



## Research on the Strategies for Optimizing the Business Environment of Export-oriented Enterprises

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### Abstract

Since China's accession to the WTO, export-oriented enterprises directly participate in international competition and face to increasingly environmental uncertainty and operational risk. The governments and the industry or commercial associations at all levels should implement effective strategies to play their due role in optimizing the business environment of export-oriented enterprises, to ensure the sustainable development of export-oriented enterprises and the sustainable growth of China's export trade.

**Keywords:** Export-oriented enterprises, Business environment, Strategies

In "The Outline of the Eleventh Five-Year Plan for National Economic and Social Development of the People's Republic of China" approved by the Fourth Plenary Session of the Tenth National People's Congress, basic requirements for growth patterns of foreign trade were definitely specified. Thus, export-oriented enterprises should scientifically confirm or correct their strategic targets, formulate and carry out strategic plans in a rational way and effectively conduct strategic control to gain advantages in competition. However, external business environment is not under control of an enterprise itself, and only government, especially the central government and industrial or commercial associations have the ability to change the situation by means of carrying out some strategies. If export-oriented enterprises directly participate in international competition, then they will not only be affected by increasing price of domestic production factors, but will also be obstructed by trade friction from international anti-dumping, anti-subsidies, safeguard measures and product-specific safeguard measures. Export-oriented enterprises are faced up with the highest risk of uncertainty in their business environment, and also suffer from the most serious influences from international financial crisis, so they are in special need of more support from government, industrial or commercial association and other social intermediary organizations. However, only if export-oriented enterprises carry out the competition strategies suitable for them to generate the competitive capacity that their competitive rivals have no

means to duplicate and imitate under direction of the government and under coordination of industrial or commercial associations and according to international trade situation and industrial competitive situation, can they remain invincible in international competition.

### **1. Due strategies to be implemented by governments at all levels to optimize business environment**

Although there are quite a large number of export-oriented enterprises in China, small and medium-sized export-oriented enterprises account for more than 99%. Capital accumulation is still weak in these enterprises, such as obsolescent equipment and technology, low capacity of research and development and weak ability to withstand risks. Once unfavorable changes take place in the international market, it is probable that these enterprises step into difficulties of business. However, these enterprises contribute a lot to export trade in China, and are an important power in stimulating growth of GDP in China. Therefore, the country should provide them with definite supportive policies.

#### *1.1 Implementation of positive financial support policy*

The Central finance successively set up special fund for development of small and medium-sized enterprises, fund for international market development of small and medium-sized enterprises and fund for technical innovation of scientific and technical small and medium-sized enterprises to encourage small and medium-sized enterprises to increase research and development investment, promote achievement transfer and speed up market development, which helps strengthen support on small and medium-sized export-oriented enterprises and is favorable for further growth of small and medium-sized export-oriented enterprises. Jiangsu Province Government and Changzhou Municipal Government also set up some local funds to better promote development of local export-oriented enterprises. For instance, the economic support fund for export-oriented enterprises by Changzhou Municipal Government has played a stimulative role in rapid development and technical innovation of export-oriented enterprises. In February 2009, Changzhou Municipal Government unveiled “Opinions on How to Maintain Steady Growth of Foreign Trade”, which put forward six special funds, including special fund for export credit insurance, special fund for international market development, special fund for export brand establishment, special fund for fair trade, special fund for export base, and special fund for development of foreign trade logistics in Changzhou, which are required to put in place in an all-round way, which offers certain financial support for the steady development of export-oriented enterprises in Changzhou. However, it can be found out that current financial support policies are not enough to satisfy the large amount of export-oriented enterprises. In the future, we should continue to intensify the strength of financial support, attempt to attain the efficiency of “appraising and assessing financial special funds in a fair, just and objective way” to bring the supportive and directive function of the policies into real play.

#### *1.2 Implementation of stable tax preferential policy*

Since 2008, “The Enterprise Income Tax Law” has come into effect, in which high and new tech enterprises are levied 15% of their income tax rate and small low-profit enterprises are levied 20% of their income tax rate. According to the new tax law, expense for research and development can be calculated as 150% deduction or amortization; enterprises are exempted from conscription of income tax with income of technical transfer less than 5 million Yuan, and those enterprises are conscripted half of their income tax with income of technical transfer more than 5 million Yuan, etc, which can obviously alleviate relevant tax burden of export-oriented enterprises. Since August 2008, the Ministry of Finance and the State Administration of Taxation have raised export rebate rate for seven times in succession, including raising the export rebate rate of such commodities as TV transmitting equipment and sewing machines to 17%, export rebate rate of textile and costume to 16%, and export rebate rate of the following products to 15%: agricultural intensive processing products of tins, fruit juice and mulberry silk, etc, mechanical and electrical products of electric geared pump and semitrailer, instrument and meter of optical elements, drugs of Insulin Preparations, and commodities of bags and suitcases, shoes and hats, umbrellas, hair-made articles, toys and furniture, etc, which involve relevant products of almost 4000 tax file numbers. Altogether a rebate tax of 160 billion Yuan has been expensed from the central finance during the seven times of tax rebate, which enabled export-oriented enterprises to benefit directly, reduced cost of their products exported and strengthened their ability to withstand international risk. However, the tax policy in China is still in a process of frequent adjustment, and especially the incessant upward and downward adjustment of export tax rebate in recent years has caused export-oriented enterprises to be faced up with great possibility of uncertainty, and has had great influences upon formulation and adjustment of their business decision-making. What’s more, the adjustment directly results in loss of control over cost by export-oriented enterprises, which turns profit immediately into loss and makes them suffer from serious policy risks. As an indispensable part of the national import foreign trade policies, the tax policy to promote development of foreign trade is not suitable for changes on a large scale, but should be maintained relatively steady.

#### *1.3 Implementation of preferential financing support policy*

For the time being, quite a large quantity of export-oriented enterprises can not sell out their products, and they have no way to take back some funds, so they are in serious shortage of working fund. A great many export-oriented enterprises

have no ability to develop their domestic market and adjust their business direction, and difficult financing issues have seriously restricted development of their business activities. In order to resolve this problem, the government is in urgent need to open new financing channels for these enterprises and help them pull through. For example, after arrival of the international financial crisis, the Government of Xinbei District in Changzhou, together with the Confederation of Trade Unions encouraged some enterprises with favorable profits to help resolve the issue of capital shortage in other enterprises, and to reduce losses in difficultly-operated enterprises to the minimum. At the beginning of 2009, the Government of Gaoxin District in Changzhou pulled local banks and enterprises together to promote their cooperation. Under direction of the district government, the project of vertical integration in Trina Solar 500 Megawatt was subscribed by bank consortiums. In May 2009, the government of Xinbei District in Changzhou gave a contribution of capital worthy of 10 million Yuan and united eleven private enterprises to set up Xinbei District Commercial Guaranty Co., Ltd, which was another important measure taken by Xinbei District Government to skillfully resolve difficult financing. At the same time, Changzhou Municipal Government unveiled "Opinions on How to Maintain Steady Growth of Foreign Trade", which required financial institutions to offer credit support for those high-quality export enterprises with difficulties in turnover of funds and which provided pledge loans of export tax rebate and financing business for insurance policy under the export credit insurance item. However, to resolve difficult financing issues in export-oriented enterprises not only calls for the policy of "giving timely assistance" by the government, but also requires a consistent supportive policy. Strengthening establishment of self-contained and complete financing system is a long-term policy to set up a perfect financing channel for export-oriented enterprises.

#### *1.4 Perfection of assorted public service system*

Strengthening establishment of a public service system can provide favorable development environment for export-oriented enterprises and lead these enterprises to develop towards a path of fairness, standardization and sustainable development. Firstly, the competent authority of the government should organize or promote specialized development of social intermediary institutions, including a series of service process, such as, the period prior to production of export-oriented enterprises, the period after production of export-oriented enterprises and the period of overseas sale and collection of funds, with service of information transmission, product sale, market development, international cooperation, and dispute lawsuits, etc. Besides, the government should help these enterprises to realize information communication and business development of multi-industries, trans-regions and cross-borders so as to better carry out marketing activities in the international market. Secondly, the competent authority should support construction of industry-concentrated districts with good fundamental supporting facilities and service system to form regional supporting industrial clusters. The local government at all levels should integrate industrial resources with the bond of industrial clusters, improve industrial efficiency, generate product cost advantages and stimulate growth of products' international competitiveness. Simultaneously, relationship between enterprises in the same industry can be changed from competition to cooperation so as to reverse the situation of cutthroat competition of mutual suppression of prices. Thirdly, local government at all levels should encourage construction of information service platform and service platform of scientific and technical innovation. With arrival of networking and informationization, export-oriented enterprises in face of the international market are in more need of support of information service platform, such as timely understanding of the international situation of production factors and timely control over quantities and price of trade in all countries, etc. However, so far, there have still existed the problems of untimely upgrading of information service platform and incomplete offer of information, etc, which results in difficult functioning of information service platform. On the contrary, the service platform of scientific and technical innovation is aimed at integration, openness, cooperation and sharing of scientific resources, and is characterized by its basis, openness and public benefit, which offers support to scientific innovation and sustainable development of export-oriented enterprises by means of integrated and optimized scientific resources and advanced research and development facilities. Without these platforms, it is difficult for these export-oriented enterprises to hold these innovative activities and to maintain their cost advantages and competitive advantages.

#### *1.5 Establishment of effective early warning mechanism by government for trade friction*

With acceleration of the globalization and emergence of trade protectionism caused by the international financial crisis, trade friction over Chinese trade will come out frequently. The Ministry of Commerce have put forward the response mechanism to establish the trade friction of "Four-Sector Linkage", that is, the early warning mechanism for prevention of trade friction of anti-dumping, anti-subsidies, safeguard measures and product-specific safeguard measures unitedly established by the Central Government, local government, industrial associations and enterprises. However, establishment of effective early warning mechanism by the Central Government and local government is the top priority. Government at all levels should set up working organizations and leadership institutions responsible for early warning mechanism of export trade friction, for which they should make clear their major responsibilities and formulate corresponding early warning system. To establish information service and cooperative mechanism either through relevant departments, institutions functioning abroad, industrial or commercial associations, enterprises and overseas institutions, and relevant research institutions, or through domestic and foreign well-known law firms or information

service institutions. Besides, to collect data on product early warning information and data on overseas market access information through overseas Chinese all over the world, overseas Chinese associations and other international organizations. To strengthen dynamic monitoring over several major export markets, such as Europe, USA and Japan, etc, and to organize experts to make a quantitative and qualitative analysis on relevant information collected. To disclose in time early warning information about export trade friction through website of early warning for trade friction and electronic or published publications of early warning information. At the same time, the competent authority of government at all levels should intensify coordination and management of export trade in export-oriented enterprises and standard their export order. Export-oriented enterprises should be directed to increase technical content and value added of their export products and avoid applying means of price-off promotion. Simultaneously, the government should take the initiative to lead enterprises to strengthen development vigor of the international market, realize diversification of the export market and avoid trade friction resulted from excessive concentration of places of export for enterprises.

## **2. Due strategies to be implemented by industrial or commercial associations to optimize the business environment**

Industrial or Commercial association refers to non-profit and self-discipline industrial management organizations voluntarily constituted according to relevant rules, regulations and policies of a nation, in which enterprises in the same industry are the major subject. Its fundamental functions are service, self-discipline, communication and coordination. Industrial or commercial association is the bridge and bond to connect the government and enterprises, and it plays a significant role in reinforcing policy guidance, information communication and coordinative service of enterprises and intensifying relationship between enterprises and enterprises, between enterprises and markets and between enterprises and the government, etc.

### *2.1 Leading enterprises in their innovation and stimulating their industrial escalation*

For the past few years, exported commodities in China have frequently suffered from sanction of international anti-dumping, anti-subsidies, safeguard measures and product-specific safeguard measures. The major cause for the above phenomena is that, export-oriented enterprises win victory with low price and then expand with quantities, which results in mass production and exportation of middle and low standard labor intensive products in China. Too low price for exportation may lead to fierce competition between enterprises within the industry and results in extraordinary confusion of export order. Meanwhile, the low price may aggravate competition between primary commodities and general finished products in the international market, and will pose damage or threat to the congeneric products or industries in the importing countries. Laggard changes of exported commodity structure do not conform to continually increasing requirements on technological-intensive products, knowledge intensive products and environment-friendly products in the international market. Some developed countries fortify technological barriers, which causes export in China to be faced up with more export obstructs as a result of low technical level. This requires industrial or commercial associations to maintain the industrial order, mediate industrial disputes and enhance quality of the industry. The associations may provide enterprises with the latest international technical standard information, lead technical innovation in the enterprises and improve their research and development capacity, test ability and quality level according to specific technical criteria of the international quality certification body. Enterprises should be organized regularly to exchange information about development of new technology, new products and new materials in various elements of the industrial chain to encourage improvement of the overall technical level of the industrial cluster, accelerate escalation of product levels and optimization of their structure, and broaden the industrial chain. To enhance quality and level of exported products, to increase their value added and to realize transfer of exportation from expansion of the quantity to efficiency of the quality, which can not only diminish trade friction from the origin and walk out of the current difficult situation, but can, at the same time, have cost advantages of their own at a higher product dimension and gain stronger international competitiveness.

### *2.2 To lead brand establishment and explore newly emerging markets*

Professor Hans in Harvard Business School predicted in 1995 that, "15 years ago, companies competed with each other in terms of price, today in terms of quality and will compete in terms of brand in the future." The trend of economic globalization has pushed export-oriented enterprises in China to an era of competition for brand. When export-oriented enterprises have achieved significant success in terms of escalation of technology process and products, then the opportunity becomes mature for them to create a proprietary brand and establish corresponding channels of distribution. From then on, industrial or commercial associations should take the initiative to lead enterprises towards a road of their proprietary brand, to launch brand marketing based on industrial cluster and to establish a proprietary brand. Enterprises should be led to initiate business activities with high value added, such as research and development design, brand operation and distribution, etc. The associations may obtain proprietary intellectual property rights through independent research and development and acquisition of transfer, etc, continuously introduce high-level products, take the strategy of low price for low-level products and high price for high-level products and gradually build up a top-level image of

the brand. Furthermore, they should help enterprises to break away from cutthroat competition with low price in foreign trade and to improve quality and benefit of their export trade. Different from European and American markets, American financial crisis has exerted slight influences on the newly emerging markets in Latin America, Africa, Middle East and South Asia, etc. What's more, in the past several years, newly emerging markets have been in a good state of development, and correspondingly, demands upon them are also on the increase year by year. Therefore, industrial or commercial associations should take the initiative to lead enterprises to explore new market targets, exploit new demands to replace reduced demand upon European and American markets and stimulate stability and growth of exportation. Since 2009, China has maintained a stable rate of increase for exports to Latin America, Africa, Middle East and the Oceania, which will demonstrate a new direction for further foreign trade in the future and is helpful for Chinese enterprises to acquire first-mover advantages to enter newly emerging markets. Increase in the market occupancy rate in newly emerging markets is helpful for Chinese enterprises to gain economics of scale and experience effect so as to obtain competitive advantages.

### *2.3 To lead industrial cooperation and form industrial clusters*

In his study on the national competitive advantages, Michael Porter (1990) also discovered that, industrial cluster of a nation plays a significant role in obtaining cost advantages and acquiring competitive advantages. In "Clusters and New Economics of Competition", Michael Porter (1990) further pointed out that, an industrial cluster could enhance competitive competence of industry. However, currently, the numerous small and medium-sized export-oriented enterprises in China are nothing more than a long figure in a tossing, and it is difficult for them to stand attacks caused by changes of the international market. Industrial or commercial associations should work together with the competent authorities of government at all levels to take the initiative to lead construction of industrial clusters of all major industries. The economics of scale, economy of scope, division of labor based on specialization and reduction of transaction cost, etc, owing to industrial clusters will be the major contributors to improvement of competitiveness. Directed by demands of the market, industrial clusters can better adjust structures of products in time to generate advantages of product varieties, speed up the process of technical innovation and realize industrial escalation without difficulties. First of all, industrial or commercial associations may lead merger and restructuring of assets within an industrial cluster, realize integration of industrial chains, optimize connection of industrial chains, diminish exhaustion of production factors and withstand pressure of increasing cost. Then, industrial or commercial associations can lead industrial clusters to conduct joint stock reform with key enterprises as the core, set up professional allied corporations, and combine into close industrial complex. Finally, industrial or commercial associations can also lead industrial clusters to form strategic alliances with overseas enterprises or merchants, which enables them to economize the transaction expense and gain high efficiency marketing network. Therefore, strengthening cooperation and coordination between enterprises within an industry can not only turn over the solo play and dog-eat-dog situation in enterprises of an industry, but can also further gain specialization advantages, "regional brand" advantages and innovative advantages, which can further enhance industrial competitiveness of the region and stimulate rapid development and fast growth of export trade in export-oriented enterprises outside the region.

### *2.4 To strengthen industrial coordination and establish industrial early warning mechanism*

Industrial or commercial associations should take the initiative to commence establishment of industrial early warning mechanism, and should especially pay attention to construction of early warning information platform for export trade in key industries. Construction of early warning information platform for key industries was pioneered in Zhejiang Province, and has been affirmed positively by the Ministry of Commerce, with promotional value. Firstly, working institutions and leadership teams are constituted for early warning of trade in industrial or commercial associations, who draw up task system for construction of early warning platform of export trade. Dominant products and enterprises which are involved are selected in the industry for a close track after export early warning. Generally, the early warning information platform of export trade is set up on the website of the industrial or commercial associations, and it is through early warning information webpage of trade friction that the associations release in time early warning working policy, early warning working tendency and industrial early warning information, and that the content of the webpage is renewed in time. Industrial early warning information originates from three aspects: one from information released by the government early warning mechanism, the second from information acquired by industrial or commercial associations through channels of overseas institutions, commercial and trade activities and the public media, etc, and the third from information provided by all enterprises within the industrial or commercial associations. Industrial or commercial associations monitor, collect and straighten out in due course such information of some major importing countries' products imported, such as quantity, quality, price and speed, etc, and also gather information data of relevant industries in importing countries. In such a way, these associations can at any time control their influences upon relevant industries of the importing countries, discover in time possibilities of substantial damages and probable counterattack actions that relevant industries of the importing countries may take, organize in time enterprises within the industry to make responsive decisions, reinforce self-discipline and mutual discipline of enterprises, standardize export management order of products and react together to all possible trade frictions.

Government at all levels and all industrial or commercial associations should create good business environment for export-oriented enterprises according to production and business characteristics of export-oriented enterprises in different industries, which plays a crucial and realistic role in maintaining their existing development advantages and stimulating their better development in the future. A large majority of export-oriented enterprises in China are small and medium-sized enterprises. Although they are short of accumulated capital, with weak capacity of research and development and low ability to withstand risks, still they have promoted rapid development of export-oriented economy in China and have become an important strength in stimulating sustained development of Chinese GDP. Further good business environment for export-oriented enterprises will be helpful for export-oriented enterprises to enhance their industrial level, optimize their product structure, improve their capacity of research and development and strengthen their management level, which will necessarily contribute to sustainable growth of export trade in China.

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