UNIVERSITY OF LODZ
CENTER FOR ASIAN AFFAIRS
POLICY BRIEF

SHENZHEN: SELF-RELIANCE AND SOVEREIGN DIGITAL CURRENCY

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SUMMARY

The policy brief refers to the latest visit of Chairman Xi Jinping to Guangdong and Shenzhen in particular. The city was designated a special economic zone in 1980 and for the last 40 years has achieved a unique position inside China, becoming the home of China's champion: Huawei. As revealed in the National Reform and Development Commission document (Oct 18th) Shenzhen is designated to play the pivotal role in at least two critical pillars: as a self-reliant place for further fundraising, and as the most important part of China's new currency regulations' global sovereign digital currency hub. As argued in the paper, the Chinese digital currency move is viewed as part of Sino-American trade controversies and indicates that China hopes to oust USD from the global markets not by old-fashioned paper RMB but by having an alternative digital currency. But at the same time the self-reliance approach and 'dual circulation' economy, recently introduced in China, will trigger the further horizontal competition over the domestic resources.

INTRODUCTION

After 40 years of development as a special economic zone, the central government seems willing to give the city of Shenzhen the benefit of the doubt. As stated by Xi Jinping, China is in a critical moment, faceing a supply chains blockade by Western powers, and Shenzhen is seen as the rescuer of China's future development. As at the beginning of reform, when local entrepreneurs and farmers transformed Shenzhen from a small village into prosperous city, the city now faces new opportunities supported by the central government decision. The crucial issues here are whether the Shenzhen people from all levels of society can navigate the high-tech development with limited access to Western technology; whether the new policy round of 'dual circulation' will make more coherent development; and the question of how the central government will control the domestic interactions. And, in addition, the question of whether China can export the digital currency and replace the USD domination by Chinese e-currency. As argued in the paper Chinese digital currency is seen as part of Sino-American trade controversies and indicates that China hopes to oust USD from the global markets not by old-fashioned paper RMB but by having an alternative digital currency. Nonetheless, the central government needs to control and coordinate the subordinates to make this policy possible. Shenzhen, however, will take the lead.

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XI'S 'SOUTHERN TOUR': SELF-RELIANCE AND DIVISION OF LABOUR

During the visit to Guangdong Xi Jinping discussed the future of China's economic development and named Shenzhen as the key player in shaping its "own" innovation supply chains By using the word "own" the Chinese leader emphasized the self-reliance model, well established in China's economic history. Xi has emphasized the importance of self-reliance on many occasions since the CPC's 18th national congress in 2012. The self-reliance approach is seen as the countermeasure to the international unilateralism and trade protectionism. Self-reliance (zili gensheng) was promoted by Chairman Mao Zedong and together with the people's war became the core policy in navigating China's development after the establishment of the People's Republic of China. The self-reliance concept was propagated during the years of the Cold War; when China competed with the Soviet Union starting from the Great Leap Forward (1958-1960), the Sino-Soviet border clashes in the late 1960s and the Cultural Revolution (1966-1976). In the current context of Sino-US trade disputes, the meaning of "own" refers to the fact that the conflict will not end soon and China needs to be ready for the long-term competition. While referring to the self-reliance approach the central government came up with the idea of dual-circulation economy, then cut its dependence on overseas markets and technology in its long-term development.

However, self-reliance named as dual-circulation, needs, unlike in the past, to be carefully crafted and implemented by the division of labour. To achieve an effective model of cooperation that limits dependency on foreign markets, central and provincial governments need to make divisions of labour and monitor the process. The first step is taken here by the creation of mega-cities such as Guangzhou, Shenzhen, Xiamen, Shanghai, Qingdao, and Tianjin, which, as windows for and leaders of economic growth, should play a synergistic role and drive the surrounding urban agglomerations and the region as a whole to participate in the global economy. In this context, Guangdong enjoys great fiscal autonomy by being allowed to remit a substantial sum to the central government for five years, much to the envy of other provinces. Cities like Guangzhou and Shenzhen were to become local leaders that would allow smaller cities, which tend to be at earlier stages of industrialization, to move up the value chain and away from heavily polluting industries. At the same time, more developed areas would move further up the value chain by focusing on innovation and the "Made in China 2025 industrial strategy". The development plan for Guangdong-Hong Kong-Macao Greater Bay Area, passed by the State Council in February 2019, comprises the two Special Administrative Regions of Hong Kong and Macao, and the nine municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province. The second attempt of the division of labour has been introduced by the Greater Bay Area plans in which the city of Guangzhou is responsible for trade cooperation as well as small- to medium-sized company cooperation; Zhuhai holds the position of promoting and establishing the aviation industry as well as hosting exhibitions; while Shenzhen has been positioned as the principal location for new technologies and high-end products. The last step is then navigated by the Belt and Road Initiative. In March 2015, the future role of Guangzhou

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was defined in the document, 'Vision and Actions': "*as an internationally recognized seaport, the central government declared its support for strengthening the air cargo hub in Guangzhou*". The district of Nansha, together with Shenzhen Qianhai, Zhuhai Hengqing and Fujian Pingtan, were described as being in the vanguard of the free trade economic zone.

NDRC AND SHENZHEN'S NEW ROLES

The decision to choose Shenzhen as the place of new technologies and high-tech industry was not only based on its history of the very first SEZ but because Shenzhen is the birthplace of China's innovative patents. The number of PCT (Patent Cooperation Treaty) applications from Guangdong stood at 24,725 in 2019, accounting for 43.5% of China's total, ranking the province first in the country, with Shenzhen leading the way in the province with a 70 per cent share in Guangdong patents.

In China, slogans reflect the totally opposite reality from their meaning: supporting venture capitalism, the Party Central Committee named Shenzhen as the pilot demonstration zone of socialism with Chinese characteristics. This highly politicized name means that the central government is taking the city development under the central 'umbrella', with financial support transfer for future development. Moreover, the central and state agencies can arrange for cadres to be suspended in Shenzhen, arrange their positions in a practical manner, clarify the division of responsibilities, ensure that they are effective, and complete the registration procedures for suspended positions in accordance with prescribed procedures. As presented in the document, the special socialist zone will have a corporate-esque human resources management in which highly-efficient cadres are financially motivated with the minor role of propaganda. The second important role is raising capital through improving the domestic issuance and listing system of innovative enterprises, promoting the issuance of shares and depository receipts (CDR) and listing enterprises with a leading role in innovation on the Shenzhen Stock Exchange. Furthermore, Shenzhen will be given priority in transferring 8374 small and medium companies listed on the National Equities Exchange and Quotations (NEEQ 全国中小企业股份转让系统). This move allows Shenzhen to take domestic resources and strengthen its position inside the system in China. On the other hand, the central government promised to support Shenzhen to create a venture capital centre with international influence. In other words, Shenzhen will almost take the role of Hong Kong as the centre of raising capital. Also critical from the perspective of further development of the city was the authorization to issue independently within the nationally approved local debt quota and innovate the local government debt-raising mechanism, allowing Shenzhen to issue offshore RMB local government bonds overseas. Moreover, in the current context, when China is experiencing a 60% decline in the investments in brand new companies by venture capital in China, the decision taken by the central government should not surprise. The pandemic slows down the ability to invest in the project and Shenzhen as the centre for rising venture capital should be seen as the priority. But, overall, the NDRC's decision sounds like further decentralization.

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The last part of Shenzhen's new role refers to developing state digital currency. Once the citizens were allowed to spend 8.8 million yuan (US$1.3 million) at the beginning of October, the city became the trial for China's sovereign digital currency. The state digital currency plays different roles: domestic and international. As anticipated, Digital Currency Electronic Payment needs to compete with two giants in electronic payment: WeChat Pay and Alipay. Due to severe competition between both, they divided territories and Alipay is used only in Alibaba's Taobao, Tmall and other platforms while WeChat is, for example, for the Jingdong platform financed by Tencent. In this area, DCEP is very symbolic. The state is gaining control over digital payment and in the long term would drive both out of the China markets. Once the central bank has a large amount of transaction data, it can control the amount of money at the macro level and formulate more precise macroeconomic policies; at the micro-level, it can achieve traceability in specific scenarios such as poverty alleviation, disaster relief, and charity, and even use big data analysis to prevent money laundering. As argued by Chinese sources, people no longer need to deposit paper money in commercial banks and the "super central bank" will have the ability to grasp the transaction information and loan placement capabilities of the whole society, and it will be effective for all other commercial banks. The second pillar is the internationalization of RMB by improving the convenience of RMB cross-border payment, and to enhance RMB as a tool for international trade pricing and international payment settlement.

CONCLUSIONS

The decision taken by the central government would have long term consequences for the international currency market and domestic development. Ultimately, Shenzhen could take the role of Hong Kong as the 'gateway to China' and from the macro perspective, the city will play the 'pawn' role in China's economic diplomacy and in the Sino-American trade war in particular. From this perspective, Beijing based government would stimulate the city to play its role and make necessary economic amenities based on a rather decentralized approach, with clearly established obligations. In this area, the sovereign digital currency is seen as the effective 'vehicle currency' for RMB settlement on international markets. This leads the way for alternative international payment architecture. On the other hand, Shenzhen's new role will trigger domestic competition over the financial resources - mainly with Shanghai, which has aspirations to be the central finance hub in China. In order to effectively manage 'dual circulation,' the central government needs to introduce centralization and monitor the division of labour between and within provinces. The strong central government might make China's domestic market more coherent, but at the same time, it could limit China's worldwide competitive advantages

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