

The Enlightenment of Shanghai Free Trade Zone Construction to Heilongjiang Free Trade Zone

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Abstract

Shanghai free trade zone is the first free trade zone established in 2013, after eight years of continuous exploration, Shanghai free trade zone in investment management, administration, trade and financial system innovation and breakthrough, and accumulated a series of successful experience, was established in 2019 of Heilongjiang free trade zone has valuable guidance and reference significance, which means that Heilongjiang free trade zone can “stand on the shoulders of giants” development.

Keywords

Shanghai Free Trade Zone, Heilongjiang Free Trade Zone, System Innovation

1. Overview and Construction Achievements of Shanghai Free Trade Zone

1.1. Overview of Shanghai Free Trade Zone

Free trade zone refers to the free trade zone. From a broad perspective, the free trade zone refers to the trade agreements signed by multiple countries (Chen, 2021), and gradually reducing the tariff to zero, so as to realize the development of investment and trade liberalization in many countries. From a narrow point of view, free trade zone refers to that some countries can carry out free trade in their own territory. The trade activities of these countries can enjoy preferential tax policies, and the customs supervision of economic activities in these countries will also be reduced. Shanghai Free trade Zone is a free trade zone in the narrow sense (Jiang, 2021). The Shanghai Free Trade Zone is an overall plan

proposed by Premier Li Keqiang and adopted in 2013. Shanghai Free Trade Zone is located in Shanghai, the earliest coastal city in China to open to the outside world. On December 28, 2014, the Standing Committee of the National People's Congress authorized The State Council to expand the Area of the China (Shanghai) Pilot Free Trade Zone to 120.72 square kilometers. In 2015, the Shanghai Pilot Free Trade Zone became an honorary member of the World Federation of Free Trade Zones. The establishment of the Shanghai Free Trade Zone plays a very important role in China's economic transformation and government function reform, and is an innovative move to fully implement the reform and opening up policy. The research results show that the construction of Shanghai Free Trade Zone has significantly promoted the growth of GDP, number of enterprises, import and export. [Zou & Lan \(2021\)](#) and this conclusion is still established after several robustness tests. The construction of free trade zone has robust economic growth effect and is significantly statistically reflected. The establishment of the Shanghai Free Trade Zone can become a new system that can be replicated and popularized nationwide, thus promoting the adjustment and upgrading of economic structure, the fundamental transformation of development mode, and achieving sustainable economic growth.

1.2. Achievements in Building the Shanghai Free Trade Zone

1) Institutional innovation in the financial sector

First, to realize cross-border settlement of RMB. The realization of cross-border RMB settlement is a powerful measure to deepen the financial sector of Shanghai Free Trade Zone, and also accelerates the internationalization process of RMB ([Liu, 2020](#)). It is a measure with overall significance in China's financial reform deployment. According to the data released by the 2019 Shanghai National Economic and Social Development Statistical Bulletin, the total amount of cross-border RMB lending business in Shanghai Free Trade Zone reached 4.263 billion yuan, an increase of nearly 7 times over the previous year, the total amount of cross-border RMB settlement reached 3611.2 billion yuan, an increase of 49.4% over the previous year ([Han, Su, & Bai, 2020](#)). Second, interest rate liberalization. The implementation of interest rate liberalization is conducive to improving the efficiency of capital allocation in Shanghai Free Trade Zone and informing the adjustment of the structure of economic development mode. With the promotion of interest rate liberalization, the free trade zone has become an unprecedented and efficient communication bridge between domestic and foreign investors. Thirdly, the capital account is freely convertible, where the subject of free convertibility is the free account. The free account system helps to build a channel between free trade zones and overseas and offshore markets. According to the CRN news, more than 38,000 overseas enterprises have opened free trade accounts in 2018, with a total number of accounts opened reaching 72,000.

2) Investment management system innovation

Firstly, the negative list management model. The "negative list management

model” refers to the government stipulating which economic areas are not open, except for the restricted areas, other industries, fields and economic activities on the list. All management measures that are not consistent with the national treatment of foreign capital and the best-favored state treatment, or performance requirements and executive requirements, are listed in a list. It can be colloquially understood as a “blacklist” of investment fields. This manifest management solves the problem of information opacity. China’s first negative list of foreign investment was released in the Shanghai Free Trade Zone in October 2013, including 190 bans and restrictions. In trend, the list declined: to 39 in 2014, and 122 in 2015 (Chen, 2019), extended by The State Council to other free trade zones, 95 in 2017, and by 2018, 45. From 190 to 45, it has witnessed the weakening of foreign companies year by year. Second, the record-filing and control mode. The Shanghai Free Trade Zone adopts the principle of consistent domestic and foreign investment, that is, except for the investment projects reserved and approved by The State Council, all other foreign investment projects are updated from the previous approval system to the record system. In order to invest in the industrial chain outside of the negative list, the record control mode record management system reduces the approval level and simplifies the operation process, reducing the operation time from the initial 40 working days to 3 working days, and greatly shortening the time for overseas enterprises to settle in. Based on the innovation in the above investment management system, the Shanghai Free Trade Zone has achieved obvious results in many aspects and comprehensively improved the level of opening up. Take one data as an example, from 2013 to 2015, the actual amount of foreign direct investment increased from 5033 billion yuan to 39.626 billion yuan. It can be said that the level of opening up to the Shanghai Free Trade Zone has been significantly improved.

3) Innovation in the trade system

In terms of trade system, Shanghai Free Trade Zone has some innovations in the supervision mode of goods status, customs supervision mode and inspection and quarantine mode. First, improve the efficiency of goods circulation through the mode of classified supervision of goods status. Second, to improve the customs product circulation efficiency, simplify the customs clearance procedures, and greatly reduce the burden of enterprises. Data show that the 2018 sea and air transportation time in Shanghai took two days and one day, respectively, far shorter than other free trade zones. In terms of inspection and quarantine, the Shanghai Free Trade Zone has implemented more than 20 new inspection and management systems, and promoted the management experience to the whole country, and achieved good results. Take cosmetics enterprises as an example. In 2018, when the Shanghai Free Trade Zone approved the import of cosmetics without special use, the process was changed from three months to five working days. In addition, the proportion of cosmetics in the bonded zone of Shanghai Free Trade Zone in the total imported cosmetics increased from 28.8% in 2017 to 38% in 2019, showing an upward trend.

4) Innovation of the administrative management system

The main feature of the administrative system innovation of the Shanghai Free Trade Zone is “shifting from pre-approval to in-process and post-operational supervision” (Sun, 2017). The 2013 China (Shanghai) Pilot Free Trade Zone will focus on in-process and post-operational supervision as the main task of the Shanghai Free Trade Zone. According to the main characteristics, the Shanghai Free Trade Zone has set up a mid-process and post-operational comprehensive supervision platform since 2016. In the same year, it established a “four-in-one” regulatory pattern supporting market subject self-discipline, industry autonomy, government supervision and social supervision. After several years of development, the systems have become mature and stable in the future, and the Shanghai Free Trade Zone will continue to work in the above direction to seek optimization.

2. The Enlightenment of Shanghai Free Trade Zone Construction to Heilongjiang Free Trade Zone

2.1. Overview of the Heilongjiang Free Trade Zone

The China (Heilongjiang) Free Trade Zone (China (Heilongjiang) Pilot Free Trade-Zone), hereinafter referred to as the Heilongjiang Free Trade Zone, was inaugurated on August 30, 2019. Located in Heilongjiang Province, it is composed of Harbin Area, Heihe Area and Suifenhe Area, with a total implementation area of 119.85 square kilometers. There are a number of transportation hubs in the area, including Suifenhe Railway Station, Heihe Railway Station, Harbin International Aviation Hub, inland waterless port, etc. As the northernmost free trade zone, Heilongjiang is brave enough to innovate and build a new center for opening up to the north. By the end of July 2021, there were 11,403 new enterprises in the pilot free trade zone, an increase of 66.8% over before listing, among which new foreign-funded enterprises accounted for 24.1% of the province (Xiong, 2021). Although some achievements have been made, the development of the tertiary industry in Heilongjiang province is weak and the objective deficiencies restrict the development of the free trade zone. By contrast, in 2014, 10,445 companies settled in the Shanghai Free Trade Zone, which was listed just nine months ago (Sun et al., 2014). The Shanghai Free Trade Zone has accumulated a number of replicable and replicable experience in four aspects: foreign investment management, trade management, financial management and government management, and now it can be promoted to the Heilongjiang Free Trade Zone.

2.2. Implications of Shanghai Free Trade Zone to Heilongjiang Free Trade Zone

Heilongjiang Free Trade Zone could promote institutional innovation in the financial sector to improve the level of opening up. The policy is proposed to be based on the local provincial conditions. In combination with its own positioning as an international financial center, Shanghai has introduced corresponding

policies and systems to improve the foreign exchange management system on the basis of foreign exchange trading centers, bulk commodity trading platforms, gold exchanges and precious metal trading platforms. The Heilongjiang Free Trade Zone should also focus on its own geographical advantages. Heilongjiang is located in the north, adjacent to Russia, and has many years of exchange and trade experience with Russia (Zhou & Zhai, 2011). At the same time, Heilongjiang is famous throughout the country and even around the world for its ice and snow tourism economy. Therefore, Heilongjiang Province should rely on the trade with Russia and the ice and snow economy, and use the “Belt and Road” China-Mongolia-Russia economic corridor planning to explore new markets, bring new opportunities, and solve the “old difficulties” problem of industrial transformation and tax shortage. In addition, on the premise of based on the province, it seek breakthroughs in establishing a free trade account system, realizing the cross-border use of RMB and promoting interest rate liberalization.

Heilongjiang Free Trade Zone could implement the Negative list management mode (Zhao, 2021) and promote investment facilitation. In view of the remarkable achievements of implementing the Negative list management mode in the Shanghai Free Trade Zone, the Heilongjiang Free Trade Zone can also use this model to improve its opening-up level in many aspects. Implement to the action mainly has the following focus among them, the government function transformation mainly manifested in expand open field, reduce the market access threshold, the process, implement enterprise access “single window” system (Huang et al., 2017), “license separation” reform and government management “one-stop service”, to cancel the administrative examination and approval items. These measures make foreign investment more convenient. Heilongjiang Free Trade Zone can carry out reform and innovation in legislation. For example, in the specific industries and fields of the negative list, it can create laws and regulations suitable for local economic development based on the actual situation of the region. At the same time, the negative list can be optimized, so as to better cope with the industry impact brought by the emerging industries in the free trade zone. Through the effective adjustment of the negative list, the industrial transformation and upgrading of the Heilongjiang Free Trade Zone will be developed accordingly.

Heilongjiang Free Trade Zone could promote innovation in the trade system and open it up to the outside world. Through the reform and innovation of the trade system, the Shanghai Free Trade Zone has not only brought trade convenience to the FTZ, but also improved the opening up of the FTZ. Based on the development experience of the Shanghai Free Trade Zone, the Heilongjiang Free Trade Zone can implement the free port policy (note below). The free port policy helps to attract more domestic and foreign tourists, thus driving the development of Tianjin’s tourism economy. In addition, Heilongjiang Free Trade Zone can also actively explore the innovation of regulatory service system, simplify the facilitation measures such as customs clearance elements, accelerate the research and pilot work of the supervision system of goods classification and the

“single window” management system of electronic ports, and then launch a series of systems with efficient supervision and convenient enterprises. At the same time, it can also be integrated construction. For example, the implementation of port and bonded zone supervision and integration of transportation and logistics.

Heilongjiang Free Trade Zone could transform government functions and create a sound business environment. Since its establishment, the Shanghai Free Trade Zone has made remarkable achievements in government governance innovation. Through practice, we conclude that the transformation of government functions is the best effect. The transformation of government functions looks at the core and the focus. Among them, its core is to deal with the relationship between the government and the market, and its functional focus is on service supervision, trying to build a law-based government and a service-oriented government. In addition, the government should also do a good job in public services and market supervision. Through the transformation of government functions, the constraints and restrictions of enterprises' entry have been greatly reduced, and the free trade zone has also created a good business environment suitable for the economic development of enterprises. China promulgated the Foreign Investment Law in 2019. The Heilongjiang Free Trade Zone should also combine in-process and post-operational supervision with the Foreign Investment Law, and consider the current problems existing in the free trade zone and the future development direction of the free trade zone, so as to better promote the economic development of Hainan. At the same time, we can start from the transformation of government functions, change the original solidified management mode, improve the efficiency of administrative management, and strive to build a management mode with the characteristics of Heilongjiang province.

3. Conclusion

Under the background of the current international external economic environment changes, the establishment and development of the free trade zone is a strategic choice made by China to seek new economic growth points and adapt to the new pattern of the international economy. Shanghai Free Trade Zone, as the first free trade zone for China to develop and make breakthroughs, has accumulated rich development experience through innovation, with Heilongjiang Free Trade Zone as one. Shanghai Free Trade Zone's innovative experience in investment management, financial system and other aspects can play a guiding role in the subsequent development of Heilongjiang Free Trade Zone. However, due to the lack of comprehensive discussion in this paper and the lack of more evidence to support, there is still a lot of space for research on reform.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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