

An Analysis on Comparative Advantages of Establishing the Free Trade Port in Shanghai

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Abstract. On September 2019, China (Shanghai) Free Trade Pilot Zone has been celebrated its 7th anniversary. As we all known, there are a great many remarkable achievements in Shanghai free trade area. Based on the replicable and scalable experience of Shanghai free trade zone, exploring the further development of international trade liberalization and Chinese Economic Reform and open up, and accelerating the process of constructing Shanghai Free Trade Port. The thesis just focuses on the comparative advantage of Shanghai in building a Free Trade Port with its own feature. Based on the replicable and popularized experience of Shanghai free trade area, this paper discusses how to promote the further development of international trade liberalization, how to further reform and opening up, and how to build Shanghai Free Trade Port. Evaluate the effectiveness and challenges of the development of Shanghai pilot free trade zone. Under the paradigm of political economy of socialism with Chinese characteristics, the strategic planning and future path of innovative development of Shanghai Free Trade Port are proposed.

Introduction

The thesis is divided into six parts. 1st part is introduction, which includes background, research significance and frame structure. 2nd is basic concept and basic theory, which states the concept of Free Trade Port and the theory of comparative advantage. 3rd part is an analysis the characters of the typical Free Trade Port in the world, which covers Hong Kong, Singapore and Rotterdam. According to their success, Shanghai can gain a lot of thoughts. 4th part just focuses on the five comparative advantages of Shanghai in constructing Free Trade Port: policy advantage, geographical advantage, historical advantage, economic advantage and talent advantage. 5th is conclusion, which summarizes the five comparative advantages of the construction of Shanghai Free Trade Port, and also calls for the construction of Shanghai Free Trade Port should be one of the strategies of the Chinese government. This part also gives suggestions, which based on the 4th chapter and putting forward the corresponding advice. Such as fostering policy environment and legal, facilitating geographic historical advantages, making full use of its advantages in human resources, and promoting investment facilitation.

Background. Since the reform and opening up, China's economy and trade has maintained high-speed growth, and international competitiveness has been significantly improved. In particular, on October 18, 2017, General Secretary Xi Jinping made it clear in "19th National Congress of the Communist Party of China" that China would "push for a new pattern of all-round opening up" and "explore the building of a Free Trade Port". On November 10, 2017, the then vice premier of the State Council, Wang Yang, mentioned in his article promoting a new pattern of comprehensive opening up that Free Trade Ports are the most open special economic zones in the world. Since the 19th National Congress put forward the proposal of "exploring the construction of a Free Trade Port", there has been a upsurge in the declaration and construction of a Free Trade Port across the country. At present, China's existing 11 pilot free trade zones, including Shanghai, Zhejiang, Tianjin and Fujian, which are interested in applying for the construction of Free Trade Ports in light of local conditions.

In 2017, China's total import and export of goods reached 27.79 trillion yuan, in 2016, China's total import and export of goods reached 368,557.41 million US dollars, and in 2016, Shanghai's total import and export of goods reached 433,768.19 million US dollars. Compared with 2015, the total volume of China's import and export of goods in 2016 decreased slightly, but showed an overall upward trend.

Theories

Four stages of research on Free Trade Ports. Preliminary Stage (1980s): Xinchang Guo(1987) is the first monograph on Free Trade Ports in China, which expounds the emergence and development of Free Trade Ports[1]. Simulation Construction Stage (1990s): After Deng Xiaoping's southern speech in early 1992, Fujian, Tianjin, Dalian, Qingdao, some coastal cities proposed the construction of international free ports. Transformation and Development Stage (2000-2012): Chong Liu(2007) clearly put forward the concept of Free Trade Port, which is also known as free port or Free Trade Area[2]; Zhiyong Huang and Jingwen Li(2012) makes a comparative analysis on the system, policy, mode and

management of Bonded Port Area and Free Trade Area, and puts forward some suggestions on innovating the policy system, management and system mechanism of Bonded Port Area[3]. Innovation and Upgrading Stage (2013-2018): Guangwen Meng(2015) believes that from theory to practice, the establishment of "domestic customs and foreign" type pilot free trade zone is a new development and exploration of hierarchical sovereign management policy in the economic field[4]; According to Yang Wang(2017) , the Free Trade Port is located in a country (region) inside and outside the border, goods and funds people in and out of the free, the vast majority of goods free from tariffs, is currently the world's most open level of special economic zones[5]. Yuliang Shen and Yu Peng(2017) analyze the countermeasures of constructing Free Trade Port on the basis of Shanghai Pilot Free Trade Zone[6]; Siwen Zhang and Jian Cheng(2018) that "Free Trade Port" in the international non-recognized legal definition, there is a conventional saying[7].

Theories of Comparative Advantage. David Ricardo's theory of comparative advantage can be summed up as: "One must always choose the more of two advantages and the lesser of two weevils. ". Heckscher-Ohlin's HO theory (1919,1933) refers to the idea that a country should export products that use its own elements intensively, and import products that use its own elements intensively. Xibao Guo and Hanchang Hu(2002,2004) explain the way of economic catching-up of backward countries from the theory of advantage of backwardness. The advantage of backwardness is multi-dimensional, including the advantage of backwardness of capital, technology, intelligence, system and structure. Yifu Lin (2003) believes that development strategy is the key to whether a country can take advantage of the technological gap with the developed world to accelerate its economic development[8].

Comparative advantages of other Free Trade Ports

Hong Kong, China is one of the most important international financial, trade, shipping and information service hubs in the Asia-Pacific Area. Hong Kong's free port system, which began under the colonial rule of the 1841 in 1997, remains in place. Hong Kong is a typical integrated free port, its port area covers the entire port city, in other words, the city is the free port, and the free port is Hong Kong. The most essential attribute of the special open economic form of free port is the free attribute, which is embodied in the aspects of free trade, Financial Market Opening, capital entering and leaving freely, enterprise opening freely, free market adjusting and so on. Hong Kong's Free Trade Port is a high-level free and open port. Hong Kong Free Trade Port's comparative advantage is mainly reflected in the following four aspects, namely, the wide scope and scope of opening up, the high degree of economic and trade freedom, the low level of tax burden and the comprehensive customs regulatory system.

Singapore is located at the southern tip of Malay Peninsula and the east entrance and exit of the Strait of Malacca. Its geographical position that is richly endowed by nature provides the outstanding geographical conditions for Singapore's maritime transportation and import and export trade. However, due to the lack of natural resources and the narrow domestic market, the development of a Free Trade Port is very necessary. From the second half of the 1960s, with the rapid development of foreign trade and manufacturing industry, the demand for maritime transportation in port area increased greatly. From the early 1960s to the early 1980s, the port of Singapore jumped from the fifth largest port in the world to the second. In 1986, the Port of Singapore overtook the port of Rotterdam to become the world's largest free port. Benefiting from its busy port and fast-growing air transport industry, which accounted for 11.5 percent of Singapore's GDP in 1971 and 19.5 percent in 1982, the transport industry has become an important economic sector in Singapore Second place in the department's foreign exchange earnings. In the early 1980s, Singapore successfully transformed itself from a single Re-exportation economy into a diversified economy with four major sectors: foreign trade, transport, manufacturing and finance. The Singapore FTZ functions almost as an important industrial sector for the country's development, with major functions such as processing and manufacturing of general free trade area, warehousing and logistics, international trade, service export, and attracting foreign investment.

The Free Trade Port of Rotterdam in the Netherlands is the largest port in Europe. It is located at the confluence of the Rhine and the Meuse River estuary, connected with the North Sea to the West, the Rhine and the Danube rivers to the east. It also is Netherlands and the European Union's cargo distribution center, known as the "European Gateway" said. In order to increase the added value of the goods, the port of Rotterdam sends them to bonded warehouses and distribution and distribution centers for storage, transportation and reprocessing before transporting them to European Union countries. The Netherlands pioneered a flexible model of bonded warehousing and a sophisticated transport network, while providing more opportunities for Dutch logistics companies to operate, thereby further enhancing the country's overall economic strength.

Analysis on the five comparative advantages of Shanghai Free Trade Port

Compared with the well-developed Free Trade Port, Shanghai is lack of experience in building a Free Trade Port. How to catch up with Shanghai according to its own comparative advantages? As Yifu Lin put it, the way to maximize the capacity to create economic surplus is to take full advantage of one's comparative advantage. Only by grasping the following five comparative advantages and forming Shanghai's own competitive advantages can we realize the catching-up and surpassing in reality.

Policy Advantage. As mentioned above, Xi Jinping pointed out that the pilot free trade zones should be given greater autonomy in reform and explore the construction of Free Trade Ports. This indicates that the transformation and

upgrading of China's pilot free trade zones have been accelerated, and the research on Free Trade Ports is entering a new stage from theory to practice.

Table 1 Policies and regulations of China (Shanghai) Pilot Free Trade Zone

Policies and regulations	The national level	Negative list: <i>Implementation of Special Management on Access to Foreign Investment in Pilot Free Trade Zones (Negative List)</i> (SDPC[2015] no. 23) (2105.4.20)
		Replication promotion: <i>Notice of The State Council on Promoting the Experience of the Pilot Reform of China (Shanghai) Pilot Free Trade Zone</i> (SDPC[2104] no.65) (2014.12.21)
		<i>General program of China (Shanghai) pilot free trade zone</i> (2013.9.18) <i>Reform Plan for Further Deepening China (Shanghai) Pilot Free Trade Zone</i> (SDPC [2015] no. 21) (2015.4.20)
	The local level	<i>Administrative Measures of China (Shanghai) Pilot Free Trade Zone</i> (2013.9.29) <i>Measures for the Administration of Filing of Foreign-invested Enterprises in China (Shanghai) Pilot Free Trade Zone</i> (2013.9.29)

From Table 1 we can see policies and regulations of China (Shanghai) Pilot Free Trade Zone. On October 19, 2017, the Shanghai municipal government said the construction of the Shanghai Free Trade Port was in the planning stage and the final plan would be implemented after the central government approves it. On the afternoon of January 23, 2018, Qiang li, secretary of the Shanghai municipal committee of the communist party of China (CPC), said at a meeting of the deputies' group of the people's congress of the Pudong new area that in the past, according to the requirements of the state, Shanghai had tried and explored replicable experience in the construction of the free trade zone. The next step is to explore some unrepeatably experiences unique to Shanghai.

Geographic Advantage. From the view of international practice, the location of Free Trade Port often prefers the transportation hub zone of coastal port, in order to take advantage of port location and logistics to facilitate the entry and exit of international trade ships. From the point of view of reality, the Free Trade Port is the gathering place of logistics, capital flow, stream of people and information flow. Located at the mouth of the Yangtze river delta and on the edge of the Pacific Ocean, Shanghai is not only China's port hub, but also its economic and financial center. It shoulders the heavy responsibility of deepening reform and innovation in China, and its policy dividend is more obvious. Therefore, the location of Free Trade Port in mainland China should also choose a region with favorable geographical conditions, such as Shanghai.

Historical Advantage. Shanghai is a sea city, as early as the Han Dynasty there is a developed salt and fishing industry, Shanghai now called “Hu” , is a fishing tool at that time. The seaport trade can be traced back to the Yuan Dynasty, when Shanghai was upgraded from a town to a county in order to meet the needs of managing grain and other materials by sea transportation from north to south. In addition to a large number of official transport, from Yuan Dynasty to Ming Dynasty, Jiangsu and Zhejiang Maritime Trade also began to get busy. The fate of Shanghai has always been closely related to the opening up of the whole country. The rise of Shanghai is not only due to the unique geographical conditions, the relaxed social and cultural environment, but also closely related to the world background at that time.

Economic Advantage. With its advantageous geographical location, developed transportation network and huge market potential, Shanghai has become the largest distribution center of domestic trade goods transportation and foreign trade goods transit in the Yangtze River Delta. Statistics from Shanghai Customs show that the total volume of goods imported and exported in 2017 reaches 3,223.782 billion yuan, with an increase of 12.5 percent and 9.8 percent over the previous year respectively. Of this total, imports total 1,911.751 billion yuan, up 15.4 percent, while exports total 1,312.031 billion yuan, up 8.4 percent. China's import and export trade has shown a fluctuating growth trend, among which China's (Shanghai) Free Trade Area Economy has performed well, with the total operating income of the free trade area reaching 1,284.972 billion yuan in 2012 and 1,442.444 billion yuan in 2013 In 2014, total operating income reached 1,609.455 billion yuan. Total imports and exports: in 2012, total imports and exports reached \$113.052 billion, including imports of 86.710 billion yuan and exports of 26.342 billion yuan; in 2013, total imports and exports reached us \$113.433 billion, including imports of 83.930 billion yuan and exports of 29.503 billion yuan; In 2014, imports and exports totaled us \$124.1 billion, of which 90.954 billion yuan is imported and 33.146 billion yuan is exported.

Intelligence Advantage. Shanghai can learn from Singapore's talent plateau and the related experience of the construction of think tanks, and improve the quality of education in colleges and universities and promoting the education of national top-quality courses and personnel training.

As table 2 shows, there were 67 universities in Shanghai in 2018, accounting for 38.81% and 26.87% respectively, with 359007 undergraduates, 41.97% and 18.64% respectively The number of graduate students is 145579, of which 43.27% are from science and 31.31% are from finance and economics, and 40,118 are full time teachers. From the university education and Shanghai's investment in universities, we can see that Shanghai attaches importance to the cultivation of financial talents and has strong financial teachers, which can provide professional academic advice for the construction of a Free Trade Port. The University of Science and Technology has a large number of students, and provides a steady stream of technical personnel for the construction of Shanghai Free Trade Port.

Human capital is of great importance to the construction of Free Trade Port areas, among which the cultivation of professional talents and the promotion of their professional counterparts are also important. Despite the preferential policies, the lack of professional and international talents has been a sore point in the development of the free trade area.

Table 2 Statistics of undergraduate education in Shanghai University in 2018[9]

School category	The number of universities	The number of students		The number of teachers
		Undergraduates	Postgraduates	
Comprehensive University	3	52,896	3,892	8,094
Technical College	26	150,661	62,929	15,264
Agricultural College	2	12,107	4,265	1,087
Medical School	3	3,739	7,691	1,245
Normal School	2	35,777	1,649	3,803
Language schools	3	5,972	11,415	1,235
Financial colleges	18	66,924	45,584	5,967
Political Science and law schools	3	19,866	3,447	1,645
Sports colleges	2	4,025	466	620
Art School	5	7,040	6,251	1,158
Total:	67	359,007	145,579	40,118

Conclusion

Suggestions. At the beginning of the establishment of the Shanghai Free Trade Zone, the intention of the central authorities was very clear: to comply with the new trend of the global trade situation, to actively respond to the requirements of expanding opening up, to open up a new situation of international trade, and to cultivate China's new advantages in participating in economic competition.[10] Shanghai free trade zone has been specially built as an "upgraded version" of China's economy, exploring the way for China's economic transformation. Today's proposed Free Trade Port is a higher level of opening on the basis of the pilot free trade zone.

Backed by the wealthy provinces of Jiangsu and Zhejiang, Shanghai is the estuary of the Yangtze River Delta. According to China's GDP statistics in 2017, Jiangsu Province ranks second in the country with a GDP of 8.59 trillion yuan, and Zhejiang Province ranks fourth in the country with a GDP of 5.18 trillion yuan. Shanghai provides convenient services such as export, shipping and financing. By strengthening Shanghai's urban functions and radiating power, the radiation will drive the opening-up and transformation and upgrading of Jiangsu and Zhejiang provinces, which can produce spillover effects. It brings about the effect of $1 + 1 > 2$ for the vigorous development of the economy in the Yangtze River Delta.

We will implement the "international vision, Chinese characteristics", strengthen theoretical research on Free Trade Ports Under the paradigm of political economy with Chinese characteristics, and speed up the construction of think tanks and the cultivation of talents. Carry out the Scientific Outlook on Development and make the "people" get the real development. Singapore provides special tax relief and financial support to high-tech, high value-added enterprises, export enterprise regions, headquarters, international shipping companies and other special industries and service industries. Therefore, strengthening the protection of intellectual property rights and enhancing the attractiveness of the region to high-tech enterprises should also be an important part of the construction of human resources in Shanghai Free Trade Port.

As a leading area of trade and investment liberalization, the Free Trade Port relies on the economic advantages of Shanghai, promotes investment facilitation and attracts high-quality investment. The main line of Free Trade Port policy is to form a high-level free trade and trade and investment facilitation mechanism on the basis of following the rules of WTO. In terms of trade, in order to further expand the spillover effect of Free Trade Port area. It is necessary to continuously reduce trade tariff barriers, gradually relax import and export controls, speed up the transit and circulation of goods, and then enhance the level of trade facilitation. Through the development of offshore trade and International Transit Trade to promote the volume of trade, so as to promote the port, warehousing, logistics and other related industries sound development.

There are five comparative advantages in constructing Shanghai Free Trade Port, which are policy advantage, geographical advantage, historical advantage, economic advantage and intelligence advantage. At present, the construction of Free Trade Port also faces some obstacles at the institutional level. The institutional obstacles include the following two points: First, the government management system cannot fully adapt to the highly market-oriented operating mechanism, the existence of excessive government intervention in the market phenomenon. Second, the administrative system is not yet fully adapted to the operation and management requirements of the Free Trade Port.

As a new stage in the development of the Free Economic Zone, there are still three major problems in the implementation of the Free Trade Port Strategy, namely, the degree of openness needs to be enhanced, the effectiveness of institutional innovation needs to be further enhanced, and the management system needs to be optimized and upgraded to build a Free Trade Port. It is necessary to strengthen the top-level design of institutional innovation, scientifically evaluate the evolution law of the international Free Trade Port, speed up the construction of think tanks and personnel

training. The Shanghai government should continuously deepen the theoretical research on the Free Trade Port and let Free Trade Port become a new engine of building a new pattern of all-round opening.

Attention should be paid to the flexible application of the theory of Comparative Advantage, the exertion of short-term comparative advantage and the cultivation of long-term comparative advantage. At the same time, the Shanghai government should also constantly train the government's ability in the process of exerting its comparative advantages in the course of economic development, and in the contemporary era of scientific and technological development and emphasis on education. The Comparative Advantage Dividend created by the improvement of the government's own quality will be more and more prominent.

The construction of Shanghai Free Trade Port should be one of the strategies of the Chinese government. There are still many relevant studies on the construction of a Free Trade Port in Shanghai. We hope that in the following research, we can dig deeper into the relevant articles on the construction of a Free Trade Port and form a more systematic knowledge system To provide more constructive opinions and proposals for Shanghai to build a Free Trade Port.

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