

How Chinese Local Governments are Expanding Foreign Economic Cooperation

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I. Introduction

As the Chinese economy becomes more advanced and the internal and external economic environment surrounding China changes, so too does China's strategy for external openness and economic cooperation. Accordingly, specific policies are diversifying from the past focus on manufacturing and foreign direct investment to services, overseas investment, bilateral and multilateral FTAs, and bilateral investment treaties (BITs).

As the central government's policy stance changes, China's local governments are also promoting external openness and cooperation based on regional development stages, industrial structure, and regional development policies, reflecting the central government's strategy. In particular, after the 19th Party Congress, the central government showed a strategic stance expanding external openness. In response, local governments have moved away from the traditional method of cooperation in the manufacturing sector centered on industrial

complexes, and in recent years various cooperative methods have been promoted, including regional economic integration, service and investment, the use of FTAs, and innovations in institutions to expand external openness.

Along with the shift in China's foreign economic strategy, the economic cooperation environment surrounding Korea and China is changing as well, including the strengthening of protectionism, structural changes in the Chinese economy, the Korea-China FTA coming into effect, and the launch of follow-up negotiations. Therefore Korea needs to find new strategies and measures for economic cooperation with China, making it time to find new ways to expand cooperation with China's central and local governments.

Against this backdrop, this study aims to analyze the strategies, detailed policies and major cases of China's central and local governments' external openness and economic cooperation, and to draw policy implications for strengthening economic cooperation between Korea and China in the future.

II. China's Foreign Economic Cooperation Strategy and Policy

Since 2001, when China joined the WTO, China's opening and economic cooperation strategies have been gradually expanded to various fields by expanding external openness (10th Five-Year Plan), implementing an open strategy of mutual benefit (11th Five-Year Plan), enhancing the level of mutual openness (12th Five-Year Plan), and establishing a new phase of full openness (13th Five-Year Plan). In particular, the 13th Five-Year Plan (2016–2020) suggested active external cooperation strategies such as full implementation of the national treatment plus a negative list management system, opening of the service industry, establishment of a high-level global FTA network, and promotion of the Belt and Road Initiatives.

In accordance with the strategy and policy stance suggested by the central government, each local government in China is implementing various and specific international economic cooperation projects or external opening policies to reflect regional economic conditions.

Categorized according to policy and project purpose, a wide range of international economic cooperation measures are being promoted, in the form of: traditional industrial complexes or development zones to promote foreign investment; cooperation for industrial upgrading and urbanization; institutional reform, and the establishment of demonstration zones to expand external openness; pilot projects based on FTAs; institutional cooperation for regional economic integration; and cooperation projects to shape the Belt and Road Initiative, among others.

Table 1. Changes in China's Opening External Cooperation Strategy by Period

Period	Strategy	Main Content
10 th Five-Year Plan (2001~2005)	Deepening Reforms and Expanding Opening up	<ul style="list-style-type: none"> • Deepening the reform of state-owned enterprises to enable them to compete as equals in the market economy • Overhauling market order, and expanding the market system • Doing a better job in opening to the outside world in the light of economic globalization
11 th Five-Year Plan (2006~2010)	Implementing an Opening Strategy of Mutual Benefit	<ul style="list-style-type: none"> • Accelerating the change of foreign trade growth mode • Improving the quality of introducing foreign investment • Actively conducting international economic cooperation
12 th Five-Year Plan (2011~2015)	Enhancing in Mutually Beneficial Level of Opening up	<ul style="list-style-type: none"> • Improving regional opening up pattern • Optimizing foreign trade structure • Coordinating FDI and ODI • Actively participating in global economic governance and regional cooperation
13 th Five-Year Plan (2016~2020)	Creating a New Environment of Comprehensive Opening up	<ul style="list-style-type: none"> • Improving the strategy for opening up • Constructing a new mechanism of opening up policy • Moving forward with the Belt and Road Initiative • Participating in global economic governance • Assuming international responsibilities and obligations

Source: Authors' Summary.

III. Foreign Economic Cooperation Cases of China's Local Governments

In this chapter, we analyze three cases of cooperation that are considered successful among China's foreign economic cooperation projects.

First is the case of cooperation between Guangdong and Hong Kong. This can be seen as an institutional cooperation model based on the framework of the Closer Economic Partnership Arrangement (CEPA) between the two sides. In the past, economic cooperation with Hong Kong was led by the private sector, but since the conclusion of the CEPA, discussions on economic cooperation with Hong Kong have been more based on policies and institutions led by central and local governments. Guangdong has played a leading role in cooperation with Hong Kong, serving as a test bed for pilot-basis measures implemented in accordance with the CEPA between mainland China and Hong Kong. In 2015, Zhuhai Hengqin, Shenzhen Chenhai, and Guangzhou Nansha – special areas established as economic cooperation platforms between Guangdong, Hong Kong and Macau – were integrated into the Guangdong Free Trade Zone. Since the launch of the Guangdong-Hong Kong-Macao Greater Bay Area in 2019, cooperation between Hong Kong and Guangdong in the economic and social sectors has been discussed within the context of constructing the Guangdong-Hong Kong-Macao Greater Bay Area, and the CEPA is still used to institutionalize issues discussed in the economic sector.

Second is the case of cooperation between Liaoning and Germany. Liaoning Province, the representative industrial zone of China, promoted the strategy of revitalizing the old industrial base in Northeast China in the early 2000s. In addition, various preferential policies were implemented at the national and local levels. As a result, Germany's BMW and a number of related companies have entered the region. Afterwards, as China's central government and Germany's government actively promoted industrial cooperation, in 2015, the China-Germany (Shenyang) High-end Equipment Manufacturing Industrial Park was established in Shenyang, Liaoning Province. Under policy support from BMW in Germany and the central and local governments of China, the industrial complex maintains double-digit growth rate every year, and plans to expand the scope of industrial cooperation from the internal combustion engine automobile industry to new energy automobile and bio industries.

Third is the case of cooperation between Chongqing and Singapore. Launched in 2015, the Chongqing-Singapore Demonstration Initiative on Strategic Connectivity is the flagship case of the Belt and Road Initiative cooperation between China and Singapore, and the first national-level cooperation project in the services industry between the two countries. The project selects financial, aviation services, information and communication, transportation and logistics services as the four areas of cooperation, and implements various pilot projects through discussions between the two governments. Based on these achievements, the two governments are

expanding the scope of cooperation not only to Chongqing but also to the whole of western China and even ASEAN.

IV. Economic Cooperation Projects between Korea and China's Local Governments

Until the early 2000s, economic cooperation between South Korea and China's local governments was mainly based on private companies entering Korean industrial complexes created by the Chinese local governments to attract investment. Since 2010, cooperation between the Korean government and local Chinese governments, led by the Ministry of Trade, Industry and Energy, has begun to take off. With the Korea-China FTA taking effect in 2015, cooperation with China's local governments has been further strengthened by the establishment of Korea-China industrial complexes or the pilot project for local economic cooperation between the cities of Incheon and Weihai. However, most of the economic councils between the central government of Korea and local governments in China often end as one-off consultation events. Therefore, there is a need to improve the effectiveness of cooperation by developing these into regular consultation channels.

In addition, most of the cooperation models between the Korean central government and China's local governments – such as the project to establish a separate medical complex for Ko-

rean health providers within the Hunan Provincial Health Industrial Park or industrial parks in Korea and China established in accordance with the Korea-China FTA – are mostly based on operation models used for Korea-China industrial parks in the 1990s. The typical operation model was to invite labor-intensive manufacturing companies in Korea to invest in Korea-China industrial parks in China to set up factories, while the local Chinese government would grant preferential benefits in terms of land and corporate taxes. Current cooperative projects operate upon a more or less similar model. There is an urgent need to respond to changes in the economic cooperation environment surrounding the two countries by developing a more advanced and sustainable cooperation model.

V. Policy Implications

Based on our analyses, we suggest ways to promote Korea-China economic cooperation, especially cooperation with local governments in China.

More specifically, we identify the following policy needs to: establish a consultative body to discuss cooperation between governments; advance beyond the current focus on manufacturing-oriented cooperation and strengthen cooperation in the service sector; promote cooperation with local governments by linking policies at the national level, for instance to jointly advance into third countries; expand human exchange; expand cooperation in future new in-

dustries; and promote cooperation using regional development strategies.

In particular, to strengthen cooperation with local governments in China, it will be important to operate a council that encompasses industry, academia, research, and government actors to develop strategic cooperation rather than only producing one-time exchanges between governments. It will also be necessary to prepare an overall roadmap for economic cooperation with local governments and a cooperation model that can actually lead to specific cooperation projects or pilot projects. **KIEP**

References

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