

International Experience in Developing Open Economy in Inland Areas and the Enlightenment to Hubei Province*

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Abstract

To seize the strategic opportunity of “one belt and one road”, raising the level of open economy is the inevitable choice for Hubei to build up the strategic fulcrum of the rise of central China. This paper summarizes the successful experience of developing open economy in inland areas of foreign countries, analyses the current situation and existing problems of Hubei’s open economy development, and on this basis, draws lessons from foreign experience, and puts forward countermeasures and suggestions for developing open economy in Hubei.

Keywords

Open Economy, Experience, Hubei, Countermeasures

1. Introduction

This Nowadays, economic globalization and regional economic integration have become two major trends in world development. Developing an open economy is the first choice for most developed and developing countries. Since the reform and opening up, China’s coastal areas with superior geographical environment have made unprecedented development, but after decades, the gap between eastern and Western areas, coastal and inland areas has become more and more obvious. Compared with the developed coastal areas, the economic development and openness of inland and edgewise provinces are relatively backward. Therefore, the demand of inland areas for expanding economic development space through opening up is more urgent than that of coastal areas.

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The concept of “one belt and one road” is an innovation for China’s opening up theory. It complies with the need of China’s opening up to regional structural transformation. It means that China’s opening up to the outside world will change its strategy. It is a major strategic plan for China to take the initiative to cope with the profound changes in the global situation and coordinate the two overall situations at home and abroad. It opened a door of opportunity to accelerate the development of Hubei which has obvious regional advantages and strong comprehensive strength. If Hubei wants to transcend and form inland open Highlands, we must have new ideas and not blindly copy the coastal mode. We can take the regional advantages (Hubei is in the middle of China) and the two major national strategies (the “one belt and one road” and the “Yangtze River Economic Belt”). It will be helpful for the sustainable development of Hubei’s open economy to learn from the experience of the open economy construction in the inland areas of foreign countries.

2. Literature Review

2.1. Research Abroad

The study of open economy by foreign scholars began with Adam Smith’s absolute advantage theory and David Ricardo’s comparative advantage theory. Later economists in the field of open economy mainly focused on the impact of the opening of factors of production on a country’s economy, and the impact of the opening of industrial or serving products on a country’s economy. Kawai (1994) holds that the impact of foreign direct investment on the economic growth of a region mainly depends on the overall level of economic openness in that region. Higher level of openness has a greater impact on the economy, while lower level of openness has a smaller impact on the economy [1]. De Gregorio (1991) believes that the impact of FDI on regional economic growth depends on some special conditions, and many later studies are looking for these special conditions [2]. Blomstrom (1992) argues that the impact of FDI on the economy of the investment region depends mainly on the overall level of economic development of the region [3]. Feder (1983) has studied and analyzed the role of the export sector in promoting the economy of non-export sectors [4]. After combining the new trade theory with the new growth theory, most scholars believed that trade with other countries can promote the rapid economic growth of a region through technology introduction, product export and international division of labor.

2.2. Domestic Research

Since the 15th National Congress of the Communist Party of China proposed to develop the open economy and further promote the opening strategy, China’s research on this area has begun to increase gradually. The research on open economy mainly includes the discussion on the connotation, the measurement and the development mode of open economy.

1) On the connotation of open economy

Guan Bai (2000), an economist, believes that an open economy is a development model that takes advantage of its own advantages to actively participate in the international division of labor to drive its own rapid economic growth [5]. ZhengJichang (2003) elaborated from the aspect of allocation of production factors that open economy is an economic development mode that can allow all kinds of production factors to flow freely and optimize the allocation of resources [6]. Zeng Zhilan (2003) believed that all the developed countries implemented the open economic development model. He raised the open economic development model to the height of the economic system, and it was no longer a temporary policy opening [7].

2) On the measurement of open economy

Different economists in different periods have different measurement methods. The most frequently used measure is the degree of dependence on foreign trade, that is, the proportion of total imports and exports to the gross product of the region. Because of its simplicity and convenience, it can directly reflect the relationship between import and export trade and GDP in a region, so it has been widely used for a long time. Li Yi (1998) put forward three indicators of international trade openness, international financial openness and international investment openness, each of which occupies different weights and forms a complete measurement and evaluation system together [8]. Then Huang Fanhua (2001) put forward a four-in-one measurement and evaluation system. The four indicators are commodity trade openness, service trade openness, direct investment openness and indirect investment openness [9]. After that, more and more indicators are used to evaluate the open economy, more and more detailed and more specific; Xiao Junfu *et al.* (2009) put forward three first-level indicators and 22 second-level indicators to evaluate the open economy development of a region [10].

3) On the path of open economic development

At present, there are few studies on the development path of open economy in the inland areas of central and Western China, most of which are about the eastern coast or the specific areas along the River. GuoXianguang (2003) made a thorough inquiry into the mode of “introducing foreign capital” in Jiangsu Province and “going out” in Zhejiang Province, and made a thorough comparative analysis of the characteristics, causes, advantages and disadvantages of the two classical modes. He believed that Jiangsu Province relied heavily on foreign direct investment and Zhejiang Province relied excessively on a single type of export products. And he put forward corresponding countermeasures and suggestions about the deficiencies [11]. Ma Huiqiang *et al.* (2014) analyzed the open economy of the coastal provinces and cities in China through the evaluation index system. The results show that the open economy of coastal provinces and cities in China can be divided into four categories: strong open area (Shanghai), open area (Tianjin, Guangdong, Jiangsu, Zhejiang), general open area (Liaoning,

Fujian, Shandong), weak open area (Hebei, Guangxi). The coastal open economy has great regional differences, and the north is lower than the South [12]. Cheng Jian *et al.* (2013) believed that since the reform and opening up, the inland areas have made great achievements in opening up through continuous efforts. However, the inland areas are also facing many difficulties in the process of open economy development. The inland areas can't simply copy the experience of coastal areas. They should innovate in integrating global factors, restructuring world resources and creating comparative advantages so as to ensure the healthy development of the inland open economy [13]. At present, there is hardly any systematic research on the open economy of Hubei Province.

3. Successful Cases and Experiences of Open Economy Development in Inland Areas of Foreign Countries

In the development of inland open economy abroad, the development experience of Chicago and Bangalore, India, is worth learning.

3.1. Chicago, USA

Located in the northeast of Illinois, Chicago is the largest city in the Midwest of the United States. It is also an old industrial inland city. Chicago has many successful experiences in developing export-oriented economy. First is building regional railway transport hub. More than 30 railway lines in the north-central part of the United States are assembled here. The total length of urban railway lines is more than 124,000 kilometers, with an annual freight volume of 512 million tons. It ranks first among the major cities in the world and is the largest railway hub in the United States. Second is focusing on developing the airborne economy. Chicago Airport is one of the busiest airports in the world. Aircraft traffic, passenger numbers and cargo tonnage are all in the forefront of the United States and even the world. It is the largest air transportation center in the United States. Third is striving to build a financial center. Chicago has more than 300 US banks, 40 branches of foreign banks and 16 insurance companies. Its total financial assets rank third in the Federal Reserve's jurisdiction. It is the second largest US financial center after New York and the largest financial derivatives trading center in the world. Fourth is actively introducing large enterprises and groups to Chicago. There are 33 Fortune 500 companies in the world and 47 Forbes 500 companies in the United States settled here.

3.2. Bangalore, India

Bangalore is a typical inland city in southern India. It is an industrial and commercial center in India. It is famous for its software industry and is known as the "Silicon Valley" of India. Software and service outsourcing industry is the most successful case of Indian Industrial Development in the international market, and it is also a typical case of world economic globalization. Before the 1960s, Bangalore mainly developed traditional industries such as steel, machinery, che-

mistry, textiles, leather, food and so on. In order to occupy a place in the division of labor in the world industry, the city aims at the information service outsourcing industry, which is totally free from geographical constraints, promulgates preferential policies to support the development of the software industry, actively participates in the global information service subcontracting, and attracts software enterprises and high-tech talents from all over the world. At the same time, the Indian government has set up key national defense and communication research institutes, such as the Institute of Scientific Research, the National Aeronautical Research Institute and Radar Electronics Development Corporation, in the city. Today, Bangalore Software Science and Technology Park, with an area of only 1.5 square kilometers, has become the world's recognized software outsourcing service base and the world's fifth largest information technology center. Bangalore is the first developing country to benefit from the Internet era [14].

Bangalore's success can be attributed to: First, seizing the important opportunities of international industrial transfer. With the rapid development of information technology industry, since the mid-1990s, outsourcing of software services has risen in large numbers. This industry is less restricted by geographical location. So Bangalore has seized the opportunity of international industry transfer by taking advantage of local talent advantages. Second, the success is due to the background of international culture and education and science research. Influenced by British culture, English is one of the main languages in Bangalore, which provides a basis for the opening up of cultural level. With an international educational background, it is suitable for the development of knowledge-intensive industries. Third, the supports of the government's open policy. In view of the development of the information industry, the Indian government has adopted a series of supporting policies to create a scientific research environment and investment environment for the growth of the software industry, and to provide financial support.

4. Current Situation of Open Economy Development in Hubei Province

In 2017, under the correct leadership of provincial Party committees and provincial governments, Hubei earnestly implemented the spirit of the Eighteenth and Nineteenth National Congresses of the Party, adhered to the opening-up pioneer strategy. Facing difficulties they made new achievements in opening-up development.

4.1. Achievements of Hubei's Open Economy Development

First, foreign trade continues to improve. In 2017, the total import and export volume reached 313.4 billion yuan, an increase of 20.6%; the export volume was 206.4 billion yuan, an increase of 20.2%; and the import volume was 107 billion yuan, an increase of 21.4%. In 2018, the total import and export volume reached

348.7 billion yuan, an increase of 11.2%; the export volume was 225.3 billion yuan, an increase of 9.2%; and the import volume was 123.4 billion yuan, an increase of 15%. Second, Hubei vigorously promoted investment promotion. The total amount of contractual foreign investment in the whole province was 8.6 billion US dollars, up 157.6%; the actual use of foreign investment was 11 billion US dollars, up 8.5%. Thirteen new top 500 Chinese enterprises came to Hubei to invest, totaling 267. Third, foreign investment is developing rapidly. The total turnover of foreign contracted projects in the whole province reached 7.1 billion US dollars, an increase of 38.4%, and the newly signed contracts reached 14.9 billion US dollars, an increase of 17.7%. Non-financial FDI was \$1.6 billion, up 15.4%. Fourth, Hubei accelerated the construction of port platforms. The number of people entering and leaving the provincial ports was 2.863 million, an increase of 12.2% over the same period last year. The Central European Railway liner (Wuhan) has 377 rows, transporting 34,000 standard boxes, with a growth rate of over 60% and a loading rate of 97.7%. There are 58 international and regional passenger and freight routes in the province.

4.2. Problems Existing in Hubei's Open Economy

At present, the economic situation at home and abroad is undergoing profound and complex changes. Our province's opening up and development is in an important strategic opportunity period, with bright prospects, but the challenges are also very serious. Lack of openness is still the biggest weakness of Hubei. It is mainly embodied in the following three aspects:

First, the scale of foreign trade is small, and the degree of industrial export-orientation needs to be improved. The GDP of our province ranks seventh in the country and the second in the central part, while the import and export of goods ranks 16th in the country. The import and export ranks obviously lag behind the GDP ranking, which is not commensurate with the economic size of our province in the country. In 2017, the national dependence on foreign trade was 33.6%, while the dependence on foreign trade in our province was only 8.6%, which was about 25 percentage points lower than the national level. There are 17 big industries over hundred billion in our province, accounting for 90% of the province's main industrial income, but the export-oriented degree of the industry is very low.

Secondly, the quantity and quality of foreign capital utilization in Hubei are limited. There are 173 overseas top 500 enterprises invested in Hubei, but the investment intensity is not enough. In recent three years (2016-2018), the actual utilization of foreign capital in Hubei Province was 10.129 billion US dollars, 10.094 billion US dollars and 11.941 billion US dollars, respectively, far behind the developed coastal provinces. The structure of industrial structure and layout of foreign-funded projects is unreasonable. There are many general projects and resource consumption projects of "short, flat and fast", but few projects with high technology content, large industrial correlation and strong supporting ca-

capacity. The group and the top 500 companies in the world are relatively few; Hong Kong, Taiwan and other Asian countries (regions) have more investment, while the developed countries in Europe and the United States are relatively less [15].

Thirdly, the construction of Hubei port is relatively lagging behind, and the open hardware and software environment needs to be improved. There are only five main ports in the Hubei section of the Yangtze River, which is 1062 km long. There is a lack of special wharfs to meet the needs of the development of characteristic industries and products in the region. The port facilities are backward, the throughput is small and the navigation conditions are poor. Among the 6 provinces and 2 cities along the Yangtze River, Hubei's port number and throughput capacity rank third, and Hubei's port throughput ranks fourth. There is a big gap between Hubei's port throughput and Shanghai's and Jiangsu's. The leading role of the Customs Special Supervision Zone is not obvious enough, and the trade facilitation measures such as the online supervision of electronic ports and the "single window" of international trade are still imperfect. Logistics costs are high, and the benefits of trade channels such as railway lines (Wuhan) between China and Europe and the departure river port need to be further enhanced. There are only four Consulates-General in Wuhan. There is a big gap compared with Shanghai and Guangzhou, The quantity of Consulates-General in Wuhan also lags behind Chengdu, Chongqing and other Western cities. The openness of science, technology, education, culture and tourism is insufficient. The construction of market supervision, rule of law and honest environment is lagging behind. There are still many bottlenecks in the development of openness. In addition, the lack of ideological emancipation, weak awareness of openness, and unsound institutional mechanisms are also important factors affecting the open development of Hubei province.

5. Suggestions on Developing Hubei's Open Economy by Using International Experience for Reference

5.1. Perfecting the Spatial Pattern of Hubei's Open Economic Development

Improving the spatial pattern of Hubei's open economic development is one of the important strategies of Hubei's opening up to the outside world under the background of "one belt and one road" implementation. Considering the actual characteristics of the current economic development in Hubei Province and the problems of unbalanced regional economic development and inadequate degree of opening up to the west, we suggest, based on the opportunity of opening-up economic development in Hubei brought by the national multiple strategies, to take the strategy of "Wuhan drives cities along the Yangtze River to further radiate the whole province" as the overall thinking of the open economic development, relying on the "One Transverse (Yangtze River) and One Longitudinal (Beijing-Guangzhou Railway)" comprehensive linkage "one belt and one road",

and give full play to the advantages of Hubei as a key development area of ecological economy, so as to achieve the goal of improving the spatial pattern of economic opening up.

5.2. Speed up the Construction of Hubei's Open Economic Export Base

From the actual situation of the present stage of open economy development in Hubei Province, Hubei's industrial development has a long history, and its industrial system has gradually matured. At the same time, in recent years, relying on its own strong scientific and educational strength, it has further accelerated the speed of economic transformation and upgrading, and effectively promoted mass entrepreneurship and innovation, and the overall vitality of open economy development in Hubei has been significantly enhanced. Under such circumstances, Hubei should speed up the construction of export infrastructure of open economy, and continuously optimize the structure of economic development and trade of open economy in Hubei by cultivating the dominant export base, so as to effectively promote the further expansion of industrial export scale in Hubei economy. For example, at present, Hubei Province has six provincial export bases, involving shipbuilding, automobile and spare parts, machinery and equipment, biomedicine, chemical industry and steel industry [16]. It is suggested that the above six industrial export bases should be taken as the basic carrier, and on this basis, a number of new export bases of advantageous industries should be cultivated, and enterprises should be actively encouraged to register trademarks internationally and complete product certification, and gradually highlight the brand advantage of "Made in Hubei".

5.3. Vigorously Promote Overseas Investment and Accelerate the Internationalization of Enterprises

From the perspective of promoting multi-mode overseas investment in Hubei's open economic development, we should focus on key leading enterprises in Hubei and actively encourage and support enterprises to develop in groups, and further strengthen the capacity of Hubei's economic development to allocate resources globally on the basis of actively participating in the construction of overseas economic and trade cooperation zones. We should speed up the internationalization of large enterprises in traditional industries in Hubei, and promote the overseas extension or restructuring of traditional industrial chains through overseas investment or mergers and acquisitions. Hubei has certain advantages in the traditional industrial field. We must speed up the optimization of the traditional industrial industry, speed up the internationalization process of large enterprises, and expand the international development space of the traditional industrial industry in Hubei [17]. At the same time, we should establish a sound risk prevention mechanism for overseas investment, expand the scale of insurance effectively, expand the large-scale international projects along the "one belt and one road" around some key areas such as exploration, design and

construction, and establish a cooperation mode based on the general contract project, which can provide opportunities and guarantees for the export and labor export of Hubei's technology, equipment and raw materials.

5.4. Speed up the Planning and Construction of Open Platform

We will further plan and build an open platform to enhance its channel functions. First, we should actively promote the construction of free trade zones, replicate and disseminate the experience of the four approved free trade zones in an all-round way, and actively declare for the establishment of an experimental inland Free Trade Zone in Hubei Province. We should attract the agglomeration of production factors at home and abroad through highly open trade, tariff and financial policies, so as to make up for the scarcity of resources in the Inland areas. Second, speed up the construction of Wuhan Bonded Zone, and actively support cities with conditions to speed up the construction of Bonded Zone. Develop the foreign trade service function of Wuhan Export Processing Zone, build a public bonded logistics platform for the whole vehicle and spare parts in Wuhan Development Zone, and build a big platform for Wuhan automobile industry and even the automobile industry in the "Wuhan-Shiyan" Auto Corridor of Hubei Province to go out. Third, we should promote the construction of customs clearance and enhance the level of trade facilitation. On the one hand, we will speed up the construction of "convenient window" for Hubei electronic ports and international trade, and vigorously promote the exchange of information, mutual recognition of supervision and law enforcement among port management departments. On the other hand, regional cooperation should be strengthened. We will accelerate the reform of integration of customs clearance and inspection and quarantine in Hubei's docking Yangtze River Economic Zone, comprehensively promote the "one-stop operation" of integration of customs clearance in the Yangtze River Economic Zone, and deepen cooperation with Shanghai Port Customs clearance. Explore and promote the construction of Regional Sharing Platform of electronic ports in urban agglomerations in the middle reaches of the Yangtze River. At the same time, we should speed up the construction of logistics public information platform and specialized market trading information platform, and build a fully functional foreign-related logistics information network covering Southeast Asia, Central Asia and Europe as soon as possible [18].

5.5. Strengthening the Guarantee of Hubei's Open Economic Policy

Strengthening the policy guarantee of Hubei's open economic policy is the basic guarantee for the development of Hubei's open economy under the background of "one belt and one road" implementation. Policy environment, as a key factor to ensure the sustainable development of the open economic function of Hubei Province, can effectively promote the continuous improvement of the open

economic environment of Hubei Province through deep excavation of policy dividends while building the free trade zone of Hubei Province. For example, in the process of deepening the reform of utilizing foreign capital, we should vigorously promote the “negative list” of foreign-related investment access in Hubei, and at the same time increase the efforts to serve foreign-funded enterprises, so as to further expand the scope of economic opening up in some key industries such as new industries and modern service industries. In addition, we should optimize the government and business environment, further improve the administrative examination and approval system, eliminate unreasonable charges in an all-round way, and increase support for small and medium-sized technology-based foreign trade enterprises and independent brand export enterprises.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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