



## Free Trade Zone and Services Trade

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### Abstract

Services trade has brought both opportunities and challenges to the high-quality development of China's economy. From the perspective of opportunities, trade in services promotes technological progress of enterprises through trade complementation, competition, technology spill over and many other channels to solve the problem of "bottleneck" of enterprises. However, the development of trade in services and trade in goods is different. On the one hand, the development of trade in services has higher requirements on the institutional environment; on the other hand, the opening up of the service industry involving national security issues and various new forms of service trade have posed certain challenges to the regulatory system. As the "institutional highland" of China's new round of opening up, the FTZ not only forms a good institutional environment through institutional innovation, but also provides pilot experiments and buffer zones for the opening up of the service industry. Therefore, taking the FTZ as the carrier, it is the only way for the development of China's services trade to accelerate institutional opening, develop new forms of services trade and conduct systematic supervision over them.

**Keywords:** Services trade; FTZ; Institutional opening

### Introduction

Since the reform and opening up, China has fully seized the opportunity of international division of labor and continuously expanded its opening to the outside world. Especially after its accession to the WTO, China has accelerated the process of trade liberalization. By 2013, China has become the world's largest country in goods trade (the total import and export volume is \$4.16 trillion). During this period, in order to intensify reform and opening up and support the rapid development of foreign trade, China set up a wide variety of open zones, such as bonded zones, export processing zones, bonded logistics parks and so on. On the basis of the existing open areas, the State Council officially announced the establishment of the Shanghai Free Trade Zone in September 2013, and gradually formed a new pattern of "1+3+7+1+6+3". But is the Pilot Free Trade Zone just a simple substitute or complement of the previous various open areas? From the perspective of the process of China's opening up to the outside world, the previous opening up areas were more for the purpose of serving the opening up of the manufacturing industry

and realizing the liberalization and facilitation of trade in goods, such as policy support for customs supervision, international distribution, entreport trade and export processing. However, with the prevalence of anti-globalization, unilateralism and trade protectionism, and the existence of "middle income trap", "Thucydides trap" and "Tacitus trap" in the process of China's economic development, the external environment of China's development is facing a high degree of complexity and uncertainty. Under this background, traditional trade in goods based on manufacturing has been difficult to support the high-quality development of China's economy. If China is still engaged in the traditional trade of goods, it is inevitable that it will be difficult to escape the oppression of the re-industrialization strategy of developed countries on China's foreign trade, which not only weakens the export advantage of China's manufacturing industry, but also keeps it in the low-end position of the global value chain. The expansion and development of trade in services can not only promote the transformation of industrial structure, but also help the trade in services to be better embedded in the trade in goods, so that it can adapt to the "softening" trend of

**Received date:** 26 July 2021; **Accepted date:** 30 July 2021; **Published date:** 07 August 2021

**Citation:** Jingting Z, Yong H, Xiuyu D, Ping L (2021). Free Trade Zone and Services Trade. *SunText Rev Econ Bus* 2(4): 139.

**DOI:** <https://doi.org/10.51737/2766-4775.2021.038>

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global value chain, to promote high-quality growth of the Chinese economy [1]. So, how to open and develop service trade has become an urgent problem. Different from the development of trade in goods, trade in services has the characteristics of invisibility, heterogeneity and posteriori, which makes its development more sensitive to the institutional environment. Regional institutional environment has an important influence on the formation of comparative advantage in service trade, and the promoting effect of institutional environment on service trade is even greater than the sum of capital and labor. Free trade zone and other open area are the essential difference between the policy of "depression" into a system of "highland", namely in the middle of the free trade zone is no longer dependent on internal policies, but to replace traditional institutional innovation of preferential policies, through system innovation to establish a new system in line with international standards, to speed up economic restructuring and transformation [2]. To sum up, one of the major missions of the free trade zone is to focus on the opening up of the service industry and start the development and extension of the services trade field on the basis of the previous foreign trade.

### Services Trade and Economic Growth

With China's accession to the WTO, the openness of the service industry has been greatly improved and the services trade has developed rapidly, which has greatly promoted the upgrading of China's industrial structure and gradually improved the situation of over-reliance on the secondary industry to drive economic growth [3]. China has now become the first big manufacturing and trade in goods for the first big country, but it is still in the developing countries, in this case, the development will be crucial as the manufacturing of intermediate input services, and trade in services, especially the emerging service trade has the race for key areas of the global economy, plays an vital role in national economic development. Therefore, this part will analyze the contribution of service industry to economic growth from the perspective of industrial structure change and the development course of services trade to explain the reasons for the development of the services trade, so as to discuss the importance of developing service industry and services trade.

### Changes in Industrial Structure

#### Analysis of changes in China's industrial structure (Figures 1-4)

The initial stage of reform and opening-up, because China has established an independent and complete industrial system, the second industry's contribution to the GDP growth occupy larger proportion, the overall industrial structure is given priority to with the first, second industry, preliminary into the process of industrialization, but there are industry changes in development of

unstable phenomenon; Since 1990, the contribution rate of the secondary industry is much higher than that of the primary and tertiary industries, and basically remains above 50%, with the secondary industry playing a dominant role. Since its accession to the WTO in 2001, although the contribution rate of the secondary industry is still higher than that of the tertiary industry, the gap between the two has been narrowing year by year.

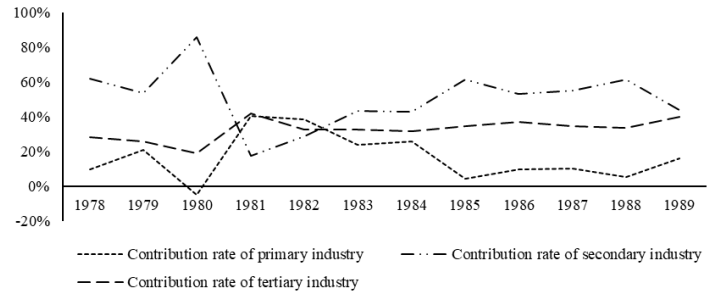


Figure 1: Contribution rate of three industries from 1978 to 1989.

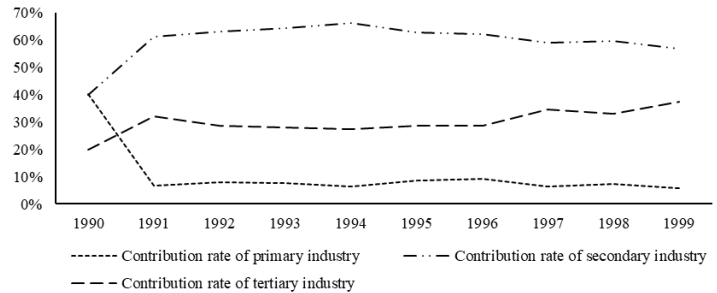


Figure 2: Contribution rate of the three industries from 1990 to 1999.

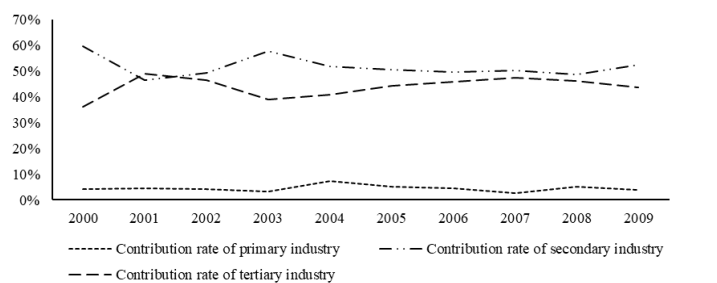


Figure 3: Contributions of the three industries from 2000 to 2009.

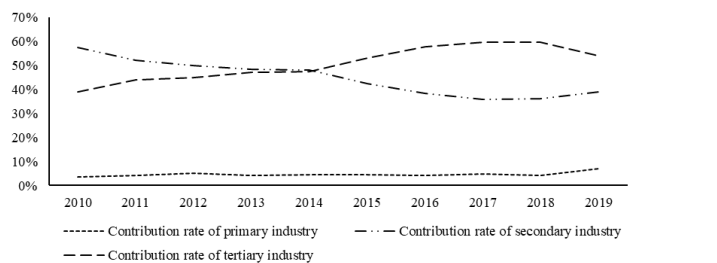


Figure 4: Contribution rate of the three industries from 2010 to 2020.

In 2005, the added value of the tertiary industry reached 50.5%, exceeding 50% for the first time. However, since the contribution rates of the secondary and tertiary industries have been equal since 2013, the contribution rate of the tertiary industry has exceeded that of the secondary industry and the gap has been widening year by year, with the tertiary industry replacing the dominant position of the secondary industry. On the whole, the change of China's industrial structure shows a trend of rationalization and upgrading, and gradually forms the basic pattern of "tertiary industry, secondary industry, and primary industry". From the perspective of the industrial structure changes of various provinces in China, the tertiary industry accounted for more than the secondary industry in Guangdong, Zhejiang, Jiangsu and Shandong respectively in 2013, 2014, 2015 and 2016. In particular, in the national GDP ranking of 2019 and 2020, these four provinces all ranked the top four in the country, which shows that the development degree of the service industry has become one of the important indicators to measure whether the regional economy is developed.

**Comparative analysis of industrial structure changes between China, Germany and Britain (Figure 5,6)**

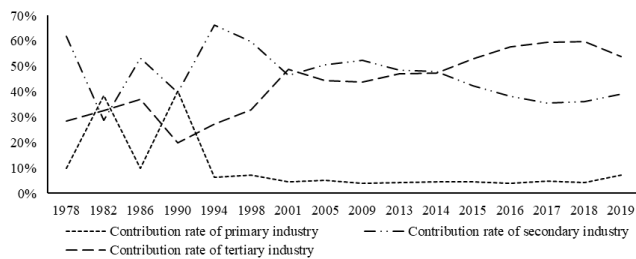


Figure 5: Changes in China's industrial structure from 1978 to 2019.

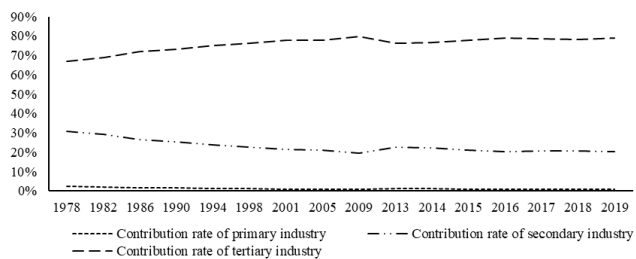


Figure 6: Changes of industrial structure in the United States from 1978 to 2019.

In order to make a dynamic comparison and analysis with the change of China's industrial structure in the same period, this paper selects the industrial data of the United States from 1978 to 2019 for a phased analysis. Compared with the United States, China's industrial structure changes are relatively backward. In

the early stage of China's reform and opening up, the tertiary industry in the United States has accounted for more than half of its GDP, with the value fluctuating around 70%. Since 1978, the contribution rate of the tertiary industry in the United States has been much higher than that of the primary and secondary industries, showing an increasing trend year by year. The contribution rate of China's tertiary industry only exceeded 50% in 2005 (Figure 7).

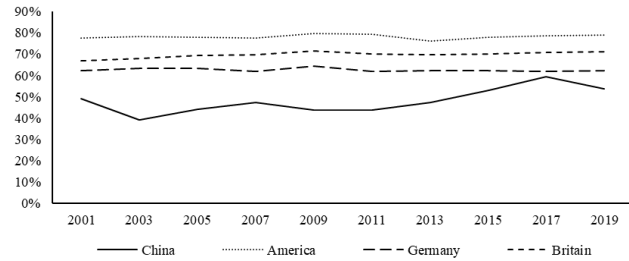


Figure 7: Changes in the proportion of the tertiary industry in China, Germany and the UK from 2001 to 2019.

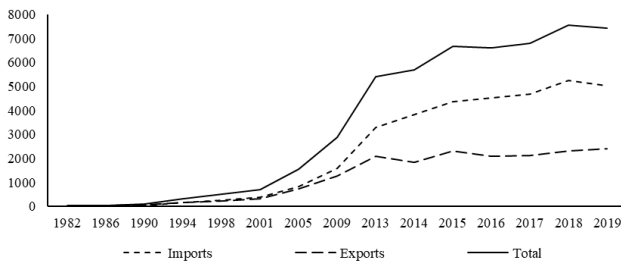
**Data source:** According to the China Statistical Yearbook, the U.S. Bureau of Economic Analysis, (BEA), The Federal Statistical Office of Germany and The Office for National Statistics in The UK.

The development of the service industry in the United States not only provides a powerful impetus to the development of the national economy, but also plays a role in stabilizing the balanced development of the national economy. Thanks to the vigorous development of the service industry in the United States, its import and export of service trade ranks first in the world, and it makes up for the deficit of trade in goods through the surplus of service trade. Since 2001, the proportion of the tertiary industry in the old industrial countries such as Germany, Germany and the UK is above 60% and shows a steady rising trend. It can be seen that the industrialization of developed countries has become mature and they have begun to step into the so-called "post-industrial society". Therefore, in order to promote the dual process of industrialization and modernization in China, it is necessary to vigorously develop the service industry and improve the contribution rate of the tertiary industry.

**Development of China's trade in services**

From the early days of the founding of the People's Republic of China to the 1990s, China's foreign trade was dominated by trade in goods. Affected by inherent factors such as simple industrial structure and backward industrial development level at that time, trade in services was in a very slow development stage for a long time. Since 1990, the import and export volume of services trade has been increasing year by year. The industries such as tourism and international project contracting services have developed rapidly. According to the statistics of the WTO, China received

over 72.79 million inbound tourists in 1999 and became one of the world's top ten international tourism countries. International engineering contracting services from four companies at the early stage of the reform and opening up to more than 1400, trade in services showed more open domestic market, more participation in the international communication features, but the overall development level is low, services trade accounts for only about 3% of the world service trade, service trade deficit since 1995. Since China's accession to the WTO in 2001, the development of services trade has been improved in a qualitative way. In particular, in 2003, China's total import and export volume of services trade exceeded US \$100 billion for the first time. Exports of high value-added services, represented by consulting, computer and information services, grew rapidly. The import of new services represented by insurance services, royalties and franchises grows rapidly, basically forming a pattern of comprehensive development between traditional services such as tourism and transportation and modern services such as computer and information services, consultation and advertising. More importantly, since 2013, the State Council first approved the establishment of the Shanghai Free Trade Zone, China free trade zone has gradually formed the "1+3+7+1+6+3" the basic pattern, provides the services trade liberalization and facilitation to the development of the environment, trade in services in the nation's overall opening up by "supporting role" into "leading role", since entering the high quality development stage (Figure 8).



**Figure 8:** Overall situation of china's import and export of service trade from 1982 to 2019 (Unit: USD 100 million).

**Data Source:** Uncomtrade database

### The typical fact that services and trade in services drive economic growth

The change of industrial structure and the development of emerging trade conform to the requirements of the Times, especially the importance of service industry and trade in services for high-quality economic development should not be ignored. The service industry, especially producer services, mainly plays a positive role by nurturing the manufacturing industry. Development of producer services helps the manufacturing industry to reduce production costs and optimize the industrial

chain, so as to promote the transformation and upgrading of the manufacturing industry [4].

### Services feedback manufacturing

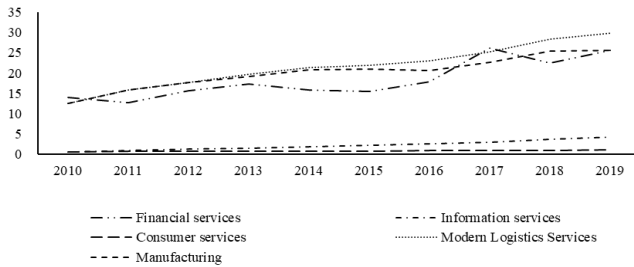
**Financial services:** The emergence of corporate finance facilitates the financing of manufacturing enterprises and then promotes the development of the real economy. No matter from the perspective of the overall financial industry or the subdivided financial industry, its original purpose is to serve the development of the manufacturing industry [5]. On the one hand, financial institutions make use of their advantages to evaluate and analyze multiple investment projects, and then allocate funds to the investment projects with the highest yields to promote the short-term development of the manufacturing industry. On the other hand, the innovation of financial financing methods and the improvement of financial financing efficiency improve the financing environment of the manufacturing industry and promote the long-term development of the manufacturing industry.

**Information services:** Technology helps to reduce the information asymmetry information industry, to improve the use efficiency of various production factors in the process of manufacturing, high technology and information services and advanced concepts of wide, can through transforming the huge industry development and implementation of new business development, and upgrading manufacturing structure to make it move towards the new industrialization road [6,7]. At the same time, the development of new information service industry not only promotes the innovation of the manufacturing industry in production technology and management mode, but also reduces the transaction cost for enterprises to obtain services from the market, providing stronger support and promotion for the development of the manufacturing industry.

**Modern logistics services:** Logistics service affecting the market competitiveness of manufacturing industry, the development of various logistics resources optimization configuration, is beneficial to reduce the manufacturing logistics cost, especially to make logistics outsourcing manufacturing enterprises focus on cultivating and promoting the core competitiveness, reducing the investment in fixed assets, improving the production of flexible, providing value-added services, increasing the overall economic benefits of the industry and structurally embedding logistics enterprises in the supporting activities of the manufacturing value chain to provide more professional and higher quality logistics services, thus increasing the profit of the manufacturing value chain and improving the efficiency of the manufacturing industry [8].

**Tourism:** As a typical consumer service industry, tourism plays a certain role in promoting the development of manufacturing industry. Its foreign exchange income is a useful supplement to trade and can raise necessary funds for manufacturing industry.

Although the resource transfer effect of tourism has a crowding out effect on the development of manufacturing industry, the income effect positively promotes its development. Therefore, when the income effect exceeds the resource transfer effect, the social welfare will be increased (Figure 9).



**Figure 9:** Development trend of some services and manufacturing industries from 2010 to 2019 (Unit: trillion yuan).

**Data source:** According to China Statistical Yearbook

It can be seen directly from Figure 9 that in the past decade, the manufacturing industry and the service industry have shown a trend of synchronous and benign development, and the promoting role of the service industry in the transformation and upgrading of the manufacturing industry cannot be ignored.

### The classic path of services trade to boost economic growth

According to the theory represented, the existing international trade theory based on trade in goods is also applicable to trade in services [9]. The study was the first to show that there was a positive correlation between financial services trade and economic growth [10]. The first to explain the influence mechanism of trade promoting economic growth. Domestic and foreign scholars have further studied the role of services trade in promoting economic growth from different trade sectors and services trade in different transaction modes. Through reading and sorting out existing literature, they have summarized the following four classic paths [11].

**Trade complementary effect:** Under the function of services trade liberalization, foreign services companies reduced barriers to entry, more and more efficient in the middle of the service to enter more easily, to make up for the domestic low efficiency and the single type of related services, improving the quality of service among domestic manufacturing, directly promote the promotion enterprise's productivity.

**Trade competition effect:** With the deepening of trade liberalization, competition among industries has intensified. The import of foreign services lowers the price of domestic services through the competitive effect, not only causes the manufacturing industry to obtain high quality of productive service, also makes

the domestic related industries to improve in the quality of service, so as to realize the comprehensive upgrade of the manufacturing industry to the advanced and service-oriented.

**Technology spillover effect:** By the theory of factor endowment, enterprises improve production efficiency by adjusting the proportion of element allocation, and a country's import of high quality intermediate service inputs is an act of adjusting the proportion of factors used, not only improves the technical content of domestic production activities, but also introduces the human capital and knowledge capital included in foreign high-level services into the production process of domestic manufacturing industry to improve the productivity of enterprises.

**Economies of scale:** By outsourcing the productive services that enterprises are not good at, they not only focus on the core production links, but also make up for the deficiency of the domestic supply of high-level productive services, which is conducive to the integration and utilization of more high-quality resources, the reduction of production costs, and the realization of economies of scale within enterprises and the whole industry [12]. In addition, trade in services deepens the specialization of producer services, increases the variety and quality of intermediate inputs used by downstream industries, which promotes the improvement of production efficiency in technology-intensive manufacturing industries [13]. To sum up, the service industry has not only become an important booster of world economic growth, but also become a new engine of China's economic growth. The development of the service industry plays a key role in the stable operation of the national economy. We should not only optimize the internal structure of the service sector, but also make flexible use of big data, cloud computing and artificial intelligence to provide new technical means for the development of trade in services and expand the emerging field of services trade. What's more, giving full play to the positive role of free trade zones in promoting institution-based opening-up and accelerating the internationalization of the service industry to promote the high-quality development of services trade.

### Development Logic of Trade in Services

As mentioned above, whether from the perspective of industrial structure change or considering the interactive development of secondary and tertiary industries, the role of service industry and services trade in promoting economic growth cannot be ignored, and it is imperative to increase the openness of the service industry and develop services trade. However, there are significant differences between trade in goods and trade in services, and it is not easy to transfer the development mode and strategy of trade in goods to trade in services. Due to the invisibility, diversity and heterogeneity of services trade, traditional capital and technology are difficult to support the development of services trade, so the reform of system and

regulatory standards will become the cornerstone of the development of services trade. This part will compare the difference between trade in services and trade in goods, elaborate the shortcomings of trade in services, and then summarize the internal logic of the development of China's trade in services.

### Deficiencies in the Development of China's Trade in Services

#### Trade in services grew rapidly, but trade deficit and structural imbalance coexisted

From 2001 to 2019, China's total import and export of services trade grew at an average annual rate of 14.35%, but in the past two decades, the proportion of China's services trade imports was much higher than the proportion of exports. In 2019, China's services trade deficit was still as high as 1.5 trillion yuan. From the point of services trade export total divisions in 2019, mainly travel, transportation, and construction of the traditional industry accounted for 60.36% of the total import and export only travel industry proportion is as high as 36.38% of the total amount of import and export, and financial services, telecommunications, computer and information services of total import and export of high value-added services accounted for only 11.10%. From the perspective of services trade import, the top three industries are travel (50.08%), transportation (20.92%) and other commercial services (9.94%). The top three export industries in services trade are other business services (25.86%), telecommunications, computer and information services (19.18%) and transportation (16.23%). As can be seen from the above data, except telecommunications, computer and information services, the rest of the industries are traditional services trade items, with a relatively low proportion of high value-added services trade, and the services trade structure still needs to be further optimized.

#### The regional development of service trade is unbalanced due to the different industrial bases within the region

As can be seen from the proportion of the tertiary industry in the 31 provinces in 2019, the provinces and cities with a relatively high proportion of the tertiary industry are mostly concentrated in the eastern coastal areas, among which the proportion of the tertiary industry in Beijing is as high as 83.5%, while the provinces and cities with a relatively low proportion are mostly concentrated in the central and western regions, among which the proportion of the tertiary industry in Fujian Province is 45.3%. It is precisely because of the differences in the development of the tertiary industry within the region that the distribution of services trade across the country also shows a development trend that the eastern coastal areas are higher than the central and western regions [15].

### The international competitiveness of services trade is in a weak position (Figure 10)

**Data source:** Calculated according to UNCATD database  
 Revealed comparative advantage index  $RCA > 1$  indicates that a certain commodity or service of a country has a dominant comparative advantage and strong international competitiveness. As can be seen from Fig.10, the RCA index of China's services trade fluctuates between 0.4 and 0.5 and decreases year by year, indicating that the international competitiveness of China's services trade is extremely weak.

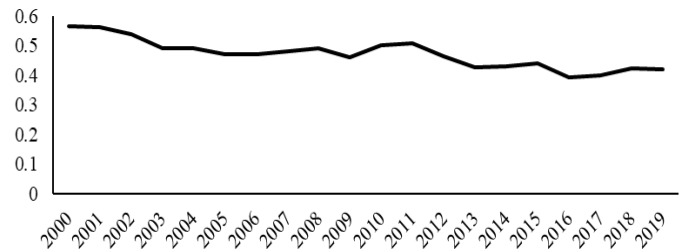


Figure 10: RCA chart of service trade competitiveness from 2000 to 2019.

### The difference between trade in services and trade in goods

**The dependence of the institutional environment:** Looking back on the opening and development of the service industry, it is not difficult to find that it is highly sensitive and dependent on the institutional environment. First of all, service is a kind of intangible product, which results in that there is no unified standard for evaluating the quality of service in the process of services trade, and it is difficult for consumers to distinguish the advantages and disadvantages of service. The intangibility of service makes it similar to a kind of "trust goods", so it needs to invest a lot of special capital in the establishment of trust relationship between trade parties, which requires a superior institutional environment to provide incentives and protection for it to a certain extent. Secondly, the service is a kind of "a posteriori", the process of services trade is often a simultaneous production and consumption, unlike trade in goods, consumer cannot determine the quality of the service by prior experience and whether fit their requirements, more difficult to through the evaluation of the result of the service afterwards to restore the service quality, this will increase the consumers accept the transaction costs of education service. Compared with trade in goods, services trade needs more complex contract guarantee, because a sound contract can effectively reduce the transaction cost in the external market, which has more complex requirements on the institutional environment of a country. From the perspective of the difference in the cost composition of trade

in services and trade in goods, the total cost composition of trade in services and trade in goods into five major parts, in which the transportation cost of trade in services and trade in goods accounts for 25% and 29% respectively; 20% for infrastructure and 26% for border costs; Information and transaction costs accounted for 25% and 32% respectively; Policy barriers and regulatory differences accounted for 21% and 9% respectively. The management level accounts for 10% and 4% respectively. It can be seen that the cost of political barriers, regulatory differences and governance level of service trade is as high as 31%, which is 18% higher than that of goods trade. The opening and development of service industry need to be based on good institutional environment.

**Regulatory and safety issues:** In the free trade zones, the traditional regulatory principle of "opening up the first line and managing the second line" for goods trade has been difficult to prevent and control the risks of services trade [15]. The uncontrollability of the risks brought by the opening up of trade in services is significantly higher than that of trade in goods, which is reflected in two aspects. First, there are many sensitive industries involving national security in the service industry, such as the financial industry and the communications industry. In the financial industry opening, for example, the innovative financial products and a variety of financial derivatives will increase the complexity of financial products and high leverage, causing the domestic asset prices for enhanced the sensitivity of the risk and volatility and greatly increasing the vulnerability of the domestic financial system, together with transnational capital flows caused by the transmission system of external financial risk and crisis. It will amplify the risks of the domestic financial market and lose its original stability. Moreover, the procyclicality of cross-border capital flows will increase the fluctuation of domestic economic cycle, resulting in inflation or financial crisis. Second, the traditional regulatory approach is not applicable to the new model of trade in services. The popularity of new information technologies, such as big data, cloud computing, 5G communications, block chain and the Internet of Things, have rapidly integrated the digital economy into the traditional services trade, giving rise to new forms of services trade such as "smart logistics", "online advertising" and "digital healthcare". According to China's Digital Trade Development Report in 2020, the total volume of China's digital trade accounted for 25.6% of the total volume of China's trade in services. With the integration of digital technology into trade in services, on the one hand, the mode of trade in services is changing with each passing day. On the other hand, when digital technology is integrated into key industries such as finance, communication and transportation, data security issues are also worth vigilance, which poses new challenges to market regulation. Therefore, in order to promote the orderly development of service industry and services trade, it

is necessary to focus on the development of high value-added service industry, optimize the internal structure of service industry and enhance the international competitiveness of services trade on the basis of improving the institutional environment and innovating the regulatory model.

### Free Trade Zones Will Boost Trade in Services

With the improvement of level of social development, more and more demand for services, especially high quality services, together with the current China's manufacturing industry development "bottleneck" stage, facing a low status in global value chain division of labor, to be realistic problems in the transformation and upgrading, development of service industry and services trade to adapt to the Chinese present stage from rapid growth to the economic objectives of the development of high quality. However, trade in services is highly dependent on the institutional environment, supervision and safety measures to be improved, which makes the opening of China's service industry face many obstacles. The business environment and the lack of open institutional rules are the main reasons for the problems. The establishment of Free Trade Zones at the right time not only put forward the idea of solving problems, but also provide conditions for the development of services trade. The main reason is that Free Trade Zones focus on the opening experiment of service industry and emphasize the innovation of foreign investment access management system in specific industries in the field of investment. In terms of trade regulation mode, it emphasizes the innovation of regulation mode that is suitable for the development of service sector and manufacturing sector so as to promote the agglomeration and development of service sector and high-end manufacturing sector. Institutional opening is the core connotation of the construction of Free Trade Zones. Promoting the development of the service industry through institutional opening is conducive to speeding up the transformation and upgrading of industrial structure, building a high-standard market system and a new system of a high-level open economy, and then playing a strategic initiative in the great changes unprecedented in a century. With its unique institutional innovation gene, FTZs play a leading role in institutional environment optimization, platform construction boost, opening up scale expansion, opening up depth development and opening up pattern remodeling, leading a new round of high-level opening up [16]. Ordinance policy of Free Trade Zones, found that each FTZ takes institutional innovation as its core, concentrates on the development orientation and industry foundation, further explores the measures of service open still wider to the outside world, mainly from the promotion of institutional opening, the development of new forms of trade in services and optimization of supervision issues to promote trade in services and services to a higher level.



## Deepening Institutional Opening

### Deepening the reform of delegating power, delegating power, and improving the business environment

The high-quality development of the service sector cannot be achieved without an external environment. A sound business environment will help give full play to the vitality and innovation capacity of market entities. The Shanghai Free Trade Zone was the first to launch institutional innovation focusing on investment and trade facilitation and improving the business environment. Hainan Free Trade Zone proposed to learn from international experience and carry out business environment assessment; Hunan Free Trade Zone carried out trials to strengthen the implementation of competition policies to create an institutional environment for fair competition. Anhui Free Trade Zone aims to create a "four-most" business environment with the lowest number of approval items, the highest efficiency, the best investment environment, and the strongest sense of gain for market players and the people. In addition, on the basis of promoting the full coverage of the reform of "separation of licenses and licenses", Shandong Province will delegate all the economic and social management authority that can be delegated to the Free Trade Zone. The Jiangsu Free Trade Zone continues to promote the integration of multiple licenses. The Guangxi Free Trade Zone deepened the reform of "conducting business through business"; Yunnan Free Trade Zone highlights "license reduction after licensing"; Heilongjiang Free Trade Zone has promoted the practice of "running government services once at most", and their respective zones have made outstanding contributions to creating a first-class business environment by streamlining administration, delegating power and innovating systems and mechanisms. Secondly, among the approved Free Trade Zones, Shanxi and Sichuan Free Trade Zones focus on building a convenient public service platform for intellectual property and vigorously develop intellectual property service industry. Liaoning and Chongqing explored the establishment of an inter-agency IPR law enforcement coordination mechanism in the Free Trade Zones, improved the mechanisms for dispute mediation, assistance and arbitration, and optimized the IPR protection and application system and strengthened the enforcement of the IPR protection system. Finally, we will improve laws and regulations to create a business environment with high standards and the rule of law. In 2019, China promulgated the Regulations on Improving the Business Environment, which consolidated its experience and practices in improving the business environment and established the basic rules and regulations for treating domestic and foreign-invested enterprises as equals. FTZ in terms of doing business under the rule of law also ACTS, such as guangzhou FTZ of zhuhai hengqin new area to promote cooperation between

guangdong depth, rules linking Hong Kong and Macao, hengqin government set up the international court of arbitration, if Hong Kong and Macao enterprises and the enterprises in the mainland business disputes occur, can decide their choice for arbitration in accordance with the laws of Hong Kong and Macao or mainland law, to provide a fair and just business environment.

### Making full use of the "One Belt And One Road" initiative

The Free Trade Zones actively carry out cooperation with countries or regions along the "One Belt And One Road" routes. As for international railway freight trains, the Chongqing, Henan and Shanxi Free Trade Zones have all opened freight trains connected with European countries. Anhui Free Trade Zone proposes to build a science and technology innovation community with "One Belt And One Road" countries or regions along the routes, and supports and participates in the infrastructure construction of these countries. Yunnan Free Trade Zone is committed to speeding up the construction of China-Myanmar Border Economic Cooperation Zone, actively serving and integrating into the flagship projects of China-Myanmar Economic Corridor. Hunan Free Trade Zone supports to lead enterprises in building cross-border delivery service networks, international marketing and service systems for countries and regions along the Belt and Road. As a useful supplement and improvement to the current international economic system, the "Belt and Road" initiative provides a historic strategic opportunity to promote China's institution-oriented opening-up. Therefore, to improve the core status in the "area" all the way along the economies, build "neighbourhood" all the way along the core and peripheral countries, trade in services in the two-wheel driven development pattern, at the same time through policy communication expansion with the core countries such as southeast Asia, central and eastern Europe, the range of services and trade cooperation to establish bilateral or multilateral service trade cooperation mechanism, enhance the level of services two-way mutual benefit.

### Stepping up efforts to implement the negative list system

In 2013, the Shanghai Free Trade Zone, which was approved for the first time, issued the first negative list in China. Based on the repeatability and generalization of experience, relevant negative list systems were introduced in each of the subsequent FTZs. For example, Beijing Free Trade Zone tried out the negative list management mode for cross-border trade in services. The Hunan Free Trade Zone has fully implemented the management system of pre-establishment national treatment plus a negative list for foreign investment. Up to now, China has released seven versions of the negative list for FTZs, reducing the number of special management measures for the service sector from 95 in the 2013

version to 23 in the 2020 version. This shows that China has made active efforts and explorations in formulating and implementing the negative list system. Since the adoption of the Opinions on Implementing the Negative List System for Market Access, China has gradually stepped into the "negative list era" for market access, and started to open up more actively to attract global investors [17]. Implementing the negative list for market access and the negative list for foreign investment will help accelerate the building of a modern market system that is in line with prevailing international rules, promote the orderly and free flow of factors of production at home and abroad, promote efficient allocation of resources, and deepen market integration, so as to give play to the decisive role of the market in resource allocation. Therefore, we should continue to strengthen the implementation of the negative list, enhance China's level of opening-up, take the initiative to lead the innovation and practice of economic globalization, and demonstrate China's attitude of sharing opportunities and benefits with other countries in the process of expanding opening-up.

### **International economic and trade rules for elevations**

While adapting to changes in global economic and trade rules, FTZs have promoted the alignment of investment, trade, finance and other fields with advanced international systems, and actively provided Chinese solutions to new international economic and trade rules. For example, the Yingkou Area of the Liaoning Free Trade Zone has established a new reform model for investment and trade facilitation, which focuses on new rules for benchmarking international high standards. By improving the international dialogue mechanism in the field of trade and investment, the Yingkou standard of chlorite has been written into international shipping rules, giving China a voice in international standards. The Zhejiang Free Trade Zone will explore policies and measures to promote the development of the whole oil and gas industry chain with reference to international prevailing rules. We will explore cross-border RMB capital pools in the Shandong and Liaoning Free Trade Zone. The Hebei Free Trade Zone will explore the cross-border transfer of RMB trade financing assets within China, and incorporate the macro-prudential management of cross-border financing with full coverage. Therefore, it is necessary to fully grasp and utilize the diversified open platforms such as FTZs and innovative development pilots of trade in services, and give full play to their pioneering role in rule reform and institutional optimization to promote differentiated reform of the service industry. The essence of institutional opening is to construct domestic rules and institutions that are in line with high-standard global economic and trade rules. At present, international economic and trade rules are being reconstructed, which brings both opportunities and challenges for China's opening to the outside world. So, China should not only actively

involved in the international economic and trade rules to grasp the initiative in a new round of international economic and trade rules change and voice, but also take the initiative to control the international high standard economic and trade rules, reversed transmission domestic reform, forming a basic institutional system and regulatory model that can meet the new rules and institutions required by the new economic globalization.

### **Developing New Forms and Models of Trade in Services**

In developed countries, the "two 70%" phenomenon exists, that is, the tertiary industry accounts for 70% and producer services account for 70% of the total service industry. At the present stage, China is making great strides towards the first "70%", but it is difficult to achieve the second "70%". Therefore, it is imperative to accelerate the cultivation of new drivers of service industry. The development level of producer services is related to the efficiency of economic operation, economic growth and the adjustment and optimization of industrial structure. Therefore, in order to promote the high-quality development of China's service industry and trade in services, it is very important to innovate the mode and system of producer services industry. In terms of the development of new business forms and new models of producer services, the respective Free Trade Zone have put forward suggestions and suggestions and introduced many relevant measures. For example, Tianjin Free Trade Zone took the lead in promoting policy and system innovation of leasing industry, accelerated the construction of national leasing innovation demonstration zone, and created an international environment for the development of leasing industry. New logistics hubs (Shandong and Guangdong Free Trade Zones will establish an air and sea port linkage mechanism with Guangdong, Hong Kong and Macao; Chongqing will develop water transport based on the Yangtze River Delta; Guangxi will launch a new mode of "cross-border e-commerce + international combined transport"; Hunan Free Trade Zone will build intelligent logistics among Hunan, Guangdong, Hong Kong and Macao); The FTZs in Beijing, Jiangsu, Shanghai and Zhejiang promoted innovation in financial services. On this basis, we should deepen and expand cooperation in trade, investment and other fields, and foster new growth areas and competitive sectors in the service sector, with a focus on innovating systems and mechanisms for the utilization of domestic and foreign resources. Developing digital service trade based on big data, Internet, cloud computing and other information technologies to accelerate the internationalization of China's digital services [18]. We will promote the systematic, platform and international construction of producer services, so as to stimulate the potential of domestic demand, lead industries to move up the value chain and realize the organic combination of



tertiary industry with primary and secondary industries at a higher level [19,20].

## Improving Oversight of Trade in Services

### Improving the legal and management system of trade in services to address the risks of trade in services

As the degree of opening to the outside world as well as the service trade pattern changes with each passing day, hidden in the process of services trade a lot of risks, although China has successively promulgated such as "foreign trade law", "maritime law" and a series of laws and regulations on trade in services, but its lack of operability in practice, there is no better play a role on the legal protection of trade in services, exposing the inadequacy of China's service trade legislation. Only by combining the sound legislation of trade in services with the supporting management system can we effectively deal with the risks of trade in services and promote the orderly development of trade in services. First of all, based on China's national conditions, we should formulate laws and regulations in line with the economic development goals at the national level, and solidify the tax, investment and preferential conditions of trade in services in the form of laws, so as to realize the institutionalization and standardization of trade in services. We will encourage local governments where conditions permit to introduce policies and regulations related to trade in services and establish a standardization system for the service sector that is in line with international standards. We will move faster to revise the basic laws in the service sector, and standardize market access standards and business order for trade in services. Secondly, we will actively explore the on-going and after-the-fact supervision of the service industry, and gradually improve the new supervision mechanism based on credit supervision, supplemented by key supervision and supplemented by "double random supervision and one open supervision" as the basic means. In view of the sensitive industries in the service sector that involve national sovereignty and economic security, a national services trade management organization will be established, and cross-sectorial coordination and organization institutions will be set up on a trial basis to strengthen leadership, coordination and promotion of services trade. Finally, the central government should increase the policy support for the service industry, and set hard indicators for local governments to develop service trade. Local governments should take the development of trade in services as an important work content to stabilize the growth of foreign trade and cultivate new advantages in foreign trade competition, and incorporate the institutional innovation of the FTZs into the government assessment and evaluation index system, so as to improve and perfect the management system of trade in services.

### Attaching equal importance to opening up and protecting the service sector, and gradually open up the service sector with a clear goal in mind

In view of the particularity of the service industry, the opening of the service industry should be carried out in a rational and orderly way to achieve the goal of both opening the domestic service market and protecting the relevant domestic service industries from the impact of the opening. Based on this purpose, the respective FTZs are gradually opening up in light of their unique geographical advantages. For example, Shanghai Free Trade Zone focuses on the expansion of opening up in finance, shipping and professional services. Yunnan Free Trade Zone has vigorously developed trade in TCM services. Hainan Free Trade Zone will develop international medical tourism and high-end medical services. Qianhai Area of Guangdong Free Trade Zone, as a Shenzhen-Hong Kong cooperation zone for modern service industry, focuses on new finance, sub-finance and modern logistics. Henan Free Trade Zone promotes the outsourcing of services such as finance, culture and creativity, customer service and supply chain management, and promotes the opening up of the service industry and services trade with the guidance of "equal emphasis on opening up and protection", and demonstrates the attitude of China's service industry to open up to the world.

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