

# The Influencing Factors and Countermeasures of Export-Oriented Economic Development in China

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## Abstract

Since China opened its door to the outside, the export-oriented economic level has been rising unceasingly, but the development in each region is unbalanced. The factors which effect export-oriented economic development are analyzed in this paper, and it also explains the causes of the gap of export-oriented economic development level between the eastern, central and western regions of China from four aspects including policy factors, geographical location and transportation, basic conditions of regional economy, as well as market development degree and institutional environment. At last, the paper puts forward some countermeasure proposal for China's export-oriented economic development.

## Keywords

Export-Oriented Economy, Factors, Policy, Location

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## 1. Introduction

Export-oriented economy as opposed to natural economy or closed economy, it is characterized by emphasis on foreign trade, participation in the international division of labor, the expansion of merchandise exports and actively utilize foreign investment to develop the local economy, it is the inevitable result of economic globalization. Since China adopted the reform and opening-up policy, with the continuous improvement in the overall level of China's export-oriented economy, the development of export-oriented economy in each region is extremely unbalanced with significant geographical difference. It is still concentrated in a few provinces of the eastern coast. The export-oriented economic development level in the majority of inland areas is still low, and the western re-

gions even become the most difficult part in the development of export-oriented economy. In recent years, China's export-oriented economy in the inland areas has made some progress, but the absolute gap is still widening compared with the eastern region [1]. The eastern coastal areas account for almost 80% of the total foreign trade and foreign capital utilization in China, while the proportion in the central and western areas is only about 20%. Developing the export-oriented economy is considered to be an effective means to achieve the realization of regional economic take-off. The export trade and direct foreign investment have become an important force to promote the rapid economic growth of China's eastern region, strategy of export-oriented economy further widens the economic disparities between China's eastern and western region [2]. What are the reasons led to the huge differences of export-oriented economic development between the eastern, central and western regions and also cause our particular concern.

## 2. Literature Review

The concept of export-oriented economy originated from the successful development experience of some countries after World War II. American economist Bela Balassa (1961) put forward the concept of export-oriented economy earlier [3]. David Dollar (1992) explored the degree of trade distortions by comparing domestic and foreign price deviations of US goods to reflect the degree of export-oriented economy of a country [4]. Ann E Harrison (1996) used six indicators to measure the degree of a country's export-oriented economy, namely, the annual trade liberalization index, the black market premium of foreign exchange, the Dollar index and the relative international price index of tradable commodities [5]. Izani Ibrahim and Craig R MacPhee (2003) concluded that export growth mainly depends on factors such as policy orientation, technology content of export commodities and processing degree [6].

Compared with foreign countries, China's research on export-oriented economy is relatively late. In the early 1980s, due to the reform and opening up, scholars began to pay attention to the concept of export-oriented economy. For its connotation, domestic scholars have also given their own understanding from different angles and levels. Zhang Yuanyuan (1985) believed that the export-oriented economy must take foreign economic and trade as a leading industry, and guide the development of the national economy through the development of foreign economic and trade. The export-oriented economy is not only an economic model but also an economic mode [7]. Malin (1987) believed that export-oriented economy in the broad sense refers to all the economies that have contacts with the world market, while in a narrow sense, the essence of export-oriented economy refers to an economy aimed at earning foreign exchange through exports [8]. Lu Shulin (1988) made a systematic summary of the concept of export-oriented economy. He pointed out that export-oriented economy is oriented by the international market demand, guided by the development of

foreign economic and trade activities to promote economic development, and the core of export-oriented economy is development of foreign trade and foreign capital utilization. In addition, it includes the development of international tourism, foreign contracting projects, foreign labor cooperation, technology export and foreign investment [9]. Cheng Yi, Liu Hui, Gong Piping and Song Tao (2016) established an export-oriented economic evaluation system from three perspectives: foreign trade situation, level of foreign capital utilization and per capita level [10]. Li Yuxin and Wang Gaili (2015) constructed the evaluation index system from four aspects of export-oriented economic base, scale, degree and support of resources environment. The improved TOPSIS method was used to evaluate the development level and efficiency of Xinjiang's export-oriented economy [11]. Dai Xiang and Zhang Erzhen (2017) pointed out that China should promote the coordinated development of export-oriented economy in East and Midwest China [12]. As for the influencing factors of export-oriented economy, scholars have discussed them from different perspectives. Generally speaking, location, natural conditions, natural resources, social culture, market and decision-making behavior are considered as the main factors affecting the export-oriented economic development in Western China [13]. However, few people systematically analyze the influencing factors of China's export-oriented economic development from the perspective of comparison among eastern, central and Western regions.

### **3. Analysis on the Influence Factors of Export-Oriented Economy: Based on the Comparison between the Eastern, Central and Western Regions of China**

#### **3.1. Policy Factors**

After the Third Plenary Session of the Eleventh Central Committee, China began the process of opening-up by publishing special preferential policies in all parts of China, the multi-level special policies are formed in accordance with the progressive layers of special policies, the core of the special policies is the process that central government continues to "decentralization". These special policies include: special economic zone policy, the policy of open area, the policy of economic development zone, policies to attract foreign investment and foreign trade incentive policies. The goal of opening-up is completed through policy gap caused by special policies.

Since it is special policy, it means that a region relative to other regions owns more specific and more preferential policies, thus the policy is not universal all around the country, in the aspect of policy, the policy adopted in one region is different from that of another, resulting in a lot of unfairness. In the aspect of the results, the opening-up promoted by preferential policies is displayed as tilting open architecture, and from the regional structure point of view, the tilting open architecture shows that China's opening-up regions are mainly concentrated in the eastern part. As China takes the development mode that first de-

velop the eastern region, then gradually advancing from the coast to the mainland, the eastern region first opens the opening-up window, our country publishes a large number of preferential policies in finance, taxation, credit, market access and provides policy supports for the use of foreign investment to develop the regional economy, the eastern region takes the lead in the process of developing export-oriented economy and has achieved first-mover advantage. A large number of studies show that the economic open areas enjoy special policies is the main reason for economic differences expanding in the inter-region [14]. It can be said that a good policy environment and institutional supply are the most important factors affecting the development of export-oriented economy. Due to the different precedence order and degree of China's reform and opening-up, the coastal areas then benefit from the "first-mover effect" brought by policy and institutional supply, thus causing the gap of export-oriented economic development between the western, central and coastal areas.

### 3.2. Geographical Location and Transportation

Long-term enjoyment of preferential policies is undoubtedly very favorable for economic development in coastal areas, but Sylvie Démurge and others (2002) did a lot of quantification and empirical analysis with the use of the ability of regions to participate in international trade (Geographical Location) and preferential policy index, the results show that the geographical advantages and policy elements facilitating export-oriented industrialization is equally important to the economic development in coastal areas. However, the geographic elements have a much longer lag effect on the regional economic growth than that of policy elements [15].

In the development of export-oriented economy, the foreign merchandise trade, foreign investment introduction, labor export, international tourism and so on all has a close relationship with the geographical location and transportation. The key feature of raw materials and finished products market is that they put both ends of the production process outside. While in the practical international trade, the transfer of a commodity in the world will surely cause the transportation costs. Transportation costs include load and unload cost, insurance and the actual cost for the goods transportation and other costs. If the transportation cost is more than the international production cost difference, this commodity cannot be internationally traded. Therefore, the transport distance has a major impact on international trade, the geographical locations closed to the sea or border is the favorable condition for the development of export-oriented economy. In this regard, the central regions which are clearly neither closed to the sea nor to the border are obviously in an innate disadvantaged situation. Although the western region is bordered on Mongolia, Kazakhstan, Tajikistan and other several countries, most of these neighbor countries are economically underdeveloped, they hardly have any inflow of economic radiation. In China's geo-economy, Japan is in the first stage of the economy, Taiwan,

Hong Kong, Korea, Singapore are in the second stage, China's eastern coastal areas are in the third stage, China's central and western part are respectively in the fourth and the fifth stage, and some western neighbor countries are in the sixth stage. Over the years, Hong Kong, Japan, the United States, Taiwan, Singapore, South Korea, the United Kingdom, Germany and so on are the countries (regions) that invest in China and traded with China more than any other countries. Economic radiations in central and western part of China are mainly from the eastern high economic gradient zones. For quite a long time in the past and the future, the impact of the mainland economy (western neighboring countries) cannot be compared with the marine economy (Pacific Economic Circle). Thus the geographic conditions of central and western regions that are far away from the first and second economic stage cannot be compared with those of eastern coastal areas. In particular, the western region's complex topography and the transportation, communications infrastructure far behind the eastern regions all make them suffer from a congenital development costs limitation. The economic backwardness of the western regions is subject to the lower market proximity to a certain extent—quite a high proportion of trade spreads are offset by transportation costs.

### **3.3. Basic Conditions of Regional Economy**

The development of export-oriented regional economy needs of a certain economic base (including the regional economic development level, situation of factor endowments, infrastructure, etc.), good regional economic base can play a role in promoting the development of export-oriented economy. Regions with more regional economic amount have a more powerful ability in regional product supply and the ability to participate in the exchange of inter-region products, and they can benefit more from inter-region economic exchanges. Due to relatively high production efficiency, more powerful competitiveness, the economically developed areas show more willingness and ability to participate in the international market cooperation and competition, thus, generally speaking, the economic openness in the developed areas is higher than that in the less developed regions. Its tendency of economic outward-oriented development is more obvious. Objectively speaking, the relatively developed eastern coastal areas show a stronger outward-oriented development trend than the inland areas.

The region's factor endowments situation also plays an important role in the development of export-oriented economy, in general, this factor endowments depend on local natural resources, the physical capital status, human capital and so on. The resources distribution in China shows: in the aspect of natural resources, the decreasing order is the western, central and eastern region; on the extent of capital abundance, the decreasing order is the eastern, central and western region; as to human capital, the decreasing order is the eastern, central and western region [16]. Although our country has advantages in natural resources in the central and western regions, such as grassland resources, forest

resources, solar resources, wind resources and a variety of mineral resources all enjoy a dominant position around the country, these resources have not yet been enough developed and utilized; Furthermore, in the development of modern economy and society, the role of human capital and physical capital is much larger than the endowments of natural resources. Regional productivity level composed by these factors in the central and western regions has been far lower than that in the eastern region. Therefore, the factor endowments are the important reasons that lead to the level of export-oriented economy in eastern China much higher than that of the central and western regions.

World economic development experience has demonstrated that investment in infrastructure has an important impact on foreign trade and investment introduction. The infrastructure is generally divided into two major types of economic infrastructure and social infrastructure. The productive economic infrastructure (including transportation, energy supply, post and telecommunications, etc.) has a greater effect on the development of export-oriented economy. Xie Xiaoxia analyzed the infrastructure gaps between the eastern, central and western regions from several aspects of transportation, posts and telecommunications, water and power supply, environmental protection facilities and so on [17]. Li Lianjun analyzed from the aspects of the amount of posts and telecommunications, freight and electricity consumption, the total investment in infrastructure and the per capita investment level of infrastructure and other aspects and concluded that the infrastructure construction in the central and western provinces lags far behind the eastern region [18]. The region distribution of direct foreign investment in our country is significantly in the basic pattern of “high in the east and low in the west”, from the point of view of the scale of utilizing foreign capital, the eastern region has an absolute advantage, then followed by the central region, and the last is the western region, this is directly related to the status of infrastructure in the eastern, central and western region. Good regional economic basic conditions objectively promote the gathering of foreign investment in the eastern region, driven by the market economy, the market-oriented reform makes the labor, capital, technology and other factors flow to high-return-rate southeast coastal region, which aggravates the gap with the eastern, central and western regions.

### **3.4. Market Development Degree and Institutional Environment**

Market development degree is the objective description of the state of resource allocation during a certain period of time. It is the degree of investment of capital, labor, technology and other resources configured by the market rather than the means of national plans. Improvement in the market development degree involves many aspects, such as ownership structure, the transformation of government functions, market development of good elements, people’s views and so on. As a result of the reallocation of resources, non-public economic development is a process that market mechanisms play a role to achieve the economic

resource advantages. Therefore, the level of non-public economic development reflects the market development degree to some extent. From the aspects of the proportion of economic output of non-state-owned industries, the proportion of investment in fixed assets of non-state society as a whole and the proportion of non-state employed in urban areas, the market development degree in the central and western region is relatively low, there is a large gap between the eastern region, but the central region is slightly better than that of the western region [18].

After the reform and opening-up, China's private economy in the southeast coastal areas is flourished, they are dominant in local economic development [19], while the market economic system reform in the central and western region is lagging behind, the market is very imperfect, in the central and western regions, the state-owned economy owns absolute ration share, the size of the non-public economy is smaller, the modern enterprise system is not yet universal, the enterprise management system is a far cry from international system, its ability to adapt to the market economy is far less than that of the eastern region with high proportion of non-state-owned economy. This situation is neither favorable for the international market nor the development of export-oriented economy. In the coastal region, the private SMEs is taking the path of an industry cluster development, targeting the international market to compete with other countries in the world in the form of "small businesses, large groups" [20], while the proportion of state-owned economy in the central and western regions is larger, there are more state-owned enterprises, therefore, in the central and western region, from the date of birth, the SMEs consciously or unconsciously chose the development path that dedicating in supporting the state-owned large enterprises and serving the local market to reduce risk. The result is that the SMEs can neither form their own advantages of industrial clusters nor become bigger and stronger. At the same time, they cannot participate in the international market and develop the export-oriented business.

From the point of view of institutional environment for the development of export-oriented economy, the pace of reform and opening-up in the central and western region lags far behind the eastern provinces, the traditional concepts still have the edge, in many areas, the impact of the planning system still limits the human's ability to innovate. In the matter of government management, the composition of the planning system is significantly higher than that of the eastern region, in the central and western region, the slow transformation of government's administrative functions, too much interferes in economic activities, too many economic management institutions, problems of non-standard and low service efficient in government administration such as too many charges, poor sense of service of civil servants, etc., coupled with a non-standard market order, inadequate laws and regulations and bad investment environment, they all have serious impact on the enthusiasm of foreign investors' investment and operation in the western region [21]. The administrative efficiency and legal

construction in the coastal region is faster and better than those in the mainland, when the western region was still in the stage of perfecting the “one-step” service to clear the barriers in serving the foreign businessmen, the coastal areas have already begun to cancel the examination and approval system for foreign enterprises and take the approach of registration system. The perfection of the institutional environment, the improvement in the level of market-oriented and administrative efficiency in the eastern region have formed the positive interaction of foreign capital and institutional changes, yet in the western region, the rigid system, the decreasing ability to attract investment and the bad economic conditions finally restrict the economic development of the western region.

## **4. Research Conclusions and Countermeasure Proposal**

### **4.1. Research Conclusions**

This paper explains the causes of the gap of export-oriented economic development level between the eastern, central and western regions of China from four aspects including policy factors, geographical location and transportation, basic conditions of regional economy, as well as market development degree and institutional environment. The research results are as follows: 1) a good policy environment and institutional supply are the most important factors affecting the development of export-oriented economy; 2) the advantages of geographical location and transportation will provide convenience for the development of export-oriented economy; 3) good regional economic base can play a role in promoting the development of export-oriented economy; 4) The higher market degree, the better the export-oriented economic development of the region.

### **4.2. Countermeasure Proposal for China’s Development of Export-Oriented Economy**

Although the opening-up has been fully carried out in China, the export-oriented economy is still concentrated in a few provinces along the eastern coast, and the level of the development of the export-oriented economy in the vast inland areas is still very low. In recent years, China’s export-oriented economy in the central and Western regions, especially in the western region, has made some progress, but the absolute gap with the eastern region is still widening. However, in the long run, due to the low level of opening up, the economic development of the central and western regions is slow, which is not conducive to the healthy development of the entire national economy. Therefore, it’s urgent to enhance the level of export-oriented economic development and promote the coordinated development of the East and Midwest China [12].

In order to develop the export-oriented economy of China, the article puts forward the following suggestions: 1) each region must formulate corresponding development strategies and measures according to its own geographical characteristics, resource endowments and comparative advantages, carry out targeted foreign economic and trade activities, and gradually improve the level of open-

ing-up; 2) eastern regions should actively improve the level and quality of export-oriented economy, develop export-oriented economy in the depth and breadth, and participate in international division of labor and cooperation at a higher level; 3) the central and western regions should vigorously improve the investment environment, strengthen infrastructure construction such as transportation, communication, power supply and water supply, and at the same time speed up the transformation of ideas and systems, improve the efficiency of government work, strengthen and improve the legal system, and speed up the training of export-oriented economic talents so as to attract foreign businessmen to participate in the construction and strive to change the backward situation as soon as possible; 4) the state should give preferential policies to the central and western regions to promote the development of their export-oriented economy; 5) promote the export-oriented processing industries to transfer from the eastern region to the central and western regions , and realize the integration of development of export-oriented economy between the East and Midwest China.

### Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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