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Development and Reform of China's Service Industry in the Past 70 Years

Zhu Pingfang, et al.



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Development and Reform of China's Service Industry in the Past 70 Years

*Zhu Pingfang,
Wang Yongshui,
Li Shiqi, Xie Ruoqing*

Abstract: Research objective: To review and summarize the historical process for reform and development of Chinese service industry in the past 70 years since the founding of People's Republic of China at different stages and by segments, measure the historical contributions of service industry to economic and social development, and analyze the far-reaching impacts of new industries, new business patterns and new business models on the development of service industry. Research methodology: Based on economic growth and national economic accounting theory, this paper organically combines statistical data with policy-related text references. Research findings: In the past 70 years since the founding of People's Republic of China, the development of service

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industry has basically evolved from the dominance of traditional service industries to the joint development of traditional service industries and modern service industries, which undergoes six stages, i.e., “Serious Suppression; Exploration and Recovery; Start-up Development; Rapid Development; Catch-up Development; Transcendental Development”. With the gradual progress in economic system reforms, traditional service industries gradually transform and upgrade, while new service business formats spring up like mushrooms. Research innovation: This paper reviews the historical trajectory of the development of Chinese service industry from a dynamic perspective, probes into the laws behind the development of service industry, analyzes and takes an outlook on the prospects of new business formats and new business models. Research significance: This paper summarizes development experience and lessons of Chinese service industry, and gives a reference for the high-quality development of service industry.

Keywords: Service Industry; Development Process; Experience and Revelation

Introduction

Some controversies still focus on the specific concept of the term “service industry” in the academia. However, from the perspective of *Industry Classification of National Economy*, service industry and tertiary industry are equivalent, and both merely differ in citation routines: From the perspective of national economic accounting and statistics, “Tertiary Industry” is cited when service industry is mentioned together with primary and secondary industries. And “Service Industry” is used in parallel with “Agriculture, Forestry, Animal Husbandry and Fishery” and “Manufacturing Industry and Construction Industry”. China has started to conduct statistics on tertiary industry since 1985 (GBF [1985] No. 029).¹ At that time, tertiary industry was defined in the report of National Bureau of Statistics as “the industry other than primary and secondary industries”, including two types and four hierarchies. Under the current statistical

¹Promulgation and revision of division criteria for primary, secondary and tertiary industries, see: http://www.stats.gov.cn/tjzs/cjwtd/201308/t20130829_74318.html.

classification standards, according to the latest statistical standard instructions of National Bureau of Statistics, it is expressly stated that “tertiary industry is service industry” in *Industry Classification of National Economy* (GB/T4754–2011 and the latest national standard GB/T4754–2011–2017).

Since the founding 70 years ago, the People's Republic of China has achieved striding development from the era of planned economy to the era of socialist market economy with Chinese characteristics. During this period, the national economy has developed rapidly, the comprehensive strength has steadily beefed up, and the people's livelihood is improved with each passing day. Detailed and accurate references and statistical data chronicle the significant achievements of China's economic development. According to the official statistics announced by National Bureau of Statistics, in 2018, China realized GDP of RMB 90.031 trillion, in which the added values of primary, secondary and tertiary industries accounted for 7.19%, 40.65% and 52.16%, respectively, which were 50.49%, 20.78% and 28.73% respectively in 1952 and 27.69%, 47.71% and 24.60% respectively in 1978. Evidently, the changes of industrial structure in China's economic and social development are similar to the development stories of many other countries which all undergo a process of gradual transformation from the dominance of agricultural and manufacturing industries to the dominance of service industry. This law of change in industrial structure is consistent with the law of ascending levels of human demand. Without doubt, compared with developed countries, China still features a relatively low proportion of service industry in GDP. Contradictions exist between people's needs for high-quality services and relatively laggard development of service industry. The Chinese government takes more inclusive attitude to support the development of high-quality service industry, and commits to promoting further opening-up of service industry on policy front.

Among the existing research findings, many literatures have summed up and reviewed the development of Chinese service industry during various major periods. For example, Li Jiangfan, *et al.* (2008) and Xia Jiechang (2008) conduct summative research on the 30-year process, experience and reform measures for the development of Chinese service industry since China's reform and opening-up. Deng Chunling (2009) makes retrospect to the development of service industry during 60 years

since the founding of People's Republic of China. Xia Jiechang and Yao Zhanqi (2018) conduct research on the development process of Chinese service industry in the past 40 years since China's reform and opening-up, establish "Service Industry Liberalization Index" as a measure of openness, comparatively analyze the openness of service industry development in various regions, and summarize the reform and development experience of service industry. Li Yongjian, *et al.* (2018) systematically review and chronicle the reform course of service industry. From the perspective of the evolution in the law of the industrial structure changes, as early as the 17th century, William Petty, a British scholar of classical political economics, had observed the law of the hierarchical transfer of labor in different production sectors. Until 1935, the concept of "tertiary industry" was formally proposed by Fisher in his monograph *The Conflict of Progress and Security* (Liu Wei and Yang Yunlong, 1992). Subsequently, in 1940, Colin Clark further clarified that "tertiary industry" is such an industry that is in parallel with "primary industry" and "secondary industry", summarized and advanced the theory originally raised by William Petty, and gave rise to "Petty-Clark Law". After that, by carrying on the theory by Petty and Clark, Simon Kunzites systematically analyzed the industrial structure changes in national income on the dimensions of "agricultural sector", "industrial sector" and "service sector", and found that service sector took an incremental share of national income in all sample countries observed by him. Zhu Pingfang and Wang Yongshui (2013) point out in relevant research papers that the development of Chinese service industry is "lagging behind" compared with the manufacturing industry. However, there are two diametrically opposite assertions in the studies on the underlying dynamic mechanism behind structural changes, namely, hypothesis of "Cost Disease" by Baumol and hypothesis of "Structural Dividend" by Peneder (2003). Li Xiang, *et al.* (2016) apply China's data for according studies on this basis. In fact, under the law of industrial structure changes in China's economic development, service industry has indeed made stably-increasing contributions to national income and employment, among others. Undoubtedly, the increase in per capita income, the upgrading of consumption mix, the improvement of labor productivity, the promotion of urbanization, the rapid development of new technologies (especially information technology) and many other factors have combined effect and propel continuous transformation and upgrading of service

industry, gradual diverse industry landscape and stepwise optimization of industry structure. Therefore, service industry has been improved in breadth and depth. There have been many relevant research literatures in this regard. For example, Li Jiangfan (2004) once summarized this law as “joint effect of the law of rising service demand and the law of rising service supply”, which will not be cited herein because of space limitations.

The aforementioned researches undoubtedly provide useful references for this paper. This paper intends to make retrospect to the historical context of the overall development of service industry in the past 70 years since the founding of People's Republic of China, follow up staged characteristics and structural changes in the development of service industry from a dynamic research perspective, expound on the contributions of the development of service industry to China's economic and social development, and sum up the experience and lessons in the reform and development of service industry, with a view to giving inspiration for Chinese service industry to achieve high-quality development. The rest of the paper is arranged as follows: Part One makes retrospect to the historical context of the development of service industry in the past 70 years since the founding of People's Republic of China, refers to statistical data, describes historical characteristics of the development of service industry by stages, and briefly reveals the interregional differences in the development level of service industry. Part Two probes into the structural changes within service industry by industries. Part Three analyzes the historical contributions of service industry to added value contribution rate, employment contribution rate and the use of foreign investment. Part Four, based on the aforementioned research conclusions, sums up the experience and lessons in the development and reform of Chinese service industry.

Historical Context of the Development of Service Industry

Since the founding of People's Republic of China, the development of Chinese service industry has demonstrated such fundamental characteristics that overall industry grows stronger and stronger, while industry pattern shifts to complex style instead of single style. Moreover, reform and opening-up have always been the keynote throughout the development course of Chinese service industry. Some important

policy changes in the development process of Chinese service industry are briefly described hereinafter. On this basis, this paper summarizes the staged characteristics of the development of service industry. The development of service industry since the founding of People's Republic of China was firstly discriminated and severely suppressed under the planned economic system, and then kicks off the process of marketization and industrialization. During this period, the development of service industry is driven by continuous deepening of reform and opening-up. According to research outcomes by Li Yongjian, *et al.* (2018), the logic of reform in service industry is as unique as driving force, logic and even specific measures of the reform in agricultural and manufacturing industries, which is summarized as "reform momentum not oriented to industrial goal, disagreement for transcendental hypothesis, pragmatism philosophy, double standards of people's livelihood orientation and efficiency orientation, synchronization and discord of reform and opening-up". Xia Jiechang (2008) points out that from a sequence perspective, the reform of Chinese service industry is launched through a step-by-step approach of "starting with the easier tasks to advance gradually" in principle, which follows the basic path "from gradual liberalization of market access, the improvement of the market structure system to the reform of the property rights system". There are several key nodes in the development and reform process of Chinese service industry. To be specific, accelerated development of service industry was officially stated in the *Seventh Five-Year Plan* in 1986, and service industry was deemed under industrialization approach in the formulation of the "Five-Year Plan" for the first time since the founding of People's Republic of China, thereby overthrowing the discrimination against service industry in terms of policy guidance. *Decision on Accelerated Development of Tertiary Industry*, announced in 1992, proposed to comprehensively and rapidly develop tertiary industry. *Guidance Catalog of Industries for Foreign Investment* issued in 1995 and its subsequent revisions laid a solid foundation for the "negative list" administration system for foreign investment. In 2001, China joined World Trade Organization (WTO), accepted *General Agreement on Trade in Services*, and promised to gradually lift the market access restrictions for service industry within 3–5 years after accession to WTO and entitle foreign investors to national treatment in related fields. China (Shanghai) Pilot Free Trade Zone, which was officially established in 2013, serves as

a good experimental field for exploring foreign investment market access reforms (such as “negative list”) together with other subsequent free trade zones in China. *Foreign Investment Law of the People's Republic of China* expressly stipulates the adoption of a negative list administration system in the sphere of foreign investment, which is a comprehensive Chinese legislation involving foreign investment in many aspects.

Through review and retrospect for the development policies of service industry, on the basis of drawing on research outcomes (such as *Report on 40-year Reform and Opening-up of Chinese Service Industry*), the development process of service industry roughly falls into six stages in the past 70 years since the founding of People's Republic of China. By stages, the main characteristics and manifestations of the 70-year development of service industry are briefly summarized. According to universal law, the development of Chinese service industry follows the basic path of international industrial structure upgrading — the transition from primary and secondary industries to tertiary industry. Development of service industry and upgrading of internal structure are directly related to residents' consumption capacity (income level). The advancement of urbanization and the upgrading of resident consumption structure afford opportunities for the development of service industry. Reform and opening-up policies of service industry, the breakthrough development of new information technology and the development of knowledge-intensive and capital-intensive industries give rise to endogenous demands for service industry, which directly propel the modern service industry to enter a new development stage. The development of Chinese service industry is also surely unique — this is especially proved in the reform and opening-up policies of service industry at various stages, which is systematically reviewed by Li Yongjian, *et al.* (2018), and the similarities and differences between the ideas on reform of service industry and those reform of manufacturing industry are compared.

Development Characteristics of Service Industry at Various Stages

The period of 1949–1978 marked the stage of severe suppression (Figure 1). After the founding of People's Republic of China, from 1949 to 1952, according to the overall idea of “three-year preparation and ten-year construction”, appropriate steps were taken to be planned and prepared for the transition to socialism, while overall development

was still market-oriented. The national economy recovered rapidly and achieved stable growth from 1951 to 1955. Under the guidance of “General Line of the Transition Period” formally established in 1953, however, the main task was “basically realizing national industrialization and socialist transformation of agriculture, handicraft industry and capitalist industry and commerce” (Wu Jinglian, 2010). The formulation and implementation of the *First Five-Year Plan* (1953–1957) not only indicated that the Communist Party of China (CPC) began to make great efforts to build socialism, but also made clear two major tasks, i.e., “sparing no effort for industrialization construction and promoting socialist transformation”. From 1958 to 1978, the national economic production was mainly dominated by industrial and agricultural planned production. During this period, “Heavy Industry Overtaking Strategy” was vigorously implemented, which has been summarized by Professor Justine Yifu Lin. In other words, modernization was equivalent to industrialization, and service industry was deemed as “non-production sector” (Li Jiangfan, *et al.*, 2008). Therefore, the development of service industry was seriously suppressed due to discriminations in theory and production practice. Moreover, the overall resident income level was still quite low at this stage, and the development of service industry was confined in few

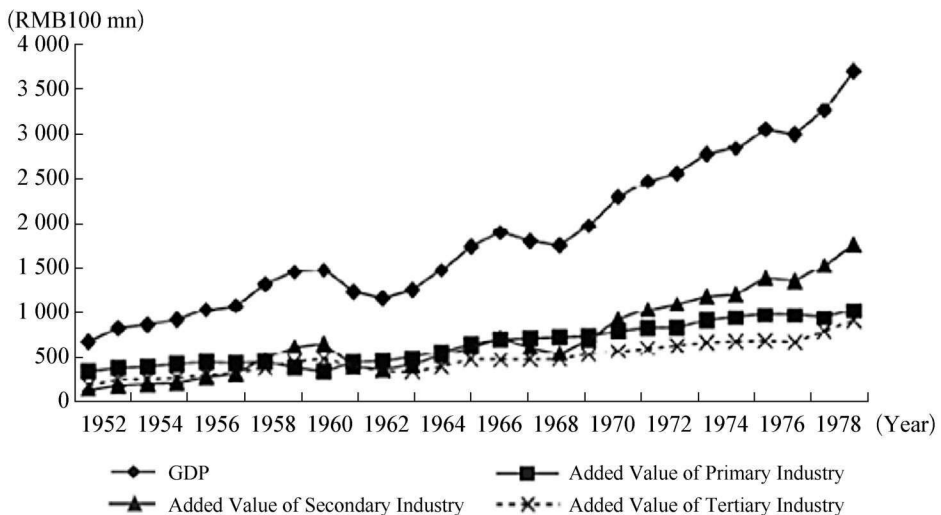


Figure 1 China's GDP and Added Value of Primary, Secondary and Tertiary Industries from 1952 to 1978

Source: *Official Website of National Bureau of Statistics.*

indispensable industries (such as commerce and transportation), which was almost degraded and affiliated to “industrial and agricultural sector”. According to public data from National Bureau of Statistics, the proportion of added value of service industry in GDP did not increase but decreased in 1952–1978, which rose from 28.73% in 1952 to the peak of 32.43% in 1960, and subsequently slumped in a row to 24.6% in 1978.

The period of 1978–1985 marked the stage of exploration and recovery. In 1978, historical journey of China's reform and opening-up kicked off in an official sense. It should be noted that during this period, the reforms mainly took place in rural areas and state-owned industrial enterprises. “Household Contract Responsibility System” was the most remarkable highlight for the reform in rural areas, while manufacturing industry emphasized openness by using foreign funds and technological equipment to promote its own development. During this period, the CPC Central Committee also surely noticed the gap between the people's demand for services and the supply of services, especially in services related to people's livelihood, such as village fair trade. At the end of 1978, the State Administration for Industry and Commerce held a national village market trade symposium in Dazhu County, Sichuan Province, thereby recovering village market trade again. In March 1979, Meeting of National Directors of Administrations of Industry and Commerce was held, which repeatedly discussed about the issue of opening the urban agricultural and sideline products market, and put forward the opinion that “urban agricultural and sideline products market should be opened in principle”. In 1983, the reform of contract system gained ground in industrial and commercial sector. In 1984, non-public economic sectors were permitted into transportation industry which was dwarfed by the bottlenecks of commuting and transportation capacity (Li Yongjian, *et al.*, 2018). It can be found that during this period, the development of service industry was mainly at the stage of exploration and recovery. In fact, the CPC Central Committee still had no distinct understanding of service industry, merely took into account actual needs, summed up the experience from practice, and promoted the reform of service industry in an orderly manner through “starting with the easier tasks to address urgent demands”. The development of service industry was actually for the sake of eliminating pressures from massive hidden unemployment in rural areas, and exerted strong pragmatic effects. Service shortage, caused by previous extreme

suppression, quickly gained tremendous development momentum after relative easing in policy. Despite controversies, twists and turns, the CPC Central Committee still adhered to the general direction of developing service industry. Therefore, in 1985, the added value of service industry (tertiary industry) began to exceed that of primary industry.

The period of 1985–1992 marked the stage of start-up development (Figure 2). During this period, China's service industry embarked on its journey towards marketization and industrialization. In 1985, it was clearly stated in the proposal for the formulation of the *Seventh Five-Year Plan* that “rise and prosperity of tertiary industry is not only an inevitable trend for the further development of the social division of labor and the continuous improvement of labor productivity, but also an important feature of the modern economy”. *The Seventh Five-Year Plan for National Economic and Social Development of the People's Republic of China*, released in 1986, officially mentioned the development of service industry, and call for “vigorously developing consulting services and actively developing finance, insurance, information and other types of service”, which appeared in the “Five-Year Plan” for the first time (Li Jiangfan, *et al.*, 2008). Correspondingly, National Bureau of Statistics submitted *Report on Establishment of Tertiary Industry Statistics* to the State Council in 1985, and such report defined the scope of the division of China's primary, secondary and tertiary industries for the first time. The General Office of the State Council agreed and forwarded this report (GBF [1985] No. 029).¹ With the further advancement of reform and opening-up, *Interim Provisions on Guiding the Direction of Absorbing Foreign Investment*, *Law of the People's Republic of China on Chinese-Foreign Contractual Joint Ventures* and *Law of the People's Republic of China on Foreign-funded Enterprises* were introduced one after another. Although these policies and regulations mainly stimulated foreign investment for the development of manufacturing industry without paying enough attention to the opening-up of service industry, some fields with relatively loose restrictions on foreign investment, such as tourism, catering and real estate,

¹“Promulgation and Revision of Division Criteria for Primary, Secondary and Tertiary Industries” are available on the official website of National Bureau of Statistics. National Bureau of Statistics has adjusted and revised the standards for division criteria for primary, secondary and tertiary industries many times since 1985, see: http://www.stats.gov.cn/tjzs/cjwtd/201308/t20130829_74318.html.

were passionately sought after by foreign investors (Xia Jiechang and Yao Zhanqi, 2018).

The period of 1992–2001 marked the stage of rapid development (Figure 2). In the spring of 1992, Comrade Deng Xiaoping's South Tour Speeches raised the curtain for a new stage of China's reform and opening-up, while the socialist economy with Chinese characteristics ushered in new opportunities. *Decision on Accelerating the Development of Tertiary Industry*, issued in 1992, made clear the task of comprehensively and rapidly developing tertiary industry. From October 1992 to September 2001, China's application for rejoining the *General Agreement on Tariffs and Trade* (GATT) and acceding to WTO¹ entered the substantive negotiation stage, i.e., negotiations over bilateral market access and multilateral negotiations over drafting legal documents for China's WTO accession. At this stage, in echo with the corresponding requirements of WTO accession, China began to take a fast lane for the opening-up of service industry. At the theoretical, policy and practical levels, the attitude towards the opening-up of service industry was relatively consistent, i.e., change from many restrictions to incentives to opening-up. Reform and opening-up undoubtedly offer a favorable environment for the development of service industry. It was equally important that since the reform and opening-up in 1978, resident income level went up steadily, and residents' savings kept on accumulation, which directly triggered new demands for services. Combination of the appeals of service industry for endogenous development demand and the dividends from reform and opening-up pushed service industry to enter rapid development stage.

The period of 2001–2012 marked the stage of catch-up development (Figure 2). According to the agreement of China's accession to WTO, transition period for all-round opening-up of service industry was during 2001–2006, and China must break the monopoly and barriers of service industry and gradually ensured the wider access to service industry market and increasing breadth and depth of opening-up year by year. China substantially fulfilled its commitments to WTO accession, gradually liberalized such key fields as finance and insurance during the

¹China applied for the restoration of the initial status of a party to the *General Agreement on Tariffs and Trade* (GATT) and its accession to the World Trade Organization (WTO), hereinafter referred to "rejoining the GATT and accession to WTO".

transition period, and even significantly improved opening-up degree of strictly-controlled communications, convention and exhibition, tourism and professional business services. After 2006, the opening-up of service industry, promised by China in its commitments to WTO accession, was entirely achieved. In 2007, *Several Opinions on Accelerating the Development of Service Industry*, promulgated by the State Council, put forward the strategic tasks and requirements for Chinese service industry to further expand opening-up. Opening-up of such service industry segments as finance, education, culture and medical care proceeded in an orderly manner. Other service industry segments, such as childcare, old-age care, architectural design, accounting, auditing, commerce, trade, logistics and e-commerce, also gradually lifted access restrictions for foreign investment (Xia Jiechang and Yao Zhanqi, 2018). Of course, the reform and opening-up of service industry imposed competitive pressure to domestic service companies, thereby greatly stimulating domestic service enterprises to devote to technological and service innovations. It is particularly worth noting that rapid development of information technology brought about revolutionary transformation for the development of service industry. For example, swiftness and convenience of financial transactions improved the financial participation of residents, and convenient online shopping spawned prosperous e-commerce industry across China, which also injected new vitality and vigor to such industries as postal service, warehousing and express delivery service. As shown in Figure 2, after rapid development of service industry at this stage, in GDP of 2012, the added value of tertiary industry surpassed that of secondary industry, which emerged as the main contributor to the development of the national economy.

The stage of transcendental development has prevailed since 2012 — service industry has replaced secondary industry as the main power engine for the development of the national economy (Figure 2), which is basically consistent with China's overall economic and social reforms. At this stage, reform of service industry has gradually evolved to the extent of overcoming crucial difficulties, more efforts have been made for opening-up of service industry, and the quality of opening-up has been significantly improved. As early as the 17th National Congress of the CPC in 2007, it was proposed to elevate "Free Trade Zone" as a national strategy. New requirements were put forward by the 18th National Congress of the CPC

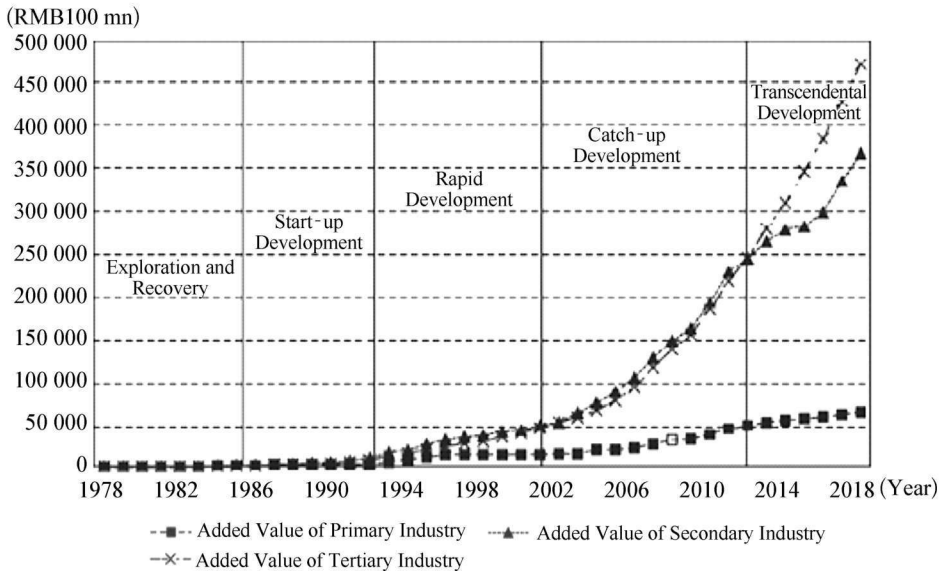


Figure 2 China's Three Industries Added Value from 1978 to 2018

Source: Official Website of National Bureau of Statistics.

for taking a faster pace to implement the Strategy of “Free Trade Zone”. On September 29, 2013, China (Shanghai) Pilot Free Trade Zone was officially inaugurated, which is committed to making trial explorations in various aspects (such as the transformation of governmental functions, financial and trade services and foreign investment access) and vigorously promoting the development of re-export and offshore business in Shanghai.

In November 2013, the 3rd Plenary Session of the 18th CPC Central Committee, chaired by General Secretary Xi Jinping, analyzed major issues of comprehensively deepening reforms, and emphasized in terms of economic system reform: “It is necessary to make the market play a decisive role in the allocation of resources and better give full play to the role of the government”. This greatly stimulated the enthusiasm of social innovation and entrepreneurship. On the afternoon of December 5, 2014, the Politburo of the CPC Central Committee carried out the 19th Collective Learning on accelerating the construction of free trade zones. General Secretary Xi Jinping stressed the necessity to accelerate the implementation of Strategy of “Free Trade Zone” by opening wider to the outside world. Up to now, 11 free trade zones have been in operation across China. As for opening-up, *Report of the 19th National Congress of the CPC* focuses