

XVII. STUDY ON THE IMPACT OF CHINA'S BUSINESS ENVIRONMENT ON SERVICE TRADE

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With the upgrading of national economies, outward foreign direct investment (OFDI) and service trade have become increasingly vital to global trade. China's economic restructuring has promoted high-quality growth in the service sector, making it a key driver of economic development. Studies show that a favourable business environment—transparent legal systems, efficient procedures, low business costs, and firm public services—can attract investment and talent, enhancing service trade performance. Such an environment reduces operational costs, improves efficiency, and fosters fair competition, enabling service trade enterprises to gain market share and improve profitability. This paper analyses the mechanisms through which the business environment affects service trade and proposes policy recommendations further to optimise conditions for sustainable growth in the sector.

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1 Introduction

In 2021, the contribution of China's net exports of goods and services to economic growth reached 20.9 per cent. Of particular concern is that while trade in goods grew by 30 per cent year-on-year, China's total trade in services reached 5,298.27 billion yuan, with the trade in services deficit narrowing to 211.27 billion yuan, the lowest since 2011.²⁰²² From January to February 2022, China's service trade grew by 33.5 per cent again year-on-year, reaching 953.48 billion yuan. Among them, the increase in service exports was 11.1 percentage points greater than that of imports, driving the service trade deficit down by 57.6 per cent to 18.31 billion yuan, continuing the momentum of the strong development of China's trade in services over the past year, and fully reflecting the positive results achieved by China in the field of service trade in terms of structural adjustment and export competitiveness enhancement. However, there is still a big gap compared with the developed economies with higher levels of competitiveness in the world trade in services, mainly because China does not have a competitive advantage in the emerging service industry. The development of trade in services is primarily concentrated in labour- and resource-intensive traditional service areas, while the developed economies have absolute international competitive advantages in the capital-, knowledge- and technology-intensive emerging modern service areas due to the mastery of advanced technology, abundant capital, and rich management experience. International competitive advantage. China's enterprises "going out" and in-depth participation in the globalisation of the division of labour need to accelerate the development of service trade exports.

Service exports involve a wide range of factors: the quality of a country's government services, infrastructure construction, legal system regulation, ease of financing, market supply and demand, etc., will affect the service exports, and these factors essentially belong to the scope of the business environment. Doing Business includes social, economic, political, and legal factors affecting business activities. The World Bank defines Doing Business as "the time and costs required for an enterprise to comply with policies and regulations in the areas of business start-up, operations, trading activities, tax payments, bankruptcy, and enforcement of contracts, etc. Based on this definition, it has devised indicators for assessing Doing Business to facilitate the quantification and comparison of Doing Business. Quantification and comparison of business environment". A favourable business environment

promotes the development of the domestic service industry, enhances the international competitiveness of service trade, and promotes service exports. Therefore, strengthening research on the impact of the business environment on trade in services is conducive to understanding and grasping the law of developing trade in services under China's reform and opening-up economic conditions and deepening the knowledge of the significance of improving the business environment to provide a scientific and reasonable policy basis for further promoting the development of trade in services. This paper studies the impact of the business environment on trade in services to improve the reference for government departments to plan the structure of the service industry, the adjustment of the structure of trade in services, and the formulation of several economic policies, such as the allocation of resources.

2 The significance of study

Regarding trade in services, most studies focus on two aspects: the international competitiveness of a country's trade in services and the influencing factors of trade in services. Few studies have analysed the impact of trade in services from the business environment perspective. The business environment faced by enterprises in different regions may show significant differences within a country due to differences in government policies, regulations, and law enforcement. The importance of the business environment in the development of the world economy is becoming more and more prominent, and the scope of the impact of the business environment on the economy is expanding, involving areas ranging from investment to trade development. The study of the effects of the business environment on trade in services further enriches the research on optimising the business environment and trade in services.

The 14th Five-Year Plan points out the need to "deepen the reform and opening up of trade in services," "accelerate the process of digitisation of trade in services," and "optimise the industry structure of trade in services." The report of the 20th CPC National Congress report emphasised the need to innovate mechanisms for developing trade in services, develop digital trade, and accelerate the construction of a strong trading nation.

Since 2010, the scale of China's service exports has been gradually expanding. However, there are still many problems: the trade deficit in services has continued to widen, the structure of exports is unreasonable, and the international competitiveness of service exports is weak. To solve the various problems of service exports and promote the development of China's service exports, China should pay attention to the impact of the business environment on service trade. The business environment is composed of a series of social, economic, and legal elements that affect the activities of enterprises and involve various aspects such as the opening, operation, trade, taxation, contract enforcement, and bankruptcy of enterprises. Improving the business environment can help improve the productivity of the service industry and promote service exports.

This paper studies the impact of the business environment on service trade, which can provide specific references for the government to improve the direction of the business environment and provide policy suggestions for optimising the structure of service exports (Cui, 2020).

3 Relevant studies on the business environment

The World Bank defines the business environment as the conditions such as the time and cost required for a business to comply with policies and regulations regarding opening, operating, trading activities, paying taxes, closing, and enforcing contracts. This definition facilitates the production of business environment indicators for countries worldwide and makes quantifying and comparing the business environment easier (Cui, 2020).

In addition, some marketing books equate the marketing environment with the business environment, which is divided into the micro and macro business environments. The so-called micro business environment refers to a variety of participants closely associated with the enterprise itself that directly affect the regular operation of the enterprise. These participants include the enterprise, customers, competitors, the public, etc. The so-called macro business environment refers to the demographic environment, economic environment, natural resources environment, scientific and technological environment, political and legal environment, and social and cultural environment. All of these environments will directly or indirectly affect the regular operation of an enterprise in some way (Li et al., 2019).

In addition, the Baidu Encyclopedia defines the business environment as the social, economic, technological, political, and other general conditions of the country or region where the enterprise is located.

3.1 Definition of business environment by foreign scholars

The definition of business environment initially originated from the World Bank, but different scholars have different emphases on the interpretation of business environment. Foreign scholars have expressed their views, especially regarding the evaluation index system of the business environment. American scientists Isiah Ritfak and Bantin (1968) proposed the cold and hot map analysis method in the Conceptual Framework for International Business Arrangements, published in 1968, the earliest research on evaluating the business environment. This framework highlights factors such as economic development conditions, geographical resources, market environment, cultural differences, national political stability, and obstacles to enterprise development as key elements in evaluating the investment environment of a region.

The Fraser Institute of Canada, in constructing the evaluation index system of the business environment, focuses on seven aspects: financial and social stability, foreign trade transactions, economic conditions, market environment, freedom of monetary exchange, government services, and the legal system. Eifert et al. (2005), based on data on Africa's investment environment, argue that the business environment consists of infrastructure that affects the operational efficiency of different enterprises, human resources, geography, policies, institutions, and other related factors. Scholars focus on various dimensions when studying the influencing factors of the business environment.

Alby et al. (2013) found that many enterprises in developing countries struggle with normal operations due to an insufficient electricity supply, identifying electricity as a crucial factor affecting enterprise development. Similarly, Bah and Fang (2015) used a quantitative approach to examine business environment conditions in African countries, focusing on business regulations, infrastructure, access to finance, crime, and corruption to explore the factors influencing productivity in African economies. According to Witkowska (2011), in the process of economic development in Western societies, the government and the market influence each other and are

inseparable. Government departments should allow market autonomy while maintaining macroeconomic control and providing essential services.

3.2 Definition of business environment by Chinese scholars

Chinese scholars have also conducted different studies on the assessment methods and impacts of the business environment. Based on the ecosystem theory, Li (2022) constructs the evaluation index system of China's urban business environment from seven dimensions: market environment, innovation environment, financial services, public services, human resources, rule of law environment, and governmental environment, and analyses China's urban business environment in the northern and southern regions.

Zhang and Cao (2021) used quadratic weighted factor analysis and cluster analysis to select indicators from the four dimensions of governmental environment, market environment, innovation environment, and public service, aiming to construct a systematic evaluation index system of the business environment in the context of the "release of administrative services" reform. Several scholars have studied the evaluation index system of the business environment, and some have analysed its importance.

Li et al. (2019) used China's inter-provincial panel data from 2017-2018 to construct China's business environment evaluation index system. They measured the index of the development level of the business environment in each province using the equal weight method. They proposed that while China's business environment is improving, the overall business environment in the eastern region is better than in the central and western areas. However, the speed of improvement in the central and west regions is higher than in the east region, making regional disparities the primary reason for the uneven distribution of the national business environment index.

He et al. (2020) utilised data from 2000 to 2017 covering 217 countries and regions provided by the World Bank, Fraser Institute, and Polity IV to examine the impact of the business environment on technology, finance, investment, industrial structure, energy environment, gender equality, and economic growth. They applied fixed-

effects modelling and systematic generalised moment estimation (Ritfak & Bantin, n.d.).

Zhang et al. (2020) constructed an evaluation index system for the business environment in Chinese provinces by considering the four primary dimensions of market, government, law and policy, and humanities. Their framework was based on domestic and international evaluation index systems for the business environment and incorporated the Regulations on Optimizing the Business Environment. They further determined secondary-level indexes and corresponding weights and conducted a quantitative analysis using relevant data.

Cui (2020) confirmed the business environment's positive impact on border countries' economic development using the fixed-effects panel model, instrumental variable method, and generalised moment estimation method.

4 The influencing factors of service trade

4.1 Definition of service trade

The General Agreement on Trade in Services (GATS), signed during the Uruguay Round negotiations under the auspices of the General Agreement on Tariffs and Trade (GATT), defines international trade in services as a commercial activity that transcends national borders for the transaction of services. This involves a service provider from the territory of one country delivering services to consumers in another country through the business side of an enterprise or a natural person, thereby earning foreign exchange. Trade in services covers multiple sectors and is characterised by its complexity. It can be categorised from different perspectives, but according to GATS, it is classified into twelve main categories (Mattoo, Rathindran, & Subramanian, 2001):

1. Trade in construction services – Involves engineering and architectural design, siting, and construction-related services.
2. Trade in tourism and related services – Includes accommodation, catering, and travel agency services required for tourism.

3. Trade in education services – Divided into five subsections: higher education services, secondary education services, primary education services, adult education services, and other education services.
4. Trade in environmental services – Covers services such as sewage and waste treatment.
5. Trade in financial services – Encompasses banking, insurance, and other economic activities.
6. Trade in health and social services – Includes medical and other human health-related services and social services.
7. Trade in business services – Involves services provided in business activities, including personal consumption services and those required by enterprises and governments.
8. Trade in cultural, recreational, and sports services – Excludes television, cinema, and radio services.
9. Trade in communication services – Mainly includes postal, courier, audio-visual, telecommunication, and other related services.
10. Trade-in transport services – Covers freight, passenger, aerospace, and other related services.
11. Trade in financial services – Includes banking, insurance, and asset management activities.
12. Trade in social services – Encompasses goods transport, passenger transport, space launch services, and other transport-related services, along with additional services attached to transport.

4.2 Research results on influencing factors of service trade by foreign scholars

First, foreign scholars have different views on the factors affecting trade in services. Among them, some scholars point out that human capital affects service trade. Riddle (1986) shows through empirical research that human capital significantly impacts the enhancement of service trade's competitiveness. Wyszowska-Kuna (2014) studies the competitiveness of knowledge- and technology-intensive service trade in Poland and believes that technological innovation and human capital are the main factors affecting service trade.

Other scholars have proposed different factors affecting trade in services. Falvey and Gemmell (1991) argued that the difference in the competitive advantage of trade in services between developed and developing countries is determined by factor inputs of production. Developing countries have an advantage in labour-intensive service trade, whereas developed countries are more competitive in the capital- and technology-based service trade.

Mattoo et al. (2001) studied the impact of market openness in service trade on economic growth, taking financial and telecommunication service sectors as examples, and found that in the long run, the transparency of the financial service sector significantly contributes to economic growth, while service sector liberalisation is generally conducive to economic development.

Eric (2016) found that FDI significantly affects service trade competitiveness and plays a crucial role in promoting service trade. For studies on the factors influencing service trade competitiveness, China is often compared with other countries to analyse the factors affecting international service trade competitiveness.

Waren et al. (2009) studied the sources of competitiveness of information technology-based service trade. They concluded that scale economies and product differentiation enhance the competitiveness of the information services trade sector. For example, Laurent (2020) examined the impact of inter-country factors on various segments of service trade and conducted a comparative analysis (Didier, 2020). The results indicate that inter-country influences strongly negatively impact service trade, with financial and travel service trade particularly susceptible to these effects.

4.3 Chinese scholars' research results on the influencing factors of services trade

In the research on trade in services, Chinese scholars have lagged slightly behind their foreign counterparts. Before the 1990s, scholars primarily focused on theoretical aspects of trade in services. After the 1990s, China's earliest research on trade in services with an open perspective was *International Trade in Services*. Since then, domestic scholars have begun to explore the factors influencing trade in the service industry. With China's gradual accession to the WTO, the gap between

domestic and international research on trade in services gradually narrowed. Chinese scholars started to analyse the competitiveness of trade in services and potential sectors for development.

He (2005) expressed the international competitiveness of service trade by measuring the export volume of service trade. The study results indicated that at the present stage, improvements in China's human capital, urbanisation progress, and the quality of foreign direct investment have enhanced the quality of resource endowment, thereby strengthening the competitiveness of service trade (Ritfak & Bantin, n.d.).

Li and Cai (2008) applied the least squares method to analyse the factors affecting the development of China's service trade. They found that both the growth of the domestic service industry and the expansion of international trade in goods positively influenced the development of service trade.

Li (2022) conducted an empirical analysis using a panel data model and found that the competitiveness of developing countries' trade in services is positively related to economic growth, the level of the service industry, service infrastructure, human capital, and government fiscal expenditure. Conversely, it negatively correlates with trade in goods and foreign direct investment.

Hu et al. (2022) pointed out that human capital in the service industry, economic development levels, foreign direct investment, Internet development, and the openness of service trade contribute to the competitiveness of digital service exports. However, foreign direct investment exerts a dampening effect. In terms of economic development, the expansion of the Internet has a non-significant and weak dampening impact on the competitiveness of digital service exports in developing countries.

Pan and Liu (2022) argued that regardless of whether regional trade agreements (RTAs) are signed, variations in Internet development, trade in goods, and geographical distance significantly impact service trade networks.

Chen and Yang (2020) asserted that economic factors, geographical factors, and trade agreement conditions primarily influence the formation of regional trade agreements in services.

Lu (2023) emphasised that GDP per capita, service trade openness, foreign direct investment, and the development of trade in goods positively affect China's service trade exports.

He and Wang (2020) examined the openness level and influencing factors of productive service trade from the perspective of productive service trade, using panel data from BRICS countries to conduct an empirical study.

5 The influence of business environment changes on service trade

Optimising the business environment is essential in enhancing trade competitiveness in services. The business environment reflects the competitiveness level of a region, especially in its far-reaching impact on tertiary industries such as finance, tourism, computer and information services, education, health, and the environment, which are directly linked to import and export trade. A favourable business environment promotes trade development in these services, strengthens the competitiveness of China's trade in services, and expands the scale and quality of exports.

The policy environment, market environment, social environment, infrastructure environment, and public service environment constitute key elements of the business environment. These elements significantly promote the service industry's high-quality development by reducing transaction costs for enterprises, enhancing market vitality, improving service industry productivity, and facilitating structural upgrades within the sector. Since different regions have varying development conditions, institutional frameworks, and resource endowments, the degree of impact of optimising the business environment on service industry development also varies. In economically developed regions with well-established conditions, business environment optimisation significantly fosters high-quality growth in the service sector. Additionally, business environment optimisation promotes high-quality service industry development through innovative incentives and enhanced communication mechanisms.

By opening up the service industry, enterprises can access higher-quality intermediate service inputs, encourage competition, and adopt advanced technologies and practices, thereby improving the production quality of final products. However, different types of enterprises experience varying degrees of

impact from the liberalisation of the service sector. The quality of export products from general trading enterprises is more susceptible to the effects of service sector liberalisation. At the same time, the quality of export products from non-state-owned enterprises is also more significantly influenced.

Moreover, the business environment directly affects how service liberalisation enhances export product quality in manufacturing enterprises. Improving the business environment facilitates the growth of the non-state economy and enhances product quality. It also significantly impacts foreign enterprises in the service sector, improving their operating conditions. On the other hand, enhancements in the business environment encourage competition among domestic enterprises, boost their learning capacity, and maximise the spillover effects of service liberalisation. Additionally, improvements in the business environment contribute to the development of the product and factor markets, forming a more complete industrial chain and promoting the expansion of China's cross-border service enterprises.

6 Policy recommendation

6.1 Promoting regional coordination to realise the healthy development of trade in services

There is an uneven regional development of the domestic service industry. There are significant gaps between the eastern and western regions, coastal and inland areas, economically developed regions, and economically less developed regions, and local governments need to adapt to local conditions and adopt service industries and policies suitable for their regions. Financial expenditure and policies should be biased in favour of economically underdeveloped regions so that these regions can have the basis for developing their industries with comparative advantages. The state should formulate and introduce relevant policies, establish an orderly market system, and build financial services and other public service platforms so that more enterprises can participate in the development of the service industry to create good conditions for resources, explore new development modes, to narrow the gap in trade in services across the country.

6.2 Improve the financial market system to make financing more convenient

For science and technology service-oriented enterprises, capital is a key element in the entrepreneurial process, and a continuous supply of capital is a necessary prerequisite for SMEs to research and develop new technologies and products in the early stage of entrepreneurship. However, as it is difficult for SMEs to obtain financial support from financial institutions at the early stage of their Business, the government will support the expansion of credit and financial service channels and improve the financing system to ensure that SMEs have sufficient funds to invest in innovation. Therefore, a sound financing system is an effective guarantee to promote financing for technology-based service enterprises. By strengthening financial innovation, the government can encourage the comprehensive development of the service industry, the benign development of the service industry, and the development of the much-needed intellectual property trade. Through financial innovation, the government can reduce the management cost of enterprises, make finance work more effectively, and realise the integration effect of "1+1>2". At the same time, the government can improve the financial environment by reducing information asymmetry and increasing financing channels. Through tax incentives, tax breaks, and other disguised tax reduction measures, it can increase the liquidity of enterprises for R&D and innovation activities, stimulate export growth of enterprises, boost regional economic growth, and improve the innovation ability and international competitiveness of Chinese service enterprises.

7 Conclusion

Comprehensive domestic and foreign research on the impact of service exports and business environment found that scholars at home and abroad on the one hand, research on the business environment are mainly focused on the connotation of the business environment, the economic effect, the evaluation of the index system, and the impact of investment; on the other hand, the research on the trade in services is mainly focused on the study of export competitiveness and the impact of the factors, as China's trade in services expanding the scale of trade in services, the effect of the institutional environment on the trade in services has not been ignored. Still, there is a lack of research on their relationship.

With the expansion of China's service trade, the impact of the institutional environment on service trade can not be ignored, but there is a lack of research on the relationship between the two; this paper further collates relevant studies on the impact of business environment optimisation on the high-quality development of the service industry, and after sorting out, it is found that the business environment of the market environment, the institutional environment, and the infrastructural environment faced by a country or a region is an essential factor that affects the transformation and the high-quality development of the service industry. The optimisation of the business environment has played a prominent role in promoting the high-quality development of the service industry. However, business environment optimisation's role in promoting the service industry's high-quality development varies in different regions. In the eastern and central areas, optimising the business environment is very beneficial to the development of the service industry. In contrast, in the western region, the optimisation of the business environment does not play a prominent role in promoting the high-quality development of the service industry.

From the viewpoint of internal mechanisms, the optimised business environment can positively promote the service industry's high-quality development through information communication and innovation incentives. The business environment for high-quality service industry development is a comprehensive and complex system, which contains many aspects and enriches the research perspective.

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