AN EMPIRICAL STUDY ON THE ECONOMIC CONSEQUENCES OF ENTERPRISE BANKRUPTCY BASED ON CHINESE LISTED COMPANIES*

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Abstract

With the deepening of China's reform and opening up and the increasing degree of market opening, corporate bankruptcies are common. As a micro subject of the market economy, the bankruptcy of enterprises is bound to have a negative impact on the healthy development of the national economy, so it is of great practical significance to investigate the economic consequences of the bankruptcy of enterprises. This paper takes Chinese A-share listed companies from 2003 to 2018 as research samples to investigate the impact of corporate bankruptcy on local investment efficiency, unemployment rate, industrial institutions, bank liquidity and regional economic development. Empirical research by constructing multiple regression analysis model, this paper found: enterprise bankruptcy has a negative effect, found that will reduce its region for the bankruptcy of the enterprise investment efficiency, improve the area's unemployment rate, reducing the speed of the regional economic development in region, hinder the region industrial structure rationalization and high-grade, and reduce the bank liquidity risk. This paper reveals the economic consequences of enterprise bankruptcy, and provides policy reference for government departments to formulate relevant measures to prevent enterprise bankruptcy and promote the healthy development of enterprises.

Keywords: Enterprise bankruptcy; Economic consequences; Investment efficiency; Economic development

1. Introduction

The market-economic countries mainly allocate the resources with the capital market, and it is the most important allocation tool. The degree of economic development of a country could be judged by the development degree of the capital market. Since China’s reform and opening up, Chinese enterprises face the competition of economic globalization. The fierce competition would boost the enterprises to increase the production efficiency and causes the failure of the enterprises. There would be bankruptcy and liquidation is the necessary part during the enterprises dying out, aiming to maximally protect the rights of shareholders and creditors. By now, global enterprise bankruptcy has been very common and

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it would happen at any time. According to the latest data statistics, there have been 94257 bust enterprises from the outbreak of COVID-19 to June 2020. The number of bust enterprises in the retail industry is far higher than in other industries, and there have been over 8,000 bust enterprises in the retail industry in America. Now, the National Bureau of Statistics does not put the number of bust enterprises in China into the global bankruptcy data, so the data lacks of trueness. According to the data of Xinhuanet, the number of enterprises entering a bankruptcy reorganization part in China is increasing along with the accelerating supply-side reform of China, and it could reach millions of enterprises annually.

Bankruptcy meets the rule of market economy, but the enterprise itself and the harmonious development of social economy would be negatively affected by the enterprise bankruptcy, such as the soaring proportion of unemployment population, insufficient solvency of enterprises and loss of investors. By far, the legal system on the enterprise bankruptcy in China has been imperfect, and relevant mechanism has not been customized, so there would be employers running away and illegal behaviors after bankruptcy. In view of it, there should be profound research and analysis on the economic consequences of enterprise bankruptcy, so that we could realize the specific channels of the enterprise bankruptcy to impose a negative impact on the economic development; and we could be led to find out the methods and preventions of enterprise bankruptcy to improve the corporate performance and management level and prevent the occurrence of being on the verge of bankruptcy. There would be an important significance to create a harmonious society.

2. Hypothesis of Research

Seen from the perspective of bust enterprises, enterprises would be affected by so many factors when choosing bankruptcy reorganization or bankruptcy liquidation. Besides the net worth of the enterprise, it would be also involved with the future development of the enterprise, enterprise asset structure, enterprise creditor's right structure and enterprise equity structure, etc. All of these would affect the decision level of enterprises to a large extent.

Cork (1982) points out that enterprises being maintained as an economic pillar would be good to achieve the enterprise value, so as to rebuild the mechanism. The development of enterprises is a result of the mutual connection of all factors, including the relevant tangible asset interests and benefits of intangible assets. During the enterprise bankruptcy liquidation, the own profit of enterprises could not be fully achieved, and there would be a shrinkage of value, especially for those going bankrupt for many objectives factors. Under the situation, it is very important to retain the business value of an enterprise under bankruptcy, so the best status is not the direct bankruptcy liquidation. Richard A. Posner (1997) points out that if the

going-concern value of the enterprise is higher than the liquidation value, we could try to reorganize the enterprise that should be liquidated with the form of restructuring to prevent bankruptcy. Bulow (1978) introduces three different compensation models for enterprises to choose reconstruction or liquidation in the analysis, and it is included with bank lenders, bondholders and equity. The enterprise could have no liquidation when the bank lenders could provide loans to promise that shareholders could repay bondholders' debts; and the company could keep doing business if the result determined by the bank lender and shareholder is higher than the liquidation level. For the bust enterprises, no matter what method of bankruptcy is selected by enterprises, all of them would affect the future development, enterprise asset structure and enterprise creditor's right structure, so as to impose a negative impact on the decision level to large extent. Based on the previous analysis, the paper raises the hypothesis 1:

Hypothesis 1: Enterprise bankruptcy imposes a significant negative impact on investment efficiency.

The issue of the unemployment rate is featured with globalization and popularity. Once there is labor reproduction and once there are fluctuations in labor demand caused by economic development, some groups will face the risk of unemployment. (Gao Peng, 2017). Since China's reform and opening up, our country has been in a stage of transformation, upgrading and development. The deep-seated social personnel contradiction began to appear along with Chinese society accelerating the progress of the reform and opening up, and more and more employees of state-owned enterprises face unemployment. Seen from the aspect of reemployment, Gao Weimin (2009) points out to have an analysis and study on the employers' group from a socialization perspective. In the study and analysis on the psychological state and influencing factors of the unemployed, there is a profound introduction to the problems related to human resources management of enterprises. At the end of the analysis, the author also proposes some purposeful suggestions from various perspectives to emphasize that people should change their employment concept. The organization department should provide some necessary guidance and training for people so as to create a good employment environment for the employment group.

Gao Peng (2017) has a major analysis on the main influencing factors of the unemployment in the research, including the following different layers: unemployment caused by the adjustment of the economic system, unemployment caused by the shortage of labor force, unemployment caused by the industrial restructuring and the unemployment caused by the transformation of industrial organization structure. Accordingly, the employers

in bust enterprises would face the following difficulties in the reemployment process: the collective outbreak of unemployment problem for more and more bust enterprises; single skill of the unemployed, an imbalance between labor supply and employment concept; weak reemployment ability for the employees with older age structure; strong blindness problem of the unemployed when receiving training. Based on the previous analysis, the paper raises a hypothesis 2:

Hypothesis 2: Enterprise bankruptcy has a significant positive impact on the unemployment rate.

The development of enterprises would impose a crucial impact on the regional element resources to some extent, and it is also related to the social development level. In social and economic development, large enterprises play a key role. Shi Xiusong et.al (2014) choose the data of Top 500 enterprises in China from 2002 to 2013 to analyze the positive impact of large enterprises on economic development. The author points out from the study that the development of large enterprises boosts the foregoing development of economic society. At the same time, the larger the development scale of the top 500 enterprises in a province could make a higher GDP for the province. Besides, the stronger the province's economic development is, the more significant the positive impact of large enterprises on economic development will be. Huang Jun et.al. (2010) say in the study that the author also gains the same conclusion from the perspective of enterprise groups. The author points out that the marketization and the development of property rights protection are still imperfect and there is still local protectionism when considering that the current domestic institutional environment is relatively backward with the help of data of large enterprises development. Especially, the lower the regional economic development is, the more obvious local protectionism would be. To effectively control the business cost, most enterprises would form enterprise groups to have a comprehensive improvement of the overall development of society and economy based on releasing the financial restriction of enterprises and controlling the trading cost. (Gan Jinlong, 2016). Based on the previous analysis, the paper suggests the hypothesis 3.

Hypothesis 3: Enterprise bankruptcy has a significant negative impact on the growth of the regional economy.

In the process of enterprise bankruptcy, there was a situation that the government was afraid that assets recombination would affect the social stability; the administrative department of enterprises was afraid of losing "departments"; operators were afraid of losing the title and the employees in enterprises were afraid of being a "secondary resident".

However, there is still a gap between the capital structure formed by the old system and the need for market competition, so there would be easy adaptation with early adjustment and early optimization. In the long-term development, to be a better promoter of the state-owned large and medium-sized enterprises to move forward, the common performances are assets recombination, enterprise bankruptcy, adjustment of capital structure and so on. Tang Weihua)2016) emphasizes that resolving overcapacity is the first mission in the supply-side reform, which means accelerating the disposal of "dead enterprises". It aims at enhancing the competition level in the market, pushing the orderly development of supply-side reform, improving market economies and improving the overall development level of the society. Based on the previous analysis, the paper raises hypothesis 4:

Hypothesis 4: The enterprise bankruptcy has a significant negative impact on the structure of the tertiary industry.

Fu Yuliang (2004) begins from the economic level in the analysis, and he points out that the problem of debt collection for bankruptcy is one common problem faced by enterprises. It should be caused by the government interest game and vague definition of property rights of commercial banks to great extent. During the long-term development, as the biggest debtor of enterprises, the bank could not recall the debt from the enterprise when it announces to go bankrupt for the bad operation, but it could gain partial debt repayment through liquidation to reduce the long-term loss. Seen from certain aspects, enterprise bankruptcy could ensure the capital safety of banks to reduce the liquidity risk faced by banks. Fu Mei (2001) points in the analysis that loan from the bank is the main capital source of enterprises. When there is a bad operation, there would be much more losses when it is continued to do business when the right of ownership is the negative number, so only the implementation of bankruptcy liquidation could prevent further loss. If the enterprise has surplus assets after bankruptcy liquidation, it can be used to repay its debts to maximize the right of banks to build up a liquidity risk of the bank. Based on the previous analysis, the paper raises a hypothesis 5:

Hypothesis 5: The enterprise bankruptcy has a significant negative impact on the liquidity risk of bank.

3 Research Design

3.1 Source of Samples

The paper chooses a series of data of Chinese listed companies and their local cities

from 2003 to 2018 to have a research. The sample data in this research is gained from Wind and Gtafe these two databases. The source of prefecture-level data is from the China City Statistical Yearbook, China Statistical Yearbook for Regional Economy and China Economic Database (CEIC).

3.2 Selection of Variables

As seen from the domestic and foreign literature, investment efficiency, unemployment rate, regional economic development, the structure of the tertiary industry and liquidity risk of banks are the main influences of enterprise bankruptcy. According to the previous literature, the paper screens the proxy variables that fit the paper the most. See table 1 for the definition of relevant variables.

Table 1 Explanation of the Economic Consequences Variables of Enterprise Bankruptcy

Indicator Classification	Name of Variable	Symbol of Variable	Measurement Method
Explained Variables	Investment Efficiency	Invest	The proportion of the output added value and fixed asset investment of the prefecture-level city where the company is located.
	Unemployment Rate	Unemploy	Number of the unemployed/(number of employees+number of the unemployed)
	Regional Economic Development	Develop	GDP growth rate
	Structure of Tertiary Industry	Structure	The proportion of the added value of the tertiary industry is divided by the proportion of the added value of the secondary industry.
	Liquidity Risk of Bank	Liquid	Liquidity risk is measured by the ratio of deposit balance to the loan balance
Core Explanatory Variable	-	Bankruptcy	It can be regarded as bankruptcy if the ratio of total liabilities to total assets is higher than 100%.
Control Variables	Level of R&D Expenses	Research	Expense of scientific research/ Total GDP
	Consumption Level of Residents	Consumption	Total retail sales of consumer goods/Total GDP

	Degree of Openness	Trade	Total amount of trade in import and export / Total GDP
	Degree of Government Intervention	Government	Government expenditure/Total GDP
	Quality of Labor Force	Labour	Campus student of higher education / (number of employees + number of the unemployed)

3.3 Model Design

According to the theoretical analysis of the economic consequences of enterprise bankruptcy, the paper builds up a multiple linear regression model with bidirectional fixation effect and least square method to analyze from hypothesis 1 to hypothesis 5. The specific formula is shown as follow:

$$Invest_{i,t} / Unemploy_{it} / Develop_{it} / Structure_{it} / Liquid_{it} = b_0 + b_1 Bankruptcy_{it} + b_2 Research_{it} + b_3 Consumption_{it} + b_4 Trade_{it} + b_5 goverment_{it} + b_6 Labour_{it} + u_i + t_t + v_{it} \quad (1)$$

In the paper, the dependent variables are $Invest_{it}$, $Unemploy_{it}$, $Develop_{it}$, $Structure_{it}$ and $Liquid_{it}$. The core explanatory variable is $Bankruptcy_{it}$. The control variables are $Research_{it}$, $Consumption_{it}$, $Trade_{it}$, $goverment_{it}$ and $Labour_{it.}$ The constant terms are b0, b1, b2, b3, b4, b5 and b6. The regression coefficients are $Bankruptcy_{it}$, $Research_{it}$, $Consumption_{it}$, $Trade_{it}$, $goverment_{it}$ and $Labour_{it}$. The u_i is individual fixation effect; t_t is the time fixation effect and the v_{it} represents the residual term of the model (1).

4. Empirical Analysis

4.1 Descriptive Statistical Analysis of Samples

This part is the full sample descriptive statistics of all variables for the research of the impact of enterprise bankruptcy on the economic consequences. The specific result is shown in the table 2.

Table 2 Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Invest	26,617	2.446	1.296	0.709	5.868
Unemploy	26,617	0.0313	0.0250	0.00335	0.111

Develop	26,617	0.173	0.0715	-0.00512	0.318
Structure	26,617	1.431	0.916	0.465	5.982
Liquid	26,617	1.596	0.483	0.814	2.666
Bankruptcy	26,617	0.176	0.380	0	1
Research	26,617	0.00524	0.00442	0.000164	0.0195
Consumption	26,617	0.397	0.0923	0.181	0.590
Trade	26,617	0.112	0.0951	0.00312	0.383
Government	26,617	0.145	0.0516	0.0615	0.286
Labour	26,617	0.0789	0.0333	0.0166	0.162

Source: the author sorts out the data according to the data analysis results.

Seen from the result of descriptive statistics in table 2, the sample average of Invest (investment efficiency) is 2.446 with the standard deviation of 1.296, the minimum value of 0.709 and the maximum value of 5.868, which means that the gap of investment efficiency in different regions is bigger. The average unemployment rate is 3.13 with the minimum one in the region of 0.335% and the maximum one in the region of 11.1%. The economic development is varied in each region. The average value of GDP growth rate is 17.3% with a minimum value of -15.2% and the maximum value of 31.8%. The average value of the tertiary industry is 1.431 with a standard deviation of 0.916, the minimum value of 0.465 and the maximum value of 5.982. Most regions are still on the way to the high-grade and rationalization of industrial structure. The average value of Liquid (liquidity risk of the bank) is 1.596 with the standard deviation of 0.483, the minimum value of 0.814 and the maximum value of 2.666, which means that the financial institutions in some regions have the unreasonable deposit loan ratio control. The proportion of bust enterprises accounts for 17.6% while the ratio of non-bust enterprises takes up 82.4%.

4.2 Correlation Analysis

The paper makes a correlation analysis of relevant variables, and the result is shown in table 3. It could be seen that the correlation coefficient of Bankruptcy (enterprise bankruptcy) and the Research (Level of R&D Expenses), Consumption (consumption level of residents), Trade (degree of openness), Government (degree of government intervention) and Labour (quality of labor force) are 0.01, which means to have a significant correlation. There is a further study based on the multicollinearity between independent variables based on the

need. The correlation coefficient among control variables is less than 0.8, which means there is no serious correlation problem among control variables.

Table 3 Correlation Analysis

	Invest	Unemploy	Develop	struct~e	Liquid	bankru~y	Research	consum~n	Trade	govern~t	Labour
Invest	1										
Unemploy	-0.481***	1									
Develop	0.357***	-0.248***	1								
Structure	0.387***	-0.372***	0.378***	1							
Liquid	0.630***	-0.365***	0.425***	0.532***	1						
Bankruptcy	0.015**	0.025***	-0.033***	0.014**	-0.00900	1					
Research	0.639***	-0.445***	0.265***	0.562***	0.521***	0.038***	1				
Consumption	0.234***	-0.373***	0.415***	0.606***	0.329***	0.046***	0.292***	1			
Trade	0.753***	-0.496***	0.384***	0.221***	0.528***	0.050***	0.447***	0.045***	1		
Government	0.367***	-0.090***	0.203***	0.531***	0.484***	0.028***	0.550***	0.311***	0.113***	1	
Labour	0.334***	-0.346***	0.534***	0.576***	0.300***	0.030***	0.384***	0.614***	0.239***	0.179***	1

Source: the author sorts out the data according to the data analysis results.

4.3 Regression Result of Bidirectional Fixation Effect

Table 4 reports the main regression result. It could be known from the regression result in column (1) that the regression coefficient of Bankruptcy (enterprise bankruptcy) is -0.0958 and the robustness standard deviation is 0.0101 with the correspondent P-value of less than 0.01, which means Bankruptcy (enterprise bankruptcy) has a significant negative restriction on Invest (investment efficiency) at the statistics level of 1% at least. Hence, enterprise bankruptcy has a significant negative impact on investment efficiency, and hypothesis 1 is significantly true.

According to the regression result in column (2), the regression coefficient of Bankruptcy (enterprise bankruptcy) is 0.0052 and the robustness standard deviation is 0.0002 with the correspondent P-value of less than 0.01, which means to reject the original hypothesis that Bankruptcy (enterprise bankruptcy) has no impact on Unemploy (unemployment rate) at the

statistics level of 1% at least. Hence, enterprise bankruptcy has a significant positive impact on the unemployment rate, and hypothesis 2 is significantly true.

According to the regression result in column (3), the regression coefficient of Bankruptcy (enterprise bankruptcy) is -0.0132 and the robustness standard deviation is 0.0009 with the correspondent P-value of less than 0.01, which means Bankruptcy (enterprise bankruptcy) has a significant negative restriction on Develop (regional economic development) at the statistics level of 1% at least. Hence, enterprise bankruptcy has a significant negative impact on regional economic development, and hypothesis 3 is significantly true.

According to the regression result in column (4), the regression coefficient of Bankruptcy (enterprise bankruptcy) is -0.0924 and the robustness standard deviation is 0.0055 with the correspondent P-value of less than 0.01, which means Bankruptcy (enterprise bankruptcy) has a significant negative restriction on Structure (structure of tertiary industry) at the statistics level of 1% at least, and the hypothesis 4 is significantly true.

According to the regression result in column (5), the regression coefficient of Bankruptcy (enterprise bankruptcy) is -0.0571 and the robustness standard deviation is 0.0040 with the correspondent P-value of less than 0.01, which means Bankruptcy (enterprise bankruptcy) has a significant negative impact on Liquid (liquidity risk of the bank) at the statistics level of 1% at least, and the hypothesis 5 is significantly true.

Table 4 Result of Main Regression

	(1)	(2)	(3)	(4)	(5)
	Invest	Unemploy	Develop	Structure	Liquid
Bankruptcy	-0.0958***	0.0052***	-0.0132***	-0.0924***	-0.0571***
	(0.0101)	(0.0002)	(0.0009)	(0.0055)	(0.0040)
Research	60.1096***	-0.3811***	1.1723***	17.7902***	10.1166***
	(1.6090)	(0.0281)	(0.1452)	(0.8784)	(0.6342)
Consumption	0.7521***	-0.0129***	0.0877***	0.2370***	0.1810***
	(0.0916)	(0.0016)	(0.0083)	(0.0500)	(0.0361)
Trade	2.6651***	-0.0455***	0.0196**	0.3063***	0.0812*
	(0.1098)	(0.0019)	(0.0099)	(0.0599)	(0.0433)

Government	1.4345***	-0.0108***	0.2584***	2.9021***	2.7429***
	(0.1852)	(0.0032)	(0.0167)	(0.1011)	(0.0730)
Labour	5.6732***	-0.1416***	1.3085***	2.5736***	2.4122***
	(0.2767)	(0.0048)	(0.0250)	(0.1511)	(0.1091)
_cons	1.1757***	0.0603***	0.0289***	0.4711***	0.9807***
	(0.0384)	(0.0007)	(0.0035)	(0.0210)	(0.0151)
year	Yes	Yes	Yes	Yes	Yes
Model	fe	fe	fe	fe	fe
N	26617	26617	26617	26617	26617
r2	0.1627	0.2878	0.5295	0.5315	0.2031
F	216.1732	449.6340	1252.2097	1262.4847	283.5180

Standard errors in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01

Source: the author sorts out the data according to the data analysis results.

4.4 Robustness test

When considering the core explanatory variety, Bankruptcy (enterprise bankruptcy) is a binary variable, so this chapter confirms the sample with the nearest neighbor matching method of PSM firstly and then undertakes the robustness test of the samples with the regression method with bidirectional fixation effect, same as that of the main regression model. The specific result is shown in table 5. According to the regression result of table 5, the regression coefficients of Bankruptcy (enterprise bankruptcy) from column (1) to column (5) are -0.0395, 0.0053, -0.0116, -0.0731 and -0.0486 respectively; while the standard deviations are 0.0139, 0.0003, 0.0014, 0.0066 and 0.0056 respectively. The correspondent P-values are less than 0.01. Hence, they are consistent with the regression coefficients and significance level test of the Bankruptcy (enterprise bankruptcy) in the main regression model, so the empirical conclusion passes the robustness test.

Table 5 Regression Result of the Bidirectional Fixation Effect with the Nearest Neighbor Matching Method of PSM

	(1)	(2)	(3)	(4)	(5)
	Invest	Unemploy	Develop	Structure	Liquid
Bankruptcy	-0.0395***	0.0053***	-0.0116***	-0.0731***	-0.0486***
	(0.0139)	(0.0003)	(0.0014)	(0.0066)	(0.0056)
Research	66.9705***	-0.5421***	2.0635***	21.7900***	8.6314***
	(2.9350)	(0.0597)	(0.3053)	(1.4000)	(1.1790)
Consumption	1.0216***	-0.0147***	0.0209	0.6333***	0.1045*
	(0.1388)	(0.0028)	(0.0144)	(0.0662)	(0.0558)
Trade	1.6605***	-0.0351***	0.0636***	0.1683*	0.4161***
	(0.1977)	(0.0040)	(0.0206)	(0.0943)	(0.0794)
Government	0.7946***	0.0111**	0.0748***	1.5527***	1.9317***
	(0.2716)	(0.0055)	(0.0283)	(0.1296)	(0.1091)
Labour	3.5645***	-0.1235***	1.3448***	2.1329***	2.4441***
	(0.4160)	(0.0085)	(0.0433)	(0.1984)	(0.1671)
_cons	1.2871***	0.0588***	0.0626***	0.4959***	1.0642***
	(0.0549)	(0.0011)	(0.0057)	(0.0262)	(0.0221)
year	Yes	Yes	Yes	Yes	Yes
N	11457	11457	11457	11457	11457
r2	0.1718	0.2226	0.5174	0.4727	0.1993
F	86.3007	119.0880	445.9334	372.9213	103.5515

Standard errors in parentheses, * p < 0.1, ** p < 0.05, *** p < 0.01

Source: the author sorts out the data according to the data analysis results.

5. Conclusion and Policy Suggestion

5.1 Conclusion

In the economic consequences of enterprise bankruptcy, here are the conclusion concluded by the regression model with bidirectional fixation effect. Firstly, enterprise bankruptcy has a significant negative impact on investment efficiency. Enterprise bankruptcy would make so many idle resources, such as personnel, devices and production skill. All of these resources could not be applied to society, production and life, so it would reduce investment efficiency. Secondly, enterprise bankruptcy has a significant positive impact on the unemployment rate. Enterprise bankruptcy would cause the unemployment of vast of employees; while the employment of these employees would not be settled well since many of them could find no job for the age, which would increase the unemployment rate. Thirdly, enterprise bankruptcy has a significant negative impact on regional economic growth. Enterprise bankruptcy would cause the unemployment of vast of employees, and the employees lost the income source, so there must be a sharp decline of the unnecessary consumption expenditure in the family where they are to restrain the local GDP growth. Fourthly, enterprise bankruptcy has a significant negative impact on the structure of the tertiary industry. Compared with the primary industry and secondary industry, there is a closer connection between the tertiary industry and the fictitious economy. They have a high debt rate, so it would have a risk to go bankrupt for something wrong with the capital turnover, which is bad for the high-grade and rationalization of the local industrial structure. Fifthly, enterprise bankruptcy has a significant negative impact on the liquidity risk of banks. Enterprise bankruptcy would increase the bad debt rate of banks and reduce the capital security of the banking system so that banks would be more cautious for loans, which pushes the decline of bank deposit loan ratio so as to reduce the liquidity risk.

5.2 Policy Suggestions

There are so many bad consequences caused by enterprise bankruptcy. To reduce the occurrence rate of these bad consequences, it should begin from five major influencing factors of enterprise bankruptcy. It is suggested with the following policy suggestions.

Firstly, we should reduce the tax on enterprises with multiple measures. The effective reduction of the tax burden should not only need the fund support and nontax income liquidation from the government, and it also needs reform on the taxation system in the Chinese governance system from the long term. There must be a huge gap of effect to implement the policy of tax and fee reduction in different markets, but we could accelerate

the building speed of the marketization degree system and the speed of marketization construction.

Secondly, we should devote ourselves to fix such problems enterprises, including “hard financing”, “expensive financing” and “slow financing”, which would occur among small and medium-sized enterprises. The root is the internal operation of the enterprise. Hence, there should be optimization of the internal structure in the development of the market. Enterprises try to convince banks to feel free to provide capital support with their good internal governance ability and credit. Government should expand the support project scope and provide certain help to patents and R & D achievement that meet the standard and boost the development of small and medium-sized enterprises with the capital support.

Thirdly, we should further enhance the investment force of research and development and give sufficient attention to the technology enterprises gradually transforming into national innovation units. Technical innovation means so much for an enterprise, even a country. The innovation of production, management and technology could show the difference with others. Meanwhile, the technical outcomes could be applied to business administration and the production efficiency improvement, so as to produce the products meeting the need of customers and take up much more market share and better profit. Finally, the differentiated strategic target could be achieved.

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