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# SHANGHAI, GLOBAL CONTENDER:

THE FREE TRADE ZONE  
AND THE  
INTERNATIONAL FINANCIAL CENTER

Edited by Sun Lijian

Shanghai People's Publishing House

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## Shanghai, global contender

the Free trade zone and the international financial center

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## Preface

# New Mission of China (Shanghai) Pilot Free Trade Zone on Financial Development

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The China (Shanghai) Pilot Free Trade Zone (CSPFTZ) is a very powerful development strategy featuring “opening-up driving reform in turn”. This has been initiated by the new government, led by General Secretary Xi Jinping and Premier Li Keqiang, when China’s economy was in a highly volatile and complicated domestic and international economic environment. In the recent years, we have become accustomed to the development model depending on “preferential policy” in tough times. In other words, we are used to asking the government to offer more ideas (industrial policy), launch more projects (financial policy), issue more capitals (monetary policy) and grant more subsidies (trade policy) to maintain stable economic indicators including a stable growth goal, employment level and tax surplus in the high cost context. However, are we all fully prepared to leverage the strong “system preferences” of the free trade zone demonstration by means of mechanism design<sup>②</sup> of “negative list management” and pre-access equal national treatment to enable the “opening environment” in the Chinese market? This is to bring irreplaceable “win-win” results created by “market segmentation” in the international value chain<sup>③</sup> to all participants in the free trade zone which enjoy

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- ① This article was completed in December 2013, which was adapted from the speech entitled China (Shanghai) Pilot Free Trade Zone and China’s Economic Reform that was delivered by the author for program Elite Forum at the invitation of Phoenix TV on November 10, 2013.
- ② The core content originates from the Memorandum of the Fifth China-US Strategic Economic Dialogue, but relevant system designs such as “entry without ban” and “fair competition” can facilitate the transformation of government function, then give full play to the decisive role played by market in resource allocation and help Chinese enterprises to reduce transaction and trade friction costs in commercial activities.
- ③ The international chain value means multinational enterprises leverage their comparative advantages to form cooperative and interactive relations with other enterprises in complete value-creation commercial activities of “supporting services, capital management and operation in standard R&D, core technical component production, goods manufacturing, warehousing and logistics”.

high-efficiency services and system supervision by the Chinese Government. We are aware of the consequent serious sequelae such as “over-capacity”<sup>①</sup>, “nationalization of private enterprises”<sup>②</sup>, “bribe and corruption”<sup>③</sup>, “imbalance”<sup>④</sup> and “blind optimism”<sup>⑤</sup>. Moreover, we cannot be indifferent to haze in more and

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- ① Local governments pursue short-term political performance at the cost of “high pollution, high energy consumption and low output” and vigorously compete in “homogeneous” investments. Like illegal behaviors of enterprises can be entirely overcome by improving external governance mechanism and even it is unnecessary to replace innate function of “survival of the fittest” of the market by administrative intervention. In this sense, “over-capacity” is a synonym for over-government investment.
  - ② State-owned enterprises and central enterprises have become a main force that boosts national infrastructure construction and industrial policy, while some private and foreign enterprises have no choice but to withdraw from their advantageous industry due to increasing costs of labor and other factors and shrinking external demand. Moreover, other private and foreign enterprises formally engage in industrial investment, but begin to mitigating pressure of increasing cost by cheating on workmanship and materials and thus give up their long-standing value idea of “integrity foremost” which is indispensable for industrial operation.
  - ③ Many cases in recent years remind us that government officials will be become increasingly impulsive to abuse power for personal gain and loss of state-owned assets will become an inevitable trend if economic power is too excessively controlled by some government officials.
  - ④ Stock market, securities market and banking credit market have shrunk due to decline in government and enterprise investment performance and “asset quality” of relevant investments has seriously deteriorated. Even loose-inclined monetary policy cannot turn around declining tendency caused by structural imbalance — “money shortage” characteristic. On the contrary, “shadow banking” engages in malicious interest arbitrage by means of ever-expanding financial services characterized by mismatching resource allocation at the market risk of liquidity absence for the purpose of catering to market demand for high returns. At this time, relaxed monetary policy will further add fuel to “capital-idling” game money — “money surplus”.
  - ⑤ The US begins to worry whether its industries and enterprises will leverage their inherent competitiveness to bring benefits of sustainable growth in the context of globalization in the post-crisis era like they did in the past. As a result, the US casts its eyes to Asia as a huge potential market with a high saving rate. Like the Washington Consensus brought tremendous financial interests to the US in the 20th century, the US Government now also begins to peddle high-standard and highly-opened trade and investment rules in the high value-added service industries represented by TPP and TTIP in which local US enterprises enjoy distinct comparative advantages. However, some Chinese rest content with and are blindly optimistic with economic indicators which are brought about by “preferential policies” and are seemingly better than those in Europe and US. They vigorously proceed from “chauvinism” to hope the central government will promulgate “reform and opening” measures in their favor in the domestic market at an early date and even misinterpret the intention of the Central government to turn a blind eye to current complicated external environment, instead of facing up to the severe challenges of today’s “external environment” or thinking calmly and seriously about the connotations of “innovation-driven and transformation-and-development-oriented” great power governance model put forward by this administration. Consequently, reform is very likely to product undesired and contrary results.

more provinces and municipalities today. Are we fully prepared to give full play to the unique and due initiative of “enterprises of various types of ownership” on the stage where China’s economy creates value? Are we fully prepared to take the advantage of entrepreneurial “spirit of innovation” to vitalize the Chinese market?

Currently, the overall plan and detailed implementation rules of the CSPFTZ give people an impression that they can be improved in the future. Moreover, the opening connotation, scope of business upgrading and marketization means of the free trade zone indicate that Shanghai is now taking full advantage of “system preferences” given by the new government to implement the innovation-driven national development strategy and undertake the task of pioneering a successful path of transformation and development in the new era. In this sense, the CSPFTZ is undoubtedly a significant “favorable” event that plays a positive role in changing the imbalanced pattern of money shortage and surplus existing in the Chinese economy. It is effectively counterattacking adverse comments and behaviors by western countries on the Chinese economy and finance and it is enhancing our confidence in the future prosperity and development of the Chinese society since we have the initiative of development in our own hands again. To enable this new CSPFTZ to exert sustained and positive influences on Chinese economy and world economy, the following issues will be addressed and researched to relax regulation and control over some financial elements.

## **I. Development Positioning of the China (Shanghai) Pilot Free Trade Zone (“CSPFTZ” for short)**

It is certain that the mission entrusted by the central government on the CSPFTZ goes far beyond the operation scope of existing “free trade zones” in the world. It is more like a parade ground which is built by this administration for the purpose of initiating the opening and development strategies of China and enabling Chinese governments, institutions, governments, scholars and even the masses to adapt to new environmental changes at an early date and take the initiative to improve their international competitiveness. The CSPFTZ shows very distinctive characteristics in at least the following three aspects:

First, trade in services actively advocates “high value-added”. The CSPFTZ is designed to improve the profitability of Chinese enterprises by means of system supports to overcome increasingly heavy cost pressure and burgeon of “industry hollowing”. This phenomenon is caused by a too heavy reliance on processing



trade, instead of winning competitiveness of local enterprises in product export by creating a low-lying land of cost like traditional free trade zones did. As a matter of fact, as the largest country of commodity trade and the second largest economy in the world, China is paying an increasingly high price for being the second largest economy in the world as a result of the ever-evolving world industry revolution, the gradual release of pressure on domestic currency appreciation and the intensifying trade friction.

Second, “high-standard” investment is implemented for the purpose of guaranteeing that China is on a good wicket in fair competition among big countries. From the perspective of China’s present development mode, China will face a great stress from cost raise as well as challenges of considerable profitability decline and accumulating systematic risk. This being the result of such rules as “high labor standard, high environmental protection standard, high intellectual property right standard, high standard on fair government procurement opening and high standard on fair financial service opening” which face China as long as major developed countries in the world establish TPP, TTIP and other new high-standard trade and investment opening rules<sup>①</sup>. Therefore, the CSPFTZ is to explore the way of profitability as well as “transformation and optimization of profitability”. This should be brought about by “favorable system preferences” such as power delegation to lower levels, enhanced system regulation and supervision instead of through probing into the effect of “low-lying land of cost” as a result of more and more difficult “preferential policies” (like preferential policies to increase export rebates).

Third, CSPFTZ is enhancing “high-efficiency” financial service. This is the most difficult, most imperative and most fruitful reform task! To succeed in financial reform, Shanghai must strengthen high mechanism efficiency, complete the law and have information transparency, conscientious talents, risk sharing and other functions. The overflow effect of economic transformation and innovation promotion on a national scale of the CSPFTZ depends on full utilization of financial resources in which Shanghai enjoys distinctive comparative advantages

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① Current statistics indicate that the share of wealth created by APEC countries which joined in or expressed to join in TPP is as high as 65%, while non-TPP countries take 35% of total APEC output value. However, the former only takes 26% of the total population in the region, while the latter accounts for 74%. Obviously, significant advantage in per capita output capacity will be certainly embodied in the factor opening market represented by service trade and dominated by advanced productivity rather than traditional cross-border transaction market dominated by commodity trade in which China is adept.

in the region. Of course opening is not a goal but a means in the financial sector. Participants are not allowed to spontaneously turn around market distortion in the financial market characterized by profit pursuit. On the contrary, they are more likely to capitalize regulation loopholes to gain “zero-risk” extravagant profits<sup>①</sup>.

## II. What are difficulties in balanced opening and control?

Balance between financial opening speed and financial risk management is a long-standing issue, which government leaders always keep in mind. Despite of many consensuses on management style, it is indeed very difficult to achieve the balance. Japan and other East Asian countries adopted progressive strategy that is similar with what we are implementing now, and suffered from great setbacks. It even ruined the “East Asia Miracle” of economic boom achieved in the early stage after successfully finishing the economic take-off and entering into the stage in which financial opening promoted industrial optimization. Interestingly, they took a cautious and prudent attitude towards financial opening like we do now and responded to many worries and comments at home and abroad. I clearly remembered I specially mentioned that the progressive opening model of East Asian Countries should become a sample for emerging market countries when I completed a paper on the financial crisis in emerging market countries abroad. Ironically, the financial crisis broke out in East Asia two years after the crisis in Mexico. Numerous wrong measures and practices were analyzed and found out after the crisis, e.g. currency mismatching, maturity mismatching and industry hollowing. As a matter of fact, these results in East Asian countries which could not be regarded as culprit for the East Asia crisis are attributed to poor relationship between finance and real economy. In the early stage of economic take-off, financial opening was suppressed to ensure interest rate and exchange rate at “low level”, which is conducive to manufacturing financing and export. However, these

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① As a matter of fact, much international experience has revealed that the root cause of financial crisis in some countries depends on persistent matching between financial opening and real economic development rather on the speed of market opening, financial “innovation” capacity or “sequence” of financial liberalization. The longer “irrational exuberance” brought about by financial opening lingers on is more likely to paralyze the risk awareness of regulators and finally it will be possible for China to avoid the tragic crisis that broke out in neighboring countries and regions if we only pay attention to such management issues of speed, capacity and sequence while ignoring the important characteristic that “finance” more easily surpasses real economic development to advance alone in the tortuous market environment.



countries attempted to promote industrial upgrading by means of financial opening when export market became saturate and enterprises drained to overseas countries. Consequently, they suffered from heavy losses and finally encountered the crisis. What was actually ignored in the second stage of financial opening was that capital was drifting away from real economic sectors (generally speaking, both speed and degree of capital price change outpace price indexes in other economic sectors, which easily changes the direction of resource allocation and impacts efficiency loss). High share price in the service industry and even bubbles in the real estate market were understood as inevitable effects of industrial upgrading and thus were ignored. Not until several years later did we realize that the East Asia model is infeasible.

In addition, different from market reform conducted by Latin American countries as well as Soviet Union and former socialist East European countries, financial opening strategy adopted by East Asian countries is typical an imitative “progressive model”. Moreover, it was believed at the very beginning that Latin American countries and East European countries would certainly succeed in privatization reform as long as they employed such a model. Many scholars were confused why the “progressive model” failed for a long time, believing only “explosive” reform and opening would fail. At last, many scholars explained the failure by regarding the “result” that I believed as “reason” and was eventually comforted by a conclusion that East Asian countries did not advance financial opening by following another imitative model (model of balanced asset structure).

Today, we might forget what happened in the past because such crises frequently appear in history or because we believe we find out the crucial reason of the problems which will not happen to China. Recently I read *This Time Is Different* by Rogoff who is IMF Chief Economists and professor at Harvard University, in which Rogoff draws a conclusion that reasons for financial crises in the past 800 years are the same. Therefore, when the CSPFTZ is prompting financial opening strategy in an all-round way, I want to note that the biggest reason for crisis depends on divorce of financial development from real economic development rather than speed and sequence. Moreover, all people were overconfident in financial boom which actually evolved into irrational exuberance in the initial stage of financial opening without paying attention to risk.

In my opinion, neither can the prosperity of the CSPFTZ be separated from a development principle that is suited to China’s national conditions<sup>①</sup> nor violate

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① There includedevelopment stage, endowment restriction, virtual-real ratio and other factors.

market law to blindly build a unsustainable, “homogeneous” and “innovation-driven” model whether such prosperity is driven by “trade in services”, propelled by the mechanism of “investment facilitation”, impelled by attractive expanding coverage of “tax preference” or boosted by bold “financial opening” environment. Therefore, these high-demanding requirements inevitably show us the important significance of “opening and control” strategy rather than changes to requirements at the level of commodity trade management.

“Opening” requires us to open markets and factor market to the outside world. For example, we can introduce RMB offshore business and offer Chinese enterprises financial supports to urge government administrations at all levels to respect and introduce market law so as to break monopoly pattern and administrative control barriers that are left over by history and are hard to be overturned. “Control” means we need to ensure that this round of reform must meet the needs of sound development of China’s economy and prevent any forces threatening “national security, financial stability and social security” from entering into China. In this sense, control “relaxation” of the CSPFTZ should be regarded as an attempt to test our innovation-driven capacity and wealth conversion rather than being simply interpreted by sharing of exclusive preferential policies as bonded zones. If we succeed, we should owe our success to our efforts recognized in the market rather than to government support and cannot “nationalize private enterprises”. If we fail, we must attribute our failure to our poor preparations and weak foundation. Moreover, all parties concerned should be liable for such mistakes caused by their decision making rather than asking the government to pay the price for it. This is one of biggest differences between the previous “preferential policy” and the “preferential system”.

It is no wonder that all market players vie with one another and itch to “occupy a seat”. The People’s Bank of China, the China Securities Regulatory Commission, the China Insurance Regulatory Commission and the China Banking Regulatory Commission take a “conservative” attitude of varying degrees if the “risk-controllable” situation in the future that we pursue at the very beginning is understood by that the state will pay the price for future possible failure. Therefore, in my opinion, construction of the CSPFTZ should be regarded as a move made by the Shanghai Municipal People’s Government to boldly shoulder the important task of “exploring the model of national transformation” in a bid to provide a “negative list management mechanism” that “respects market law and prevents market failure” by its pilot reform. The CSPFTZ is actually a “process of trial by mistake”

to “relax control and improve regulatory efficiency” in the initial stage. All direct participants in the construction of the CSPFTZ should be considered as the first adventurers to try a tomato. In other words, we must think boldly and responsibly about how to open suited to our conditions for the sake of national sustainable development” instead of envying “Shanghai for its first free trade zone” and then “claiming the same cake” from the government. Only by doing so are we likely to duplicate market mechanism and popularize the efficiency regulation model by meeting the requirements of the “duplicable and propagable” model of the CSPFTZ put forward by the central government. Moreover we are likely to prevent local governments at all levels from following the same old disastrous road to scramble for “preferential policies” and make homogeneous investment beyond the affordability of local government while ignoring the purpose of the free trade zone to build “market mechanism and market vitality”.

Besides, I would like to offer the following three advises to those who are overoptimistic about the preferences of the free trade zone. First, you need to know “industry hollowing” caused by the “overshoot effect of factor price”<sup>①</sup>; otherwise, you will suffer from damages and losses and at least pay the price of early elimination by “breaking the rules” as a result of your capital-based profit model. Second, income “dividends” of “high-return factor investment” prefer technician elites and financial talents<sup>②</sup>. Will such a “structural change” lead to conflicts of interest caused by the widening “gap between the rich and the poor” like those in the US today? Can you maintain your wealth acquisition model as long as such small probability events happen in China? Third, any “loophole in supervision and regulation” over market players inside and outside the free trade zone (according to much international experience) is very likely to trigger off a full-blown financial crisis, which is one of the biggest differences between economic opening and financial opening. Are you really superior to well-informed overseas institutional investors in timely giving up after gaining some profits and resisting “systematic risk” in the crazy market prior to the crisis?

Therefore, in order to reduce risks we face today and prevent the CSPFTZ from becoming a paradise for speculative adventurers, great importance should

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① If control over factor market is relaxed, both time point and degree of price rebound will be earlier and higher than those of resource allocation optimization, which is rare in the process of manufacturing opening.

② To curb returns of factor investor is to eliminate the international competitiveness of factor market.

be attached to the service model of “value chain finance” (to be expounded later) that I emphasize. Consequently, China will not get into the predicament of the financial crisis caused by full-blown systematic risks like East Asian countries did, even though we will possibly face internal and external negative financial impacts (unexpected) in the future. Moreover, our real economy and core competitiveness will not be damaged like in the US and all financial risks are jointly shared by domestic and foreign investors and stakeholders in the CSPFTZ even though we suffer from a financial crisis. History has told us it is impossible for any country that opens wide to the outside to avoid external impact and even avoid crisis to some extent. However, China will pay a much lower price for the serious consequences of the crisis.

In my opinion, the overall plan of the CSPFTZ entirely matches the development model of “value chain finance”. In other words, we must regard the four important links of “expanding the scope of opening and investment, accelerating the transformation of the mode of trade development, deepening opening and innovation in the financial sector and improving institutional guarantee in the administrative and legal sectors” as an organic whole rather than separated tasks. Moreover, we cannot regard the CSPFTZ as a good opportunity to scramble for “preferential policies” nor to seek for possible great rooms for interest arbitrage inside and outside the free trade zone.

In other words, all market players, including enterprises in the trade service and financial industries as well as market investors and market regulators, must be aware that “opening” will certainly bring about “prosperity” which includes however, two states. One is temporary and high-cost irrational exuberance as a result of market capital pursues arbitrage opportunity, which often locally exists in the capital and real estate market or which drives an investment boom in other relevant real economic sectors. The other is long-term low-cost rational exuberance owed to the model of “value chain finance” that helps improve national core competitiveness (and build innovation-driven growth mode). The economic effect of the CSPFTZ will be overall national economic prosperity that is created by “capital, technology, talent” and other core factors in the context of “capital globalization” as anticipated by the Shanghai Municipal People’s Government and Premier Li Keqiang.

### **III. How does the CSPFTZ adhere to the value orientation of “finance serving the real economy”?**

At the moment when the CSPFTZ’s financial opening-up strategy is entering

into an overall promotion phase, the clearest political suggestion we've got from the comparison of a lot of international experience is that the most fundamental reason for the outbreak of financial crisis in some countries does not lie in whether the opening "speed" of a market is quick or slow or whether the financial "innovation" ability is high or low, and that even the "order" arrangement of financial liberalization is not the most important factor. The most critical issue is whether it's possible to insist on realizing the status of close match between financial opening and the development of real economy. Otherwise, if attention were to be paid only to the management of speed, ability and order while the important feature that "it's easy for finance to be detached from real economy" to "leap" forward were to be ignored, then the tragic fate of crisis outbreak would be inevitable when this kind of "irrational exuberance" finally paralyzed the supervision awareness.

It's an inevitable choice for China's economic development today to explore the financial service mode of "differentiation, specialization and diversification" by focusing on the complete "value chain" (commonly known as the "Smiling Curve") of real economy. The mechanism of "Negative List Management" within the CSPFTZ nowadays has just given us an excellent opportunity to luckily join enterprises and financial institutions in the CSPFTZ, fully mobilize the global financial resources and build the mode of China as a strong economic power. Therefore, we've teased out the development modules of the following "Eight Financial Services" based on "International Experience Comparison" according to the features and needs of the development of real economy in the "Smiling Curve".

1. The urgency of Chinese industrial upgrading and external pressure force financial service mode to explore a brand new service mode of "Entrepreneur (technological innovation) Finance" (the far left of the Smiling Curve, American experience).

The existing lending mode in China's banking industry simply can't meet the financing demands of small and micro innovative enterprises with differentiated service features. The development platform provided by the CSPFTZ can be made use of to fully mobilize the wealth income and industrial capital of social high-net-worth people, home and abroad, for successful enterprises to support returnee talents returning to China to start a business and to engage personnel with good higher education and training in innovative business. We can even introduce oversea mature angel fund teams and use part of the state's innovation fund to support the innovation of small and micro companies based on the authentication of professional institutions specialized in third-party project evaluation and the

operation of professional financial departments. Once the project becomes a success, its profit return will continue for a “long” time and will be “high”, which quite complies with the requirements on the operation of long-term social security funds of the government. Statistics show that the main buyers of long-term “high-yield bonds” in America are long-term fund management groups like insurance institutions and pension institutions rather than individual investors and institutional equity investors. While in China today such kinds of long-term funds related to people’s livelihood have a hard time due to the lack of good “value investment” channels and financial teams with strong professional abilities.

On the other hand, as a policy recommendation, we also wish private entrepreneurs lacking human recourses and financial advantages to adjust their profit models and seize the golden chance of access provided by the CSPFTZ, which presents the principle of Neutral Principle of Competition, to change from a successful “Entrepreneur” to a “Philanthropist” supporting young talents rather than being a unskilled banker. The organic combination of the three aspects, i.e., the valuable “industrial capital” accumulated by the entrepreneurs themselves, the most competent and specialized “financial teams” home and abroad and the effort to seek for the most innovative and talented “young entrepreneurs”, will surely make the service platform of “direct finance” like “Silicon Valley Finance” in China capable of providing the most professional long-term financial support for the healthy needs of “Innovation-driven and restructuring for development”.

2. The key point to solve the difficulty in SMEs financing is to have medium-sized and small banks follow financing models of specialized financial services (or called “relation finance”) to on the one hand, avoid excessive competition caused by business “homogenization” between medium-sized and small banks and on the other hand cultivate SMEs’ to realize the specialized development mode of “striving for excellence” in business<sup>①</sup>.

In China, there are huge numbers of small and medium-sized private companies which are an important group to deal with employment and market vitality in the current stage of China. The policy suggestion we give in this aspect is to carefully learn the specialized financial service mode developed by German small and medium-sized banks for SMEs. That is, small and medium-sized banks that are not only engaged in the loans for the prophase of commercial project investment, but will also provide “one-stop” full service for any financial need of

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① i.e. the second sector of the end of Smiling Curve, German experience.



the enterprises such as enterprise fund account management and enterprise property insurance. They will neither give up automotive industry loans they are proficient in and “faithlessly” invest the limited funds in other unfamiliar industries for the higher interest that customers are willing to pay, nor will they initiate to reduce loan interest to compete for customers of other banks. The reason why they could stick to the stable service mode of “relation finance” is that the supervision authority will also limit the phenomenon of competing for customers “by interest spread adjustment”. The advantage of stressing “rules” does not dull the competitiveness of enterprise<sup>①</sup> and also avoid the problem of excessive corporate financing<sup>②</sup>.

Of course, in such kind of relation-based financial service mode, the overall openness of financial business is not only required by enterprise clients, because they can focus on the improvement of their business ability and ensure their undefeated status in the fierce market competition by improving the specialized technical level; while the small and medium-sized banks also need the service mode of mixed operation to support the cost of “one-stop” financial service due to the consideration of self interest, that is, different from big banks which rely on “economies of scale” to win, they are seeking for “economy of scope”. For instance, small and medium-sized banks will help customers to sell stocks they issue to earn the necessary commission besides providing enterprises with loan service. Statistics show that the biggest cost of such kind of specialized banks is the “labor cost” ensuring the smooth implementation of business, or the high requirement of overall financial services of corporate counterparts will not be satisfied without “talent guarantee”. Only when meeting all kinds of needs proposed by customers can small and medium-sized banks establish “differentiated” competitive advantage to make them invincible in the competition.

3. One of the biggest highlights of the CSPFTZ is that the openness of “investment banking” business in the financial industry of China should be accelerated to better motivate the financial resources and financial service ability in the world to help Chinese enterprises to realize the development strategy of “going out”<sup>③</sup>.

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① As the first choice of banks are good enterprises with high ability of repayment, or enterprise bankruptcy in the situation of global economic competition will directly threaten the asset quality of banks with high degree of concentration.

② As banks “know quite well” the risk features of enterprises in the whole process of development, any excessive lending will be likely to threaten the asset quality of banks.

③ i.e. the middle sector of the Smiling Curve, the part dividing the left and the right, Japanese experience.

As the problem of scarcity in domestic “production recourses” (including factors of labor, land, energy and funds) will become more and more serious, it will become harder and harder to maintain the structure of continuously keeping international competitiveness depending on “cost advantage”. Therefore, while improving the efficiency of factor market resource configuration to ease the pressure of cost increase, Chinese enterprise legion can hardly avoid the international strategy of “going global” for manufacturing industry, experienced by and even stuck to all the way by other developed countries (like Japan, etc.). However, without the great support from financial institutions like banks and brokers with international financial business ability, the strategy of enterprises’ “going global” will not be successful. Or it will just stay at the current level of resource investment and office establishment and will not really be able to set up the international status of Chinese multinational corporations and multinational financial institutions. From this point of view, it’s necessary for the CSPFTZ to make full use of the special conditions of financial openness to establish a complete set of financial business platforms and rule systems for small and medium-sized enterprises’ “going global”. Hence, to promote the restructuring and development of Chinese enterprises changing “from small to big and from big to strong” in the environment of fair competition abroad.

4. The restructuring and development of China’s economy today can hardly go without the contribution of the government’s public services<sup>①</sup>. Although with the influence of “policy dividend” such as proactive fiscal policies and easy monetary policy in the previous phase, the excessive development of local investment and financing platform and the sequel of land finance have brought huge pressure on the government’s financing ability. Therefore, the service system of future “government finance” should be promoted more by improving specialized and market-oriented operation mode and management efficiency (American and Singapore experience).

To remove people’s worries is to release the power of domestic need, and the government should undertake the bounden obligation. Besides optimizing population structure, the management of pension should focus more on the utilization of capital market’s experience in wealth creation. As a matter of fact, from the operation mode of America today, we can also see that the profit sources of pensions mainly come through sharing the ability of excellent enterprises’

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① i.e. the first sector of the right end of the Smiling Curve.

creating wealth through dividends and high-yield bond returns rather than through gaining proper investment returns through the trading and liquidity of capital market. This is because the latter has been demonstrated in the practice of countries like Japan, where it shows that when an aging “liquidity” wave came up, the “profit gains” actually gained would not be that high as expected due to the price suppression function of transactions, and hence would not be able to solve the global problem of empty pension accounts. Therefore, whether the technology financial service mode will succeed or fail will directly influence the profit stability of the future pension operation of the government. In this sense, the financial openness business of the CSPFTZ should cultivate a strong Chinese enterprise legion to lay solid foundation for the improvement of the future Chinese asset market’s ability of creating wealth.

What should not be ignored on the other hand is the endogenous phenomenon determined by the way of Chinese economy growth and economic structure, that is, in a rather long period, the accumulation of USD foreign exchange assets in China can’t be reduced on a large scale. Therefore, the management efficiency of foreign exchange reserves will directly affect the credit of Chinese enterprises investing overseas, the stability of Chinese currency and financial system and the ability of Chinese economy’s sharing “globalization dividend”. For this reason, the only aspect we have to pay attention to is the coordination and control of three sectors of foreign exchange reserves, namely, “investment profit, risk characteristics and level of liquidity”. In this sense, though the operation mode of the CSPFTZ is different from that of Singapore and its focus is on RMB offshore business rather than offshore dollar financial business, the competition and cooperation between Chinese financial institutions and oversea financial institutions will help to improve the wealth management ability of Chinese-funded institutions in the international financial market and will do good to the optimization and management of our USD-dominated foreign exchange reserve assets.

5. The pressure arising from the global balance of international payment and the price of extensive economic growth will inevitably require us to extend the production sector of the manufacturing industry to the green service industry and serve the trade sector (the second sector of the right end of the Smiling Curve). For this purpose, the task of supporting the extension and transformation from front-end “industrial finance” to back-end “business finance” will necessarily become the first one to be completed by the CSPFTZ according to Hong Kong experience.