



## **Deepening Openness in Accordance with the “Thirteenth Five-Year Plan” Will Benefit the Global Economy at Multiple Levels**

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In the Proposal of the CPC Central Committee for Formulating the Thirteenth Five-Year Plan, it is clearly stated that China will open wider to the outside world, develop the economy, place emphasis on deepening openness at various levels, and enrich the content of openness from multiple perspectives.

The author believes that these strategic arrangements targeted at deepening China’s openness are in the interests of China as well as other countries, and they will definitely promote the growth of both the Chinese and global economy.

First, if the Chinese manufacturing enterprises “go global” and integrate deeply into the global industrial chains and value chains, it will contribute to the economic development of the host country.

At present, with the continuous rise of the dependency ratio, China’s population dividend gradually decreases, and the blue collar wages increase rapidly. Compared to Europe and the United States, China can still be regarded as a labor-rich country. But compared to Vietnam, Thailand and other Southeast Asian countries, or most African countries, China does not have comparative advantage any more in terms of the labor-intensive industries. Taking the footwear industry in Ethiopia as an example, its labor productivity is only about half of that of China, but it pays a wage level which is less than ten percent of how much its counterpart in Chinese coastal provinces pay, showing an obvious comparative advantage.

For the Chinese labor-intensive enterprises, “doing business globally” and investing in Southeast Asia and North Africa have become the general trend as well as a pressing need. The outsourcing by labor-intensive enterprises engaged in shoes and hats, and textiles can help create a large number of jobs in the host countries, which plays a positive role in solving the local employment problems and maintaining their social stability.

Nevertheless, the “go global” by these low-end labor-intensive enterprises will have a rather complex influence on the Chinese economy. As the labor costs constitute a major part of the production costs of the labor-intensive enterprises, the decline of labor costs can help them to make more profits, which is conducive to increasing China’s Gross National Product (GNP).

Yet at the same time, the resulting jobs out flow will produce an impact on the domestic employment situation. With the further promotion of the concept of “public entrepreneurship”, the Chinese service industry is expected to make rapid progress in the “Thirteenth Five-Year Plan” period. The service industry can provide more jobs than the manufacturing industry. Thus, China does not need to worry too much about the jobs outflow.

Even if the labor-intensive enterprises do not “go global” and stay at home, they will still face serious survival challenges. So instead of dying out passively, it is better to take the initiative to create opportunities and look for opportunities.

Second, it is beneficial to China itself and even more beneficial to the rest of the world by actively entering into regional free trade agreements and vigorously reducing trade barriers. Now, China has signed free trade agreements (FTA) with more than a dozen of countries, such as the prominent ASEAN 10+1 FTA and the China-South Korea FTA. The ASEAN 10+1 FTA covers the largest population in the world, and is also the world’s fastest growing FTA, playing an important role in enhancing the economic welfare of the East Asian region and promoting the global economic growth. China and the ten ASEAN countries have different positions in the global value chain in terms of division of labor, but their advantages complement each other. The ASEAN countries mainly export to China raw materials, agricultural products, and intermediate goods. Then China, with the core parts imported from Japan and South Korea, produce the final products through processing and assembly and at last export them to Europe and the United states. Under this mode of global division of labor, the establishment of the ASEAN 10+1 FTA gets China and the ten ASEAN countries to truly achieve mutually beneficial cooperation on the basis of complementary advantages.

China exercises a zero-tariff policy on 97% of the ASEAN agricultural products. This has greatly improved the export situation of the ten ASEAN countries, especially the poorly developed ones including Vietnam, Cambodia, Myanmar and Laos. China is ASEAN’s largest export destination. The ten ASEAN countries enjoy an overall trade surplus with China, the net exports help them to garner foreign exchange reserves, make their own currencies strong, avoid financial crisis, promote economic development, and maintain regional social stability. The large varieties of automobiles and home appliances China exports to Indonesia and other ASEAN countries provide the local consumers with the access to cheap but quality-assured products, which greatly enhances the welfare of the local residents. Moreover, the transfer of the labor-intensive industries is also a direct solution to the local employment problems, and brings in more advanced production technologies.

The China-South Korea FTA also influences the economy of the two countries in a similar manner. South Korea is one of China’s top ten trading partners and also one of the two main countries exporting core components to China. Reducing the tariff and non-tariff barriers between them will help Chinese enterprises to lower import costs and produce more high value added products. The South Korean technology is more advanced, and the current increased openness is conducive to China due to the technology spillover effect. By learning from the good, one can remedy his own

defects. Therefore, this can help China to refine its product mix and promote industrial transformation and upgrading.

The China-South Korea FTA does only good to South Korea. Like Japan, South Korea also supplies high value-added core components to China, and both of them maintain a trade surplus with China. More importantly, their products are poorly differentiated from each other with high proneness to mutual substitution, showing a striking characteristic of competitiveness and exclusiveness when exported to China. At present, Japan has not yet built a free trade zone with China, while South Korea has had a head-start. With the reduction of import tariffs, South Korean products will be more competitive than the Japanese products.

Third, the implementation of the “One Belt and One Road” opening strategy will give impetus to the regional economic development. The building of the land-based “Silk Road” is the important fulcrum for promoting the sustainable economic development of China and the Central Asian countries. On the one hand, the Chinese exports of high-speed bullet trains featuring advanced assembly technology and the railways construction will play a great role in accelerating the economic development of the Central Asian countries. China’s economic growth over the past 35 years reveals a simple truth: to become rich, one has to build road first. On the other hand, the Central Asian countries need enormous amount of steel, cement and other bulky raw materials when building the new railways and encouraging city development. And these industries in China are just suffering from the excess capacity problem, with the need to empty the inventory. The supply and demand is just well-matched, it can give those countries what they want while solving China’s own problem, so why not go for it?

Finally, it is worth emphasizing that the deepened openness means the deep integration into the world economy, familiarity with the international rules of trade and investment, and consistency with the international practices. A good example is the specialized “negative list” mode adopted in international trade and investment negotiations, which can be more easily accepted by trade partners, and help to achieve higher trade dividends.