The development from special economic zone (SEZ) to free trade zone (FTZ) of China

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Abstract. The experience of many countries shows that the presence of high innovative potential is a necessary factor of economic growth in the modern world. The establishment of special economic zones at the early stage of the policy of reform and opening up helped to reduce its cost. If the establishment of special economic zones reflects the Chinese characteristics (road of socialism with Chinese characteristics), the establishment of free trade zones reflects its universality.

1 Introduction

The modern trends of economic development focus directly on such priority strategic tasks of the development of state or the territory of it as a diversity of economic structure, social transformation, business or investment improvement, and job opportunity creation and modernization [1]. One of the mechanisms of dealing with these problems is the establishment of special economic zones.

2 Materials and methods

According to Deng Xiaoping's speech in 1984, special economic zones are windows of importing advanced technologies, knowledge of management,
and China's foreign policy. On August 26, 1980, the 5th Standing Committee of the National People's Congress approved the establishment of special economic zones in Shenzhen, Zhuhai and Shantou. The establishment of special economic zones at the early stage of the policy of reform and opening up helped to reduce its cost. The history of China's 40 years of reform and opening up represents the history of the system evolution from special economic zones (SEZ) to free trade zones (FTZ).

In China, many economic zones were established in the past 40 years: 5 special economic zones, 90 National Economic and Technical Development Zones, 114 High-Tech Industrial Development Zones, 13 Tax-Protected Zones, 14 National Border Economic Cooperation Zones, 12 Free Trade Zones [2, 3].

**Table 1.** The Functions of Zones in Modern China.

| Zone Name                          | Amount | Location                                                                 |
|-----------------------------------|--------|--------------------------------------------------------------------------|
| Special Economic Zone             | 5      | Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, as well as Pudong District (Shanghai); |
| National Economic and Technical Development Zone | 90     | Beijing, Shanghai, Tianjin, Guangzhou, Dalian, Urumqi, Harbin, Chongqing, Shenyang, Hangzhou, Wuhan, Changchun, Yingkou and other cities; |
| High-Tech Industrial Development Zones | 114    | Zhongguancun Technology Park in Beijing; Zhangjiang Hi-Tech Park in Pudong District, Shanghai; Tianjin Hi-Tech Industrial Development Area, Nanjing Hi-Tech Industrial Development Zone; Chengdu Hi-Tech Industrial Development Zone; Guangzhou Hi-Tech Industrial Development Zone; |
| Tax-Protected Zones               | 13     | Shanghai, Dalian, Ningbo, Haikou, Fuzhou, Shantou, Shenzhen, Tianjin, Guangzhou, Zhangjiagang, Xiamen, Qingdao, Zhuhai; |
| National Border Economic Cooperation Zone | 14     | Heihe, Suifenhe (Heilongjiang Province), Dandong (Liaoning Province), Pingxiang, Dongxing (Guangxi Zhuang Autonomous Region), Manzhouli, Erenhot (Inner Mongolia Autonomous Region), Hunchun (Jilin Province), Ghulja, Bortala, Chuguchak (Xinjiang Uyghur Autonomous Region), |
Five SEZs conducted a number of market-oriented reforms, in which Shenzhen zone is included. In 1980, the total GDP in Shenzhen City was CNY270 MM, GDP per capita — CNY835, total imports and exports — USD17.51 MM, local financial income — CNY3.04 MM. By 1990, the total GDP, GDP per capita, total imports and exports, the local tax revenues increased respectively to CNY17.2 bn, CNY8724, USD15701.36 MM and CNY2.17 bn, an increase of 62.55 times, 10.5 times, 869.7 times and 71.3 times. In the 1980s, the average annual growth rate of Shenzhen's GDP was 51.81%, which created a unique record - "Shenzhen Speed". In the 1990s, the average annual growth rate of Shenzhen's GDP was 29.87%, and the average annual growth rate from 2000 to 2016 was 14.65%.

Table 2. The Economic Data in the Main Years of Shenzhen’s SEZ.

| Years | Total GDP (CNY MM) | GDP per capita (CNY) | Economic Growth Rate (%) | Total Imports and Exports (USD MM) | Local Budget Revenues (CNY MM) |
|-------|------------------|---------------------|-------------------------|----------------------------------|-------------------------------|
| 1980  | 270.12           | 835                 | 37.55                   | 17.51                            | 40.03                         |
| 1981  | 495.76           | 1417                | 83.53                   | 38.07                            | 84.11                         |
| 1982  | 825.73           | 2023                | 66.56                   | 25.34                            | 88.15                         |
| 1983  | 1312.12          | 2512                | 58.9                    | 786.42                           | 150.25                        |
| 1984  | 2341.61          | 3504                | 78.46                   | 1072.47                          | 279.54                        |
| 1985  | 3902.22          | 4809                | 66.65                   | 1306.32                          | 586.51                        |
| 1986  | 4164.51          | 4584                | 6.72                    | 1846.96                          | 680.73                        |
| 1987  | 5590.15          | 5349                | 34.23                   | 2557.84                          | 696.88                        |
| 1988  | 8698.07          | 6477                | 55.6                    | 3442.77                          | 1109.92                       |
| 1989  | 11565.65         | 6710                | 32.97                   | 3752.59                          | 1730.07                       |
| 1990  | 17166.65         | 8724                | 48.43                   | 15701.36                         | 1980.73                       |
| 2000  | 218745.15        | 32800               | 21.25                   | 63939.82                         | 22504.41                      |
The successful experience of the SEZ, represented by Shenzhen in the 1980s, became a model for the further expansion of the reform and opening up in China. On April 18, 1990, the central government decided to establish the Pudong New Area in Shanghai. In 2016, Pudong New Area has an area of 1,429.67 square kilometers and a permanent population of 5.51 mil. Before the creation of the New District, total GDP was CNY6.024 bn, by 2016 it had grown to CNY873.184 bn, an increase of 144.95 times. The average annual growth rate of GDP in the Pudong New Area in the 1990s was 33.32%, 15.07% from 2000 to 2016.

Establishing the Pudong New Area is another benchmark for further expansion of the reform and opening up in China, and then 16 new areas were sequentially established (Binhai in Tianjin, Zhoushan in Zhejiang Province, Lanzhou in Gansu Province, etc.) to form a large-scale and high-level structure. In September 2013, the China (Shanghai) Pilot Free Trade Zone was created with an area of 120.72 square kilometers. As of April 1, 2017, the number of national free trade zones has reached 11, which is an unprecedented self-disclosure, an innovative window for reform and opening up in a new period, as well as large-scale institutional changes. In only 4 years, the China (Shanghai) Pilot Free Trade Zone has brought tremendous energy for economic development.

Thanks to the establishment of new FTAs, China has a more extensive platform for pilot regulatory projects that can cover the whole country if they are successfully implemented.

Table 3. The Main Economic Data of China (Shanghai) Pilot Free Trade Zone from 2013 to 2016.

| Years | Gross Value of Industrial Products (CNY bn) | Taxation (CNY bn) | Total Imports and Exports (USD bn) | Investment Attraction in Contracts (USD bn) | Registered Companies |
|-------|------------------------------------------|------------------|-----------------------------------|------------------------------------------|---------------------|
| 2013  | 64.62                                    | 50.83            | 113.43                            | 1.9                                      | 4416                |
| 2014  | 57.27                                    | 57.64            | 124.1                             | 11.8                                     | 11440               |
| 2015  | 390.1                                    | 102.22           | 116.1                             | 39.6                                     | 18269               |
Source: according to the “Shanghai Statistical Yearbook” and the “Shanghai Statistical Bulletin of the National Economic and Social Development”.

This should accelerate the integration of Chinese and global markets by opening up additional sectors for foreign investors and optimizing administrative procedures for foreign direct investments (FDI). These new FTZs turned out to be quite attractive for foreign investors: from January to October 2015, 5,159 companies with foreign investors registered in Tianjin, Guangdong, Fujian and Shanghai Pilot Free Trade Zone [4].

China's new FTZs widely support and promote health care and e-commerce. In addition, each of these FTAs will use the relative advantages of its location:

- The FTZ in Tianjin will deepen regional economic integration between Beijing, Tianjin and Hebei Province in the region known as Jing-Jin-Ji. This FTZ will support the development of new environmentally sound technologies in the framework of Sino-Singapore Tianjin Eco-City as well as the implementation of new initiatives. It is assumed that the freight and insurance industries will be open to foreign investment, while insurance companies will be able to open branches in the mainland through FTA.

- The FTZ in Guangdong includes Nansha, in Shenzhen - Qianhai Shekou, and in Zhuhai - Hengqin. District in Zhuhai and is designed to strengthen the links between mainland, Hong Kong and Macao. This FTZ aims at the development of the services sector and allows foreign companies from Hong Kong and Macao to open branches in mainland China. In addition, FTZ encourages investors from Hong Kong and Macao to provide medical services in China.

- The FTZ in Fujian is designed to support financial institutions created jointly with Taiwanese investors, promote cross-strait e-commerce, and strengthen ties between Taiwan Province and mainland China [5].

On April 14, 2018, Chinese President Xi Jinping announced: "I solemnly announce that the Central Committee of the Communist Party of China decided to support Hainan in turning the island into a pilot free trade zone, gradually and steadily create a free trade port with Chinese characteristics," thus, Hainan became the 12th FTZ in China. Hainan will focus on such sectors of the economy as medicine, education, sports, telecommunications and finance. However, the pilot free trade zone implemented the policy of liberalization and simplification of trade and investment, and invited foreign investors to boost the development of Hainan and its port of free trade.
3 Conclusion

China boldly modernized and experimented the former experiences of SEZ and FTZ. In terms of promoting free trade, simplifying investments and financial liberalization, various strategies and measures were introduced to create standardized rules for managing special economic zones and creating a legal, international market environment. In the area of investment convenience, the management of state investment projects shifted from preliminary control to post-registration management. This attracted investment enterprises to the free trade zone. In the area of finance, it is proposed to allow companies to open trading accounts when operating in SEZ, create a platform for enterprises to invest abroad, and encourage enterprises to go abroad and introduce advanced technologies and experienced personnel. In accordance with the prerequisite that CNY is not yet freely convertible, the government provides convenient ways and special channels for trade and investment. In addition, it is necessary to increase investment in creative industries, improve the efficiency of innovation in the technology industry and pay attention to government support [6].

SEZ was a “window” and “experimental region” of the all-China reform and opening up policy. It concerned the way to break traditional system, explored new systems that promoted economic and social development — market economies. If the establishment of SEZ reflects Chinese characteristics, that is, the path of socialism with Chinese specifics, the establishment of the FTZ clearly reflects its universality, it means that China adheres to the path of socialism with Chinese characteristics; China has entered a new era of socialism with Chinese characteristics.

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