

## **Research on Liaoning Economic Development under the Background of Free Trade Zone Construction**

**ZhangYing**

Dalian University of Technology  
Liaoning University of International Business and Economics  
China

**Lu Yuduo**

Dalian University of Technology  
China

### **Abstract:**

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*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.*

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**Keywords:** Free trade Zone, Liaoning Coastal Economic Belt, Shenyang Economic Zone, Northwest Liaoning

### **1. Innovation Practice in Liaoning Free Trade Zone**

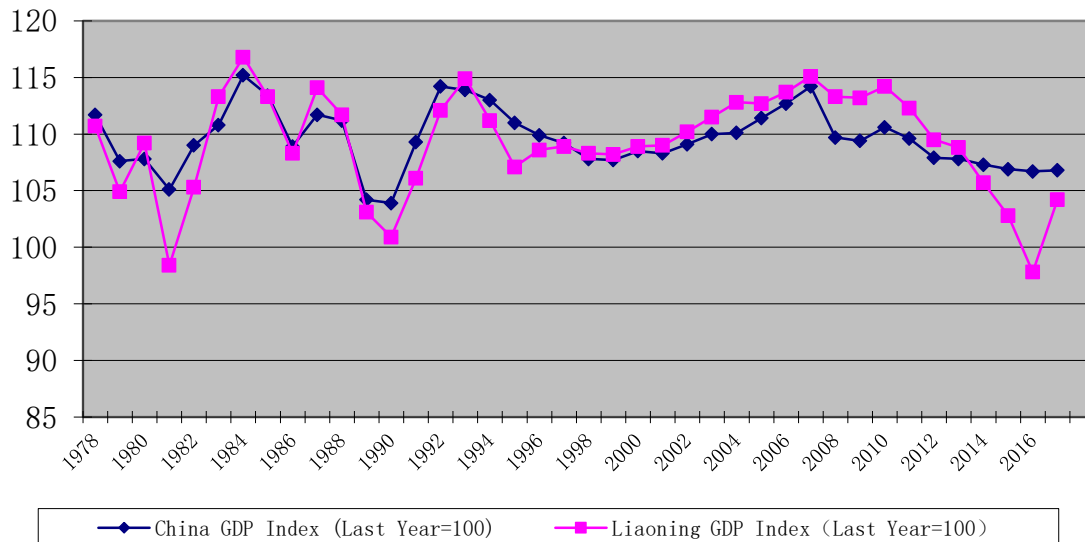
In March 2017, Liaoning Free Trade Zone was approved as one of the third batch of free trade zones in China. Liaoning Free Trade Zone includes three districts of Dalian, Shenyang and Yingkou. Among them, the area of Dalian FTZ accounts for more than half, and the other two parts separately account for about 1/4 of total.

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 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 RMB500 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 (Figure1).



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

### 2.1.1 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.

### 2.1.2 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, Liaoning's economic development 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.

### 2.1.3 The third stage – the rapid decline phase (2013–present)

The world economic growth has been in a sluggish condition since 2013. With China's economy entering the new normal. Liaoning's economic growth rate has fallen again due to various factors. 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 by 2020." In August of the same year, Liaoning Free Trade Zone was approved, which injected vitality and vitality into the economic development of Liaoning Province.

## 2.2 Status of Liaoning Economic Development

### 2.2.1 The overall economic situation in Liaoning Province is getting better than before

In 2018, Liaoning's economy bottomed out and stabilized. It gradually stepped out of the most difficult period and began to enter a healthy development track. The GDP of Liaoning Province was RMB 2.53 trillion Yuan, with the growth rate of 5.6%. The total local fiscal revenue was RMB 452.5 billion Yuan, with the growth rate of 7.8%. The added value of industrial enterprises above designated size increased by 9.8%, an increase of 5.4% over the same period of last year.

Consumer prices rose by 2.5%. The per capita disposable income of urban and rural residents was RMB 37,342 Yuan and RMB 14,656 Yuan, up 6.7% and 6.6% respectively. Fixed asset investment increased by 3.7%; total retail sales of consumer goods reached RMB 1,414.28 billion Yuan, with the growth rate of 6.7%. The total volume of import and export trade was RMB 754.59 billion Yuan, with the growth rate of 11.8%.

### **2.2.2 High quality development to Industrial Economy**

In 2018, the added value of industrial enterprises above designated size in Liaoning Province with the growth rate of 9.9%, was 3.5% higher than the national average, ranking the third in the country in terms of growth rate. The income from main business with the growth rate of 17.9%, was 8.6% higher than the national average. The growth rate ranked third in the country. Realized profit growth of 47.1%, was higher than the national average of 33.5%, the growth rate ranked first in the country.

### **2.2.3 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 opening up to lead comprehensive revitalization, formulating the overall plan for the construction of the “Belt and Road”, and establishing the “16+1” economic and trade cooperation between China and Central and Eastern Europe. In 2018, there were 132,000 new registered enterprises in Liaoning Free Trade Zone with a registered capital of RMB 220.3 billion Yuan, and 45 reform and innovation experiences were replicated in the Liaoning 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 RMB 321.49 billion Yuan, with the growth rate of 5.7%, the total import value was RMB 43.31 billion Yuan, with the growth rate of 16.8%.

## **2.3 Development Characteristics of the three economic sectors in Liaoning Province**

### **2.3.1 Liaoning Coastal Economic Belt**

Liaoning coastal Economic Belt is located in the northeastern part of China, adjacent to the Bohai Sea and the Yellow Sea, including 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. In July 2009, the Liaoning Coastal Economic Belt Development Plan was approved by the State Council. So far, Liaoning Coastal Economic Belt has 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 among the six port cities where the region is located, such as excessive competition, industrial structure convergence and weak cooperation etc.

### **2.3.2 Shenyang Economic Zone**

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 RMB 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 the second in Liaoning with RMB 646.34 billion Yuan, Anshan, Benxi and Liaoyang all exceeded RMB 100 billion Yuan, separately ranking the third, the fourth and the sixth. Although the number of enterprises and total assets of Shenyang Economic Zone are the best in Liaoning Province, the profit is not satisfactory. In 2017, the total profit of large and medium-sized industrial enterprises in the above five cities was only RMB 47.61 billion Yuan, accounting for 22% of the province, which was lower than the proportion of Liaoning Coastal Economic Belt.

### **2.3.3 Northwestern Liaoning**

Northwestern Liaoning includes three cities of Tieling, Fuxin and Chaoyang. This region has the weakest economic development in Liaoning Province. The per capita GDP of the above three cities ranked in the last three in Liaoning Province in 2017.

Liaoning Provincial Government has adopted a series of policies to promote economic development in Northwestern Liaoning under the call of “revitalizing the old industrial bases in Northeast China”. These incentive policies achieved certain results. In 2017, the growth rate of export and FDI in Northwestern Liaoning 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 other two economic sectors,

There is still a large gap in the economic development.

### **3 Opportunities and Challenges Faced by Liaoning Economic Development**

#### **3.1 Opportunity Analysis**

##### **3.1.1 Free Trade Zone construction stimulates Economic Growth**

Free Trade Zone can effectively attract foreign direct 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. The good business environment facilitates the realization of Liaoning's innovation-driven development strategy. The construction of Liaoning Free Trade Zone is conducive to the industrial transformation and upgrading of the Northeast old industrial Base in China, which is conducive to the national industrial transformation and upgrading. Free Trade Zone can expand effective investment and increase consumption, which will promote the economic growth of Liaoning Province and the transformation of Liaoning's economic development mode.

##### **3.1.2 “Made in China 2025” Promotes Manufacturing Transformation and Upgrading**

As one of the most important old industrial bases in China, Liaoning has benefited from the “catch-up strategy” before Reform and Opening, coupled with its abundant resources, it still has strong industrial base, especially in heavy machinery and large-scale complete sets of equipment. The advantages of machine tools, power generation and power transmission & transformation equipment, ship building 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 of Liaoning Province which will help promoting the transformation of Liaoning's manufacturing advantages to innovation, and then drive the overall transformation and upgrading of the manufacturing industry in Liaoning Province.

##### **3.1.3 Port Integration Boosts the Construction of Shipping Center in Northeast Asia**

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

##### **3.1.4 “Belt and Road” Initiative enhances the Level of Openness**

Liaoning is one of the Key provinces under the “Belt and 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 the countries along the “Belt and Road” by building industrial parks. It has comprehensively enhanced the level of openness and effectively promoted the development of Liaoning's export trade.

## **3.2 Challenge Analysis**

### **3.2.1 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 China. The sharp decline in investment growth is one of the most important reasons 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**

During the period of 2012-2016, the total retail sales of consumer goods in Liaoning increased separately by 15.7%, 13.7%, 12.1%, 7.7%, 4.9%. But the growth rate in 2017 fell to 2.9%, significantly lower than the national average. At present, there are many factors restricting the growth of consumer demand in Liaoning Province. On the one hand, due to economic depression, poor efficiency of Liaoning's enterprises causes the income growth of residents slowing down, and the current consumption capacity of residents is declining. On the other hand, affected by the factors such as shortage of new consumption hotspots, unreasonable income distribution system, and imperfect social security system, residents would like to invest than consume.

### **3.3.2 Over capacity still exists in Liaoning Province**

Although the comprehensive capacity utilization rate of some key industries including refining, chemical, steel etc. in Liaoning Province has exceeded the national average in 2018, 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.

### **3.3.3 The weakness of innovation capability**

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 RMB 42.99 billion Yuan, ranking 16th in China. R&D expenditure intensity in Liaoning Province was only 1.84%, lower than the national average (2.13%). Many Provinces in China including Guangdong, Jiangsu, Shandong, Beijing, Zhejiang and Shanghai have invested more than RMB 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 in Liaoning Province.

### **3.3.4 The imbalance of regional economic development**

As one of the 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 in Liaoning Province show differential development.

Although the growth rate of the gross national product of the six cities in Liaoning Coastal Economic Zone ranks first in Liaoning Province, 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 Figure2)

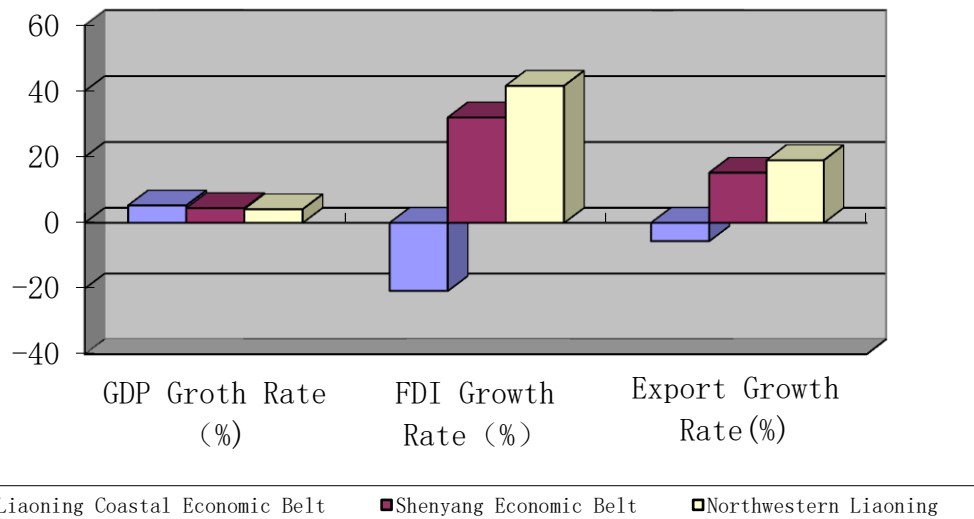


Figure2.Comparison of economic growth in the three major regions of Liaoning Province

#### 4. Suggestions

##### 4.1 Liaoning Coastal Economic Belt: Building the Northeast Asian Cooperation

Highland with the help of the “Belt and Road”

As everyone knows, Liaoning's equipment manufacturing industry has a solid foundation, but it is currently facing the over capacity problem. Driven by the policies of the Free Trade Zone, Liaoning Coastal Economic Zone can better interface with the countries along the “Belt and Road” to provide the new path for the excess capacity of Liaoning Province. At present, the countries along the “Belt and Road” is relatively lack of economic development, and infrastructure construction needs to be improved. In particular, the construction of the "Ice Silk Road" fulcrum ports jointly developed by China and Russia requires a large amount of construction materials and technical human resources, which can effectively resolve the predicament of overcapacity in Liaoning Province. Meanwhile, the export of labor services will be expanded which can promote Liaoning's economic development.

##### 4.2 Shenyang Economic Zone: Improving the business environment and building the 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 homeland 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 Germany and other developed countries in Shenyang, the Shenyang Area of the Liaoning Free Trade Zone should be tailor-made for the enterprises along the “Belt and Road”, continuously strengthen cooperation with countries along the “Belt and Road” and drive the Industrial transformation of surrounding cities including Fushun, Anshan, Benxi and Liaoyang, which will promote the high-quality development of Shenyang Economic Zone.

##### 4.3 Northwestern Liaoning: Relying on the Construction of 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 Northwestern Liaoning. In the future, Northwestern Liaoning should strengthen cooperation with Japan and South Korea in the field of agriculture through the construction of Free Trade Zone, learn from advanced development concepts and experiences, and then improve the overall level of modern agricultural development in Northwestern Liaoning.

In addition, Northwestern Liaoning radiates two major markets of northeast and north China, connecting Northeast Asia, which is the throat of Northeast China and North China. The location advantage and factor cost advantage are obvious, and it has the basis and conditions for undertaking industrial transfer.

In particular, Chaoyang City has formed a prominent industrial transfer cluster with outstanding characteristics. It has the natural conditions and comparative advantages for setting up an industrial transfer demonstration zone in Northwestern Liaoning. It is suggested that the establishment of the national-level 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 the development of Liaoning.

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## 1. Author introduction:

--Zhang Ying, (1972-), female, Benxi, Liaoning, Ph.D. student of Faculty of Economics and Management, Dalian University of Technology, Professor of Liaoning University International Business and Economics, Dean of International Economics and Trade Research Institute. Research direction: international trade, regional economy.

--Lu Yuduo, (1956-), male, Harbin, Heilongjiang, professor of Faculty of Economics and Management, Dalian University of Technology.