

Opportunities and Challenges of Liaoning's Economic Development under the Background of Free Trade Zone Construction

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Abstract: In 2013, the Shanghai Free Trade Zone was approved and officially opened the prelude to the construction of China's free trade zone. After that, China has successively established the second batch and the third batch of 10 free trade zones with regional development orientation and local characteristics. The Liaoning Free Trade Zone is one of the seven free trade zones established in the third batch. Taking Liaoning's economic development as the research object, this paper analyzes the opportunities and challenges faced by Liaoning's economic development under the background of the construction of free trade zone, and proposes countermeasures to promote the coordinated economic development of Liaoning's three economic sectors with the construction of free trade zone.

1. Innovation Practice in Liaoning Free Trade Zone

In March 2017, Liaoning Free Trade Zone was approved as one of the third batch of free trade zones in China. Liaoning Free Trade Zone includes three districts of Dalian, Shenyang and Yingkou. Among them, the area of Dalian area accounts for more than half, and the area of Shenyang and Yingkou each account for about 1/4. Since the unveiling of the Liaoning Free Trade Zone, in accordance with the overall deployment of the central government, we have adhered to the institutional reform and institutional innovation as the core, highlighting the characteristics of Liaoning, piloting first, pilot projects in an orderly manner, and the policy effects gradually appearing, achieving phased results. The task of the 123 reform pilots granted by the state to the Liaoning Free Trade Zone has now reached 111, with a landing rate of 90%. A total of more than 34,000 registered enterprises have been added in the Free Trade Zone, with a registered capital of more than 500 billion yuan. The 45 reform and innovation experiences involving the transformation of government functions and trade and investment facilitation have been promoted to the whole province.

2. The Status and Characteristics of Liaoning Economic Development

2.1 History of Liaoning's economic development

Since the reform and opening up, with the development of economic globalization, Liaoning's economic development as an old industrial base in Northeast China has continued to be sluggish, showing stage and volatility characteristics. Its development process can be basically divided into three stages (see Figure 1).

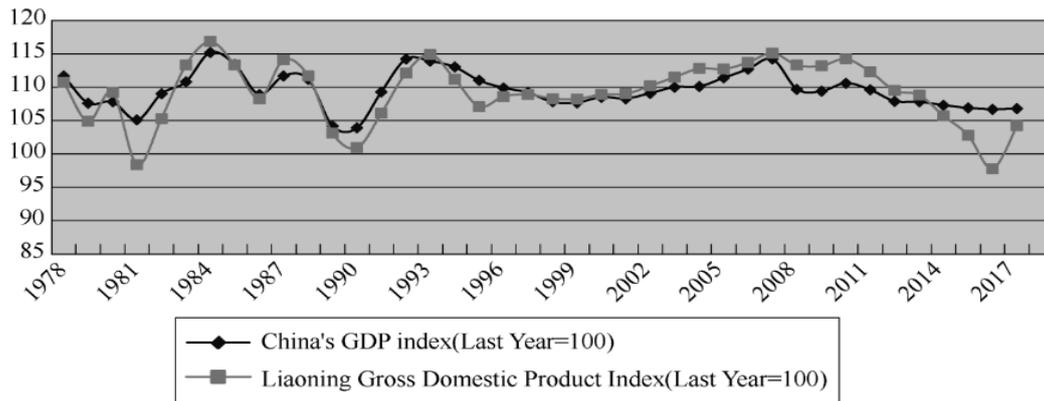


Figure 1. China and Liaoning GDP Index (1978-2017)

(1) The first stage: the recession stage (1978-1998)

After the reform and opening up, China's southeast coastal areas developed rapidly. As an old industrial base, Liaoning's economic development has lagged behind due to its structural reasons. From 1978 to 1998, despite the slight fluctuations during the period, the economic growth rate in Liaoning was generally lower than the national level.

(2) The second stage: the relatively stable stage (1998-2012)

In 2003, the State Council issued the "Several Opinions on Implementing the Strategy for Revitalizing Old Industrial Bases in Northeast China," which opened the prelude to the revitalization of the old industrial bases in Northeast China. With the implementation of a series of revitalization measures, the Liaoning economy began to enter a rising phase. During this period, Liaoning's institutional mechanism innovation made certain progress, and a considerable number of state-owned enterprises began to turn losses into profits. From 1998 to 2012, Liaoning's GDP index has remained at 108-115. This is the first time that Liaoning's GDP growth rate has been higher than the national level since the reform and opening up.

(3) The third stage: the rapid decline phase (2013 – present)

After 2013, world economic growth continued to be sluggish, and China's economy has entered a new normal. Under the combined effect of various factors, Liaoning's economic growth rate has once again fallen. From 2013 to 2016, Liaoning's economic development showed a cliff-like decline, and the economic growth rate ranked the last three in the country for several consecutive years. The rapid decline of the Northeast economy, represented by Liaoning, has aroused widespread concern in society. In April 2016, the Central Committee of the Communist Party of China and the State Council issued the "Several Opinions on the Comprehensive Revitalization of Old Industrial Bases in the Northeast Region," and proposed development goals such as "the Northeast region will achieve significant results in reforms in key areas and key links by 2020." In August of the same year, Liaoning Province and the other six provinces and cities jointly approved the Pilot Free Trade Zone, which injected vitality and vitality into the economic development of Liaoning and even the Northeast.

2.2 Status of Liaoning Economic Development

(1) The Overall Economic Situation is Getting Better

In 2018, Liaoning's economy bottomed out and stabilized. It gradually stepped out of the most difficult period and began to enter a healthy and healthy development track. The GDP of Liaoning Province was 2.53 trillion yuan, a year-on-year increase of 5.6%. The total local fiscal revenue was 452.5 billion yuan, a year-on-year increase of 7.8%. The added value of industrial enterprises above designated size increased by 9.8%, an increase of 5.4 percentage points over the same period of last year. Consumer prices rose by 2.5%. The per capita disposable income of urban and rural residents was 37,342 yuan and 14,656 yuan, up 6.7% and 6.6% respectively. Fixed asset investment increased by 3.7%; total retail sales of consumer goods reached 1,414.28 billion yuan, a year-on-year increase of 6.7%. The total volume of import and export trade was 754.59 billion yuan,

a year-on-year increase of 11.8%.

(2) High Quality Development of Industrial Economy

In 2018, the added value of industrial enterprises above designated size in Liaoning Province increased by 9.9% year-on-year, 3.5 percentage points higher than the national average, ranking the third in the country in terms of growth rate; the income from main business increased by 17.9% year-on-year, 8.6 percentage higher than the national average. The growth rate ranked third in the country; realized profit growth of 47.1%, higher than the national average of 33.5 percentage points, the growth rate ranked first in the country.

(3) Fully Expand Opening Up

Liaoning actively participated in the construction of the “Belt and Road”, introduced the idea of accelerating the construction of a new open pattern, and comprehensively opening up to lead comprehensive revitalization, formulating the overall plan for the construction of the “One Belt, One Road” comprehensive pilot zone in Liaoning, and establishing the “16+1” economic and trade cooperation between China and Central and Eastern Europe. Demonstration Area. In 2018, there were 132,000 new registered enterprises in Liaoning Free Trade Zone with a registered capital of 220.3 billion yuan, and 45 reform and innovation experiences were replicated in the province. In terms of foreign trade, Liaoning Province achieved a good development trend of “double growth” in total import and export in 2018. Among them, the total export value was 321.49 billion yuan, an increase of 5.7%; the total import value was 43.31 billion yuan, an increase of 16.8%. In terms of attracting investment, it vigorously carried out “double strokes and double introductions” and signed 259 major projects with a total capital of 858.8 billion yuan.

2.3 Development Characteristics of the Three Economic Sectors in Liaoning

(1) Liaoning Coastal Economic Belt

The Liaoning coastal economic belt is located in the northeastern part of China, adjacent to the Bohai Sea and the Yellow Sea, including the administrative areas under the jurisdiction of six coastal cities of Dalian, Dandong, Jinzhou, Yingkou, Panjin and Huludao. The land area is 56,500 square kilometers and the coastline is 2920 kilometers long. The area is about 68,000 square meters. In July 2009, the Liaoning Coastal Economic Belt Development Plan was approved by the State Council. So far, Liaoning coastal areas have been included in the national strategy as a whole development area. In 2014-2016, due to the economic downturn in the three northeastern provinces, the export volume of the Liaoning coastal economic belt showed a significant decline. There are also many problems between the six ports where the region is located, such as excessive competition, industrial structure convergence and weak cooperation and win-win situation.

(2) Shenyang Economic Zone

The Shenyang Economic Zone is a “regional economic community” with Shenyang as the center, through the economic radiation and attraction of the central city of Shenyang, and closely linked to the surrounding economic and social activities. After the adjustment of Shenyang Economic Zone, it mainly includes five industrial cities in central Liaoning, namely Shenyang, Anshan, Fushun, Benxi and Liaoyang, with a strong heavy industry base. As of 2017, there are 416 large and medium-sized industrial enterprises in the economic zone with total assets of 1,370.45 billion yuan, accounting for 35.74% and 49.74% respectively in the province. In terms of the distribution of total assets of large and medium-sized industrial enterprises, Shenyang City ranked second in Liaoning with 646.34 billion yuan; Liaoning, Benxi and Liaoyang all exceeded 100 billion yuan, ranking third, fourth and sixth; Fushun 90.75 billion yuan, the province ranked 8th. Although the number of enterprises and total assets of the Shenyang Economic Zone are among the best in the province, their profit income is not satisfactory. In 2017, the total profit of large and medium-sized industrial enterprises in 5 cities was only 47.61 billion yuan, accounting for 22% of the province, which was lower than the proportion of Liaoning coastal economic belt.

(3) Northwestern Liaoning

The northwestern Liaoning region includes Tieling, Fuxin and Chaoyang, and the economic development foundation is relatively weak. In 2017, the per capita GDP of Tieling, Fuxin and

Chaoyang ranked the third in the province.

Based on this, the Liaoning Provincial Government has adopted a series of policies to promote economic development in the northwestern Liaoning region under the call of “revitalizing the old industrial bases in Northeast China”. These incentive policies have promoted the economic development of the northwestern Liaoning to a certain extent. In 2017, the growth rate of export trade and the growth rate of foreign direct investment in the northwestern Liaoning region ranked first among the three major economic sectors in Liaoning Province. However, due to the weak economic foundation and the limitations of some industries, the government's support policies have not been satisfactory for the economic development of the three cities in northwestern Liaoning. Compared with the Shenyang Economic Zone and the coastal economic belt, there is still a large gap in the region.

3. Opportunities and Challenges Facing Liaoning's Economic Development

3.1 Opportunity Analysis

(1) Free Trade Zone Establishment Stimulates Economic Growth

The free trade zone can attract domestic and foreign investment. Opening the service industry will automatically adjust the unreasonable industrial structure of Liaoning Province. All-round institutional mechanism innovation, especially the innovation of administrative management system, is the premise of technological innovation. A good soft environment is conducive to the realization of high-quality innovation by market innovation entities and is conducive to Liaoning's innovation-driven development strategy. The construction of Liaoning Free Trade Zone is conducive to the industrial transformation and upgrading of the old industrial bases in Northeast China, which is conducive to the national industrial transformation and upgrading. It is conducive to the opening up of the old industrial bases in Northeast China, expanding effective investment and increasing consumption, especially increasing the economic growth of Liaoning. Pulling the action is conducive to promoting the transformation of Liaoning's economic development mode.

(2) 2020 China Manufacturing Promotes Manufacturing Transformation and Upgrading

As an important old industrial base in China, Liaoning has benefited from the “catch-up strategy” before the reform and opening up, coupled with its abundant resources, it still has strong industrial strength and strong manufacturing base, especially in heavy machinery and large-scale complete sets of equipment, CNC. The advantages of machine tools, power generation and power transmission and transformation equipment, automobile and parts manufacturing, shipbuilding, and rail transit equipment manufacturing are obvious. “Made in China 2025” and “13th Five-Year Plan for the Revitalization of Northeast China” propose to improve the innovation capability of the manufacturing industry (especially the equipment manufacturing industry), which will help promote the transformation of Liaoning's manufacturing advantages to innovation, and then drive Liaoning and even the Northeast. The overall transformation and upgrading of the manufacturing industry.

(3) Port Integration Boosts the Construction of Shipping Center in Northeast Asia

Dalian Port and Yingkou Port in Liaoning are the two most important ports in Northeast China. Dalian Port is the largest container hub port in Northeast China, oil and liquid chemical storage and distribution base and an important ore distribution center; Yingkou Port is the largest domestic trade container hub port in Northeast China. In 2018, China's northern ports will implement an integration strategy. After the integration of the two ports, it will become one of the largest port groups with the largest asset size and throughput in China, laying a solid foundation for the construction of an international shipping center in Northeast Asia.

(4) “Belt and Road” Initiative to Enhance the Level of Cooperation and Openness

Liaoning is one of the 18 provinces, autonomous regions and municipalities under the “One Belt, One Road” initiative of China, and is also an important bridgehead for the Sino-Mongolian-Russian economic corridor. The development and construction of countries along the “Belt and Road” will create a broader space for Liaoning's excess capacity and labor export. At the same time, Liaoning has also carried out more extensive economic and trade cooperation with countries along the route

by building industrial parks in Europe, Russia, Asia, Indonesia and other countries in Namibia. It has comprehensively enhanced the level of openness and cooperation and effectively promoted the development of Liaoning's export trade.

3.2 Challenge Analysis

(1) Economic Growth is Still Under Downward Pressure

① Investment Growth Slows Down

Investment has always been the main driver of Liaoning's economic growth, but in recent years, Liaoning's investment growth has slowed significantly. In 2014, the growth rate of Liaoning's fixed asset investment began to decline, down by 1.5% year-on-year. In 2015-2017, the investment rebounded after a sharp decline, down 27.5%, 62.7% and 0.02% respectively. In 2016, Liaoning's GDP growth rate fell to the bottom of the country, making it the only province with negative economic growth in 31 provinces and cities. The sharp decline in investment growth is an important reason for the slowdown in Liaoning's economic growth, and it is also the main source of Liaoning's future economic downturn.

② Low Consumer Demand

From 2012 to 2016, the total retail sales of consumer goods in Liaoning increased by 15.7%, 13.7%, 12.1%, 7.7%, 4.9%, and fell to 2.9% in 2017, significantly lower than the national average. At present, there are still many factors affecting and restricting the growth of consumer demand in Liaoning. On the one hand, in recent years, the province's economic growth is low, the efficiency of enterprises is not good, the income growth of residents is slowing down, and the current consumption capacity of residents is declining. On the other hand, affected by factors such as insufficient consumption of new consumption hotspots, unreasonable income distribution system, and imperfect social security system, residents have a high tendency to invest in investment and have a low propensity to consume.

(2) Overcapacity Still Exists

In 2018, although the comprehensive capacity utilization rate of some key industries such as refining and chemical and steel in Liaoning Province has exceeded the national level, the production capacity problem that plagues Liaoning's economic development still exists. From the perspective of the layout of overcapacity industries, there are still different levels of overcapacity in the equipment manufacturing, petrochemical and metallurgical industries in the four pillar industries of Liaoning.

(3) Innovation Drive Capability is Not Strong

R&D institutions are the basic platform for enterprise technology innovation, and R&D personnel are important intellectual support for enterprise technology innovation. The two complement each other and jointly support enterprise technology innovation activities. In 2017, there were 405 R&D activity enterprises in Liaoning Province, accounting for only 34.9% of the total number of enterprises; R&D expenditure was 42.99 billion yuan, ranking 16th in the country; R&D expenditure intensity was only 1.84%, lower than the national average (2.13%). Guangdong, Jiangsu, Shandong, Beijing, Zhejiang and Shanghai have invested more than 100 billion yuan in research and development in 2017. The weak R&D investment has become one of the important factors restricting the technological innovation of industrial enterprises above designated size in Liaoning Province.

(4) Regional Economic Development Imbalance

As an old industrial base in northeast China, Liaoning's economy has gradually stepped out of the valley in 2018, but the imbalance of regional economic development still exists. Different cities and towns show differential development, Liaoning coastal economic belt, Shenyang economic zone and northwest Liaoning. Growth varies. Although the growth rate of the gross national product of the six cities in the Liaoning coastal economic zone ranks first, due to the integration of Shenyang economic zone and the rapid development of the enclave economy in northwestern Liaoning, the growth rate of foreign direct investment and the growth rate of export trade in the region are both behind the other two areas. (See Figure 2)

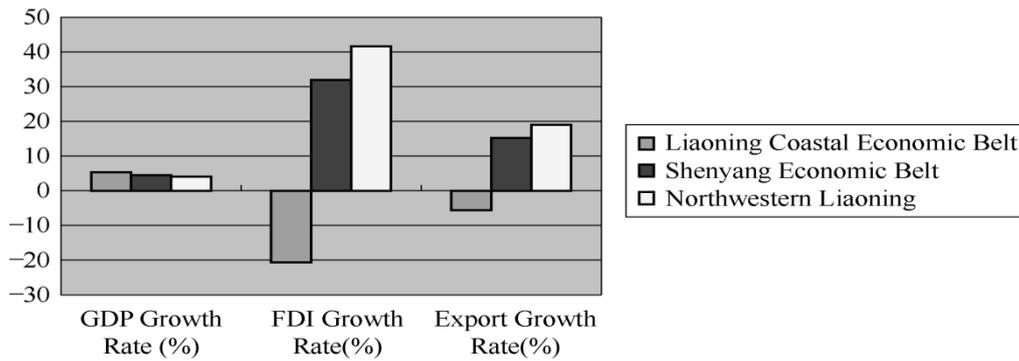


Figure 2. Comparison of economic growth in the three major regions of Liaoning

4. Suggestions

4.1 Liaoning Coastal Economic Belt: Building a Northeast Asian Cooperation Highland with the help of the “Belt and Road”

As is known to all, Liaoning's equipment manufacturing industry has a solid foundation, but it is currently facing this overcapacity problem. Driven by the policies of the Free Trade Zone, the Liaoning coastal economic zone can better interface with the countries along the “Belt and Road” to provide greater output space and development path for the excess capacity of Liaoning Province. At present, the development level of the countries along the “Belt and Road” is relatively backward, and infrastructure construction needs to be improved. In particular, the construction of the "ice silk road" fulcrum port jointly developed by China and Russia requires a large amount of construction materials and technical human resources such as steel and cement, which can effectively resolve the predicament of overcapacity in Liaoning and expand the export of labor services for the Liaoning economy's development assistance.

4.2 Shenyang Economic Zone: Improving the Business Environment and Building A High-end Manufacturing Base

At present, Germany has more than 60 investment companies in Shenyang. Among them, BMW Group has set up the world's most advanced vehicle factory and engine factory in Shenyang, and established the only R&D center outside Shenyang in Shenyang. The Sino-German Ecological Park in Shenyang is also under construction, which will promote the transformation and upgrading of Liaoning's equipment manufacturing industry. While consolidating the investment of Shenyang and other developed countries in Shenyang, the Shenyang Area of the Liaoning Free Trade Zone should be tailor-made for the national enterprises along the “Belt and Road”, continuously strengthen cooperation with countries along the “Belt and Road” and drive Fushun and Anshan. The industrial structure of neighboring cities such as Benxi and Liaoyang has been upgraded to promote the high-quality development of the overall economy of Shenyang Economic Zone.

4.3 Northwestern Liaoning: Relying on the Construction of the Free Trade Zone to Achieve Economic Growth

Promoting modern agricultural construction is one of the important ways to break through the bottleneck of the development of northwest Liaoning. In the future development, the northwestern Liaoning region should strengthen cooperation with Japan and South Korea in the field of agriculture through the construction of free trade zones, learn from advanced development concepts and experiences, and then improve the overall level of modern agricultural development in northwestern Liaoning.

In addition, the northwestern and northern China markets in northwestern Liaoning have the basis and conditions for undertaking industrial transfer. In particular, Chaoyang City has formed a prominent industrial transfer cluster with outstanding characteristics, and has the natural conditions for establishing the industrial transfer demonstration zone in northwest Liaoning. And comparative

advantage, it is recommended to set up an industrial transfer demonstration zone in northwestern Liaoning, which not only conforms to the new trend of industrial transfer at home and abroad, but also is an effective way to take advantage of the industry to drive poverty alleviation and accelerate Liaoning's revitalization and development.

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