Analysis of Factors Influencing the Business Environment and Advantages in Qingdao

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Abstract. Since the release of the "Global Business Environment Report" in 2003, countries around the world have gradually started to focus on the construction of business environments, aiming to optimize conditions and promote economic development. Since 2013, China's attention to business environments has steadily increased. In 2017, General Secretary Xi Jinping emphasized the need to "create a stable, fair, transparent, and predictable business environment" during a meeting of the Central Financial and Economic Affairs Commission. Following this, the topic gradually became a hot issue of concern across various sectors of society. Since its proposal, the business environment has received widespread attention from both the state and the business community. The academic community has also conducted extensive exploration and achieved certain research results, forming core topics such as tax-related business environments, "decentralization, management and service" reforms, and high-quality development. This paper uses the literature analysis method to analyze the business environment of Qingdao from multiple angles. The discussion primarily focuses on four aspects: government policies, market environment, legal environment, and humanistic environment. The aim is to explore how these factors affect Qingdao's business environment and summarize its advantages to provide theoretical support for further optimization. The significant achievements Qingdao has made in building its business environment provide a solid foundation for further improvements and offer valuable experiences for other cities to reference.

Keywords: business environment, government policies, market environment, legal environment, and humanistic environment.

1 Introduction

A favorable business environment can help promote economic development. This promotion can be achieved in two ways. First, by fostering productive private investment. Improving the local business environment based on the geographical and cultural characteristics of the area can attract foreign investments within the same industrial model. The inflow of foreign capital promotes economic growth [1]. More importantly, an improved business environment is also highly beneficial for boosting

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domestic private enterprise investment. In almost every country, domestic private investment far exceeds foreign investment[2]. Second, by increasing entrepreneurial activities. A good business environment helps lower startup costs and provides more market opportunities and incentive mechanisms for other business ideas. This aids entrepreneurs in better organizing the production and sale of products. More frequent entrepreneurial activities can promote market competition and lead to what Schumpeter referred to as the process of "creative destruction"[3]. In this dynamic process, various business ideas and concepts from entrepreneurs are tested in the market, either advancing or being eliminated through market mechanisms. A better business environment makes it easier for companies to enter and exit the market. This process of survival of the fittest will enhance labor productivity and thus drive continuous economic growth and development. Numerous factors influence the business environment, including natural, historical, geographical, and economic aspects. However, the role of the government is crucial and cannot be overlooked. While the government has limited influence over geographical and historical factors, it significantly impacts property rights protection, market regulation, taxation, infrastructure provision, the functioning of financial and labor markets, and governmental management (e.g., corruption control). Consequently, the government plays a pivotal role in shaping the business environment[4].

The government is committed to creating a favorable business environment to promote economic development. Concurrently, its policy choices and system designs are constrained by the state and level of economic development, meaning that the process of economic development significantly influences the business environment.

In summary, an optimal business environment is a key measure to promote economic development. By attracting private investment and encouraging entrepreneurial activities, market competitiveness and labor productivity can be enhanced. Despite the challenges posed by structural upgrades in China's economy, the government continues to play a crucial role in improving the business environment through measures such as optimizing property rights protection and market regulation, thereby achieving high-quality and sustainable economic development.

2 Concepts Related to the Business Environment

The term "business environment" was first introduced by the World Bank in 2001. According to the World Bank, the business environment refers to the time and cost conditions required for companies, particularly private enterprises, to comply with policies and regulations in the processes of establishment, operation, trade, taxation, contract execution, and closure. The World Bank's "Doing Business" report establishes ten indicators: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency, to assess the ease of each stage from establishment to bankruptcy of a company.

Domestic research indicates that the business environment encompasses the entire process of enterprise activities, including all stages from establishment and operation to closure, considering various surrounding conditions and environments. This includes social, economic, political, and legal factors that influence business activities. Additionally, online definitions describe the business environment as the combination of external factors and conditions, including administrative, market, legal, and cultural environments that market entities face during their entry, production, operation, and exit processes.

In China, the concept of the business environment was first introduced at the Central Economic Work Conference in 2016. The business environment encompasses a wide range of factors, including socio-economic development, domestic and international economic and trade markets, and it possesses characteristics of hierarchy, breadth, and timeliness. The market business environment is continuously evolving. To create a suitable environment for the healthy and vigorous development of various enterprises, it is necessary to continuously optimize the business environment at the cutting-edge level. This environment extends beyond internal business strategies and enterprise management to include regional, national, and global contexts. The regional environment is particularly important, encompassing factors such as geographical location, transportation, infrastructure, communication, policies, and supply-demand relationships. Additionally, with the deep integration of global economic cooperation, local enterprises must focus on the convenience of local production management and operations, economic systems, and the levels of comprehensive advanced factor systems, including corporate management, innovation management, innovative technologies, and talent development. This paper, in studying the "business environment," primarily examines conditions based on the World Bank's definition, focusing on the geographical perspective, administrative environment, humanistic environment, and other external factors.

3 Literature Review

Foreign scholars generally believe that the political system, the issuance of policies, and the degree of government integrity significantly impact the local business environment. Bergara, Henisz, and Spiller (2005) pointed out that political institutions and environments are the foundation for market participants' commercial transactions. Robert and Paden (2008) studied the European Union's policies to support technological enterprises, identifying five effective support measures, including research and development subsidies and financial aid, and emphasized their effectiveness in promoting enterprise development. Anokhin and Schulze (2009) proposed that the level of government corruption is one of the key factors affecting the business environment; government corruption not only negatively impacts market participants' innovation but also easily leads to rent-seeking behavior.

In China, numerous scholars have analyzed economic development data from selected typical cities to identify various influencing factors of the business environment. Dong Zhiqiang and Wei Xiahai [5], among others, have confirmed that a favorable business environment positively promotes economic development. Shi Changkuan and Liang Huijun [6] studied the correlation between business environment indicators and imports in 30 provinces, concluding that optimizing the business environment does not require comprehensive reform of all indicators but should involve balancing trade-offs, with primary consideration given to improving government efficiency and shortening the time required to obtain business permits. Xing Wenjie and Liu Tong [7], using World Bank data on the business environment of 30 Chinese cities and the China Private Enterprise Entrepreneurship Index (CPEA), argued that only regions with better credit guarantees, stronger legal protections, and fewer procedural restrictions can stimulate abundant innovation and entrepreneurial activities, thereby forming a superior business environment.

In summary, both domestic and foreign scholars have conducted comprehensive and in-depth analyses of systems, policies, and related data, and their conclusions are closely aligned with reality. The business environment is closely linked to government work. To create a favorable business environment, the government must continuously optimize and improve policies to enhance economic conditions.

4 Factors Influencing the Business Environment

4.1 The Impact of the Humanistic Environment on the Business Environment

From the perspective of the humanistic environment, it serves as the soft power of the business environment and, to some extent, represents the vitality of a region's development. As an important coastal city in eastern China, Qingdao boasts a long history, rich culture, and abundant natural landscapes. Qingdao's century-old beer culture and marine culture are not only highly renowned domestically but also internationally acclaimed. These unique humanistic and geographic features provide distinct advantages to the business environment, attracting numerous foreign enterprises and international talent.

Qingdao has a high level of economic development and a well-developed industrial structure, covering manufacturing, services, and high-tech industries, thereby providing a solid foundation for enterprise growth. Qingdao also emphasizes innovation and technological development, actively promoting industrial upgrades and nurturing new industries, further enhancing the city's economic competitiveness.

In terms of education, Qingdao is home to two top-tier universities: Ocean University of China and China University of Petroleum. These universities continuously supply Qingdao with high-quality talent and offer strong technical support and research collaboration opportunities for local enterprises. Additionally, Qingdao has several high-level vocational and technical colleges and training institutions that provide skilled personnel to meet the diverse needs of enterprises.

Qingdao's cultural life is vibrant and diverse. Events like the annual Qingdao International Beer Festival attract a large number of tourists and enterprises, enhancing the city's international reputation and influence. The excellent living environment and cultural activities not only improve the residents' quality of life but also attract significant numbers of high-end talent and foreign enterprises, making Qingdao a highly attractive place for investment and entrepreneurship.

Overall, Qingdao’s humanistic environment adds unique charm and competitiveness to its business environment. Rich cultural resources, a high-level educational system, and a beautiful natural environment collectively constitute Qingdao's unique soft power, driving the city's economic development and social progress.

4.2 Factors Influencing Government Policies

The administrative environment refers to the sum of all internal and external factors influencing administrative affairs. This includes institutional setup, administrative process efficiency, and rule of law in administration (soft factors), as well as the government work environment and office facilities (hard factors). Simply put, any factor that affects the government’s exercise of administrative functions falls within the scope of the administrative environment. Currently, most city governments in China, when studying the administrative environment, tend to focus more on reforms related to “streamlining administration and delegating power, improving regulation, and upgrading services.” This mainly involves researching the simplification and optimization of government procedures, governmental control and service capabilities, the service level of civil servants, and administrative fairness.

For market entities, the primary concerns are whether the government can scientifically formulate policies, ensure their effectiveness and sustainability, and develop forward-looking economic plans while maintaining market fairness. A stable political environment and an effective, sustained, and fair policy environment are fundamental to the smooth and healthy development of market entities and the long-term stability of the market.

To improve the business environment, the Qingdao municipal government has also issued relevant policies. The main policies issued by the Qingdao government to optimize the business environment include the following aspects:

1. The "Qingdao Business Environment Optimization and Enhancement Action Plan," introduced as version 1.0, launched 46 innovative breakthrough policies, marking the first instance in the country to propose the service concept of the "four full life cycles" for enterprises, natural persons, project construction, and innovation and entrepreneurship. These concepts have been fully implemented.

2. Subsequently, the "Qingdao Business Environment Optimization and Enhancement Three-Year Action Plan (2022-2024)" was researched and formulated, upgrading the business environment to version 2.0 while continuing to promote institutional innovation in Qingdao. To implement the four major improvement actions concerning "government service environment, legal environment, market environment, and innovation and entrepreneurship environment," the Qingdao municipal government introduced several innovative measures. These include piloting a novel "intelligent form" model for market entity registration, which increased the one-time approval rate of enterprise registration by over 50%; launching the "International Tax Service" module to enhance the online processing rate of

international tax services; and upgrading the "Qingdao Policy Communication" platform by establishing a "Enjoy without Application" area aimed at delivering funds promptly to enterprises without the need for an application. Furthermore, the Qingdao municipal government, focusing on national strategies such as the Free Trade Zone, the SCO Demonstration Zone, and the ecological protection and high-quality development of the Yellow River Basin, has introduced a series of innovative measures to optimize the business environment. In summary, through the formulation and implementation of a series of policies and measures, the Qingdao municipal government is continuously progressing toward enhancing its business environment, aiming to establish a benchmark city known for market-oriented, law-based, and international business standards.

4.3 The Impact of Investment and Population on the Business Environment

4.3.1 The Impact of Investment on the Business Environment.

According to existing literature, foreign direct investment, bilateral trade agreements, and reforms in trade circulation systems can all influence the business environment. Foreign direct investment creates a plethora of job opportunities, and additionally, by expanding import and export scales, it increases tax revenue and significantly enhances international competitiveness. Moreover, the "Negative List for Market Access (2019 Edition)" further reduces restrictions, eases market entry conditions, and plays a positive role in stabilizing and attracting foreign investments.

Bilateral trade agreements are important in several respects. They can concretely protect the economic interests of a country's foreign direct investments and help enterprises effectively avoid external institutional risks. The signing of bilateral trade agreements can also serve as a bridge from which host countries can learn from the business environment development experiences of developed nations, optimizing and improving key areas such as starting a business and processing bankruptcies. Notably, the signing of bilateral trade agreements along with reforms in trade circulation systems significantly influences foreign investment willingness. When trade agreements offer more favorable conditions and smoother trade channels, foreign investors are generally more inclined to invest in that country; likewise, when the trade circulation system is more efficient, transparent, and fair, it strengthens foreign investors' confidence in the investment environment, thereby attracting more foreign capital inflows.

In the long term, a consistently stable investment environment not only attracts new investments but also encourages the deepening and expansion of existing investments. This further drives technological innovation, industrial upgrading, and infrastructure improvement, creating a virtuous cycle that continually optimizes the business environment and enhances a country or region's global economic competitiveness and attractiveness.

4.3.2 The Impact of Population on Business Environment.

Wang Liuping conducted a dynamic and static analysis of cross-sectional data on the business environment and economic development in Beijing and Shanghai from 2004 to 2019[8]. The study found a significant relationship between the increase in the resident population, the number of employees, and the amount of foreign investment utilized. The distribution and status of the urban, rural, and floating populations in the entire city are as follows:

Urban and Rural Population: Among the city's total population, 7,688,474 people reside in urban areas, accounting for 76.34%, while 2,383,248 people live in rural areas, representing 23.66%. Compared to the 2010 national census, the urban population proportion has increased by 10.53 percentage points.

Floating Population: Within the total population of the city, 4,172,536 people have different household registrations and current residence locations. Of these, 1,305,645 people are separated within the city's administrative regions, and 2,866,891 people constitute the floating population. Compared to the 2010 national census, the number of people with different household registrations and current residence locations increased by 1,695,218, a 68.43% rise, and the floating population grew by 906,932, representing a 46.27% increase.

The data indicate that Qingdao has a substantial labor force and numerous opportunities to attract foreign enterprise investment. By the first half of 2022, 173 Fortune 500 companies had invested in 383 projects in Qingdao, making it one of the regions with the highest concentration of Fortune 500 investments worldwide. Notably, the West Coast New Area of Qingdao hosts a significant number of these foreign enterprises. According to Qingdao West Coast News (2024), as of December 31, 2023, the West Coast New Area had 1,489 active foreign enterprises (excluding the Free Trade Zone), accounting for 10.76% of all foreign enterprises in the city and 1.3% of the total enterprises in the New Area. In 2023, 99 new foreign enterprises were established in the New Area, representing 12.13% of the city's newly established foreign enterprises, with a registered capital of USD 2.378 billion. Statistical analysis shows that in 2023, the top five industries for these newly established foreign enterprises were wholesale and retail trade, scientific research and technical services, leasing and business services, manufacturing, and accommodation and food services. Sectorally, the tertiary industry predominates, accounting for 92%, followed by the secondary industry at 7%, and the primary industry at 1%. The primary investors come from Japan, the United States, Russia, South Korea, Pakistan, the United Kingdom, Singapore, and other regions.

5 Conclusions

This paper comprehensively analyzes Qingdao's business environment from multiple perspectives, mainly focusing on government policies, market conditions, legal frameworks, and humanistic elements. The aim is to explore how these factors influence Qingdao's business environment and to summarize its strengths, thereby providing theoretical support for further optimization. Firstly, from the perspective of government policy, the Qingdao Municipal Government has implemented a series of innovative measures to optimize the business environment. The government issued the "Action Plan for the Optimization and Enhancement of Qingdao's Business Environment" and the "Three-Year Action Plan for the Optimization and Enhancement of Qingdao's Business Environment (2022–2024)," introducing 46 innovative policies that cover government services, legal protection, market access, and innovation and entrepreneurship. The implementation of these policies has significantly improved the efficiency of business registration, optimized the process for handling international tax matters, and simplified the procedure for enterprises to obtain policy support through the "Qingdao Policy Pass" platform. Secondly, regarding market conditions, Qingdao focuses on market-oriented, law-based, and international development, actively attracting foreign enterprises and promoting high-quality economic growth. The Qingdao Municipal Government is committed to providing a fair and transparent market environment for enterprises by reforming approval processes and simplifying transaction procedures, thereby enhancing market participants' satisfaction and investment confidence. The improvement in market conditions has not only attracted more investment but also promoted the growth and innovation of local enterprises. The legal framework is a crucial component of the business environment. The Qingdao Municipal Government emphasizes the construction of the rule of law, striving to build a fair, just, and transparent legal environment, ensuring that enterprises compete fairly within a legal framework. By strengthening property rights protection, optimizing market supervision, and enhancing the transparency of administrative law enforcement, the government has provided stable legal protection for enterprises, reducing legal risks in business operations. These measures have increased enterprises' satisfaction with the rule of law, boosting their sense of trust and security. The humanistic elements represent the soft power of the business environment. Qingdao has a high level of economic development and a well-established industrial structure encompassing manufacturing, services, and high-tech industries, providing a solid foundation for enterprise growth and development. In summary, Qingdao has achieved remarkable success in constructing its business environment. Through the comprehensive optimization of government policies, market conditions, legal frameworks, and humanistic elements, the overall competitiveness of Qingdao's business environment has been significantly enhanced. The effective policies of the government, favorable market and legal conditions, and rich human resources collectively form Qingdao's unique advantages in its business environment, driving sustained high-quality economic development. These strengths provide a solid foundation for further optimization of Qingdao's business environment and offer valuable insights for other cities to reference.

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