Analysis of Business Development and Entrepreneurship in Fujian Province, China, with Recommendations for Policy Responses

Guo-chao LIN

Department of Business Administration, Fuzhou University of International Studies and Trade, No.28, Yuhuan Road, Shouzhan New District, Changle, Fuzhou, Fujian, China

Keywords: Business development, Entrepreneurship, Government support, Innovation.

Abstract. As one of four coastal Special Economic Zones in China, business and entrepreneurship in Fujian has its own characteristics, especially the small and medium enterprises. Fujian Government has made great efforts to support the business and entrepreneurship development. Based on the policy review and qualitative study, many preferential financial policies have been made to reduce the difficulties of starting capital of business establishment. It is considered that these policies should be more specific to SMEs and entrepreneurship to get more resources, including venture capital, innovation and business network. It should also focus on managerial aspects, including employee training, marketing, product service and supply chain. Entrepreneurship development conditions should be created to encourage new university graduates and unemployed people to be self-employed. Transforming business ideas into business action is important in that process.

Introduction

In the past three decades, the business world was keen on the creative thinking of entrepreneurship. The focus of business interest shifted from the large to small and medium enterprises (SMEs). Their contribution to the economy growth became recognized, especially in China's economy. In 1978, the state-owned sectors accounted for over 90% of the country's GDP, however, after the economic reform, this had dropped to less than half in 2010. The entrepreneurship and small business have been the key driver of the decrease, especially in the four coastal Special Economic Zones (SEZs) and 14 Open Cities. Xiamen, Fujian Province, which is one of the SEZs, has its own characteristics in small business and entrepreneurship development. Those small firms are not only the economic growth points and power, but also the channels to promote the regional economic development, employment and innovation.

This paper is an attempt to analyze the business development and entrepreneurship in Fujian Province, China, with recommendations to policy responses. The paper will start with an overview of small business and entrepreneurship development status in Fujian Province. Secondly, it will go on to analyze the business development strategy in Fujian Province. In this part, the analysis focus on five parts: finance support, innovation support, market strategy, entrepreneurship and government service. Thirdly, it will assess the main problems of business development in Fujian Province and give the appropriate recommendations to the policy responses. Finally, a short review of the analysis of business development and entrepreneurship in Fujian Province will be highlighted in the conclusion.

Overview of SMEs and Entrepreneurship Development in Fujian

Small and medium enterprise (SMEs) have played a significant role in economic growth in Fujian Province. As can be seen from table 1, the output of SMEs in 2014 was nearly 6 times than large companies and the increase percentages accounted 48.3% which was much more than the large companies with 20.7% [1].
Table 1. Different scales of company's output and increase percentages in Fujian, 2014.

<table>
<thead>
<tr>
<th>Company size</th>
<th>Output (billion RMB)</th>
<th>Increase percentages %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large companies</td>
<td>105.309</td>
<td>20.7</td>
</tr>
<tr>
<td>Medium companies</td>
<td>198.291</td>
<td>34.0</td>
</tr>
<tr>
<td>Small companies</td>
<td>431.795</td>
<td>14.3</td>
</tr>
</tbody>
</table>

Source: Fujian Statistics Yearbook [1], 2014

Statistics have shown that over 90% of the enterprises in Fujian are SMEs and 96.68% of them are in the Secondary and Third Industry [1]. Those companies create over 50% of the province GDP and provide about 75% employment opportunities for cities and towns.

Figure 1. The regional map of Fujian Province.

Most of the SMEs are located in the coastal of Fujian Province, such as Fuzhou, Xiamen, Quanzhou and Zhangzhou (Figure.1). They account 72.25% of the whole SMEs in Fujian. The new economic zone (FTZ) was established by Fujian Government in 2014. It enhanced the role of small business and entrepreneurship in the region economic development. After the establishment of new economic zone, 56% small firms deemed that there are more opportunities to expend the existing market and 42% firms think the technology innovation ability of the firms was improved. 40% of entrepreneurs had stronger willing to invest than before because they thought that the government working efficiency has improved. The new policy also ameliorate the problems of market entry, finance sources and taxation, which promotes more and more young people to be self-employed.

Business Development Strategy in Fujian

Finance Support

Every entrepreneur planning a new venture face the dilemma of where to find start-up capital. They usually are not aware that variety of finance sources may be appropriate for the new ventures [2]. Capital shortage is the biggest problem for SMEs and young entrepreneurs. The government provided many policies to solve the problem, for instance, low taxation, financial subsidies and aid loan. Government also encourages direct financing to ease the capital pressures of SMEs. Government finance support is another finance sources for small business, including financial investment and financial subsidies. Firstly, the Fujian Government sets up SMEs development fund. The fund supports SMEs' development in many areas, including entrepreneurship coaching, credit guarantee, technology innovation, employee training, information consulting and exploiting international market. Secondly, the government financial budget cover the special fund for SMEs. In 2014, 10 million RMB was given to support the SMEs' technology innovation and 26 million RMB was given to support the poor areas business development. For example, Xiamen established 48 million RMB to promote the local economy development. The following figure (Figure 2) illustrates the finance
source and the retained profits, personal investment, bank loan and government support are the main finance source for SMEs and new entrepreneurs in Fujian.

![Diagram of finance sources in Fujian](image)

**Figure 2. Main finance sources in Fujian.**

In terms of bank loan, it is the main external finance sources for small business in Fujian. In 2013, 31.48% capitals were from the bank loan and 84.72% SMEs preferred bank loan as main finance source. Since 1998, the government has established many documents to protect and support the small business and entrepreneurship development, such as giving priority to SMEs' bank loan and lower interest rate. However, small firms do not get much benefit from the policies because the finance gap. Figure 3 has shown the finance gap in bank loan and supply. Before 2008, the demand of bank loan for small firms is based on the interest rate. However, the amount that Center Bank is willing to supply is OA. Thus, there is a finance gap given by the distance AB. After 2008, the CPI and inflation index keep increasing in China, the Center Bank increase the interest rate to limit the bank loan. It is difficult for SMEs to be survived under the high capital costs environment. The government policies should also pay more attention to the macroeconomic environment to provide a stable bank loan environment for both SMEs and new entrepreneurs.

![Diagram of demand and supply for bank credit](image)

**Figure 3. Demand and supply for bank credit.**

**Innovation Support**

Fujian Government sets up SMEs innovation fund to support technology revolution. Porter stated in the Competitive Advantage of Nations, companies achieve competitive advantage through acts of innovation [3]. Technology innovation promotes products' structure restructuring though the whole province. In order to support and promote innovation in SMEs, the government issued Fujian Province SMEs Technology Innovation Fund Management Provisions. 30 million RMB are prepared
every year to innovation for SMEs and new entrepreneurs. Xiamen Entrepreneurship Centre get 2.7 million RMB free subsidize from the national innovation fund in 2014. Meanwhile, Fujian Government gave supports to transform innovation activities into producing procedures, driving the technology upgrade and industry transformation in local economic development. However, innovation is not just for technology. Entrepreneurial firms in particular are often innovative in their approach to marketing [4]. Government can put some of the funds into marketing, human resources and organization learning to improve the competitiveness.

**Market Strategy**

Market is the basic element of business development and survival, but limited by many factors, such as information shortage, weak market power, it is difficult for SMEs to develop new markets [5]. Therefore, Fujian Government built a market and business communication platform for SMEs to expand existing market and develop new markets. Firstly, the government planned and organized various business exhibitions and encouraged SMEs and entrepreneurs to participate in. For instance, The Sixth Jinjiang Shoes Industry Exhibition and Eighth Taiwan Trade Fair. Secondly, the government encouraged SMEs to invest abroad, participate in international trade and markets. Government gives financial support in exporting, international exhibitions and training. Finally, the government, cooperative organizations, trade association and industry organizations build up online network to provide more market information quickly. However, according to a survey, only 34.7% of SMEs and 29.33% of new entrepreneurs think that the government work efficiently in this area. Although these events can provide market information for SMEs, the government neglects the business culture, which is 'Guanxi' (relationship) based business, in developing a new market. It is really important for government to help the SMEs to develop their 'Guanxi' network.

**Entrepreneurship**

From the world economic development experience, the failure rate of SMEs is very high. If the government want to have a good development in region economy, entrepreneurship should be encouraged. Relaxing restrictions is an important way to promote new business setting up. Thus, government should develop appropriate policies to use the rich labor resources in China and exploit ventures in entrepreneurship development. For example, reducing the small business entry requirements and reducing the taxation payments and expenditure for new business. Quanzhou decreased business registration capital to 40% for new entrepreneurs who want to establish their own business by intangible assets investment, such as human capital and intellectual products. The government have abolished 7,000 administration provisions to improve the new business approval speed. Xiamen is the first one to set up management service center to reduce the business approval time from one year to 45 days. However, these conditions cannot create an entrepreneur. Government should also consider what can potential entrepreneurs' needs and wants. That means new business conditions for entrepreneurs should be created by government to put into business action.

**Recommendations**

Finance sources cannot be limited in bank loan and government financial aid. Fujian province has large quantity family firms. It is a good internal finance source for SMEs and entrepreneurs by business cooperation with each other and expand their financial 'Guanxi' network. The Government can establish regulations to protect the finance sourcing in family firms. Moreover, there is a large number of oversea Chinese in Fujian. The government can encourage them and foreign investors to invest in Fujian. Policies issued in this area can not only solve the capital shortage, but also can develop the international markets.

SMEs who keep their autonomy and market power are those with the highest performance in terms of employment [6]. Innovation cannot just consider technology, but also the innovative creations of employees. Training system can be built up to enhance the competitiveness of employees. Employees
and managers' work skills and knowledge can be improved by providing training, internet source sharing and employee exchange study. Higher education developed in university provides the skills necessary to create innovation thinking [7]. SMEs and entrepreneurs can cooperate with university, provide opportunities for graduates to have an internship and practice their thoughts into business activities, especially in the marketing area.

‘Guanxi’ (relationship) based business culture is an important element in market development. Culture differences directly impact on behavioral management practice in the business operation [8]. The existing business events are not just a information description, it is an opportunity for SMEs and entrepreneurs to know their suppliers and customers better. Fujian Province is not the hinterland of both Yangtze River delta and Pearl River delta, but they are contest metropolitan interlocking region in Haixia west coastal economic zone. It is convenient for Fujian Province to communicate with Yangtze River delta economic zone, Pearl River delta economic zone and Taiwan. The government can cooperate with governments in those areas to create business ‘Guanxi’ network opportunities for SMEs and entrepreneurs.

Conclusions

In conclusion, an attempt has been made to analyze the business development and entrepreneurship in Fujian Province, China. Fujian Government has made great efforts to support the business and entrepreneurship development. Many preferential financial policies have been made to reduce the difficulties of starting capital of business establishment. Compared to large companies, it is considered that these policies should be more specific to SMEs and entrepreneurship to get more finance source, including joint ventures, leasing and trade credit. Moreover, funds support in technology is not enough for business to improve competitiveness. Innovation is also an important focus point for managerial aspects, including employee training, marketing, product service and supply chain. Finally, the government should pay more attention to how to build and expand the ‘Guanxi’ network for SMEs. Entrepreneurship development conditions should be created to encourage new university graduates and unemployed people to be self-employed. Transforming business ideas into business action is important in that process. All in all, if Fujian Government can keep these existing policies and adjust it as a continuing policy, the business and entrepreneurship in Fujian will be more active and competitively.

References


