

# Research on the Government's Help to Reduce Costs for Private Enterprises

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**Abstract.** This paper focuses on the Government's Help to Reduce Costs for Private Enterprises in FuJian Province. The research team in-depth investigation and analysis the main problems and difficulties faced by private enterprises in upgrading and upgrading in our province and explores the countermeasures for effectively accelerating the transformation and upgrading of private enterprises through several field investigations inside and outside the province. The research group in the above issues formed a series of papers. The problems of rising labor cost, heavy tax burden, financing difficulties, high logistics cost and high institutional transaction cost are becoming the current troubles of private enterprises. After thorough investigation and analysis, the research group put forward several feasible schemes.

## 1. Introduction

Team for the analysis of the private enterprises in our province to upgrade transformation in main problems and difficulties, to explore the effective countermeasures to promote the transformation and upgrading of private enterprises in our province, the team organized many times of both the field research, visited a number of successful transformation of private enterprises, The first-hand information of the development of private economy was obtained in the field investigation. Private enterprise holds the balance in FuJian economy position. After years of development, private enterprises in FuJian have undergone great changes in their management system and operating mechanism, which have greatly improved their vitality and competitiveness. Under the new normal, there are still many institutional, institutional, structural and historical problems that private enterprises need to further solve and they are becoming increasingly difficult. In the macro environment where the new round of scientific and technological revolution and the transformation and upgrading of China's manufacturing industry form a historic intersection, FuJian, as one of the most active regions for private enterprises in China, must seize the historical opportunity, give full play to its advantages, transform and upgrade in an all-round way, and stride into the ranks of the strong manufacturing provinces in China.

In this paper, the authors research into the comprehensive curriculum reform of intelligent manufacturing in colleges and universities serving local areas. It is supported by the achievements of some projects, such as the "Introduction to E-Commerce' Provincial Quality Open Online Course Project" (Project Number: QZTCJWC20180103) which is funded by the education department of FuJian province, the "Overseas Visiting Scholar Program of FuJian Province Academic Leaders Training Program" which is funded by the education department of FuJian province, the "Intelligent Manufacturing Majors in Colleges and Universities Serve Local Education Reform" (Project Number: FBJG20170210) which is provincial educational reform program and funded by the education department of FuJian province, the "Joint Research on Agile Manufacturing Key Technologies" (Project Number: 201708) which is funded by QuanZhou science and technology association.

This paper, which lays emphasis upon the current situation of Economic development in FuJian, the high operation costs of private enterprises, and the Research on the government's help to reduce

costs for private enterprises in Fujian province. The overall organization of the paper is as follows. After the introduction, in Section II we present the current situation of Economic development in Fujian, and it lists a lot of data and charts. The high production and operation costs of private enterprises have affected the economy of Fujian are clarified in section III, including severe overcapacity in some industries, overstock of real estate, poor international export environment and high corporate debt. In section IV, the research group suggested that the government take some measures to help private enterprises reduce costs, are touched upon. Some effective measures, such as reduce the institutional transaction cost, to achieve transparency information; To reduce tax costs, the introduction of clearing fees to reduce negative policy; Reduce the financial cost, standardize the private financing system to improve the quality of private enterprise financing; Lower electricity prices and continue to encourage the development of distributed new energy; Reduce land cost, optimize land price of industrial land. Finally, Section V concludes the paper.

## **2. Current Situation of Economic Development in Fujian**

In 2018, the GDP of Fujian reached 3,580.404 billion yuan, an increase of 8.3 percent or 0.2 percentage points over the previous year in comparable prices. By sector, the added value of the primary industry was 237.982 billion yuan, up 3.5%; The added value of the secondary industry was 1723.236 billion yuan, up 8.5%; The added value of the tertiary industry was 1619.186 billion yuan, up 8.8%. In 2018, the added value of industries above the designated size in the province increased by 9.1 percent or 1.1 percentage points over the previous year. The value added of light industry increased by 8.9 percent and heavy industry by 9.2 percent. By type of registration, the added value of state-owned enterprises increased by 7.8 percent, joint-stock enterprises by 10.3 percent, joint-stock cooperative enterprises by 14.4 percent, and enterprises with foreign investment and investment from Hong Kong, Macao and Taiwan by 6.9 percent. The value added of the mining sector grew by 7.8 percent, the manufacturing sector by 8.9 percent, and the power, heat, gas and water production and supply sectors by 11.9 percent. However, under the background of the us-china trade war, our province is faced with the new normal of intensified market competition, traditional overcapacity, strengthened resource and environmental constraints, and rising cost of factors, the development of our manufacturing industry is also faced with severe challenges, and the transformation and upgrading is urgent.

Our research group investigated a large number of private enterprises in Fujian, and found that currently private management methods are generally backward, there is a shortage of truly competent management talents, professional managers and enterprise owners have a low degree of mutual trust, and family management and paternalistic management methods are still common. Many small and medium-sized private enterprises complain that a small number of enterprises collude with officials and businessmen to use unfair means of competition to achieve abnormal development. In recent years, private enterprises in our province, especially small and medium-sized private enterprises, generally suffer from financing difficulties and lack of development momentum. Many small and medium-sized private enterprises are weak in resisting risks and look forward to group development.

## **3. High Operation Costs of Private Enterprises**

Firstly, the rising labor costs affect the production and operation costs of private enterprises. Since 2004, the increase of migrant workers outside China began to be lower than the increase of urban employment, indicating that the transfer of rural labor force is slowing down. China's working-age population (aged 16-59) dropped by 2.44 million in 2013, 3.71 million in 2014 and 4.87 million in 2015. In these three years, China has lost 10 million workers. This, in direct economic terms, has led to a sharp rise in labor costs in China. Since 2000, the monthly wage of migrant workers in China has increased by a large margin, basically maintaining a growth rate of more than 5%. In some years, it has reached double-digit growth, and the annual growth rate of real monthly wage

has also basically maintained a growth rate of about 5%. With the sharp rise of the wages of migrant workers, the gap between the wages of migrant workers and the average wages of the general workers is gradually narrowing. As migrant workers account for a large proportion of employment in China's modern production sector, it also leads to the rapid rise in China's overall labor costs to a certain extent. Based on the comprehensive analysis of the wages of the whole society, the wages of migrant workers and the wages of agricultural employees, the labor price of our country has shown a trend of long-term and rapid rise. This shows that the reduction of labor supply in China leads to a certain degree of change in the relationship between labor supply and demand.

Secondly, the corporate tax burden is heavy. According to Forbes, China's tax misery index is the second largest in the world. Professor Li Weiguang, a well-known finance and taxation expert in China, believes that we can measure China's situation by referring to the World Bank's statistics on macro tax burden in different countries. For example, the average macro tax burden of low-income countries with per capita GDP less than \$785 is generally 13.07%. The average macro tax burden of low- and middle-income countries with per capita GDP of US \$786 - US \$3125 is 18.59%. In 2005, China's macro tax burden reached 19.39% (social contributions included). It should be noted that China is just entering the ranks of middle and lower income countries, so the tax burden is heavy.

Thirdly, private enterprises generally encounter financing difficulties, enterprise financial cost is high. From the perspective of enterprise development, most of China's small and medium-sized private enterprises are facing financing difficulties. China's current economic and financial policies are mainly based on the type, size and industry characteristics of enterprises, especially large state-owned enterprises. Therefore, most social resources flow to large and medium-sized state-owned enterprises through the "tangible hand" of the government. Even if the business performance of these enterprises is not good, for commercial banks, these enterprises begin with the word "state" and have a strong national reputation as the backing, so the money should be lent to these enterprises. Under the condition of a certain amount of credit, more credit is given to large state-owned enterprises, which means less capital is lent to small and medium-sized enterprises, especially private small and medium-sized enterprises. In fact, it is obviously unrealistic for large financial institutions such as state-owned banks to take care of small and medium-sized private enterprises one by one and bear a large number of credit risks of small and medium-sized enterprises. Due to the folk lending borrowing is not standard, known as the financial hole, risk control, illegal possession, blind investment, etc., the folk lending in fact is in a state of underground and half underground, healthy private lending can not get to encourage and guide, and illegal borrowing such as usury is intensifying, and more recently been "naked" loan, and many other negative news.

Fourthly, the cost of enterprise logistics is still too high. After investigation, the logistics transport in my province is still more charges, random charges, more charges, high charges; Most of the high grade highways newly built in the past 20 years are made up of public goods. Nowadays, the main cost of highway freight in our country is the overhanging bridge toll. Second, although the charge is a lot, but many local logistics facilities are still very backward; Third, the management system and operation mechanism of logistics are not mature. According to the report, only 8.8 percent of the more than 90,000 kilometers of highways in the United States are toll roads, and 100,000 kilometers of the 140,000 kilometers of toll roads in the world are in China. Almost all highways in China are toll roads, and the public nature of the roads is non-existent.

Fifthly, the enterprise in the political and commercial transaction process of the system transaction cost is too high. After investigation, many private enterprises have reported that there are various types of institutional transaction costs in our province, which are relatively flexible and also hide "grey areas". Institutional transaction costs, also known as institutional costs, mainly refer to the costs that enterprises need to pay for following various regulations, rules and policies formulated by the government. Therefore, this is a cost that cannot be reduced by the enterprise's own efforts. Only by deepening the reform and adjusting the system and policies of the government can the enterprise reduce the burden.

#### **4. The Government Should Try To Help Private Enterprises Reduce Costs**

Firstly, the government should reduce the institutional transaction cost of government and business as far as possible, and realize the transparency of government and business transaction by informatization.

Whether the institutional transaction costs can be reduced more effectively determines whether the important task of "cost reduction" can be accomplished smoothly and affects the progress of supply-side structural reform. In order to truly and effectively reduce institutional transaction costs, the key is to put all policies into place in the process of advancing reform so as to remove bottlenecks in cost reduction and remove bottlenecks in the last mile.

Secondly, the government should reduce the tax cost of enterprises as far as possible, introduce the policy of clearing fees and reducing burden, and try to reduce burden for enterprises.

At this year's NPC and CPPCC sessions, the premier has made it clear in his government report that from May 1, 2016, the construction, real estate, financial and consumer service industries will be included in the pilot project to replace business tax with value-added tax, and all the newly added real estate of enterprises including value-added tax will be included in the scope of deduction, to ensure that the tax burden will only be reduced but not increased. Replacing business tax with VAT will help reduce double taxation and reduce enterprise costs and tax costs. From the perspective of economics, tax reduction is one of the important symbols of fiscal policy. Proactive fiscal policy is regarded as a major measure to deal with the economic downturn and promote structural reform in 2016.

Thirdly, we should reduce the financial cost of enterprises as far as possible, standardize the private financing system to improve the quality of private enterprise financing.

Number of small and medium-sized enterprises in our country, the quality is good and bad are intermingled, Banks and other financial institutions in unable to fully understand the real situation of loan companies, in order to avoid the occurrence of adverse selection and moral hazard, for small and medium-sized enterprises "credit rationing", which requires higher interest rates than large enterprises or other relatively harsh conditions, even refused to provide loans. In recent years, while aiming at the problem of small and medium-sized enterprise loan guarantee, issued some new policies, but has not yet formed a complete support development of small and medium-sized enterprises financial policy system, the small and medium-sized enterprise loan is still affected by large bound and, therefore, private lending to become many micro small and medium-sized private enterprises in the actual financing channels, urgent need to strengthen the construction of financing system and monitoring system, set up the financing platform of equality.

Financing difficulty is a major problem that has long troubled the development of private enterprises. In the process of development, enterprises often encounter the dilemma of lack of funds, and for small and medium-sized private enterprises, it is a barrier. From the perspective of indirect financing of Banks, it is difficult for small and medium-sized private enterprises dominated by family enterprises to raise sufficient funds through bank credit. The service objects of state-owned commercial Banks are mainly state-owned enterprises. For small and medium-sized private enterprises, bank lending is very cautious and complicated. According to the research group, the loans obtained from Banks in the small and medium-sized private enterprises investigated in our province generally only account for 10-30% of the total social loans, which is not commensurate with the position of occupying half of the city's economy. As for direct financing in the capital market, although the state is constantly relaxing the restrictions on the listing financing of private enterprises, the proportion is still relatively small. In fact, whether it is indirect financing or direct financing, its risk control mainly depends on the construction of financing system and monitoring system, rather than judging by the ownership nature of the financing object. We should enforce surveillance, not restrict it.

Fourthly, the government should further reduce the price of electricity, should continue to encourage the development of distributed new energy, reduce the cost of electricity.

Research team believes that as progress was made in reform of the electricity supply side structural reform, the key gripper of steady growth, cost reduction efforts, to speed up the progress, the air feed, sharply reduce electricity price for enterprises, promoting enterprise authors synergies, vigorously promote electric power trade directly, the urban and rural areas of agricultural production with the same price, effectively reduce the electricity price for industrial users.

Fifthly, the government should reduce the price of land transfer, reduce the cost of land use for enterprises, and optimize the price of industrial land. The research group believes that in terms of the arrangement of annual land use indicators, priority should be given to ensuring industrial transformation and upgrading, industrial agglomeration, innovation-driven land demand of projects, accelerating the use of planned indicators, and accelerating the implementation of construction projects in accordance with the principle of centralized planning and graded security. The research group believes that the land transfer of strategic emerging industries, future industries, high-end manufacturing and other industrial projects can be approved to extend the correction factor from the part of r&d and plant construction restricted to self-use or overall transfer to industrial supporting facilities such as canteen, dormitory and office.

## 5. Conclusion

In this paper, a Research on the Government's Help to Reduce Costs for Private Enterprises in FuJian Province was presented. Specifically, the current situation of Economic development in FuJian was introduced. In addition, the impact of the new normal of economic development on private enterprises. The problems of rising labor cost, heavy tax burden, financing difficulties, high logistics cost and high institutional transaction cost are becoming the current troubles of private enterprises. After in-depth investigation and analysis, the research team proposed several measures, including: reducing institutional transaction costs to achieve transparency through informatization; To reduce tax costs and introduce policies to reduce fees and burdens; Reduce the financial cost, standardize the private financing system to improve the quality of private enterprise financing; Lower electricity prices and continue to encourage the development of distributed new energy; Reduce land cost, optimize industrial land price and other corresponding solutions.

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