

# The Complex Issue of Regional Imbalances in China's Provincial Business Environment

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**Abstract.** *The article examines and emphasizes China's provincial business environment via the lenses of policy frameworks, legal regulations, public services, market conditions, human resources, and infrastructural development. This significant topic encompasses several facets, nevertheless it is frequently challenging to comprehend this intricate matter. The current scientific literature indicates that enterprise development is influenced by numerous factors, including political and social stability, macroeconomic stability, governmental policy environment, legal framework, tax burden, financial service conditions, human resource availability, infrastructure development, environmental policies, and regional development. The research methods and inquiries concerning the topic are founded on the examination of statistical data and a literature review. The study revealed persistent considerable disparities in the business environment among the provinces in China's eastern, central, and western regions. The eastern coastline provinces possess a superior economic climate compared to the central and western inland regions, attributable to their advantageous geographic location and ample factor endowment. In summary, the provincial business environment in China is a complex subject that lacks clear resolutions and unambiguous findings.*

**Keywords:** business environment, management, regional development, complexity.

## Introduction

An efficient regulatory framework fosters the establishment of new enterprises and is essential for the sustained vitality of the contemporary market (Haidar, 2012), effective control mechanisms (Papazov & Mihaylova, 2012; Ghinea, Mihaylova & Papazov, 2015), and modern economic education (Stoenchev & Hrischeva, 2024). The effective progression of firms and organizations relies on a favorable business environment. The advancement of enterprises is influenced by various factors, including political and social stability, macroeconomic stability, governmental policy environment, legal framework, tax obligations on enterprises, financial service conditions, availability of human resources, infrastructure development, among others. It possesses a multifaceted nature.

Each organization or economy functions as a complex adaptive system, influenced by the interactions among its components and its engagement with the business environment (Ghinea, Ghinea & Cantaragiu, 2020; Marcu, 2022). The intricacy of the business environment encompasses numerous interrelated aspects that fluctuate unpredictably. The business

environment encompasses the external conditions affecting business operations, comprising political, economic, cultural, commercial, social, legal, and other elements specific to a country or region, forming a composite of various components. An optimal business environment can facilitate the efficient allocation of resources, augment the overall competitiveness of regional firms, and elevate the economic development level within the area.

In recent years, China's economic environment has markedly improved due to provincial governments prioritizing its significance. The business environment Index for China's regions is extensively utilized to assess and evaluate the business environments of various regions. The index system was established in 2006, and the study report was released publicly in 2011, with subsequent studies issued in 2013, 2017, 2020, and 2023.

## **Literature review, methodology and situational analysis of the business environment**

### ***Researching methodology***

The research methods and inquiries concerning the topic of the complex issue of regional imbalances in China's provincial business environment are founded on the examination of statistical data (officially collected) and a literature review and workshops with experts.

Official statistics in China are published by government organizations or other public authorities as well as international organizations. These organizations provide quantitative and qualitative information on all business activities, business environment, such as economic and social development and environment, etc.

The literature review conducted in this paper is related to the influence of business environmental factors, their dynamics, specificity, etc. The literature review within the framework of this study does not claim to be detailed. The literature review is rather a summary and synthesis on the topic of business environment analysis. The focus is on the business environment in China and its provinces.

The study revealed persistent considerable disparities in the business environment among the provinces in China's eastern, central, and western regions. The eastern coastline provinces possess a superior economic climate compared to the central and western inland regions, attributable to their advantageous geographic location and ample factor endowment. So, the provincial business environment in China is a complex subject that is suitable for designing a (causal loop) diagram representing the inter-influences among "Government policies", "Laws and regulations", "Public Services", "Market environment", "Human resources", and "Infrastructure Development", analyzed below. The statistically proving the influences is reserved for a further study.

After the analyses and synthesis on the topic of the business environment in China, the complexity as a methodologic instrument is illustrated and a causal loop diagram representing the inter-influences is designed. Some researchers think that complexity is the essential characteristic of the contemporary society (Ghinea, 2015). In business, management must analyze complexity at three different levels – internal, microeconomic environment, and macroeconomic environment (Vasconcelos & Ramirez, 2011).

Complexity characterizes a particular system whose components interact in different ways and according to certain rules, which leads to randomness, chance, dynamics, hierarchy, etc.

It is usually used to characterize a category with different elements that interact with each other in different ways. Exploring these complex relationships at different scales is the main goal of complex systems theory, such as China's business environment is the subject of further research.

The business environment is complex because more parts can be distinguished and there are more relationships between them. The most important aspects are shown below at the paper.

### ***Government policies***

The top 10 provinces in the business environment index for China's provinces in 2022 are shown on Table 1.

**Table 1. Top 10 Provinces in China by Total Business Environment Index Score, 2022**

| Unit: points |       |          |
|--------------|-------|----------|
| Provinces    | Grade | Rankings |
| Zhejiang     | 3.9   | 1        |
| Guangdong    | 3.87  | 2        |
| Jiangsu      | 3.86  | 3        |
| Fujian       | 3.85  | 4        |
| Hubei        | 3.79  | 5        |
| Jiangxi      | 3.79  | 6        |
| Shanghai     | 3.79  | 7        |
| Anhui        | 3.79  | 8        |
| Shandong     | 3.75  | 9        |
| Sichuan      | 3.72  | 10       |

Source: Statistical Data searched by author

From the analysis of the figure, it can be seen that the highest total index of business environment is Zhejiang Province, followed by Guangdong Province. Among the top 10 provinces in China's business environment in 2022, there are six eastern provinces, three central provinces, and one western province. This indicates that the business environment is better in China's eastern provinces, which are mainly located in the East Asia Pacific Rim coastal belt, with earlier opening up to the outside world, sufficient policy support, better economic foundations, well-developed sea, land, and air transportation networks, improved infrastructure, and concentrated resources. On the other hand, the central and western provinces are landlocked and influenced by institutional, cultural, and resource factors, so the overall index of business environment is generally lower than that of the eastern provinces.

Since the Third Plenary Session of the Eleventh Central Committee of the People's Republic of China, held in December 1978, the Chinese government has implemented regional revitalization strategies in accordance with local conditions, such as the pioneering development of the eastern part of the country, the development of the western part of the country, and the rise of central China (Yuhu, 2012), focusing on utilizing the strengths of each region to promote balanced regional economic development in China.

Firstly, important support and policy preferences for economic development opportunities in the eastern region. After the reform and opening-up, the Chinese government took the lead in setting up special economic zones in the eastern part of the country, enjoying policy dividends such

as tax incentives, industrial support, and facilitation of foreign investment, which provided enterprises with a better development environment and policy support, and positively contributed to the development of the region's economy (Yang, J. G., Zhou, L. L., & Zou, H. F., 2017; Shuanyou & Hongxia, 2003).

In January 2000, the State Council of China established a Leading Group for the Development of the Western Region to implement a strategy of western development in the western region. Through investment in infrastructure and physical capital, the economy of the western region has been upgraded to a greater extent, and China's regional economy has shifted from convergence to convergent (Liu, S.L., Wang, Y.H. & Hu, 2009). A key focus of the Western Development Strategy is a tax reduction policy that can stimulate the real economy (Wu Huihang, Liu Xiaobing, Ji Yongbao, 2017).

The strategy of the rise of central China was first explicitly mentioned by then-premier Wen Jiabao in his government work report in March 2004 (Xinan, Lanqiao, Xiaoping & Zhiyuan, 2014). The aim of the strategy for central China's rise is to expedite industrial restructuring and foster urbanization and industrialization.

Since the implementation of the strategy, the western region has been actively taking over labor-intensive industries from the eastern region, vigorously developing its economy, and continuously narrowing the gap with the eastern region (Junjie, Zhiqiang & Wei, 2014).

Table 2 shows the analysis of China's foreign investment statistics in 2022, the top 10 provinces in the ranking of new foreign-invested enterprises in 2022, eight provinces are located in the eastern region (Guangdong, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Beijing, Hainan), one province is located in the central region (Jiangxi), one province is located in the western region (Sichuan), the number of the proportion of the national share of 86.2%. The top 10 provinces in terms of actual foreign direct investment in 2022 are all from the eastern region, with a scale of 86% of the country. From the point of view of the number of newly established foreign-invested enterprises and the utilization of foreign capital, the attractiveness of foreign investment in the eastern region markedly surpasses that in the central and western regions.

**Table 2. Foreign Investment Absorption by Provinces in China, 2022**

| Provinces | Number of newly established enterprises | Proportion (%) | Amount of foreign capital utilized (in billions of dollars) | Proportion (%) |
|-----------|-----------------------------------------|----------------|-------------------------------------------------------------|----------------|
| Total     | 38497                                   | 100            | 1819.3                                                      | 100            |
| Jiangsu   | 3303                                    | 8.6            | 305                                                         | 16.1           |
| Guangdong | 13365                                   | 34.7           | 278.9                                                       | 14.7           |
| Shanghai  | 4359                                    | 11.3           | 239.6                                                       | 12.7           |
| Shandong  | 2329                                    | 6              | 228.7                                                       | 12.1           |
| Zhejiang  | 2910                                    | 7.6            | 193                                                         | 10.2           |
| Beijing   | 1408                                    | 3.7            | 174.1                                                       | 9.2            |
| Liaoning  | 644                                     | 1.7            | 61.6                                                        | 3.3            |
| Tianjin   | 496                                     | 1.3            | 59.5                                                        | 3.1            |
| Fujian    | 2733                                    | 7.1            | 49.9                                                        | 2.6            |
| Hainan    | 1352                                    | 3.5            | 37.1                                                        | 2.0            |
| Hunan     | 442                                     | 1.1            | 35.3                                                        | 1.9            |
| Sichuan   | 755                                     | 2.0            | 35.3                                                        | 1.9            |

| Provinces    | Number of newly established enterprises | Proportion (%) | Amount of foreign capital utilized (in billions of dollars) | Proportion (%) |
|--------------|-----------------------------------------|----------------|-------------------------------------------------------------|----------------|
| Hubei        | 478                                     | 1.2            | 26.5                                                        | 1.4            |
| Jiangxi      | 669                                     | 1.7            | 21.7                                                        | 1.1            |
| Anhui        | 475                                     | 1.2            | 21.6                                                        | 1.1            |
| Chongqing    | 268                                     | 0.7            | 18.6                                                        | 1.0            |
| Henan        | 330                                     | 0.9            | 17.8                                                        | 0.9            |
| Hebei        | 442                                     | 1.1            | 16.6                                                        | 0.9            |
| Shanxi       | 314                                     | 0.8            | 14.6                                                        | 0.8            |
| Guangxi      | 535                                     | 1.4            | 13.7                                                        | 0.7            |
| Shanxi       | 91                                      | 0.2            | 8.3                                                         | 0.4            |
| Yunnan       | 342                                     | 0.9            | 7.0                                                         | 0.4            |
| Neimenggu    | 40                                      | 0.1            | 5.4                                                         | 0.3            |
| Guizhou      | 105                                     | 0.3            | 5.3                                                         | 0.3            |
| Xinjiang     | 38                                      | 0.1            | 4.6                                                         | 0.2            |
| Jilin        | 67                                      | 0.2            | 4.5                                                         | 0.2            |
| Ningxia      | 22                                      | 0.1            | 3.4                                                         | 0.2            |
| Heilongjiang | 143                                     | 0.4            | 2.3                                                         | 0.1            |
| Gansu        | 29                                      | 0.1            | 1.2                                                         | 0.1            |
| Xizang       | 2                                       | 0.01           | 0.3                                                         | 0.02           |
| Qinghai      | 11                                      | 0.03           | 0.1                                                         | 0.01           |

Source: Statistical Data searched by author.

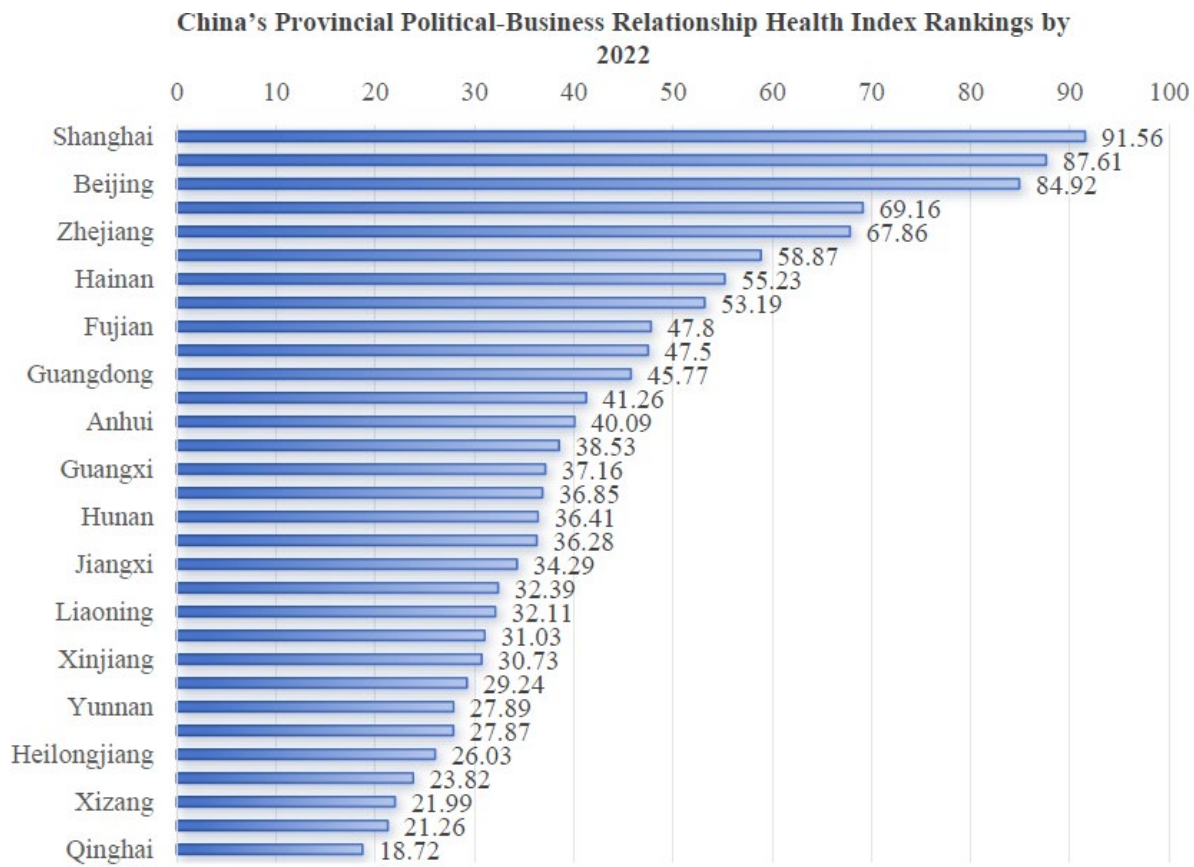
The provinces in the eastern region have developed land, sea, and air transportation networks that make it easier for foreign investors to enter and export their products due to their favourable geographical location and proximity to ports. In addition, the higher level of economic development and more mature industrial systems in the eastern provinces provide foreign investors with a broader market and a better business environment, attracting a large number of foreign enterprises to invest directly.

In addition, the government's policy instability will also have an impact on the local business environment, the uncertainty of the local policy has a negative impact on the enterprises (Wenchao & Pinghan, 2019), and suitable and stable policies can promote the long-term development of local enterprises and attract more large investments.

Provincial governments should clarify their responsibilities, clarify the boundaries of the market and the government, and in the final analysis, the government is to serve the enterprise, take the needs of the enterprise as the center, create a more fair, transparent, and just market environment for the enterprise (Wei-wei & Zhang, (2019), and correctly deal with the relationship between the government and the market to improve the entrepreneurial activity of the enterprises in the region (Yunzhou, Qiuchen & Jianqing, 2020).

Figure 1 reflects the ranking of China's provincial government-business relations health index in 2022. As can be seen, eight of the top 10 provinces are located in the eastern region (Shanghai, Tianjin, Beijing, Shandong, Zhejiang, Hainan, Jiangsu, and Fujian), and two are located

in the western region (Chongqing and Guizhou). Overall, the government-business relations in the eastern region are better than those in the central and western regions.



**Figure 1. China's Provincial Political-Business Relationship Health Index Ranking**

### ***Laws and regulations***

Since reform and opening up, China's business environment has become more legalized over time. This is because the socialist market economy system and the socialist market economy legal system have been slowly built up. The construction of the business environment and the rule of law not only need to improve the legislation but also need to integrate and absorb international practices, optimize and regulate the domestic investment environment to attract business investment, stimulate entrepreneurial enthusiasm, and promote the development of the economy (Yuqing & Zhilan, 2017). The resurgence following the reopening of China's economy necessitates a more predictable and legally governed administration. Establishing a more robust legal framework and secure economic environment is a pressing concern, particularly vital for the government (Yiran, 2022).

Since China's State Council issued the Regulations on Optimizing the Business Environment in October 2019, China has made certain achievements in the construction of laws and regulations on the business environment, but there are still some problems: the lack of special laws and regulations to regulate the business practices of emerging industries and new business forms in some provinces has created uncertainty in the lawful operation of these enterprises and also restrained the development of the enterprises. Insufficient law enforcement efforts and inconsistent provincial and regional law enforcement standards have led to instability in the law

enforcement environment. The lack of effective judicial protection mechanisms in some provinces to safeguard the legitimate rights and interests of enterprises has hindered their development. In some provinces, the degree of legal education is seriously inadequate; the degree to which enterprises know, abide by, and use the law is low; the level of government legal services is low, and enterprises face greater difficulties in compliance, risk prevention, and dispute resolution.

### ***Public Services***

China ranks 31<sup>st</sup> among global economies in terms of business environment in 2022, a significant jump from 91<sup>st</sup> in 2012. This is mainly due to the further liberalization of market access and facilitation of business registration and enrollment; the further promotion of the reform of administrative services; and the promotion of Internet+ government services, including one-stop shopping and no-meeting approvals (Cai-hong, 2021).

Shenzhen, Guangdong Province in 2018 on the combination of the project generation mechanism to reshape and optimize the approval process, “in terms of the government investment and construction projects with longer approval time, 267 days before the reform, 90 days after the reform, the approval time was compressed by 177 days, a compression rate of 66.29%” (Zhang, 2018).

In 2019, of the more than 2,500 approval and service matters at the municipal and district levels in Wuhan, Hubei Province, 57% of the matters will be realized as do-it-now”, 85.7% of the matters will be realized as “online”, and 83% of the matters will be realized as do-it once. The experience of the “three offices” reform has also been popularized in other places (Fulin, X., 2019).

Jiangxi Province to take “tolerance approval + commitment system” reform, the abolition of no legal basis for the approval of matters, optimize the “one-window service, one network” to build a comprehensive service platform and government post, to promote the “cross-provincial through the”, “within the province”, to achieve administrative services “free of permits” and “senseless through “the compression of the approval process, improve the efficiency”, “province-wide”, realizing “license-free processing” and “senseless processing” of government services, compressing the approval process, and enhancing efficiency (Keqiang, 2019-07-29).

The enhancement of the business environment in these provinces exemplifies China's proactive pursuit and implementation of regulatory and service reform. By collaborating across departments with distinct roles, the strengths of each are utilized to attain shared policy objectives. The dominance of a certain department guarantees explicit directives and effective coordination, so enhancing the business climate for firms and facilitating the management of diverse approvals (Christensen & Lægheid, 2007).

However, there are still some provinces that have problems with administrative approval: overlapping powers between different departments of local governments hinder “simplified government”, and unclear division of powers between government departments, resulting in ambiguous powers to approve investment projects, affecting the optimization of the Business Environment; part of the powers are not thoroughly decentralized, resulting in the applicant needing to make multiple trips, which increases the administrative cost. Administrative costs. There is an imbalance between different types of power matters in the decentralization reform. Decentralization mainly focuses on administrative approval power, but the reform of regulatory power lags, resulting in a disconnect between approval and regulation, which affects fair competition in the market and administrative efficiency. There are problems of conflict and convergence in administrative approval reform procedures and links, with inconsistencies in local

governments' approval procedures and links, and data sharing not in place, affecting the efficiency of approvals and the improvement of the Business Environment. Inadequate supervision in the process of decentralization of administrative approval power, the decentralization of administrative approval power fails to strengthen supervision simultaneously, and some departments have an insufficient understanding of follow-up supervision, which affects the creation and development of a level playing field in the market. Therefore, China's provinces still need to continuously carry out reforms to simplify the approval process and improve administrative efficiency to create a better business environment for enterprises.

### ***Market environment***

In China's domestic market, certain local governments have adopted exclusionary policies and measures to protect local enterprises, such as setting up market access barriers, local financial subsidies, administrative intervention, and other behaviors that impede the entry of foreign enterprises and fair competition. Certain enterprises have disrupted the market order and destroyed the market environment for fair competition through monopolization, price manipulation, and unfair competition. Certain governments have failed to effectively crack down on illegal enterprises in the process of market regulation, and there are instances where government regulation is not in place.

To optimize the business environment for enterprises, government departments in China's provinces must create a fair and competitive market environment for business entities, build a rule-of-law business environment, and strengthen market supervision and management. Ensure that private enterprises, foreign funded enterprises, and state-owned enterprises are treated equally, safeguard the fairness, impartiality, and transparency of market competition, put an end to local government protectionism and regional industrial barriers, maintain the order of fair competition in the market, and promote the sustained and healthy development of the social economy.

### ***Human resources***

A region's human resources are an important factor influencing the strategic decision-making of a company's investment and an important part of the region's business environment.

**Table 3 Population in China by region, 2002 and 2022**

| Regions | 2002<br>(10 thousands) | 2022<br>(10 thousands) | Value added<br>(10 thousands) | Growth rate |
|---------|------------------------|------------------------|-------------------------------|-------------|
| Eastern | 49466                  | 60766                  | 11300                         | 22.84%      |
| Central | 42086                  | 41903                  | -183                          | -0.43%      |
| Western | 35767                  | 38366                  | 2599                          | 7.27%       |

Source: Proposal of the Central Committee of the Communist Party of China on the Formulation of the Fourteenth Five-Year Plan for National Economic and Social Development and the Vision for the 2035 Period. People's Daily, 2020-11-04 (001).

From the analysis in Table 3, it can be seen that from 2002 to 2022, the eastern region has the highest value of population increase, and the central region has a negative growth in the value of population increase. The eastern region has better environmental, economic, and educational

advantages due to its favorable geographical location and high level of economic development, which easily triggers the gathering of human capital. Since the implementation of the Western Development Program, the western region has experienced continuous economic development and population growth. Due to its proximity to the eastern region, the central region faces a higher risk of brain drain, and the siphoning effect of large cities in the east is evident (People's Daily (2020-11-04), Proposal of the Central Committee).

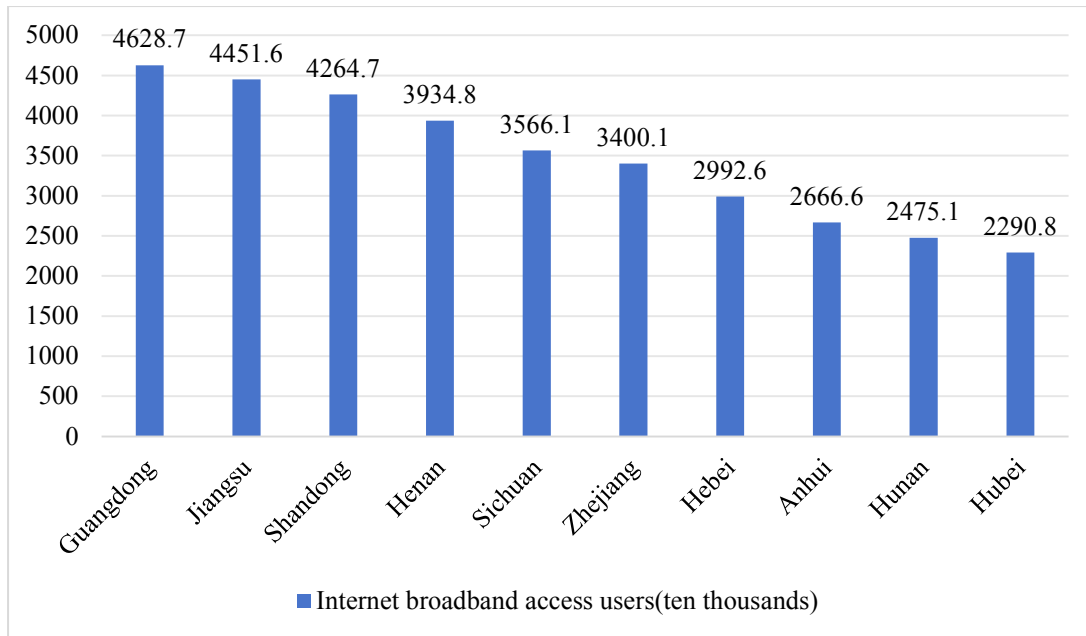
Eastern China is home to a large number of institutions of higher learning and scientific research organizations, and it is rich in highly qualified personnel and technical professionals. These talent resources provide enterprises with sufficient human resources and technical support, which significantly promotes their development and the enhancement of scientific research and innovation capabilities. This talent advantage of the eastern region not only helps the growth of existing enterprises but also provides strong intellectual and human resources support for the establishment and development of new enterprises in the region. As the salaries and benefits of laborers in the central and western regions are significantly lower than those in the eastern region, a large number of high-quality laborers have flowed to the eastern region, leading to a shortage of high-precision talents in the central and western regions. Although China has broken the urban-rural dichotomy, the development of economic regions is uneven, and the gap between urban and rural areas is large. The relatively low quality of labor in rural areas and the lack of professional skills training and modern management have made it difficult for rural labor to match the needs of high-tech enterprises.

### ***Infrastructure Development***

The infrastructure development is very important. Figure 2 shows the top 10 provinces in China in terms of the number of Internet broadband access users in 2022. From the analysis of the chart, it can be seen that among the top 10 provinces, five belong to the eastern region (Guangdong, Jiangsu, Shandong, Zhejiang, Hebei), four belong to the central region (Henan, Anhui, Hunan, Hubei), and one belongs to the western region (Sichuan). Provinces in the eastern region have a large proportion of Internet broadband access users, and based on good Internet infrastructure, they can meet more business investment settlements.

In addition, the infrastructure construction in the eastern region is more advanced compared with that in the central and western regions, and the infrastructure of transportation, water supply power supply, and network is more developed, which is conducive to industrial agglomeration and provides a good operating environment for industrial agglomeration and innovation, thus promoting industrial concentration, population concentration and spatial agglomeration, thus reducing industrial costs and forming a positive external effect of industrial development.

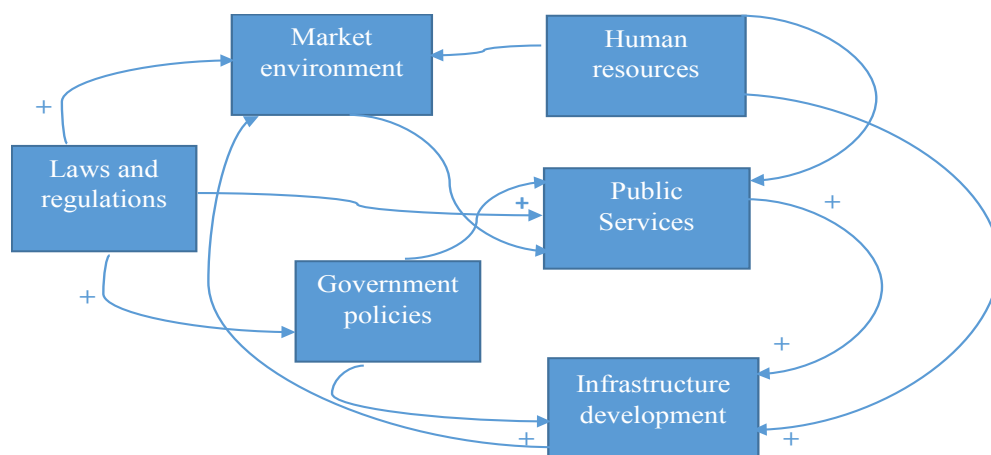
The infrastructure development in the central region lags behind that of the eastern region, resulting in inadequate transit convenience for industrial companies and elevated transportation costs, hence diminishing product competitiveness. Furthermore, the western provinces have invested less in educational and medical facilities, resulting in a scarcity of experts and inadequate health protection for the populace, so constraining creativity in business and local human resource development.



**Figure 2. Top 10 Provinces with Internet Broadband Access Users in China, 2022**

Since the development of the western region, the central government has invested a large amount of money in the construction of highways, railroads, electric power, and communication facilities in the western provinces, which has greatly improved the level of infrastructure in the western provinces. It has improved the business environment in the western region, attracted more talent, enterprises, and capital to the western area, and promoted the development of the local economy.

Based on the analyses of “Government policies”, “Laws and regulations”, “Public Services”, “Market environment”, “Human resources”, and “Infrastructure Development” a causal loop diagram representing the inter-influences can be designed. It shows the positive influences between six main elements of the business environment in China. The designed causal loop diagram is shown on the Figure 3.



**Figure 3. Designed causal loop diagram for business environment specifics in China**

*(Author's design)*

## Conclusion

This study examines China's provincial business environment via the lenses of governmental policies, legal frameworks, public services, market conditions, human resources, and infrastructural development. The general business environment in China has significantly improved from 2002 to 2022; however, this enhancement is not uniformly distributed throughout its provinces and regions. The comparative benefits of the business environment across China's provinces exhibit a "ladder" distribution pattern, with the eastern provinces demonstrating a superior overall business environment compared to the central and western provinces, which possess a lower level.

Chinese provinces must enhance governmental administrative efficiency and further establish an equitable market environment for public services. China's regional development strategy has enhanced the business climate in the central and western provinces; however, there remains a necessity to augment investment in education, scientific research, and technology in these regions, as well as to elevate the educational standards and quality of the labor force. Despite significant advancements in infrastructure development across all provinces in China over the past two decades, the central and western provinces, being landlocked and lacking distinct locational advantages, must enhance their investment in infrastructure to mitigate the disparity with the more developed eastern provinces.

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