

The influence of domestic market barriers on China's foreign trade competitiveness

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Abstract: Since the reform and opening up, with the increasingly opening of the market, China's companies have also developed to some extent. The number of domestic companies going global is also growing gradually. Under the efforts of the government and various small and medium-sized enterprises, China's economy is growing more and more rapid. However, in the process of economic growth, there are not only a variety of explicit and implicit international trade barriers, but also exist large and small domestic market barriers. It is mainly reflected in the various restrictions on local enterprises in different provinces to protect local enterprises and improve the local GDP level. Based on some practices of inter-regional local (regional) protectionism, such as preventing local enterprises from moving across regions, setting up logistics barriers of foreign trade commodities from other provinces, and market access barriers. The segmentation of commodity market brought by such local protectionism will undoubtedly destroy the formation of a national unified large market, lead to the distortion of factor market prices, and further hinder the play of the scale economy effect of each regional market and the formation of comparative advantages, thus setting up barriers for the adjustment and upgrading of China's industrial structure.

Keywords: trade barriers, local protection, market segmentation

1. Foreword

Background: Since China's rapid economic development for more than ten years, China has gradually moved to the center of the world stage, and the development of globalization is an inevitable trend of development. At the current stage, we should keep pace with The Times and actively respond to the slogan of the national call on the majority of enterprises going abroad. Only by standing firm in the international market and competing fiercely with enterprises in other countries in the world can we improve the competitive strength of Chinese enterprises more quickly, accelerate the development process of enterprises, and then promote the development of our own economy and enhance the level of comprehensive strength of our country.

Research content and methods: This paper uses the inter-provincial panel data system between 2000 and 2022 to study whether the impact of local protection between provinces on the protection of local enterprises is positive or negative. And according to this situation, the economic countermeasures of regional balanced development. Finally, according to the influence of local protectionism on the foreign trade of Chinese enterprises, some constructive suggestions are put forward to the government. This paper uses the method of statistical analysis to process the data.

Innovation and deficiency: At present, there are not a few international research on trade barriers, and there are some international research results on the barriers of other countries to China. However, there is little research on the market barriers and market segmentation between the provinces in China. Therefore, from the perspective of enterprises, this paper studies the actual impact of local protection on each enterprise. However, due to the lack of data, the data acquisition of many enterprises is not very accurate, so the analysis results need to be further verified.

2. Literature review

On the impact of market barriers on export trade, the domestic has made relevant research. Financing and lending are also included in the scope of the research.

Zhu Xiwei (2005) and others studied the domestic market segmentation and the reverse relationship between marginal cost and fixed cost, and constructed an open economic model. And prove such a conclusion, that is, due to the serious domestic market segmentation,

domestic small and medium-sized enterprises are preferred to enter the foreign market^[1]. Silver Hot Spring (2001) and others analyzed the market segmentation, and pointed out that the market segmentation is a special phenomenon in the process of economic transition. It is stated that this is the local government for the sake of local interests, regardless of the overall interests of our country, through various administrative means, with the purpose of restricting the flow of local resources or the flow of local resources to the local market^[2]. Zhang Yichuan (2022) believes that the recent trade war between China and the United States, the COVID-19 epidemic and the trend of “anti-globalization” have brought heavy damage to some Chinese cities and enterprises with high dependence on foreign trade, and is undoubtedly a huge blow to the development of China’s foreign trade. Therefore, the central government should improve the market-oriented allocation of factors as soon as possible, and create a unified, open and orderly competitive environment for enterprises in all provinces^[3]. Health Cloud (2008) believes that the lower the proportion of local per capita product output in the national per capita product, the higher the price elasticity of local product market attacks, the greater the gap between regions, and the greater the employment pressure of a place, the higher the enthusiasm of local protection^[4]. Wang Fan (2012) believes that in today’s era of economic turbulence and instability, some local governments’ actions of protecting and supporting local enterprises out of selfishness have not only seriously damaged the fair competition mechanism of other enterprises, but also intensified the degree of market segmentation^[5].

3. Theoretical hypothesis

The negative impact of local protectionism and market segmentation is firstly reflected in the raw material market and labor market, especially on the inflow of production factors such as labor force. On the other hand, the hukou threshold, as a part of the local protectionism system, increases the cost of labor mobility and limits the free mobility of labor.

At the enterprise level, local governments use administrative means to build barriers to avoid competition from local enterprises, but it will make enterprises fall into a state of “self-comfort”. Enterprises with political protection and government subsidies are not more inclined to technological innovation, which is also an important reason why the innovation efficiency of domestic private enterprises is generally higher than that of state-owned enterprises. According to the data of Listed companies in China from 2000 to 2020, it is found that the enterprises with industrial policy protection have no innovation quantity but no innovation quality. This shows that local protectionism not only hinders knowledge spillover, but also has a negative impact on the quality of innovation.

As we all know, the key to the high-quality development of China’s economy and trade lies in innovation. Innovation and the improvement of production efficiency will transform the growth mode of China’s foreign trade and achieve high-quality trade growth. Therefore, this paper concludes that local protectionism limits the level of urban innovation, which then affects urban exports.

4. Data measurements and study methods

The research in this paper focuses on manufactured goods, exports, and data on related variables in industrial industries.

Given the existing studies on different coefficient symbols for the impact of market segmentation on export, we believe that the influence of this index may not be a simple linear relationship, so the empirical part adds the quadratic term of the core explanatory variable in the model to investigate whether there is a nonlinear relationship. Build the measurement model: $exit = c + \alpha_1 size + \beta Xit + \varepsilon it$

The influence of market segmentation on export is judged by the regression equation, where $exit$ represents the export intensity of each region; $size$ represents the domestic market capacity, which is explained by the national economic index of each province (based on the above year). And use it as a core variable. Xit is a set of export-related control variables; εit is a random error term.

(I) Selection of variables

From the perspective of market segmentation, the influence of the export behavior of enterprises is studied. The explained variables in these studies are basically the representative indicators of the export decision, that is, whether the enterprise chooses to export. Relatively speaking, there are still relatively few studies on the export intensity (scale) of enterprises in the macro level of market segmentation. At the same time, in view of the availability of data, the data used in the model of this paper are all macro indicators. Export intensity ex , we choose export intensity as the explained variable, and measure the ratio of export delivery value of industrial enterprises to industrial sales output

value in each province and city, which can also be expressed as export intensity. Comparing the export delivery value with the industrial sales output value, we can intuitively judge the extent of the enterprise or industry production is used for export, and better investigate the impact of market segmentation on the export tendency of products.

Core explanatory variable: size represents the domestic market capacity, and it is explained by the provincial national economic index (based on the above year).

Control variables: The following control variables are selected: factor endowment (K / L), namely capital density, is the ratio of the average net asset value of an industrial enterprise and the average annual number of total industrial employees, that is, 10,000 yuan per person. Generally speaking, China is a country with relatively rich labor force, and should export labor-intensive products, so the growth of labor force can effectively promote exports. However, on the other hand, due to the rising labor costs, and the threat of low-price labor market in Indonesia, Vietnam and other Southeast Asian countries, the dominant position of China's traditional labor-intensive industries has been shaken. At the same time, with the improvement of China's technological progress and the improvement of self-help innovation ability, China's export structure is shifting from the advantage of labor-intensive products to capital-intensive products. In this sense, the degree of capital intensity will also promote export.

(2) Description of the variables

Level of openness (open). We use the degree of foreign participation to measure the level of openness, specifically expressed as foreign capital in industrial enterprises and Hong Kong, Macao and Taiwan. The entry of foreign capital can bring new technology and management to local enterprises, enhance their competitiveness in the global scope, and promote product export. Therefore, we believe that the higher the level of foreign investment participation and the level of opening up, the more conducive to export.

Industry development status (indu). The growth rate of industrial added value indicates the development of the industry, which can effectively reflect the production expansion capacity of enterprises and the development level of regional industry scale. The faster the development of the industry is, the greater the market demand is, the degree of industrial agglomeration is constantly strengthening, and the more it can promote exports.

Business operating environment (envi). Using the ratio of the number of loss-making enterprises and the total number of enterprises in the industrial enterprises above the scale. The low loss ratio of enterprises indicates that the industry has a good market operation environment, which may be the result of government support or benign competition, which can standardize the production and operation behavior of enterprises, effectively improve the efficiency of resource utilization, and then enhance the production and export competitiveness of enterprises.

5. Meetric regression results and analysis

Source	SS	df	MS	Number of obs=232 F(5,226)=574.27		
Model	1.79E+09	5	358360165	Prob>F=0.0000		
Residual	141029702	226	624025.23	R-squared=0.9270		
Total	1.93E+09	231	8367231.72	Adj R-squared=0.9254		
				Root MSE=789.95		
ex	Coefficient	Std.err.	t	P> t	[95% conf.interval]	
indu	0.4207388	0.0602096	6.99	0.000	0.3020948	0.5393827
KL	0.0125591	0.20351	0.06	0.951	-0.3884607	0.4135789
size	-5.96517	4.632558	-1.29	0.199	-15.0937	3.163361
open	2.200193	0.0864602	25.45	0.000	2.029822	2.370564
envi	23.59856	33.18281	0.71	0.478	-41.78872	88.98583
_cons	141.3278	523.375	0.27	0.787	-899.9912	1172.647

Table 1

5.1 Effect of the core explanatory variables

The impact of domestic market capacity on exports is positive. Usually when the market capacity (demand) is large enough, the expanding internal market demand is conducive to improving commodity liquidity. The internal transaction costs faced by enterprises are lower, and the risk of international trade risks, enterprises may be more inclined to make profits in the domestic market, and the domestic market can fully make up for the gap caused by the decrease of exports. Therefore, the reason for China's foreign trade expansion in a sense can be attributed to the lack of domestic demand.

5.2 The influence of the control variables

5.2.1 The impact of capital intensity

For capital intensity, the p-value of KL is 0.951 much greater than 0.05. It shows that the capital intensity has no significant impact on the export of China's industrial products. Although the investment of capital will improve the production and innovation ability of enterprises, and then enhance the export competitiveness of enterprises, but this influencing factor is not significant, indicating that China's export advantage is largely derived from low-cost labor force.

5.2.2 The impact of the opening-up level

The p value for the level of openness from Table 1 is 0, less than 0.05 and is therefore significant. It shows that the opening of the industry makes foreign investment participation effectively promote export, which is in line with expectations. The technology transfer and technology spillover effect brought by foreign investment can effectively enhance the production and export competitiveness of host countries. At the same time, processing trade enterprises are mainly concentrated in foreign-funded enterprises, and most foreign-funded enterprises from developed countries value China's abundant labor factor market rather than the domestic product market.

5.2.3 Influence of the industry's development status

According to the data obtained from the chart, the p-value of indu, which is also the development status of the industry, is 0, less than 0.05, which is significant. In line with our expectations, the degree of industrial development has a great impact on exports. The higher the growth rate of industrial added value is, the higher the degree of industrial development is. The continuous expansion of the industry scale ensures the scale of export from the total supply. The faster the industrial growth, the more conducive to the export expansion of enterprises.

5.2.4 The impact of the enterprise business environment

At the same time, the results show that the p value of envi, that is, the business environment, is 0.478, far greater than 0.05. It shows that the impact of the operating environment on the export of foreign trade is not significant, which also shows that the business environment is not one of the most important conditions that significantly affect the export of foreign trade.

6. Conclusion and policy implications

According to the results after data analysis, local protection leads to the adverse effects of market segmentation on domestic enterprises, which needs to be solved. In order to build a fair, just and unified market environment, China should base itself on economic transformation and support the recovery of local enterprises and the start of private investment. Through the analysis of the collected data, the impact of local protection on domestic enterprises is studied, and corresponding countermeasures are proposed to narrow the gap between regions and provinces, so as to realize fair competition and balanced development among domestic enterprises. Therefore, this paper proposes the following suggestions:

1. Establish the cooperation mechanism between the government and enterprises: the government plays an important role in economic development, and the establishment of a stable cooperation mechanism can promote information sharing, resource integration and policy support. Employees need to keep close contact with government departments to understand the latest policy developments, and timely feedback the needs and problems.

2. Actively participate in the market-oriented reform: Employees should actively participate in the market-oriented reform of the factor

market. Focus on the interest rate changes in the capital market, and adjust the financing plan of enterprises in time; focus on the reform of the land market to make better use of land resources; focus on the labor market, improve employee mobility, and promote the optimal allocation of talents.

3. Strengthen regional cooperation and coordination: In the context of a unified national market, all regions should strengthen cooperation and coordination and break down barriers between regions. Enterprise employees can actively participate in various regional cooperation projects to jointly promote economic integration, promote the coordinated development of regional economy, and narrow the regional gap.

4. Formulate reasonable strategies for special economic zones and open zones: the government can formulate strategies for special economic zones and open zones according to specific circumstances, attract foreign investment and enterprises to settle down, and promote industrial upgrading and economic development. Enterprise employees can actively participate in the development of these special regions, looking for cooperation opportunities and market space.

In short, by strengthening the cooperation between the government and enterprises, actively participate in market-oriented reform, promote enterprise transformation and upgrading, formulate reasonable special economic zone and open zone strategy, enterprise employees can better deal with business problems, improve work efficiency, power enterprise development and innovation, to promote China's future economic vitality to lay a solid foundation.

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