

Three Tasks for Building an All-around Opening-up Strategy

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The 19th National Congress of the Communist Party of China (CPC) report states that a new pattern of increased reform and opening-up should be fostered in China. To this end, I believe China's efforts should be focused on three aspects: (i) deepening the reform of free trade zones and accelerating the development of free trade ports; (ii) constructing an appropriate top-level design and prioritizing the development of the Guangdong-Hong Kong-Macau Greater Bay Area; (iii) continuously improving the experimental work for building a new, open economy.

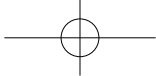
A historic task of the new era: Developing free trade ports

Building free trade ports answers the

need to develop an open economic system. In terms of China's reform process, it also represents a historic task brought about by this new era. In fact, China took a gradual approach to opening-up starting from a few individual cities to a few dozen and, eventually, to a network of them. In the early 1980s, four coastal cities, Shenzhen, Zhuhai, Shantou, and Xiamen, were opened to the outside. In the mid-1980s, 14 more cities were "opened up," along with the establishment of six economic deltas. The opened cities were located along China's Eastern coast. After Deng Xiaoping's Southern Journey, national-level or hi-tech open zones were established in many provincial capitals in Eastern and Central China. As a result, the "Opened Cities" formed a tightly interlaced network.

At the beginning of the 21st century, China was allowed to enter into the WTO. In order to further "open," sixty export processing zones were established. After the global financial crisis in 2008, China's first pilot free trade zone was developed in Shanghai in 2013. Then, more zones emerged in Guangdong, Tianjin, and Fujian, followed with those in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan and Shaanxi. As a result, a new pattern of "opening-up" took shape, with pilot free trade zones

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evenly distributed among Eastern, Central and Western China including landlocked and coastal areas.

Free trade ports are more open than pilot free trade zones. In simple terms, they are ports reserved by the Chinese government for the free entry and exit of overseas commodities, capital, or vehicles.

Free trade ports share two key differences with pilot free trade zones. First, free trade ports provide more open and flexible policies for the trade of goods, i.e., unconditional admittance, no need for licensing and examinations, and register by recording.

Second, in addition to the trade of goods, the sole domain of pilot free trade zones, free trade ports allow more freedom for personnel flow and supporting financial services. In fact, the success of a free trade port lies in the fast and convenient mobility of people, capital and goods.

Third, free trade ports are commonly built on the basis of pilot free trade zones. In a few cases, however, they can also take root directly in well-developed ports. Moreover, as a broad concept, the free trade port includes coastal and border ports, as well as well-developed inland airports. For example, Chengdu, the largest city in Western China, is capable of becoming a free trade airport, due to its strong economic foundations, and its strategic position as the leading player

in China's Western Development Drive and an important node along the Silk Road Economic Belt.

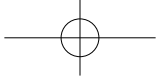
In order to spur the development of free trade ports, reform must be carried out in three areas. First, China must facilitate port trading in goods, improve port infrastructure, and build an IT-based logistics network. Also, a safe and efficient electronic clearance system must be put in place in major ports.

Second, human mobility must be increased. In order to benefit the travel and residence of foreigners working in China, we must standardize the work permit system and design an efficient talent visa system. Furthermore, we must attract hi-tech and innovative talents with preferential treatment.

Third, financing must be made easier. In order to facilitate foreign exchange settlement, we must implement policies related to opening capital accounts in free trade zones on a pilot basis. In addition, a supporting financial lease system must be built, in order to provide adequate funds to trade activities within ports.

Key to building a new pattern of increased opening: Developing the Guangdong-Hong Kong-Macau Greater Bay Area

At present, urbanization and industrialization are the necessary requirements for growing China's economy; developing five city clusters



and industrial clusters offers the key to industrialization. Though occupying only half of China's land, the five city clusters are home to about 40% of its population, 70% of its universities, and 60% of its GDP.

Among the five clusters, the Guangdong-Hong Kong-Macau Greater Bay Area stands out, as it is nearly fully developed. Problems with other city clusters are evident. The development of Beijing-Tianjin-Hebei Area is led by the mega-cities Beijing and Tianjin, while the place between them (Langfang City) remains poorly developed. The city clusters along the middle and lower reaches of the Yangtze River only include the metropolises of Wuhan, Changsha, and Nanchang. Further, Chengdu and Chongqing are still separated in many ways, although they and their surroundings form a cluster.

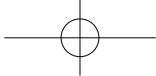
Among the five clusters, only the Yangtze River Delta can rival the Guangdong-Hong Kong-Macau Greater Bay Area. In further analysis, the nine cities (Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing) and the two SARs (Hong Kong and Macau) of the bay area have a strength unmatched by the delta. As a mature market economy and a global financial hub, Hong Kong can provide the scale effect to the nine cities. In addition, it can serve as a reference for their further development with its advanced

experience in operating and managing a market economy.

The development of the bay area depends largely on the following:

First, the cities within the area should foster their core competitiveness. In order to develop the area, we should highlight regional differences and cultivate the core competitiveness of the nine cities. Second, the cities should be encouraged to develop vertically. In other words, to avert disorderly competition and possible overlapping projects, industries with core competitiveness should be nurtured in different cities, based on their existing competitive industries and local conditions.

Two aspects deserve our special attention. First, we should continue to exploit Hong Kong's advantages in finance, logistics, accounting and offshore trade. We should also use Hong Kong as an example for the nine bay-area cities in institutional design, management, and operation. Dongguan and Huizhou should focus on industrial transfer, transformation, and upgrading. Shenzhen should move towards a strategic position as the most advanced tech innovation center in China and even in Asia. Second, the development of the bay area should not be limited to Eastern China. Foshan, Zhuhai, Zhongshan and Jiangmen, which lie along the west bank of the Pearl River, should seize the opportunity and boost the



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growth of white household appliances (like refrigerators) and other high-end manufacturing. As a provincial capital, Guangzhou should make increasing efforts to develop trade and culture. Located in the most inland part of the bay area, Zhaoqing is rich in tourist attractions and related infrastructure. As President Xi said, “lucid waters and lush mountains are invaluable assets.” Zhaoqing should aim to become the “garden” of the bay area by building a strong tourist industry and an advanced agricultural base.

Second, the success of the bay area lies in a rational, top-level design. The future of the bay area should not rely on over concentration of goods and services in Hong Kong and Macau, as well as manufacturing plants in the Pearl River Delta. Otherwise, urbanization and industrialization would be two isolated paths instead of merging together and supporting each other.

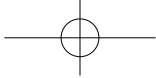
In my opinion, Hong Kong, Shenzhen, and Guangzhou should support each other and become a jewel of the bay area. Both the Huangpu Customs of Guangzhou and the Qianhai Pilot Free Trade Zone of Shenzhen can be upgraded as a free trade port. Meanwhile, Hong Kong would retain its distinctive comparative advantages as the world’s most successful free trade port and one of the world’s six financial hubs.

Third, we should ensure the free

flow of production factors. In terms of policy, if the bay area were to become a world-class, hi-end trade system, production factors, especially human resources, should be allowed to move freely in the area. Currently, it is rather inconvenient for bay area residents to visit or work in Hong Kong and Macau. In the future, those residents should be given the right to easily settle in Hong Kong and Macau with the help of a more convenient visa policy. If state regulations allow, more foreign exchanges can be reserved for bay area companies, and more flexibility can be implemented to specific institutional arrangements. In addition, the management model of pre-establishment national treatment (PENT) with a negative list should be fully implemented to attract more foreign capital. If the regulations on “national treatment” differ from one type of enterprise to another, a low threshold should be set.

**Major work in building a new pattern of increased opening:
Promoting the pilot project for the new system of open economy**

In 2016, the Chinese government asked twelve regions nationwide to build a new open economy system on a pilot basis. President Xi Jinping and Vice Premier Wang Yang paid special attention to the pilot project, and made specific arrangements a number of times. The twelve pilot cities fall into



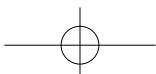
three categories: provincial capitals (Jinan, Nanchang, and Xi'an), coastal and border cities (Dalian, Zhangzhou, and Fangchenggang), and cities of the five Chinese city clusters (Tangshan, Suzhou, Dongguan, Wuhan, and Chongqing).

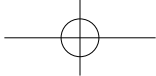
The pilot open economy city (zone) differs from the pilot free trade zone in two aspects. First, the free trade zone pursues an outside-in reform, while the pilot open economy zone reforms itself from the inside. Second, the pilot open economy zone is bigger. In the pilot free trade zone, the scope of free trade does not expand until the pilot part has become well developed. By contrast, the pilot open economy zone covers a larger area when it is established (i.e., the 8,000-km² zone in Jinan City, the capital of Shandong Province).

The openness of the pilot open economy city lies in its four new guidelines and six exploratory efforts. The guidelines are: (i) building a new mechanism, in which the market plays a decisive role in distributing resources; (ii) creating a new model of economic operation and management with the invisible hand of the market and the visible hand of government; (iii) shaping a new pattern of increased opening; (iv) giving new core competitiveness to our products in international cooperation and competition.

In order to implement the guidelines, we require six exploratory efforts.

First, building a new model of operating and managing an open economy. The major associated task





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is to rapidly streamline administration and delegate power to lower levels, in order to simplify approval procedures, improve one-stop services, and adopt list management.

Second, fostering a new mechanism of coordinated opening for different zones. Coordinated development should be achieved among special economic zones, economic deltas, economic development zones, hi-tech zones, bonded zones, export processing zones, free trade zones and open economy zones. In addition, a balance should be struck in regional development by growing the five city clusters, which is home to open economy zones.

Third, creating a new way of international investment and cooperation. Investing overseas is equally as important as attracting foreign investment. When Chinese companies go global, they should learn to seek mergers and acquisitions in addition to greenfield investment. They should also increase vertical investment, while expanding horizontal investment, and establishing R&D service centers abroad.

Fourth, setting up a new quality-and-efficiency-oriented system of foreign trade. The key to the system is to raise the added value of products, and this relies mainly on public innovation and entrepreneurship. Public innovation requires process improvement and product innovation. The innovation of final products might originate from universities and other large research institutes. Process innovation depends mainly on the efforts of the public.

Fifth, introducing new financial services for the open economy. At present, China is the world's second largest service trader, with a total trade volume of over USD600 billion.

Sixth, shaping a new pattern of increased opening. When we further open to the outside world by promoting the Belt and Road Initiative, we should carry out reforms in the target industries, regions, and destinations. For instance, China's foreign trade is dominated by the US and the EU. However, the EU's economy is now sluggish. The BRICS show strong growth momentum, and it is imperative to build the BRICS free trade area.