

A Study of Guangdong Pilot Free Trade Zone under China's New Normal

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Abstract: *As China's economy enters a new normal, transformation and upgrading are inevitable. As a testing ground for reform and opening up, the FTZ is charged with the important task of promoting the mature economic and financial system to the whole country. The Guangdong FTZ, which is connected to Hong Kong and Macao, is a frontier of reform and opening up, and its development prospects are immeasurable. This paper explores the current status of the Guangdong FTZ and provides a comprehensive analysis and positioning of its competitive advantages in order to explore Guangdong's opening-up policies and proposals that are in line with China's new normal.*

Keywords: *Guangdong Free Trade Zone, China's new normal, regional cooperation, strategy recommendations*

1. Background

Guangdong is in the forefront of reform and opening up, whose GDP has ever been ranking first for consecutive years, and total foreign trade accounted for nearly a quarter of the national proportion. However, enterprises in Guangdong are generally on a smaller scale, whose technical level is limited, and lacks the long-term planning, so that which are facing with the development bottleneck in the condition that Chinese economy entering into the new normal. Therefore, it is necessary to push Guangdong's economy to transfer from the traditional export-oriented economy to the newer and higher-level open economy, set up the Free Trade Zone (FTZ) that adapts to the new normal of the economic development. Then, based on the FTZ platform and engine, realize the strategic adjustment of Guangdong's economy structure and the fundamental shift of economic development mode. In short, the establishment of Shanghai FTZ and Guangdong, Tianjin, Fujian and other FTZs have the same great significance with the establishment of the special economic zones such as Shenzhen and Zhuhai that were established in the early reform and opening up.

2. Introduction of China (Guangdong) Pilot Free Trade Zone

On 12th December, 2014, the executive meetings of the state council approved Guangdong, Tianjin, and Fujian to set up three FTZ again in the specific areas. The meeting required that the three areas should enrich the new pilot content and formulate the specific scheme for the new FTZ by relying on the existing new area and park, taking the pilot contents of Shanghai FTZ as the subject, and combining with the local characteristics [6]. Relying on Hong Kong and Macao, service the mainland, and facing the world. China (Guangdong) Pilot Free Trade Zone (Guangdong FTZ) aims to construct as the demonstration zone with the in-depth cooperation among Guangdong, Hong Kong and Macao, the important hub of the 21st Century Maritime Silk Road, and the trial place of the new round of reform and opening up [5]. In the foreseeable future, Guangdong FTZ will build as a business environment of internationalization, marketization, and legalization, establish an open new economy system, realize the in-depth cooperation among Guangdong, Hong Kong and Macao, form a new competition advantage for the international economic cooperation, and strive to build a FTZ with legal environment, investment and trade convenience, prominence of its radiate and driving function, and regulatory security and efficient that will meet the international standards [5].

The scope of Guangdong FTZ is 116.2 square kilometers. According to the State Council of the People's Republic of China, Nansha Area of Guangzhou will focus on developing shipping logistics, finance with Chinese characteristics, international trade, and high-end manufacturing industries, constructing the new heights of modern industry led by the productive service and the integrated services

hub with the world's advanced level; Qianhai and Shekou Area of Shenzhen will focus on developing the strategic emerging service industries such as finance, modern logistics, information services, and technology services, building an experimental demonstration window for national opening financial industry, an important base for the world service trade and an international hub port; Hengqin Area of Zhuhai will focus on developing the industries such as tourism and leisure, health, culture, science and education, and high-technology, and creating a new carrier to promote the Macao economy to develop moderately [5].

In 2020, Guangdong FTZ fixed asset investment of 129.212 billion yuan; tax revenue of 101.9 billion yuan, an increase of 27.6%; foreign trade import and export of 341.28 billion yuan, an increase of 4.1%; 3,146 new foreign-funded enterprises, the actual use of foreign investment of \$ 7.936 billion, with six ten thousandths of the province's land area contributed to the province's 1/4 of foreign-funded enterprises and 1/3 of the actual foreign investment In the past 6 years, the FTZ in Guangdong has become the largest and most important pilot project in China.

Summing up the achievements of Guangdong FTZ since its establishment, Guangdong FTZ has actively carried out the first, different and systematic reform and innovation in the fields of international business environment, investment and trade liberalization and facilitation, financial opening and innovation, etc. The modernized industrial system has taken initial shape, and a total of 584 institutional innovations have been formed, 348 of which have been replicated and promoted in the province and 41 in the country. Among them, the advanced manufacturing industry in Nansha has improved quality and efficiency, and the shipping energy level has been continuously improved. Qianhai vigorously develop finance, technology, logistics and other headquarters economy, by 2020, a total of 7,218 enterprises with registered capital of more than 100 million yuan will be introduced. Hengqin vigorously develops medical tourism industry, and by 2020, the Changlong International Ocean Resort receives more than 80 million visitors.

3. Characteristics and competitive advantages analysis

Guangdong FTZ have two main characteristics:

- (1) Create a pilot area for new international investment and trade rules and to explore how to join with the international high standard rule systems in the fields such as international investment, trade and intellectual property, etc.
- (2) Effectively join the national One Belt One Road strategy and to promote the trade and investment cooperation between Guangdong and the countries and regions along the 21st Century Maritime Silk Road.

Comparing with Shanghai FTZ and other FTZs, Guangdong FTZ is more distinctive in the fields of strategic positioning, financial innovation, and government functions, whose main advantages lie in:

- (1) As for the historical origins and location, Guangdong is China's window to the outside world. Meanwhile, Guangdong FTZ will paid more attention to develop the trade and investment to Hong Kong and Macao, whose policy will be more targeted.
- (2) As for the financial innovation, as the demonstration window of opening-up trial, Qianhai has accumulated a lot of experience, which may be helpful to the future further financial reform. Therefore, it will be more advantageous on the construction of Guangdong FTZ when comparing with that of Shanghai.
- (3) The open degree of Guangdong government function is higher, and Guangdong FTZ will set up a regulatory agency, which will be granted the administrative authority at the provincial level, integrate the customs, and inspect the power of the port units such as the quarantine office, border agents, and the maritime affairs, thus to form the new regulatory subject of being unified and coordinated, which means that Guangdong FTZ will have less administrative intervention and more free market.

4. Opportunities and threats analysis

4.1. Deepening reform comprehensively and expanding the open economy

As China's first batch of test areas of reform and opening-up with a high degree of openness, the

economic development of Guangdong has always been ranking first of the national economic development. On the policy, the country gave Guangdong FTZ more opening and more autonomy. Extend the negative list of Shanghai FTZ to a unified new negative list of four FTZs, which means that China's investment management system that is given priority to the examination and approval has been promoted to more areas. Guangdong FTZ is necessary to cling to dividend policies, deepen the reform and innovation, effectively dock with the country's strategy of "One Belt One Road", promote the construction of the Maritime Silk Road, develop the high-end manufacturing industry, enhance the core competitiveness of industrial technology, and explore the successful development pattern and market mechanism that can be replicated and promoted [4].

4.2. Make use of the traditional foreign trade and promote the economic transformation

Guangdong is the largest province for foreign trade, whose export scale is large and has a solid foundation of foreign trade. However, Guangdong's export trade is more extensive, which gave priority to the export of manufactured goods with higher energy consumption and lower efficiency, so under the background of RMB appreciation and adjustment of the export-drawback policy, the Guangdong foreign trade presents the negative growth trend, and its sustainable development is facing huge pressures. Therefore, Guangdong should continue to make use of the advantages of right place, human resources and industrial chain and so on, optimize the strategy of sustainable development for the construction in the new period and the development of the new urbanization, which includes make full use of the traditional foreign trade to promote the transformation of economy, and develop the high-tech industries such as environmental protection, biology, materials and optoelectronic technology with the huge amount of venture capital and the perfect intellectual property system of Hong Kong and Macao.

4.3. Undertake the resources in Hong Kong and Macao

Comparing with the FTZs of Shanghai, Tianjin, and Fujian, the biggest advantage of Guangdong FTZ lies in its geographical location. Shenzhen Qianhai and Shekou Area and Zhuhai Hengqin Area were respectively bordered on Hong Kong and Macao, which has been the bridge and link for the opening-up of Guangdong. The cooperation of Guangdong, Hong Kong and Macao is one of the most distinctive landmarks of Guangdong FTZ. Macao has a total area of 32.8 square kilometers, while Zhuhai Hengqin Area has a total area of 28 square kilometers, which are similar with each other. The reform and innovation of FTZ in Zhuhai Hengqin Area may draw lessons from the successful experience and pattern of Macao in many aspects, and may even copy directly, which is equivalent to create a new modern Macao. Shenzhen is the paradise of the innovative thinking and entrepreneurs, where gathered the leading enterprises of the high-tech industries such as Huawei, ZTE, and Tencent. As for the FTZ in Shenzhen, Qianhai is the most international area in Shenzhen, and Shekou is the place where first began the reform and opening in Shenzhen. Therefore, the integration of the old and the new will inject new energy to the secondary reform and opening up.

4.4. Produce "crowding-out effect" and "siphon effect" to the development of Guangdong

Since the construction of Guangdong FTZ has a variety of first-mover advantages, it is likely to weakened the original advantages and development momentum of other types of non-FTZs in Guangdong, even produce a larger influence on the development speed and quality. While for other regions of Guangdong locating in the non-FTZs, it's part of the industrial and commercial enterprises or other factors of production are likely to transfer to the FTZ, which will generate negative impact to the overall regional economic development of Guangdong.

4.5. FTZs in Shanghai, Tianjin and other areas weakened the competitive advantages of Guangdong FTZ

The four FTZs lie in the most developed areas in China, whose development has its own characteristics. Shanghai is the financial center of China. Shanghai Waigaoqiao bonded area is the national first bonded area of being largest and earliest. Shanghai FTZ has been established several years, whose negative list has been updated and optimized for several times, policy and system have been perfected day by day, and the exploration for the reform of financial system has had some certain experience, so it begins to take shape in the construction of FTZ, thus there is nothing wrong on its leading position [6]. Tianjin backs on Beijing and enjoys an absolute advantage on the political, meanwhile the integrated development of Beijing-Tianjin-Hebei district, Bohai Economical Circle, and

Tianjin Binhai New Area ensured the continuity of the development [6]. Comparing with the FTZs in Shanghai, Tianjin and other areas, the integration of Guangdong, Hong Kong and Macao is the biggest characteristic, Guangdong has made great progress since 40 years of reform and opening up, and some areas have been the same with that of Hong Kong and Macao, so it's facing the problem of development bottleneck. It is still unknown whether Guangdong FTZ can find new development focuses, and to what extent.

4.6. Severe impact of the international hot money on the domestic financial market

The expansion of China's FTZ is to promote RMB settlement of foreign trade and attract foreign capital investment with the open financial system in the FTZ. In recent years, China's economy has been growing rapidly, and the rate of return on investment of the capital market has been high, which attracted the imports from many foreign capitals, among which there are a significant number of international hot money invading through the illegal ways such as the underground banks, etc. The excessive speculation of the international hot money will be against the development of capital market, easy to cause the stock market turmoil, and produce a violent impact on the domestic financial market. Due to be adjacent to the world financial free port - Hong Kong, Guangdong FTZ is facing the challenge of huge amounts of capital and bearing the duty of the capital customs audit as well as the financial system construction.

5. Guangdong's new opening model under China's new normal

5.1. An updated version of the Guangdong-Hong Kong-Macao cooperation

Different from the past complementary cooperation with Hong Kong and Macao that were mainly export processing, trade in goods, tourism, transportation, and logistics. The establishment of Guangdong FTZ, what it developed is the high-level, opening, and deepen cooperation on the offshore trade, offshore financial, the Internet economy, the social management cooperation and investment facilitation, and service trade liberalization. Seen from the development phase, the economic cooperation between Guangdong and Hong Kong and Macao stepped into the 1.0 times that took the cross-border processing trade cooperation as the main mark since the establishment of the special economic zones in the early 1980s. Since 2003 and the following signing of CEPA as well as its supplementary agreements, it stepped into the 2.0 times of Guangdong-Hong Kong-Macao Cooperation that was featured by zero-tariff goods trade, investment facilitation, and other traditional service industries. However, take the Guangdong FTZ as the main mark, the Guangdong-Hong Kong-Macao Cooperation stepped into its 3.0 times that was led by the economic and trade system, law connection, technology, standards integration and offshore trade, cross-border financial, the Internet economy, and other high-end service industry and service trade liberalization. In fact, the establishment of Guangdong FTZ is not only the updated version of the Guangdong-Hong Kong-Macao Cooperation, but also the high-level and in-depth opening to the Hong Kong and Macao regions under CEPA frame, at the same time, it's also the mechanism innovation and "first try" comprehensive test of CEPA and its supplementary agreements [3]. Therefore, the most important function of Guangdong FTZ is to innovate the mechanism of the implementation of CEPA, push forward the in-depth integration and docking of the technology standards, service regulatory and business environment of Guangdong, Hong Kong and Macao, and earnestly solve the mechanism barriers and system obstacles encountered in the implementation of CEPA through promoting the convenient flow of the three regions' personnel, capital, technology and information service elements [2].

5.2. The new engine in the industrial upgrading of the Greater Pearl River Delta

Under the current economic new normal, mainland China, Hong Kong and Macao are all facing the deep-seated problems of economic transformation and upgrading. However, one of the important tasks of the establishment of Guangdong FTZ is to use the transformation and upgrading of the Guangdong-Hong Kong-Macao Cooperation to promote the transformation and upgrading of economic structure. The most direct and effective way to promote the transformation and upgrading of the Guangdong-Hong Kong-Macao economy is to expand the hinterland for the economic development, connect with the mainland industry chain, reduce the marginal cost of economic development, and improve the scale, level and international competitiveness of the Hong Kong and Macao service industry [1]. Therefore, take the establishment of Guangdong FTZ as an opportunity to make full use of the advantage of the developed Hong Kong and Macao service industry and the strong science and education, research and development strength, relying on the manufacturing base of the Pearl River Delta, play the demonstration, lead and

radiation effect of the high-end service industries in Hong Kong and Macao, promote the transformation and upgrading of Guangdong, broaden the development space of the service industry in Hong Kong and Macao, upgrade the international competitiveness of the service industry in Hong Kong and Macao, accelerate the building of advanced manufacturing and modern service industry base, and form a regional modern industrial system with the international first-class level that is complementary with the advantages of Hong Kong and Macao.

5.3. Promote the important gateway of Pan-Pearl River Delta cooperation and Maritime Silk Road construction

Guangdong FTZ is located in the three national central cities and special economic zones with strong economic strength of Guangzhou, Shenzhen, and Zhuhai, relying on Hong Kong and Macao that are the center of the international financial, trade, shipping and gaming, tourism and leisure center. And they both covered and expanded to the whole Pearl River Delta and Pan-Pearl River Delta region in south China region. Therefore, it is not only the innovation platform for the mainland to further open for Hong Kong and Macao and the important engine for the industrial upgrading of Guangdong, Hong Kong, and Macao, but also the hub node that connects the Pan-Pearl River Delta Cooperation and Maritime Silk Road construction in the 21st century. It is necessary to take the establishment of Guangdong FTZ as an opportunity to build a new pattern of reform and opening up, actively cooperate with the national strategy of the Pan-Pearl River Delta Cooperation and Maritime Silk Road construction, and create the hub node of the headquarters base for Chinese enterprises' going out, attract Hong Kong, Macao, and Taiwan enterprises invest the modern service industry, advanced manufacturing in the Pearl River Delta and Pan-Pearl River Delta.

6. Conclusion

Since China's economy has entered into the new normal, it is inevitable to conduct transformation and upgrading FTZ, which is taken as the testing area for the reform and opening up, will undertake the responsibility of pushing the mature economic and financial system to the whole country. Guangdong FTZ is connected with Hong Kong and Macao, which is the forefront of reform and opening-up. Therefore, Guangdong FTZ is necessary to understand the situation clearly, face the challenge bravely, cling to the dividend policies, play its regional advantages, and conduct a comprehensive reform, collaborative innovation, and explore the new development path with unique characteristics.

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