Containers are piled in the Yangshan Free Trade Port Area, which is part of the China (Shanghai) Pilot Free Trade Zone. — Zhang Suoqing

'Work in progress' may face pockets of resistance

FROM B1

Q: The establishment of the Shanghai free trade zone is seen as a milestone in China's commitment to reform and wider opening up to the world. But there are different voices. The zone generates both expectations and skepticism. How do you view its role in China's economy?

A: I think it's a work in progress. The policy direction is very clear. It's one more way to open up trade, investment, financial markets and the customs system. Shanghai has always been at the frontline of opening to trade and investment. So the direction is clear, but it takes time to get things going.

There is still some distance between expectations and reality. This is to be expected. It's normal. This is a major process of change. It takes time to happen. You need a lot political energy. There will be resistance, either from sectors that resist foreign competition or from administrations for bureaucratic reasons. So it will necessitate quite a lot political push, as was done in the past. But what matters is the strategy and direction, the sense of where the policy is going. Of course, this is to be tested step-by-step. There are obviously quite a number of operational implementations on the way.

Q: How do you view what's being done in the zone to date?

A: What has been done, for the moment, affects finance, transport, shipping, trade and legal work. These are areas that China intends to push beyond its commitments to the WTO. So what China is really doing here is testing WTO-plus. There is an opening up of the services market and also a huge simplification in regulations. Of course, there are also a few experiments in financial services, with more freedom for equity operations, for cross-border currency flows and for yuan transactions. There are also tests in trade facilitation, customs procedures and customs clearance.

Although a positive step forward, I believe that the negative list is still a bit long-ish. I expect the list to shrink with time. And the area where it still is not very clear is in the sector of state-owned enterprises. Obviously, there is an intention to clear the decks and have a clearer division between the provision of public services on the one side and market-based production of services or commodities on the other. This still remains to be done. And in my view it will be tough because shrinking the SOE sector is always politically very difficult.

Q: Many foreign investors are showing less enthusiasm than expected for the free trade zone. Why do you think that is?

A: So far, there has been more initiative from Chinese companies than from foreign enterprises. It's normal because the Chinese are more familiar with the system.

But it also shows there is still quite a way to go in providing the necessary certainty and confidence for the future. In some areas, decisions that have been taken are pretty clear, but when you look at detailed regulations, they are not. Until and unless the necessary degree of certainty is available, I think this imbalance will remain.

Q: How do you see China's long-term economy prospects?

A: I think the 10 percent growth rate of the last decade is not sustainable in the long term.

But we also have to understand that 7 percent growth today is much more than 10 percent five years ago. It's not about percentage but about the volume and the absolute number.

Although there are changes taking place and although difficult issues remain to be addressed in the financial sector, in the environment, in regional imbalance and in the social system, I think the Chinese economy will remain rationally manageable. But I expect the growth rate will be less as the economy grows bigger in size.

The way to sustain growth momentum, as in the past, will be based on domestic reforms and in increased competition.

Of course, this is a process that is not painless. It necessitates political energy not only from within China but also from elsewhere abroad. In my view, the key for the future lies in the quality of the social system, including the environment, which we all know is a serious problem here.

Q: What do you think will be the implications for WTO of trade talks such as the Tans-Pacific Partnership and the Trans-Atlantic Trade and Investment Partnership?

A: Until they are concluded, nobody knows what the impact of these trade negotiations will be. If you look at the past, bilateral, regional and multilateral negotiations have gone hand-in-hand. In recent decades, there has been convergence and synergy between bilateral and multilateral market opening. So far, so good.

It will depend on what's in the final agreements, which still seem to be very elusive. The TPP talks have been going on for five years. It's a long and complex process. And the TTIP is only at the beginning of negotiations. So let's see what exists if and when these negotiations conclude. We are not there yet. It's too soon to make a judgment.

There will be resistance, either from sectors that resist foreign competition or from administrations for bureaucratic reasons ... But what matters is the strategy and direction, the sense of where the policy is going.