Expanding Opening Up: China's Olive Branch to Globalization

YU Miaojie

After four decades of reform and opening up, China must decide where to lead her future efforts. Threatened by the rising trade protectionism, the world is eager to know whether China will stick to the path of opening up. In his impressive keynote speech at the opening ceremony of Boao Forum for Asia (BFA) Annual Conference 2018, President Xi Jinping spoke highly of reform and opening up policy, which profoundly changes China and deeply influences the world. Besides, the president explicitly expressed China's determination to open up to the outside world by putting forward a four-pronged approach.

It can conclude from President Xi's speech that the last four decades were only a prelude to China's reform and opening up, which will be a basic national policy that China

YU Miaojie is Vice Dean of National School of Development, Peking University

will stick to in the years to come, only the focus will be shifted to the construction of a new pattern that features all-round opening up.

In his speech, President Xi set specific measures in four aspects, namely, (1) to further widen market access, (2) to improve the investment environment for foreign investors, (3) to strengthen protection of intellectual property rights (IPR), and (4) to take the initiative to expand imports. In doing so, Xi sends a clear message to the world that China's door of opening up will not be closed and will only open even wider. China will not deflect from the path of opening up due to the trade frictions with the US. The four measures mentioned by President Xi are conducive not only to China's reform and opening up, but also to the global multilateral trade cooperation.

To further widen market access

This is a significant approach for China to continue promoting multilateral trade cooperation and increasing openness in an active stance.

At present, results from the Doha Round negotiations have fallen short of expectations, because the developing countries are over-protective of their service sectors, so are the developed countries of their agricultural sectors. President Xi states that it is necessary to further widen market access. To break it down in the service sector, especially the financial sector, China will raise foreign equity caps in the banking, securities and insurance industry, ease restrictions on the establishment of foreign-funded financial institutions in China and expand their business scopes. With more capital inflows into the domestic service industry, China is more determined to promote multilateral trade cooperation. Besides, the WTO can also share the fruits of China's open market, which will contribute to the success of the Doha Round of negotiations.

To widen market access, it means that more foreign banks, enterprises and service providers, especially those from the developed countries, will enter into China, directly competing with Chinese counterparts. Those under-performing and less competitive companies of China will be phased out during the opening process, while the well-established ones can be greatly empowered and strengthened by an easily-accessible market, and are more likely to succeed in the competition by establishing joint ventures with foreign companies or through other means of cooperation. Let's take the banking industry as an example. It is too early to determine whether foreign banks have positive or negative impacts on Chinese banking industry, and it is inappropriate to jump to conclusion. However, if the Chinese banks conduct in-depth cooperation with foreign banks by learning their managerial and operational experience, especially in terms of cost reduction, efficiency improvement and global expansion, they can surely scale new heights and become stronger and more competitive.

On manufacturing, China has basically opened up this sector only with a small number of exceptions on automobiles, ships and aircrafts. For example, in the automobile industry, China used to place a 50% equity ceiling on foreign automakers. If the equity caps are removed, foreign enterprises can engage in deeper cooperation with Chinese enterprises.

To improve the investment environment for foreign investors

China will complete the revision of the negative lists on foreign investment in the first half of this year, and implement across the board the management system based on pre-establishment national treatment and negative lists. This system is important for China to further open up to the outside world and to optimize the investment environment. China will enhance alignment with the international economic and trading rules, increase transparency, strengthen property rights protection, uphold the rule of law, encourage competition and oppose monopoly.

By adopting negative lists, the government gives free rein to both domestic and foreign enterprises in their niche markets, as long as they engage in lawful activities. This practice is conducive to improving the investment environment in China, and it has delivered tangible results when piloted in the 11 free trade zones.

Now the negative list has become a widely adopted practice. The idea of negative list enjoys wide support in that it gives China a leg up to go global and improves the investment environment in China in real terms. China released the first negative list in the Shanghai Pilot Free Trade Zone. This list sets out administrative measures applicable to foreign investment and investors to which "national treatment" is not granted. As one of the measures to open up, the negative list is put into good practice in the Shanghai Pilot Free Trade Zone, with its results witnessed by all. It is clearly written in The Report of the 19th National Congress of the Communist Party of China and The Report on the Work of the Government in 2018 that the negative list shall be implemented across the board and in all industries.

To strengthen protection of IPR

In his speech, President Xi emphasized that IPR protection is the centerpiece of the system for improving property rights protection, and it will provide the biggest boost to enhancing the competitiveness of the Chinese economy. IPR protection is the requirement of foreign enterprises, and even more so of Chinese enterprises. This year, China aims to reinstitute the State Intellectual Property Office to step up law enforcement, significantly raise the cost for offenders and fully unlock the deterrent effect of relevant laws. China encourages normal technological exchanges and cooperation between Chinese and foreign enterprises, and protect the lawful IPR owned by foreign enterprises in China. Meanwhile, China hopes foreign governments will also improve protection of Chinese IPR.

Two things in terms of IPR protection need to be paid attention to. First, it should admit that the developed countries do a better job in IPR protection both in terms of the efforts they have devoted and the comprehensiveness of their measures. However, it is also undeniable that China has made solid progress in protecting IPR. Since the reform and opening up, the awareness of IPR has developed from none and grown stronger and stronger. Enterprises used to take no count of protecting IPR, now they attach great importance to it. Second, it is imperative for us to correctly define and tell the differences between the developing countries and developed countries in terms of IPR protection requirement. Why is that important? Protecting IPR comes at a lower cost in developed countries, because its per capita income is higher than that of the developing countries, where enterprises are running at a higher cost. With this in mind, the disparity of IPR protection in developing and developed countries makes sense. An example is, the very same textbook is priced higher in Western developed countries than in Asia-Pacific countries, where people have lower income and pay less for IPR.

Foreign and domestic enterprises share the same desire for strong protection of IPR. In the era of innovation-driven development, to protect IPR is to protect the lifeline of a company, and is undoubtedly the most effective way to make the Chinese economy more competitive in the international arena.

However, strengthening the protection of IPR is bound to harm the interests of special groups. Domestic reform is imperative when the cost of IPR infringement is too high to bear. Only in this way can the IPR be well protected.

To take the initiative to expand imports

China is the second largest importing country in the world with an annual gross import worth USD2 trillion, accounting for nearly 20% of its GDP. It goes without saying that China is a world-leading importer. In his speech, President Xi stated that "China does not seek trade surplus; we have a genuine desire to increase imports and achieve greater balance of international payments under the current account."

There are two major advantages for China to expand imports actively: First, the Chinese people will have access to more kinds of consumer goods; second, the Chinese enterprises are provided with more sophisticated and quality intermediate goods and capital goods. A wider choice of consumer goods lowers the prices in the domestic market and increases people's well-being. Downstream manufacturers also have more choices. The good news is, home-grown and imported intermediate goods are often complementary. When used properly, they will produce a Schumpeter effect to reinforce each other. This is why China take the initiative to expand imports. China has come a long way in expanding imports. The upcoming China International Import Expo is the most eloquent proof of it. As early as 2017 when the China-US trade friction was yet to escalate, the Expo has come into the agenda. It means that China does not expand imports for the sake of it. Rather, it is a long-term development strategy for China.

If China chooses to import more intermediate goods from the EU and ASEAN countries, or countries alongside the Belt and Road instead, the price of the intermediate goods would be more competitive, and the Chinese people can also get cheaper finished goods. In this way, the world can benefit as well. For instance, in 2017, China alone has contributed more than 30% to the world's economic growth. It is fairly reasonable to say that no other country in the world can play a role as significant to the world economy as China. In this sense, China is the engine of the world economy.

At the same time, China is striving to shift its role from a trader of quantity to a trader of quality. What's important here is that China needs to increase the added value and the quality of the exports. To become a trading powerhouse in real terms, China needs to ensure that the exports are as good as those made by other major exporting countries such as the US, Japan and Germany. Only in this way can China shift its role successfully.

The key to industrial upgrading is to transform the processing-based export model. China has lost its comparative advantages of labor cost over Southeast Asian countries. However, the labor cost in China is merely one-fifth of that of the US, while the total factor productivity equals nearly a half of that of the US. The comparative advantage seems rather obvious. This is why China keeps exporting large quantities of labor-intensive products to the US.

But things are more gloomy in terms of the added value. Although the China-US trade surplus totaled USD274 billion in 2017, China gets a very thin slice of the trading profits. Let's take the smart phone as an example. IPhone 4 is exported at USD179 from China, and USD500 in the US (premiers and shipping costs included). USD179 looks attractive, but it is far from being lucrative as China pockets only USD6.5 for each iPhone 4 imported. In other words, despite the very huge trade surplus, the profit is extremely low.

China hopes developed countries will stop imposing restrictions on normal and reasonable trade of hi-tech products and relax export controls on such trade with China. For a long time, the U.S. government, especially the Trump administration that advocates "America first," has been imposing restrictions on hi-tech exports to China. In January 2010, President Barack Obama announced the National Export Initiative (NEI), with a goal of doubling exports by 2015. The NEI advocates the insourcing of the advanced manufacturing, while attaches equal emphasis to the export of hi-tech manufactured goods. Under this Initiative, China can acquire necessary technology through expanding imports of U.S. made intermediate goods. Unfortunately, the Trump administration forsakes the NEI and takes the opposite approach.

While complaining about the high trade deficit with China, the Trump administration deliberately turns a blind eye to its trade surplus in the service sector. The truth is, the US is reluctant to export hi-tech products with high added value to China, yet it has no comparative advantage over China in labor-intensive goods. So here comes the trade deficit, and the US has only itself to blame for such a high trade deficit.

Under the regulations of the WTO, developing countries are allowed to charge different tariffs from developed countries. China will significantly lower the import tariffs for automobile. I believe this move gestures China's willingness to open wider and embrace the world. With an ever-growing average income, China is expected to join the ranks of developed countries by 2020. According to the WTO regulations, when that day comes, the tariffs on automobile will be slashed significantly. The tariff system is often agreed and made by multiple parties through consultation. By taking the initiative to lower tariffs on automobile, China has fully demonstrated the open-mindedness of a major country.

To conclude, President Xi's speech at the BFA reflects the broad mind of the Chinese nation, its goodwill and commitment to opening up. China hopes other major trading nations to take the lead in facilitating global trade through combined efforts, and to foster an international environment that is favorable for cooperation and brings win-win outcomes.