

Accumulation of experience

By Xu Hongcai, in China Daily, 2013-11-11

Shanghai's FTZ will help the country cultivate advantages in global competition and drive domestic economic reform

In the context of the sluggish global economic recovery and China's ongoing economic restructuring, Shanghai's pilot free trade zone, which started operating on Sept 29, has an important historical mission.

The FTZ will help enhance Shanghai's international competitiveness in a comprehensive way and promote its construction as an important economic, financial, trade and shipping center. It will promote offshore business, offer tax advantages to financial transactions, including overseas investment revenue, and support Chinese companies going abroad for investment.



People queue up outside the service center of Shanghai's pilot free trade zone, Oct 28, 2013. [Photo by Xu Congjun/ Asia news photo]

As the first special customs supervision zone that is consistent with international practice, the FTZ will further promote reform and opening-up, reduce costs in all

aspects through greater investment facilitation and trade liberalization. In particular, it will help facilitate the transformation of the government's function, release institutional dividends, and create a model project, which can be promoted across the country. Meanwhile, through working in concert with the authorities of the Hong Kong Special Administrative Region, the FTZ will help comprehensively enhance the competitiveness of the mainland's financial industry in the international financial system.

Expanding opening-up in turn will drive domestic economic reform. After the 2008 international financial crisis, a variety of free trade arrangements were formed around the world, bringing both opportunities and challenges to China's foreign trade and investment. Meanwhile, after experiencing more than 30 years of rapid economic growth, China's comparative advantage in labor costs and other fields is vanishing, and considering the prospect of a potential economic slowdown, there is an urgent need for new growth engines. The Shanghai FTZ is a test bed for China so it can better participate in the international division of labor and participate in the rule-making process of international trade and investment. By combining opening-up, institutional reform, and policy innovation, the FTZ will help explore deeper reforms while ensuring the risks are controllable.

The FTZ will help explore new economic management models. The introduction of a negative list to the FTZ is a major measure to integrate with international norms in the context of the global economic governance restructuring. The negative list outlines the sectors off-limits to foreign investors within the FTZ and any sectors not on the list are open to foreign investors. In recent years, the negative list management approach has become the mainstream for international trade and investment management. This attempt to adapt to new changes in the international financial, investment, and trade fields can help improve management transparency and the efficiency of resources allocation.

The launch of Shanghai's FTZ is related to the country's overall reform as it is a comprehensive, systematic institutional arrangement, covering foreign investment management, fiscal and tax policy, logistics management and government

administration reforms. The smooth operation of the FTZ requires the joint efforts and collaboration of all related departments.

A major task of the FTZ is to explore the establishment of an administrative system that can match the high-level international trade and investment rules, this means promoting the transformation of government management from "prior approval" to supervision.

There will be challenges to the management of the Shanghai FTZ, especially in the field of financial supervision to cushion the impact on domestic financial market caused by foreign capital flows.

And the biggest challenge will be financial reform, which covers testing the liberalization of interest rates in the financial market, the convertibility of RMB capital accounts, the cross border use of RMB and a comprehensive implementation of trade and investment facilitation.

The development of the Shanghai FTZ is designed to promote China's economic reform and opening-up in an all-round way, and it will play a leading role in this regard, but it does not affect other bilateral and multilateral free trade arrangements, nor will it replace nationwide reform of the economic system.

One FTZ is far from enough for China. Several regions with advantageous conditions and strategic significance should be selected for other pilot FTZs, and they should compete with the Shanghai FTZ in an orderly manner. Through mutual promotion, mutual learning and common development, these pilot zones can ensure the smooth, orderly and accelerated expanding of reform and opening-up.

The establishment of the Shanghai FTZ is a substantial step forward for China's opening-up. In the coming years, we need to follow the overall reform objectives and requirements, strengthen top-level design, and seize the opportunity to advance reforms in related fields. In the process of building free trade zones, managers should properly handle the relationship between reforms inside and outside the zones, pay attention to isolate and prevent risks, prevent regulatory arbitrage and give full play to the role of all kinds of foreign trade and cooperation arrangements so as to effectively promote China's reform and opening-up.

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