



# Thoughts on Speeding up the Foreign Economic and Trade Development in Chinese Western Area ----- in Perspective of Chongqing City

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## Abstract

To implement the grand western development strategy and to speed up the regional economic development is a vital decision of the central government in the new century. Foreign economy and trade is an important component of national economy. To develop the foreign economy and trade in western area and to speed up the opening-up process is significant to drive the economic and social development there. Chongqing city, as the only municipality in western area, the growth of foreign economic and trade development will benefit the western area in general. Therefore, to study how to speed up the foreign economic and trade development in Chongqing is meaningful in practice. Since the execution of reform and opening up policy, the foreign economy and trade have developed fast in Chongqing. But there are problems in attracting foreign capitals.

**Keywords:** Foreign economy and trade, Western area, Chongqing city

## 1. Introduction

To further strengthen the reform and opening-up policy in western areas and execute the grand western development strategy is one of tasks emphasized by the central government. Facing the new condition of economic globalization and China's WTO entry, to speed up the opening-up in western areas and develop foreign economy and trade means a lot for making best use of foreign and domestic markets and resources, promoting the implementation of grand western development strategy.

For thirty years since the reform and opening-up policy, with the support of national policy, the foreign economy and trade have developed fast in western areas, gaining marvelous achievements. In late 1997, the foreign direct investment in western areas reached 2.507 billion US dollars. Due to the special history and national conditions, the economy in western areas has a poor base. The general economic development level still lags behind the eastern areas. As for the scale and level of foreign economic and trade development, there is a large gap between western areas and eastern areas. In 1999, the total value of input and export by commodities was 13.7 billion US dollars, merely accounting for 3.8% of the total. The foreign direct investment was 1.83 billion US dollars, merely accounting for 4.5% of the total.

Conditions in western areas are complex. In this paper, we just analyze Chongqing city, by which we hope to understand the foreign economic and trade development in western areas. It will serve as a reference for analyzing how to speed up the foreign economic and trade development in western areas.

## 2. History evolvement of the foreign trade in Chongqing city

Since the foundation of new China, the foreign trade in Chongqing city has experienced three development stages in general.

The first stage (starting period): before 1983.

At the very beginning, China adopts the highly-centralized foreign trade system. The foreign trade in Chongqing city

just follows the national plan. Before 1983, it merely purchases and adjusts national export commodities and executes the state's international economic aids.

The second stage (initial development period): from 1983 to 2001.

The reform and opening-up policy brings about vitality for Chongqing's foreign trade development. In 1980, Chongqing was positioned as an inland foreign trade port and set up a customs. In 1983, Chongqing adopted special economic plans and began to manage its foreign trade independently. Then, it set up relevant foreign business institutions concerning commodity inspection, animal and plant quarantine, foreign shipping, and exchange management, offering basic conditions for development foreign trade. In 1992, Chongqing was positioned as a river opening city. Its foreign economy and trade gained further development. In 1997, Chongqing turned into a municipality. In administration, it is directly controlled by the central government, which makes it execute the central policy more quickly. Compared with seaside areas, in Chongqing foreign investors can enjoy more beneficial policies. The municipality effect also arouses foreigners' enthusiasm for investment in Chongqing, what generates certain impacts on Chongqing's foreign trade development. Since 90s, Chongqing has improved its position in world commodity trade gradually. And its market shares keep rising.

The third stage (fast development period): after China's WTO entry.

On Dec. 11<sup>th</sup> 2001, China joins in WTO officially. The release of the right of operating foreign trade, the carry-out of China's promises to WTO, the construction of national highway net, and the grand western development program bring about new chances for Chongqing's foreign trade development. From 2001 to 2006, Chongqing's foreign trade keeps in growing and reaches a new top. Till late 2006, Chongqing approved 4179 foreign-funded enterprises. The contract foreign funds reach 8.759 billion US dollars. The actual use of foreign funds is 4.8 billion US dollars. In 2006, the contract foreign funds are 1.12 billion US dollars, realizing a 139.4% rise than that in 1997 before it turns into a municipality. The actual use of foreign funds is 0.7 billion US dollars, realizing a 76.4% rise than that in 1997. 69 of world top 500 large enterprises live in Chongqing. 90% of foreign-funded enterprises satisfy with the investment environment.

### **3. Present conditions and problems for Chongqing's foreign trade development**

#### *3.1 Present conditions*

Since the reform and opening-up policy, Chongqing's foreign trade has gained fast development, which mainly focuses on these aspects as follow:

##### (1) Import and export trade keeps in rising

From 1987 to 1996, the total value of import and export steadily rises from 0.297 billion US dollars to 1.585 billion US dollars in Chongqing city. From 1997 to 2006, the total value of import and export quickly rises from 1.678 billion US dollars to 5.470 billion US dollars in Chongqing city. In 2005, the total value of import and export reaches 4.293 billion US dollars, being the No.24 in China, and the No.6 in western areas.

##### (2) The foreign direct investment rises fast

From 1979 to 2005, in Chongqing city the contract funds of foreign direct investment is 7.660 billion US dollars. The approved contract projects are 4041. The actual use of foreign funds is totally 4.207 billion US dollars. From 1979 to 1995, total foreign direct investment is 1.185 billion US dollars and the annual average is 74 million US dollars. From 1996 to 2000, total foreign direct investment is 1.333 billion US dollars and the annual average is 267 million US dollars. From 2001 to 2005, total foreign direct investment is 1.789 billion US dollars and the annual average is 358 million US dollars. Apparently, Chongqing's attraction for foreign funds grows. The foreign direct investment rises fast.

##### (3) More foreign economic cooperation

After being approved as a municipality, Chongqing develops the foreign economic cooperation comprehensively. From 1996 to 2000, the contract funds, concerning foreign labor cooperation, project contract, and design consultant, realizing a turnover of 230 million US dollars. Till late 2000, Chongqing totally exports 3675 laborers, sets up 39 foreign agencies, and offers 9.44 million US dollars multilateral or bilateral aids. From 2001 to 2005, the contract funds, concerning foreign labor cooperation, project contract, and design consultant, realizing a turnover of 464 million US dollars. Till late 2005, Chongqing totally exports 7037 laborers, sets up 69 foreign agencies, invests 83.66 million US dollars, and offers 144 million US dollars bilateral aids.

#### *3.2 Problems*

Although since the reform and opening-up policy, especially being approved as the municipality, Chongqing's foreign trade develops quickly and the total value of import and export by commodities keeps in rising, its foreign trade still lags behind the western seaside city.

#### (1) Lower foreign trade dependence

From 1989 to 2003, in Chongqing city the percentage of the total value of import and export by commodities to GDP tends to decreasing. Compared with the whole country, Chongqing has lower foreign trade dependence. From Figure 1, Chongqing's foreign trade dependence is always lower than the national average. During recent years, Chongqing's foreign trade dependence basically changes from 5% to 15%. The national average is from 25% to 50%, higher than Chongqing's. Although Chongqing's foreign trade dependence tends to rising in general, it fluctuates around 10%. It means Chongqing's foreign trade is not strong. The position of Chongqing's foreign trade needs to be improved further in the whole national economy.

#### (2) Smaller foreign investment scale

From 1988 to 2006, Chongqing's actual use of foreign funds rises in fluctuation. But it is still lower than the national average. During recent years, the average of Chongqing's actual use of foreign funds is about 474 million US dollars or so, while the national average is about 1388 million US dollars or so, higher than that of Chongqing city. It means Chongqing needs to further develop its capacity of using foreign funds and improve its attraction for foreign funds.

Generally speaking, although Chongqing's foreign trade develops fast in recent years, it lags behind the national average no matter what it is the scale or the structure of the foreign trade, or the driving effect on regional economy. Even in the western areas, Chongqing's foreign trade is not better than Sichuan province and Shaanxi province. Therefore, Chongqing's foreign trade needs to be improved further.

### **4. Suggestions for speeding up Chongqing's foreign economic and trade development**

Foreign investment speeds up the development of certain industries, expands the investment fields, cultivates new tax sources, and drives Chongqing's economic growth on one hand. On the other hand, the lagged-behind environment construction causes a series of problems, such as the small scale of foreign investment, and the low proportion of foreign investment. However, the potential of Chongqing using foreign investment needs to be explored further. Chongqing should adopt practical measures to enlarge the scale of foreign investment and improve the level of foreign investment, developing the advantages and deleting the disadvantages. By means of introducing and using foreign funds creatively, Chongqing can turn foreign investment into sustainable drives for its economic development.

#### *4.1 Adjust the strategy of developing world market*

In recent years, Chongqing's foreign trade develops well. The market share of Chongqing's export keeps in rising. But the scale of export is small. Compared with another three municipalities, Chongqing still lags behind in foreign trade filed. Therefore, Chongqing can increase its investments in foreign countries according to the requirements for resources, industrial development, and industry structural adjustment.

#### *4.2 Increase investment in science & technology*

In Chongqing city, the competitive advantage product is mainly the initial product and industrial product endowed with lower value-added and technologies. With the advantage of low prices, products can occupy some market shares during certain period in a sense. But in order to gain more profits, it is necessary to change present growth pattern of foreign trade. Chongqing city should grasp the chance generated by world scientific and technological revolution, invest more in science and technology, adjust the export industry and the product structure, and develop high-tech industry, using high technologies to reform and improve the traditional industries. Encourage export enterprises to realize independent research and development, set up an independent innovation mechanism, and improve enterprises' core competitiveness continuously.

#### *4.3 Improve the investment environment*

In order to attract more foreign investments, using foreign funds to improve the competitiveness of foreign trade, Chongqing should invest more in the hard and soft environment: Speed up the construction of transportation net and information net and relevant infrastructure; Strengthen the construction of legal and financial environment; Perfect the service system, and improve the administrative efficiency, offering convenient and timely services for foreign producers.

#### *4.4 Speed up the cultivation of economic talents*

The severe world market competition means the industrial competition, the product competition, and the talent competition. Talents are the most important factor for the formation of competitive advantage. To improve the competitiveness of foreign trade, Chongqing must strengthen the cultivation of foreign trade talents, making best use of the effect of talents. Therefore, to cultivate a batch of complex talents who are familiar with foreign trade business and WTO principles and have international marketing experiences and modern management experiences, and further train some primary foreign trade talents is an inevitable choice for Chongqing improving its competitiveness of foreign trade.

#### 4.5 Make best use of special internal and external macro environment advantages

##### (1) The advantage of municipality

Chongqing is the only municipality directly under the control of the central government. It has an important strategic position in developing the Yangtze River economic brand and driving the grand western development program. Chongqing has a great market generated by the Sanxia project and enjoys the most preferential migrant development policy. Besides, it locates at the border between the west and the east. Therefore, it can exert a dragon-head effect and radiation effect on the grand western development.

##### (2) China's entry to WTO and use of foreign investment

China's entry to WTO means a lot for Chongqing city where the economy and culture lag behind the eastern seaside cities. It is a valuable chance for Chongqing achieving a spanning development of economy. The practice of the reform and opening-up policy tells us that the reform can liberate the undeveloped productivity and the opening-up can promote an undeveloped region to exert the later advantage. As an inland opening port, Chongqing should not miss the wonderful chance.

##### (3) The implementation of the grand western development strategy

The grand western development program is a significant strategy of China speeding up the development of western areas. It is an important measure to drive the balanced development of national economy. In order to speed up the development of western areas, the state council issues the "Notice of Implementing the Grand Western Development Program", supplying lots of preferential policies in foreign investment field, investment ways, and taxation, and offering policy guaranty for enlarging the scale of using foreign funds in western areas.

## 5. Conclusion

Chongqing's competence of foreign economy and trade keeps in rising. But it is still at a lower level. The proportion of Chongqing's total value of import and export by commodities to the economic gross is small. Its driving effect on the economy is weak. Correspondingly, its contribution to economic growth is restrained. Besides, the foreign investment does not exert a strong impact on Chongqing city and the fluctuation is large, which is not good for the sustainable economic development.

Due to the low level of Chongqing's foreign economy and trade in China, Chongqing should not only adjust the world market development strategy, but also invest more in science and technology, improve the investment environment, and speed up the cultivation of economic talents. Meanwhile, Chongqing must make best use of special internal and external macro environment advantages, speeding up the foreign economic and trade development.

Chongqing, as the only municipality in western areas, its foreign economic and trade growth means a lot to the whole western areas' foreign trade development. Therefore, to study how to speed up the foreign economic and trade development in Chongqing city is meaningful in practice. However, Chongqing, as one of twelve provinces and cities in western areas, has its special uniqueness. Its experiences are not right for all other provinces and cities. In spite of this fact, the study of Chongqing is still useful. According to the similarities of Chongqing city and other provinces and cities, this paper can still serve as references for studies on other provinces and cities.

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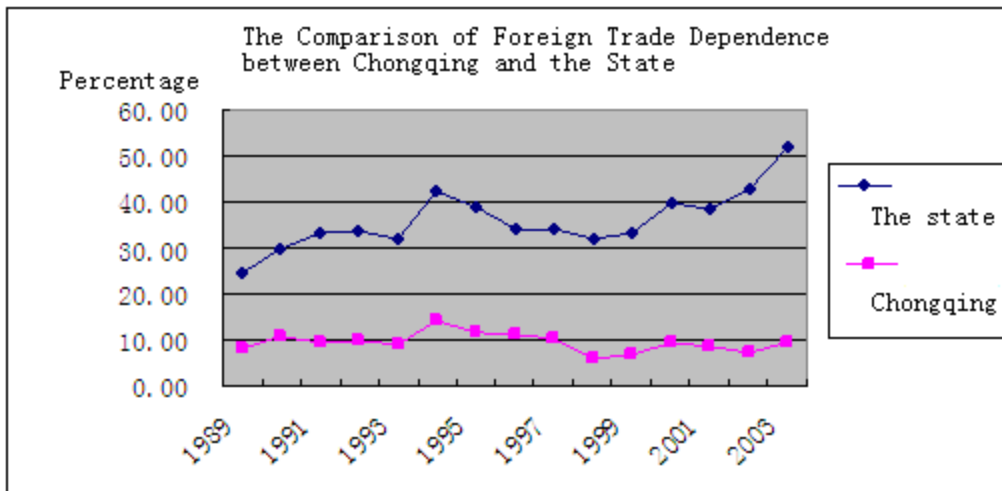


Figure 1.

Data source: Chongqing Yearbook (2004) (being calculated and edited)

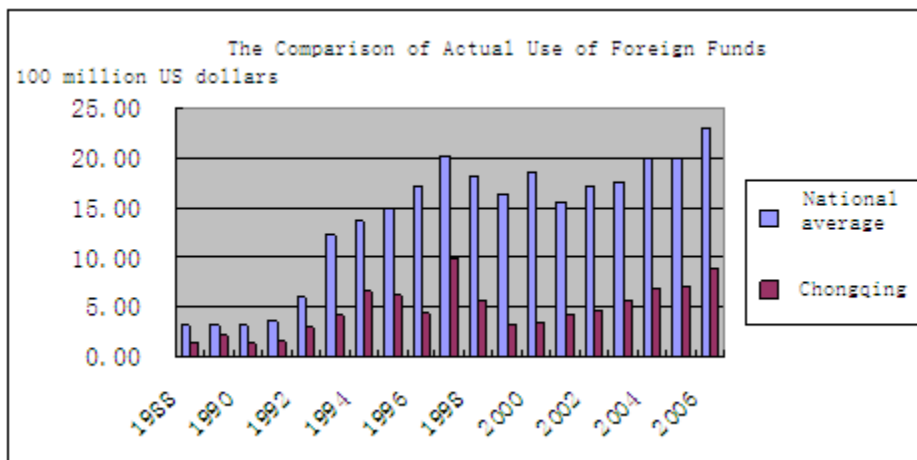


Figure 2.

Data source: Chongqing Yearbook (2007) (being calculated and edited)