.818	0.828	0.835	0.839

Note: The numbers in parentheses are Driscoll and Kraay (1988) standard errors. The significance levels of 1%, 5%, and 10% are noted by ***, **, and *.

Economic growth in the previous year showed a significant negative effect on entrepreneurship in all twelve models of Tables 4 and 5. This result means that faster economic growth in the previous year reduces entrepreneurship of the current year, which implies that China's entrepreneurship is more like a "necessity entrepreneurship" than "opportunity entrepreneurship." This also implies that business environment in China was not favourable enough to entrepreneurs in our sample period.

In summary, this study finds that Constitution endorsement of market economy, private ownership and property protection significantly enhanced China's entrepreneurship level. Specifically, the Constitution endorsement of private property rights protection (Constitution amendment in 2004) had exhibited the most significant effect on China's entrepreneurship development, both in magnitude and in significance level.

6. CONCLUSION

Studies of entrepreneurship in transition economies are incomplete without considering the impact of institutional change and foreign direct investment. In this paper, we examined the impact of Constitutional endorsement of private ownership on local entrepreneurship development. We found that Constitutional endorsements promoted China's entrepreneurship. This finding supported the view that institutional environment plays a critical role in entrepreneurial decisions.

Note

1. For example, in 1982 the Chinese central government issued a circular on cracking down criminal activities in economic areas, then Wenzhou city government in east China's Zhejiang province arrested eight most famous entrepreneurs in Wenzhou in the name of "speculation crime." Then in 1983 and 1984 campaigns against "spiritual pollution" were launched, and the campaign against "bourgeois liberalization" was launched in 1987, both demanded for a crackdown on private businesses in the name of "rectifying the market" or "attacking speculation." See Li et al. (2008).

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