

# The Main Problems and Countermeasures of Manufacturing Investment in Anhui

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## Abstract

Firstly, this paper analyzes the basic situation of manufacturing investment in Anhui Province from six aspects: investment proportion, investment growth rate, local capital and private capital, sources of investment funds, total investment and growth rate of each city, and investment efficiency. Then, it points out the main problems of manufacturing investment, such as low investment enthusiasm, mismatch of financial resources, regional imbalance, low overall level of investment and investment structure to be optimized. Finally, the paper puts forward countermeasures and suggestions for manufacturing investment.

## Keywords

Manufacturing investment; Investment structure; Investment efficiency.

## 1. INTRODUCTION

In recent years, manufacturing industry is one of the main driving forces to promote regional economic development in China. The level of manufacturing development directly reflects the overall situation of regional economic development. The strategy of "made in China 2025" was put forward in May 2015. The purpose of the strategy is to comprehensively promote the transformation and upgrading of China's manufacturing industry. Since then, Anhui Province has also formulated the corresponding manufacturing development strategy and specific measures to promote the development of the manufacturing industry, the scale of investment in the manufacturing industry has been continuously expanded, and the investment structure has been continuously optimized. Christian Wolff, former president of Germany, once spoke highly of the development of manufacturing industry in Anhui Province, believing that Anhui Province is an ideal investment base for the world's manufacturing industry. However, there are still many problems in manufacturing investment in Anhui Province, which need us to attach great importance to. Therefore, this paper points out the existing problems of manufacturing investment in Anhui Province, and puts forward countermeasures and suggestions.

## 2. ANALYSIS ON THE OVERALL SITUATION OF MANUFACTURING INVESTMENT IN ANHUI PROVINCE

### 2.1. The Proportion of Investment in Manufacturing Industry Reached A Record High

From 2012 to 2017, the proportion of manufacturing investment in total fixed asset investment in Anhui Province fluctuated slightly, but it was relatively stable on the whole, basically maintained at about 40%; since 2018, the manufacturing investment in Anhui Province suddenly rose to 46.72%, and continued to rise to 47.11% in 2019, which was nearly half of the total fixed asset investment, which was also the highest proportion of manufacturing investment in Anhui Province.

## 2.2. There Are Big Fluctuations in the Growth Rate of Manufacturing Investment

From 2012 to 2019, the growth rate of manufacturing investment in Anhui Province presents the characteristics of anti-N-shaped change. Firstly, it dropped from the highest point of 39.5% in 2012 to 7.7% in 2016; then, due to the shortage of industrial products due to the early de capacity, the utilization rate of production capacity increased significantly, causing the growth rate of investment in manufacturing industry to stop falling and rebound, from the historical lowest point of 7.7% in 2016 to 33.3% in 2018. In 2019, the growth rate of manufacturing investment showed a cliff like decline, with the investment growth rate of 7.9%.

## 2.3. Local Capital and Private Capital Are the "Main Force" of Manufacturing Investment

For many years, almost all the manufacturing investment in Anhui province comes from local governments, and local investment is the "absolute main force" of manufacturing investment, and its proportion has been rising from 97.86% in 2012 to 99.42% in 2015. In the following years, it has only slightly decreased and still maintained a high level of nearly 99%. In the manufacturing industry, private enterprises are the backbone of investment. Private manufacturing investment accounts for more than 85% of the total manufacturing investment, and more than 90% from 2014 to 2018. From 2013 to 2018, the growth rate of private manufacturing investment showed a "U" shape, which decreased from 22.58% in 2013 to 7.33% in 2016, and then began to recover to 18.5% in 2018. However, in 2019, the growth rate of private manufacturing investment will drop to 10.2% [2].

## 2.4. The Investment Funds of Manufacturing Industry Mainly Come from Self Raised Funds and Domestic Loans

Through the analysis of the sources of manufacturing investment funds, it is found that the main sources of investment funds in Anhui Province are self raised funds and domestic loans, the sum of which accounts for about 95% of the total sources of funds, and self financing is the main financing channel. From 2012 to 2018, the proportion of self raised funds in total manufacturing investment showed an inverted "U" trend, first from 87.55% in 2012 to 95.17% in 2015, then all the way down to 87.86% in 2018, back to the level of 2012. The proportion of domestic loans in total investment in manufacturing industry showed a U-shaped trend, first from 8.7% in 2012 to 2.51% in 2015, and then increased to 5.37% in 2018.

## 2.5. There Are Obvious Differences in Manufacturing Investment Among Cities

The manufacturing investment of 16 cities in Anhui Province shows the following characteristics: first, there are significant differences in the total investment of manufacturing industry among the cities. Hefei, Wuhu and Chuzhou ranked the top three in terms of investment in manufacturing industry, with investment of 300.97 billion yuan, 187 billion yuan and 150.02 billion yuan, respectively. Huainan and Huangshan were the last two, with 24.13 billion yuan and 11.29 billion yuan respectively. Second, the growth rate of manufacturing investment in different cities is obviously differentiated. In terms of cumulative year-on-year growth, Chizhou City has the largest growth rate in manufacturing investment in 2019, with a cumulative year-on-year increase of 30.3%; Chuzhou City ranks second, with a cumulative year-on-year growth of 28.8%; Wuhu City ranks third, with a cumulative year-on-year growth of 17.4%; Huainan City has the smallest growth rate, with a cumulative year-on-year decrease of 25%.

## 2.6. The Investment Efficiency Is Increasing, but It Is Lower Than the National Level

From 2011 to 2019, the marginal capital output ratio (ICOR) of Anhui Province shows an upward trend, and is higher than the national ICOR level, indicating that the investment efficiency of manufacturing industry in Anhui Province is slightly lower than the national

average level. The investment efficiency of manufacturing industry in Anhui Province can be roughly divided into three stages: from 2011 to 2014, the investment efficiency of manufacturing industry in Anhui province gradually increased, from 0.20 to 0.22; from 2015 to 2017, the ICOR of manufacturing industry investment efficiency in Anhui province increased slightly, with little change in three years, floating around 0.23; and the investment efficiency gradually increased to 0.31 from 2017 to 2019.

### **3. THE MAIN PROBLEMS OF MANUFACTURING INVESTMENT IN ANHUI PROVINCE**

#### **3.1. The Pressure of "Opening Up Sources and Reducing Expenditure" Is Still Great, and the Enthusiasm of Investors Needs to Be Improved**

Since China's economy has entered the new normal, the economic growth of Anhui Province has also stepped into downward space, the driving force of economic growth has weakened, and the uncertainty has increased. Anhui's manufacturing industry is mainly domestic demand. In China's economic downturn, the growth rate of domestic demand has slowed down. At the same time, with the successful holding of the world manufacturing conference, Anhui's manufacturing industry "goes out" more and more, and the dependence on external demand is also increasing. A lot of industrial semi-finished products and manufactured products are exported to foreign countries. At the same time, in order to retain and absorb more excellent talents, the employment cost of manufacturing industry in Anhui Province is generally rising, which directly reduces the profit space of manufacturing enterprises. However, the production costs of manufacturing enterprises continue to rise, the profit margin of enterprises decreases, and investors lack confidence.

#### **3.2. Mismatch of Financial Resources and Failure to Form Effective Financial Support for Manufacturing Investment**

The main sources of investment funds for manufacturing industry in Anhui Province are still self raised funds, and the proportion of bank loans, bonds and foreign capital is relatively small. The main source of funds is too single, which is largely due to the mismatch of financial resources. The bargaining power of financial institutions and enterprises determines the financing cost of enterprises. In the financing system dominated by state-owned banks, banks tend to lend funds to state-owned enterprises with low capital cost. However, the manufacturing industry with private economy as the main body is restricted by scarce financial resources and high financing costs, which compresses the private economy profit margin [3]. From 2012 to 2018, more than 90% of the investment funds of Anhui's manufacturing industry came from self financing, and less than 10% from domestic loans, bonds and foreign capital, which was about 3% lower than that of the whole country, and it was also at a low level in the Yangtze River Delta region. Financial institutions generally have the psychology of selective lending, which leads to the mismatch of financial resources and can not form effective support for manufacturing investment.

#### **3.3. The Investment in Manufacturing Industry in Different Regions Is Unbalanced**

Through the analysis of manufacturing investment data from 2012 to 2018, it is found that there is a certain imbalance of manufacturing investment in Anhui Province. From the perspective of the city, Hefei and Wuhu alone account for one-third of the province's manufacturing investment, and Hefei basically maintains at about one-fifth, ranking the first in manufacturing investment; from the perspective of the three major regions, the manufacturing investment in Northern Anhui only accounts for about one fourth of the total investment of the whole Province, and even one fifth in some years. The average value is smaller, which is the short board area of manufacturing investment in Anhui Province. On the whole, the economic

foundation of southern and central Anhui is good, with a large number of middle and high-end manufacturing industries, stable investment in manufacturing industry and high investment growth rate; the economic foundation of Northern Anhui is weak, the proportion of traditional manufacturing industry is relatively high, and the investment in manufacturing industry is insufficient.

### **3.4. The Investment Structure of Manufacturing Industry Needs to Be Further Optimized and the Overall Level Needs to Be Further Improved**

At present, in the manufacturing industry of Anhui Province, 70% of the industries are in the stage of diminishing returns to scale or constant returns to scale, while only 30% are in the stage of increasing returns to scale. This shows that the structure of investment in manufacturing industry in Anhui Province still needs to be further optimized. Especially for the industries with diminishing marginal returns, if we blindly increase investment, we will not increase the marginal returns. In addition, no matter in the Yangtze River Delta or in the six provinces in Central China, the overall investment level of Anhui Province is higher, but compared with the first place, there is still a big gap, especially compared with Jiangsu Province, the gap is nearly one trillion yuan, the per capita investment level gap is larger, the overall level of manufacturing investment in Anhui Province still needs to be further improved.

## **4. COUNTERMEASURES**

### **4.1. Help Manufacturing Enterprises "Open Up Sources and Reduce Expenditure" and Enhance Investor Confidence**

At present, the investment in manufacturing industry mainly depends on self financing. In order to stabilize the investment in manufacturing industry, we must find a way to "open source" for manufacturing enterprises, that is, to improve the market share and profit level of manufacturing enterprises. First, we should make full use of the opportunity of the world manufacturing conference held permanently in Hefei to help various manufacturing enterprises in the province to deeply study the market, issue precise policy support, and help manufacturing enterprises improve their market share and profitability. Second, we should strengthen the support of innovation for the manufacturing industry, help manufacturing enterprises increase their independent research and development in key areas and links. In addition, it is difficult for manufacturing enterprises to increase investment if they are overburdened. The government should not only help enterprises "open source", but also find ways to help enterprises "reduce expenditure". In terms of reducing the burden of manufacturing enterprises, we can continue to do more in tax reduction and fee reduction, further relax the subsidies for small and micro manufacturing enterprises, and further increase the forms of subsidies; while standardizing the collection and payment of social security taxes, we should further improve the supporting measures, for manufacturing enterprises with temporary difficulties in capital flow, the conditions for deferred payment and exemption shall be relaxed; for manufacturing industries encouraged by the government, the prices of industrial electricity and land can be continuously reduced, and the comprehensive cost of manufacturing enterprises can be reduced; the operation and service charges of manufacturing enterprises involved in government pricing shall be further cleaned up and standardized, so as to effectively reduce the burden of manufacturing enterprises[4].

### **4.2. Comprehensively Use Fiscal Policy and Monetary Policy to Expand Sources of Funds**

To solve the problem of sources of investment funds in manufacturing industry, it is mainly to solve the problem of channels other than self financing. On the one hand, we can use fiscal policy to adjust. For example, to increase the investment of government investment funds to manufacturing enterprises, especially in the face of the new type of coronary pneumonia, the

government is ready to issue special treasury bonds again, and increase the proportion of government special bonds. In front of these national policies, Anhui province needs to try its best to win and incline to manufacturing industry; it can also aim at strategic emerging industries and other government incentives to encourage the development of manufacturing industry to implement loan discount, increase the proportion of R&D expenses deduction [5]. On the other hand, we should make full use of monetary policy. Accelerate the construction of enterprise credit comprehensive inquiry platform and comprehensive financial service platform, so as to improve the understanding of financial institutions to loan enterprises and increase the loans of manufacturing enterprises.

### **4.3. Overall Planning to Ensure Balanced Development of Investment in Manufacturing Industry**

The imbalance of manufacturing investment in Anhui Province will further deepen the economic differentiation between the north and the south, which is not conducive to the overall economic development of Anhui Province. Anhui province needs to plan as a whole and gradually realize the balance of manufacturing investment. First of all, the provincial Party committee, the provincial government, the development and Reform Commission and other units need to consider the layout of the manufacturing industry as a whole. In areas with manufacturing development advantages and relatively backward development of manufacturing industry, such as northern Anhui, properly guide the implementation of projects, increase investment in technological transformation funds, and gradually expand the scale of manufacturing industry in the backward areas. Secondly, we should further promote supply side structural reform, eliminate backward manufacturing industries and cultivate emerging manufacturing industries. At the same time, actively guide the transformation and upgrading of traditional manufacturing industry, and promote the balanced development of manufacturing investment [6].

### **4.4. Promote the Structural Adjustment of Manufacturing Industry and Promote the Overall Investment Level**

We should promote the adjustment of the investment structure of the manufacturing industry from the following aspects: First of all, it is necessary to further promote the supply side structural reform of manufacturing enterprises, eliminate backward production capacity, train emerging industries, urge the transformation and upgrading of traditional high-energy consumption manufacturing industry, guide manufacturing investment to concentrate in strategic emerging manufacturing industry. We should gradually adjust the investment structure of manufacturing industry and promote the development of manufacturing investment to high quality. Secondly, we should seize the opportunity of manufacturing industry transfer in the Yangtze River Delta, give full play to Anhui's natural advantages of vast territory, large population, connecting the East and the west, further optimize the business environment, and actively strive for more manufacturing investment projects to take root in Anhui Province by taking advantage of the opportunity of the world manufacturing conference to be held permanently in Hefei. Thirdly, we can implement the "Phoenix returning nest" project in manufacturing industry. The government departments should make full use of the platforms such as the Huishang conference, strengthen the contact with Huizhou merchants inside and outside the province, provide policy support for Huishang businessmen to invest in Anhui Province, and help the overall level of manufacturing investment in Anhui Province to a new level. Finally, Anhui province needs to start the next round of technical transformation investment oriented plan as soon as possible, and continue to increase the support for technological transformation investment.

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