13th International Scientific Conference "Employment, Education and Entrepreneurship"

Conference Proceedings

OPENNESS, BUSINESS ENVIRONMENT AND ENTREPRENEURIAL PERFORMANCE IN LARGE ECONOMIES: EVIDENCE FROM CHINA

Ouyang Yao[1]
Li Jun[2]
Xie Chi[3]

DOI: 10.5937/EEE24001Y
JEL: F6, F63, F64:
Plenary Lecture

ABSTRACT

As political boundaries, countries and cities as administrative boundaries may restrict the flow of goods and factors. Economic openness is to weaken the economic boundaries of countries and cities and promote the flow of goods and factors. As a super-large economy, China has actively promoted both opening-up to the outside world and domestic opening-up, integrating into the international economic circulation system and building a unified domestic market, creating a high-quality business environment for enterprises. The improvement of the environment has enhanced entrepreneurial performance and promoted technological innovation of small enterprises and urban economic prosperity. The research shows that there is an inherent and necessary connection between the degree of openness, business environment, and entrepreneurial performance. Economic openness and business environment promote the formation of a high-quality entrepreneurial environment, which in turn affects entrepreneurial performance and economic development performance. Namely, various changes in the business environment have greatly affected the "business dynamism".

KEYWORDS

large economy, economic openness, business environment, entrepreneurial performance

INTRODUCTION

From a global perspective, the world is divided into different countries; from a national perspective, a country is divided into different cities. As a political boundary, a country inevitably restricts the flow of goods and factors between countries. Similarly, as an administrative boundary, a city also restricts the flow of goods and factors between cities. The so-called "economic openness" is actually to reduce or weaken the intensity of national and urban boundaries that hinder the flow of goods and factors. Compared to weakening the economic boundaries between countries, which is relatively difficult, weakening the economic boundaries between cities is relatively easier.

A super-large country like China, with a land area of 9.6 million square kilometers and 655 cities, has the potential for significant economic growth due to its large population and vast territory. This can drive the expansion of consumer demand through increased population and income levels, and form a broad global

1 Hunan Normal University, School of Business, Center for Large Economies, ouyangyao008@163.com
2 Hunan Normal University, School of Business, lijunedu@126.com
3 Hunan Normal University, School of Business, 27063592@qq.com, ORCID: 0000-0002-0892-1299

market, supporting the specialization of key industries. However, if such a large number of cities, as administrative regions, form barriers that hinder the free flow of goods and factors, they may turn the super-large market of a super-large country into a number of small markets divided by numerous administrative boundaries, thus greatly weakening the advantages of market scale and economic development.

Since the implementation of the reform and opening-up policy in the 1980s, China has always regarded economic openness as one of its fundamental national conditions. It has continuously increased the intensity of economic openness, expanded the scope of economic openness, and improved the level of economic openness. It has made significant achievements in utilizing the global market, making China a major player or even the leading player in the production and sales of some important industries and products. Since the 21st century, China has begun to attach importance to domestic economic openness, formulating measures to break down local protectionism, remove barriers to the free flow of goods and factors between cities, and strive to build a unified national market that is fair, competitive, and orderly, thereby ensuring smooth domestic economic circulation. China's practical experience has shown that there is an inherent and necessary connection between the degree of openness, business environment, and entrepreneurial performance (Radović-Marković, Ouyang, Md. Shajahan, 2024). Economic openness promotes the improvement of the business environment, creates a fair entrepreneurial environment for enterprises, and thus affects entrepreneurial performance and economic development performance.

CHINA'S DEGREE OF ECONOMIC OPENNESS: DOMESTIC AND INTERNATIONAL OPENING UP AND THE UNIFIED NATIONAL MARKET

China started to open up its economy to the outside world in 1983 and has gone through three stages: the first stage was from 1983 to 2000, mainly focusing on the opening-up of coastal cities and economic development zones, and the development of an outward-oriented economy; the second stage was from 2001 to 2012, when China joined the World Trade Organization and fully integrated into the world economy within the WTO framework; the third stage, from 2013 to the present, has focused on promoting institutional opening-up, achieving institutional and planning alignment with the country through the construction of free trade zones.

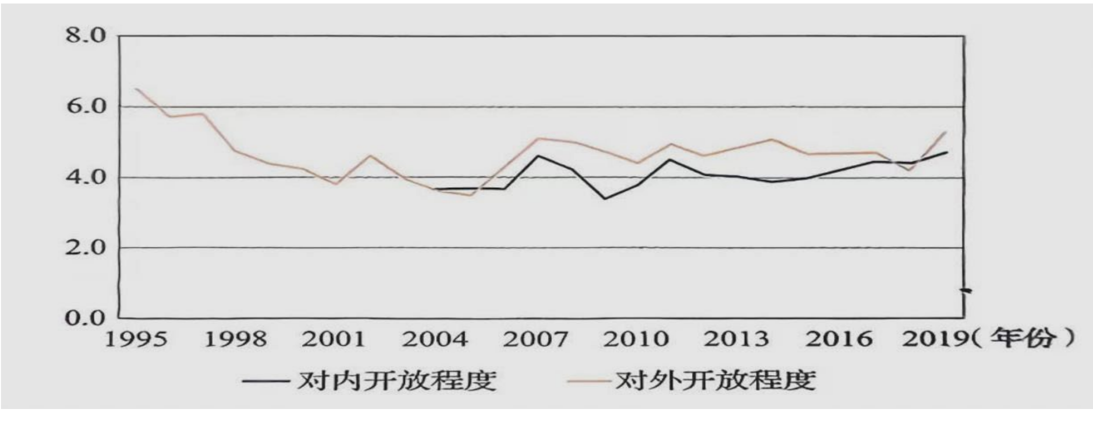

Figure 1. Trends in China's Domestic and International Openness (1995-2022)
Source: IMD WORLD competitiveness yearbook

Table 1. Composite Ranking of Economic Openness among Major Economies

Domestic Market Openness			International Market Openness		
Ranking	Country	Score	Ranking	Country	Score
1	Hong Kong, China	9.06	1	Austria	9.08
2	Netherlands	8.79	2	Hong Kong, China	9.06
3	Singapore	8.62	4	Sweden	8.89
6	Germany	8.47	8	United Kingdom	8.54
7	United States	8.43	10	United States	7.66
19	France	7.38	29	France	7.16
34	Japan	6.78	45	Japan	6.00
38	Mainland China	4.68	59	Mainland China	5.27

From Figure 1 and Table 1, we can observe the overall situation and trend of China's opening up to the outside world. Although the degree of China's external economic openness has experienced ups and downs since 2001, the overall trend has been upward. In terms of the ranking of the degree of opening up in 2019, Hong Kong, China and Mainland China ranked second and 59th globally, respectively. Regarding China's mainland domestic openness, the overall trend since 2001 has been gradually upward.

In March 2023, to promote China's domestic economic opening up, the central government issued the "Opinions on Accelerating the Construction of a Unified National Market," proposing six policy measures: (1) establishing a unified system for property rights protection, market access, fair competition, and social credit; (2) accelerating the construction of a modern distribution network, market information interaction channels, and market trading platforms; (3) establishing and improving a nationwide unified land market, labor market, capital market, energy market, carbon emissions market, and water rights trading market; (4) building a unified market for goods and services, as well as quality system standards and measurement systems; (5) improving fair and unified market supervision rules, law enforcement procedures, and regulatory services; and (6) preventing the abuse of administrative power to exclude and restrict market competition, such as local protectionism and regional barriers. The promotion and implementation of these policy measures have achieved good results, driving an increase in the degree of openness in various regions and industries within the country.

CHINA'S BUSINESS ENVIRONMENT: OVERALL EVALUATION AND POLICY SUPPORT SYSTEM

Economic openness is a fundamental prerequisite for improving the business environment (Radović-Marković, Ouyang, Md. Shajahan, 2024). A closed society lacks fair competition, which in turn suppresses the innovation and entrepreneurial vitality of entrepreneurs. In 2001, the World Bank proposed a set of indicators to assess the business environment for the private sector in various countries, mainly including: procedures, time, and cost of starting a business, obtaining a tax permit, obtaining electricity, registering property, obtaining credit, employing workers, enforcing contracts, and resolving insolvency; the time and cost of cross-border trade, as well as the total tax and contribution rate. Governments and policymakers in many countries pay special attention to these important indicators. While actively promoting economic openness, the Chinese government is committed to improving its domestic business environment and encouraging investment and business development by all types of market entities. According to data released by the World Bank, China's overall ranking in the business environment has improved rapidly, rising from 96th in 2013 to 31st in 2022.

Table 2. China's Overall Global Ease of Doing Business Ranking in the Last 10 Years

Year	2013.	2014.	2015.	2016.	2017.	2018.	2019.	2020.	2021.	2022.
Ranking	96	96	90	84	78	78	46	31	31	31

Source: World bank (Doing Business 2022), http://www.doingbusiness.org.

A World Bank thematic report in 2020 noted, "Over the past decade, China has improved on all Doing Business indicators. Due to strong reforms in the business environment, China has not only been recognized by the public as the most important reformer among large economies but has also become one of the ten fastest-growing economies in the world." The reasons for China's successful reforms primarily stem from six driving factors:

1) high-level leadership's emphasis on the reform agenda;
2) policy experiments conducted at the local level;
3) domestic and international knowledge exchange;
4) the enforceability and accountability of the reform agenda;
5) active participation of the private sector; and
6) the widespread application of e-government services.

Small and medium-sized enterprises (SMEs) are the main body of social entrepreneurship. Creating an entrepreneurial environment that promotes the development of SMEs is of particular significance and plays a positive role in improving the business environment. Since the 21st century, the Chinese government has paid special attention to the development of SMEs. The "Small and Medium-sized Enterprise Promotion Law of the People's Republic of China" passed in 2002 proposed a policy framework to support the development of SMEs, including policy provisions to protect the legitimate rights and interests of SMEs, fiscal and financial policies to promote the development of SMEs, and policy measures to encourage innovation and entrepreneurship among SMEs. In 2022, government agencies organized a third-party evaluation of the development environment for SMEs, and the results showed that:

1) a fair and competitive market legal environment has been created through deepening reforms;
2) an inclusive financial ecosystem has been constructed through credit structure adjustments;
3) an ecological environment for the industrialization of new technologies has been built through path optimization; and
4) the implementation of various preferential policies has been guaranteed through service optimization.

Table 3. Top-Ranked Cities in SME Development Environment Assessment

No.	City	Index	No.	City	Index	No.	City	Index
1.	Shenzhen	79.62	6.	Hangzhou	67.31	11.	Tianjin	57.19
2.	Shanghai	76.64	7.	Xiamen	65.29	12.	Wuhan	55.53

3.	Nanjing	71.11	8.	Ningbo	58.89	13.	Hefei	55.19
4.	Guangzhou	70.96	9.	Changsha	57.95	14.	Chengdu	51.99
5.	Beijing	70.60	10.	Qingdao	57.50	15.	Xian	51.82

Source: 2022 Annual Assessment Report on the Development Environment for Small and Medium-sized Enterprises, available at miit.gov.cn

ENTREPRENEURIAL PERFORMANCE OF CHINESE ENTERPRISES: TECHNOLOGICAL INNOVATION OF SMALL ENTERPRISES AND ECONOMIC PROSPERITY

China's economic opening up has fostered an improved business environment, not only attracted a large amount of foreign investment but also stimulating innovation and entrepreneurship among local enterprises (Radović-Marković, 2024). Domestic economic opening up has promoted the formation of a unified large market, and China's ultra-large-scale market has constituted a new advantage for China's economic development. Relying on this advantage of a large-scale domestic market, it has both enhanced the incentive for Chinese enterprises to innovate technologically and strengthened the driving force for sustainable economic development, thereby promoting the development and economic prosperity of Chinese cities.

Economic prosperity is first manifested in the rapid development of small and medium-sized enterprises. In 2022, China registered an average of 23,800 new enterprises per day, and by the end of 2022, the number of SMEs exceeded 52 million. In particular, the technological development capabilities of SMEs have been continuously enhanced, and a number of high-tech and high-efficiency enterprises have emerged. In recent years, the Chinese government has been committed to cultivating "specialized, sophisticated, distinctive, and novel" small giant enterprises, namely small enterprises that specialize in their main business, pursue excellence, create distinctive products, and build innovative advantages, forming a full-cycle and comprehensive support system. Relying on their advantages of specialization, differentiation, sophistication, and innovation, these enterprises have achieved considerable economic benefits. By the end of 2021, the total annual operating revenue of these enterprises reached 3.7 trillion yuan, and the total annual profit exceeded 380 billion yuan, with a profit margin on operating revenue exceeding 10%.

Table 4. Top 15 Cities by Number of Key "Small Giant" Enterprises

No.	City	Number of Key "Small Giant" Enterprises	Regional GDP in 2021. (billion yuan)	Number of High-tech Enterprises in 2021.	R&D Intensity in 2020.
1	Beijing	138	40269.6	2.76万	6.44
2	Shanghai	123	43214.8	1.7万	4.17
3	Ningbo	71	14594.0	3919	2.85
4	Shenzhen	65	30664.8	2万	5.46
5	Chongqing	62	27894.8	4065	2.11
6	Tianjin	53	15695.0	9000	3.44

7	Chengdu	47	19917.0	7821	3.11
8	Qingdao	47	14136.5	5554	/
9	Xi'an	39	10688.3	7140	5.05
10	Changsha	38	13270.7	5200	2.8

Source: Compiled based on the newly released list of key "small giant" enterprises by the Ministry of Industry and Information Technology

Relying on a high-quality business environment, the Chinese government has established high-tech and economic and technological development zones in various large and medium-sized cities, developing high-tech industrial clusters, which has driven the high-quality development of urban economies. By the end of 2019, the 169 national high-tech industrial development zones in China had a total output value of 12.1 trillion yuan, accounting for 12.3% of the nation's GDP; enterprises in the high-tech zones held a total of 858,000 invention patents, including 790,000 domestic invention patents, accounting for 30.3% of the national total.

Table 5. Top 15 Most Economically Developed Cities in China (2022)

Ranking	City	Total GDP (in 100 million yuan)	GDP per Capita (in 10,000 yuan)	Ranking	City	Total GDP (in 100 million yuan)	GDP per Capita (in 10,000 yuan)
1.	Shanghai	44245	17.773145	9.	Hangzhou	18839	15.436742
2.	Beijing	41119	18.78781	10.	Nanjing	16940	17.976527
3.	Shenzhen	32465	18.360895	11.	Tianjin	16365	11.919155
4.	Guangzhou	29282	15.566755	12.	Ningbo	15755	16.528709
5.	Chongqing	29094	9.056695	13.	Qingdao	15186	14.805932
6.	Suzhou	23718	18.460748	14.	Wuxi	14803	19.79143
7.	Chengdu	20767	9.799453	15.	Changsha	14120	13.790005
8.	Wuhan	19902	13.922001				

Source: Data compiled from the China Statistical Yearbook 2023.

Table 6. Top 15 Cities Ranked by Openness, Business Environment

	Openness	Business Environment	Economic Performance
1.	Shanghai	Shanghai	Shanghai
2.	Beijing	Beijing	Beijing
3.	Shenzhen	Shenzhen	Shenzhen
4.	Xiamen	Hangzhou	Guangzhou
5.	Dalian	Suzhou	Chongqing
6.	Tianjin	Hefei	Suzhou
7.	Qingdao	Guangzhou	Chengdu
8.	Ningbo	Ningbo	Wuhan
9.	Guangzhou	Nanjing	Hangzhou
10.	Hangzhou	Changsha	Nanjing
11.	Chongqing	Wu' an	Tianjin

12.	Chengdu	Xiamen	Ningbo
13.	Xi'an	Chengdu	Qingdao
14.	Nanjing	Chongqing	Wuxi
15.	Wu' an	Wuxi	Changsha

Source：（1）Data source: People's Forum Evaluation Center：www.rmlt.com.cn；（2）Data source: China Business Environment Report 2023, National Development and Reform Commission：www.gov.cn；（3）Data source: China Statistical Yearbook 2023, China Statistics Press, 2023.

As shown in Table 6, among the top 15 cities in China in terms of urban openness, business environment, and economic performance, 11 cities rank among the top 15 in all three indicators, namely Shanghai, Beijing, Shenzhen, Xiamen, Ningbo, Guangzhou, Hangzhou, Chongqing, Chengdu, Nanjing, and Wuhan. Three cities rank among the top 15 in both business environment and economic performance, namely Suzhou, Wuxi, and Changsha; and one city, Qingdao, ranks among the top 15 in both openness and economic performance. It can be seen that there is a highly consistent correlation between a city's openness, business environment, and economic performance.

CONCLUSION

Three conclusions and implications can be drawn from this: (1) Economic openness is a crucial indicator of the business environment. A closed socioeconomic system cannot foster a superior business environment, nor can it lead to national and urban economic prosperity. (2) The business environment is the fundamental guarantee for investment and business development, and it is also a driving force for stimulating entrepreneurship. The government's role should primarily focus on creating a high-quality environment for entrepreneurs. (3) To achieve national and urban economic prosperity, it is necessary to build an open economic system and a vast domestic market, enjoy the benefits of globalization, and stimulate entrepreneurship and innovation.

REFERENCES

China Business Environment Report 2023. National Development and Reform Commission: Available at www.gov.cn [Accessed 25st July 2024].

China Statistical Yearbook (2023). China Statistics Press. Available at: National Bureau of Statistics of China >> Yearbook (stats.gov.cn) [Accessed 1st May 2024].

World bank (Doing Business 2022), Available at: http://www.doingbusiness.org. [Accessed 20st May 2024].

Ministry of Industry and Information Technology. (2022) Annual Report on the Development Environment Assessment of SMEs. Available at:

https://www.miit.gov.cn/xwdt/gxdt/sjdt/art/2023/art_e0b3a6eb45e343c492c80907de731283.html [Accessed 21st May 2024].

Ministry of Industry and Information Technology. (2022) Guidelines for the Digital Transformation of SMEs. Available at: chromeextension://bnjoienjhhclcabnkbhhfndecoipmcdg/background/jgpdf/layout/index.html?file=https://www.gov.cn/zhengce/zhengceku/2022-11/09/5725642/files/71a18505f65e401fa242dca9e263839c.pdf [Accessed 21st May 2024].

People's Forum Evaluation Center. Available at: www.rmlt.com.cn [Accessed 25st July 2024].

Radović Marković, M., Đukanović, B. (2022). Macroeconomics of Western Balkans in the Context of the Global Work and Business Environment, Charlotte, US: Information Age Publishing (IAP), Inc., United States

Radović-Marković, M. (2024). Critical Issues in Entrepreneurship, Education and Economic Development in China, Bangladesh, and Japan: Current Trends. Third International Scientific Conference: "Challenges of Modern Economy and Society Through the Prism of Green Economy and Sustainable Development" – CESGED2024. Available at: Critisal-iseuses-in-entrepreneurship-eduvation-and-economic-development-in-china-bangladesh-and-japan-current-trends.pdf [Accessed 20st July 2024].

Radović-Marković, M., Ouyang ,Y., Md. Shajahan K. (2024).Globalization and Entrepreneurship: Cases from China, Japan and Bangladesh, Routledge, forthcoming.