



# **Industrial Parks and Special Economic Zones in China: Lessons and Experiences from Shanghai FTZ**

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# China's opening policy and special economic zones



- When China adopted reform and opening policy as the basic national policy in 1978, China entered into a new era to open to the outside world.
- However, at beginning, there were still a lot of obstacles in both ideology and basic system left from previous plan economy.
- Therefore opening and reform took the form of gradualism and special economic zones are basic practice of opening policy at the beginning.
- In July 1979, CPC Central Committee decided to set up Shenzhen, Zhuhai, Shantou, and Xiamen special economic zones in Guangdong and Fujian provinces.





# Special policy in SEZs



- Main special policies applied to SEZs were to let them to have special preferable treatments to attract foreign investment, and allowed them to provide land lease to foreign companies for industrial and commercial purpose.
- This policy greatly stimulated the economic development in these SEZs and in March 1983, Hainan Island was also made special economic zone. Later Hainan was upgraded into a province in 1988.
- After that economic development zones and industrial parks and technology parks were set up almost all over China to copy the preferable policies to attract FDI.



# Special policy in SEZs replicated allover China



- Pudong New Area was set up in 1990 to open to the outside world and since then became a hot spot in attracting foreign capital.
- By the end of 2020, Foreign firms in Pudong increased to 36000, FDI accumulated to USD 103 billion.
- Pudong also become financial hub of China and more than 1700 licensed financial institutions were operating in Pudong plus more than 10 thousand newly emerged type of quosi financial institutions.
- As most of the special treatment of SEZs were replicated in industrial parks and development zones, Special economic zones no longer special after 1990.





# Industrial parks in China



- Industrial parks are much smaller area than SEZs designated to develop advanced and high tech industries provided with special preferable policy and better infrastructures.
- The first one named industrial park that was She Kou Industrial Park in January 31, 1979 approved by State Council in Shenzhen, one year earlier than Shenzhen SEZ was established.
- However that was a special case and after 1984, China decided to open coastal cities and areas, large number of industrial parks were set up in most coastal provinces.
- By the end of 2022, there are more than 2700 industrial parks in China, with 675 designated by the State Council and 2107 designated by provincial governments.



# High Tech Industrial Park



- Among Industrial parks, most important kind is High Tech Industrial Development Park. It was first established with Zhongguancun Science and Technology Park in Beijing in May 1988.
- By the end of 2021, there are 230 Hi-tech parks in China and they are the engines of China advanced technological industries development. They not only form clusters of attracting advance and high technology investment, but also promote hi-tech industrial production and export.
- They made a great contribution to China industrial upgrading and economic development.





# China's Special Customs Supervision Zones (SCSZs)



- SCSZs are special customs treatment zones that can enjoy tariff deferring or exemption under the special supervision by China customs office.
- It was first established in Shanghai in the form of bonded tax zone.
- Usual practice is that imported goods coming into SCSSZs are deferred for paying tariff and VAT for a period of time and after the goods processed and assembled with other parts leaving the port to export, tariff and VAT will be dismissed.
- If the goods later coming into domestic market, tariff and VAT will be charged accordingly.



# Function of Bonded Tax Zones



- In 1990, Bonded Tax Zone was introduced to China first in Shanghai Wai Gao Qiao harbor area in order to facilitate Foreign companies export oriented production.
- Special Import and Export tax and tariff treatment applied to the products for processing and producing in bonded area for export.
- Later Export Processing Zones were established to do the export processing and enjoyed same tax and tariff treatment as in bonded area.
- Some port areas were made Bonded Harbors or Bonded Logistic Zones which could enjoyed further preferable treatment for tariff and VAT refund.







- This kind of special treatment is under the supervision of customs office with importers and exporters special register account held in customs office.
- It is not total free trade in the sense of exemption of tariff and VAT but rather to provide easy and convenient way to handle processing export business and promote multi-corporations to set up production lines in China.
- Most SCSSZs are in the form of Comprehensive Bonded Zones later to enjoy full set of bonded economic activities.
- There are 167 of these SCSSZs in China now.

# What is FTZs



- The latest kind of special purposed zones are Pilot Free Trade Zones.
- China (Shanghai) Pilot Free Trade Zone was first established in September 29, 2013 with four bonded zones in Shanghai composed of 28.78 square Km.
- In March 2015, Shanghai FTZ was expended to 120.72 square km and at same time Guangdong, Tianjin, Fujian FTZs were set up.
- In April 1, 2017, seven more Pilot FTZs were established in Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan and Shan'xi Provinces and Municipality.







- In October 16, 2018 State Council announced that Hainan Province is also made of Pilot FTZ and will gradually turn into a Free Trade Harbor.
- In August 2, 2019, another six Pilot FTZs were set up in Shandong, Jiangsu, Guangxi, Hebei, Yunnan and Heilongjiang provinces.
- In September 21, 2020, 3 more Pilot FTZs were established in Beijing, Hunan, Anhui municipality and provinces. By then, there were altogether 21 FTZs in China.
- FTZs are not the same as industrial parks and nor the bonded tax zones.



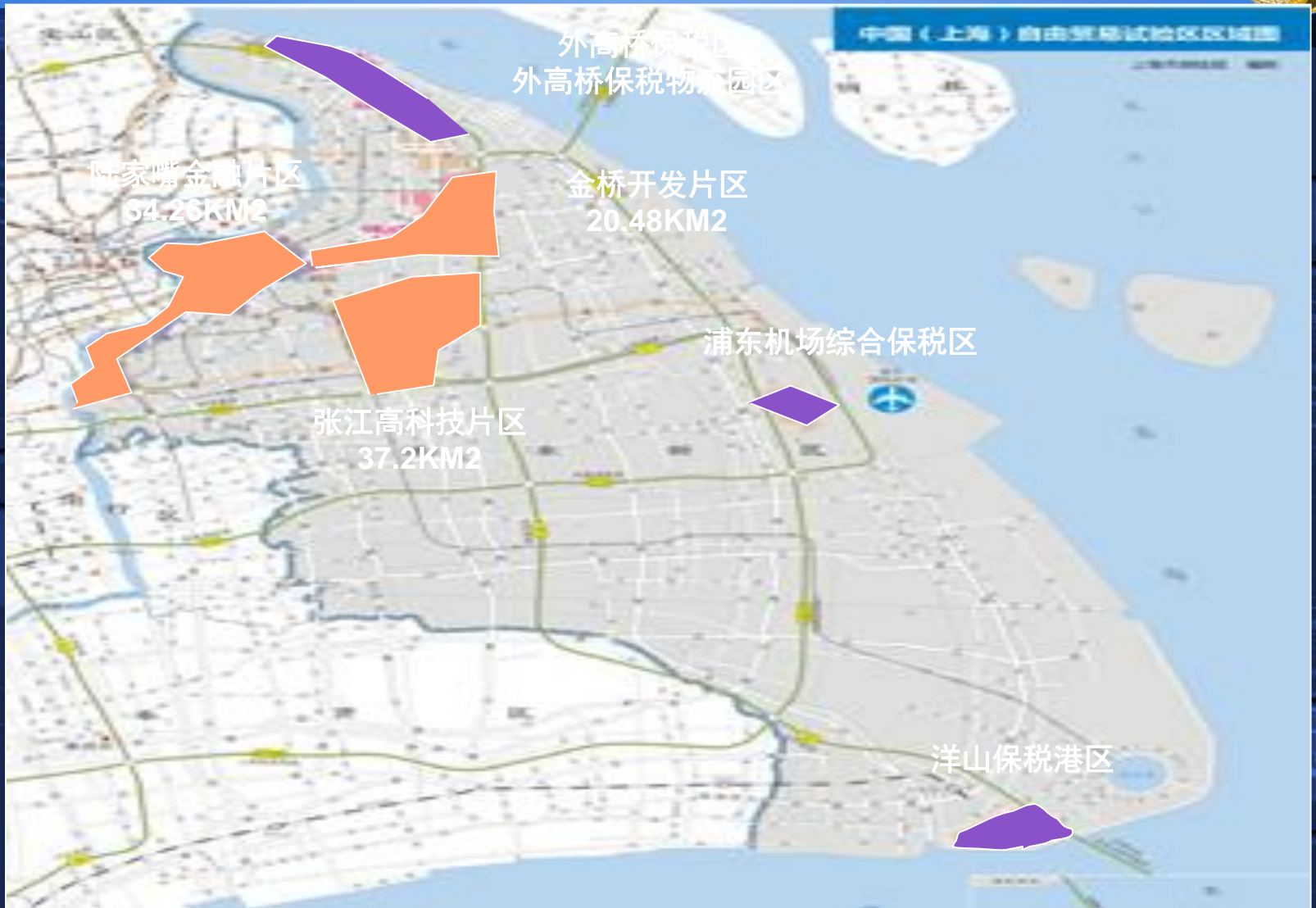


- FTZs are special economic area to test new opening policy and government administrative reform measures aimed at upgrading business environment to international best practice level.
- So FTZs are not the same as other countries' general FTZs that specialized in trade liberalization such as eliminating tariff and lowering income tax. They are more opening and further reform testing areas.
- They are neither enlarged special customs supervision zones although some bonded zones are included in the FTZs.
- In terms to attracting investment, they are bit similar to Industrial Parks.





# Location of Shanghai Pilot FTZ





- At beginning Shanghai Pilot Free Trade zone was made of 4 bonded Zones, so it was believed by many people that they were going to become tax free area.
- However, after other three special purposed zones were put to Pilot FTZs, the function of FTZs became clear that FTZ is to test further reform and opening policies rather than Tax Free.
- Non-bonded zones of the other three were featured with special purposed to attract capital and investment to form an economic development engine and to serve for the wider region where they were located to promote growth by spill over effects.







- Therefore, FTZs are not only for free trade practice but further reform and opening zones.
- The reform measures are heavily focused on eliminating unnecessary government license and approval procedures and to form a rule of law and more transparent governing system which is comparable to international standard.
- New opening measures are basically focused on providing national treatment to foreign investors and opening service industries to foreign investors.
- Financial reform and opening are aimed at further opening capital account and realizing RMB full convertibility.





- In the overall plan of Shanghai FTZ formulated by the State Council in 2013, 6 service industries have been laid out for further opening, namely: financial service, transportation service, commercial service, professional service, cultural service and social service.
- So FTZ is not same as all other previous zones or industrial parks established in China since early 1980s, whose main purpose is to attract foreign investment with some special preferable policies.
- FTZ is trying to set up a new open economic system that can meet international standard.







- At beginning, setting up FTZs was also to serve for the negotiations with our trade partners on higher level FTA or BIT so as to reform current institutions that are not comparable to international standard.
- TPP was another consideration at early days as China become aware that further opening is inevitable trend and should be prepared for it.
- So in APEC leaders meeting 2014 in Beijing, China actively promoted FTAAP and accept the notion of high quality FTA. This showed Chinese government determination of pursuing further opening policy.



- It was also set to serve the negotiation of US-China bilateral investment treaty which was initiated in Obama administration and later suspended by Trump Administration.
- Foreign investment administration system in China did not suit to the US standard and was difficult to change at once all over China.
- FTZ was set to be the place to test new foreign administration system.
- In March 15, 2019, New Foreign Investment Law passed by NPC of China. Investment system reform test in FTZ has been successfully led to a new law in China.







- FTZ is also for the purpose of promoting the reform of China's government administration.
- After more than 30 years successful economic growth, the institutional settings and legal framework for governing economic activities may have been improper as many new developments took place both at home and abroad. Further reform is badly needed.
- However, further reform become difficult as established interest groups become obstacles of further system reforms.
- FTZ is used by central government to clear away the obstacles and to pursue the institutions that are comparable to international standard.



# What have been achieved in FTZs



- New regime for foreign investment administration.
- New system of trade facilitation
- Government administration reform
- New measures of financial system opening and reforms
- Further opening of service industries





# New regime for foreign investment



- In FTZs Pre-establishment national treatment was first applied to foreign investors. A negative list has been introduced and special control items are reduce from 190 in 2013 to 42 in 2019 and to 27 in 2022.
- Theoretically speaking, foreign company can registered as quickly as within two days.
- By the end of 2022 more 20 thousand foreign companies newly registered in Shanghai FTZ, more than 90% were out of negative list and directly got registered without pre-reviewing by Chinese government departments and only about 8% fell into negative list and need to be reviewed by foreign investment reviewing authority first.



# Trade facilitation



- Trade in the FTZs is further liberalized although is not yet totally free with tariff exemptions as compared to that of many other country's traditional type of FTZs.
- New measures are basically focused in reducing and simplifying the customs and quarantine procedures.
- One stop and single window handling was adopted in Shanghai FTZ and now is introduced to all bonded zones for trade facilitation.
- An electronic platform for processing import and export documents has been established.
- Customs, quarantine, port authority and other 20 government departments all go through this E-platform to handle their checking and regulating procedures.







- Paper documentation are greatly reduced as they processed through this e-platform on internet.
- Measures concerning customs procedures and quarantine and quality checking have been reducing. Averaged time for customs and quarantine checking time reduced from two weeks to only 2 days in Shanghai Pilot FTZ. Some perishable goods could be handle within 2 hours.
- This greatly reduced the logistic cost for trading companies and fostered trade in terms of faster handling goods in the port and provide more business opportunities.



- Other measures include connecting nearby provinces' customs in inland that have no seaport facilities to port customs and save redundant checking and documentation.
- This enhance the integration of nationwide network of customs and quarantine and increased efficiency of government work.
- Shanghai FTZ is trying to follow Singapore model to enhance efficiency in handling and checking system and reach the level and efficiency the same as Singapore.





# Government administration reform



- For government administration reform, a lot of internal reviewing and licensing have been reduced. Many redundant checking and qualification granting have been removed.
- A set of new administration have been simplified. Government departments that have rights to enforce the law and regulation were asked to merge their law enforcement activities into one bureau.
- Annual renewal of license of companies has been removed and changed to public announcement of company status.





- Pudong District Government established a new bureau, City Law Enforcement Bureau, to pull together all law enforcement functions originally distributed in many bureaus such as city planning, land management, environmental protections, water management, city maintenance, city cleaning and sanitation, green-land and garden administration, transportation, construction administration, housing management into one bureau.
- This greatly enhance the efficiency and reduce the cost of law enforcement.
- This kind of reform is now being introduced to many other cities all over China.





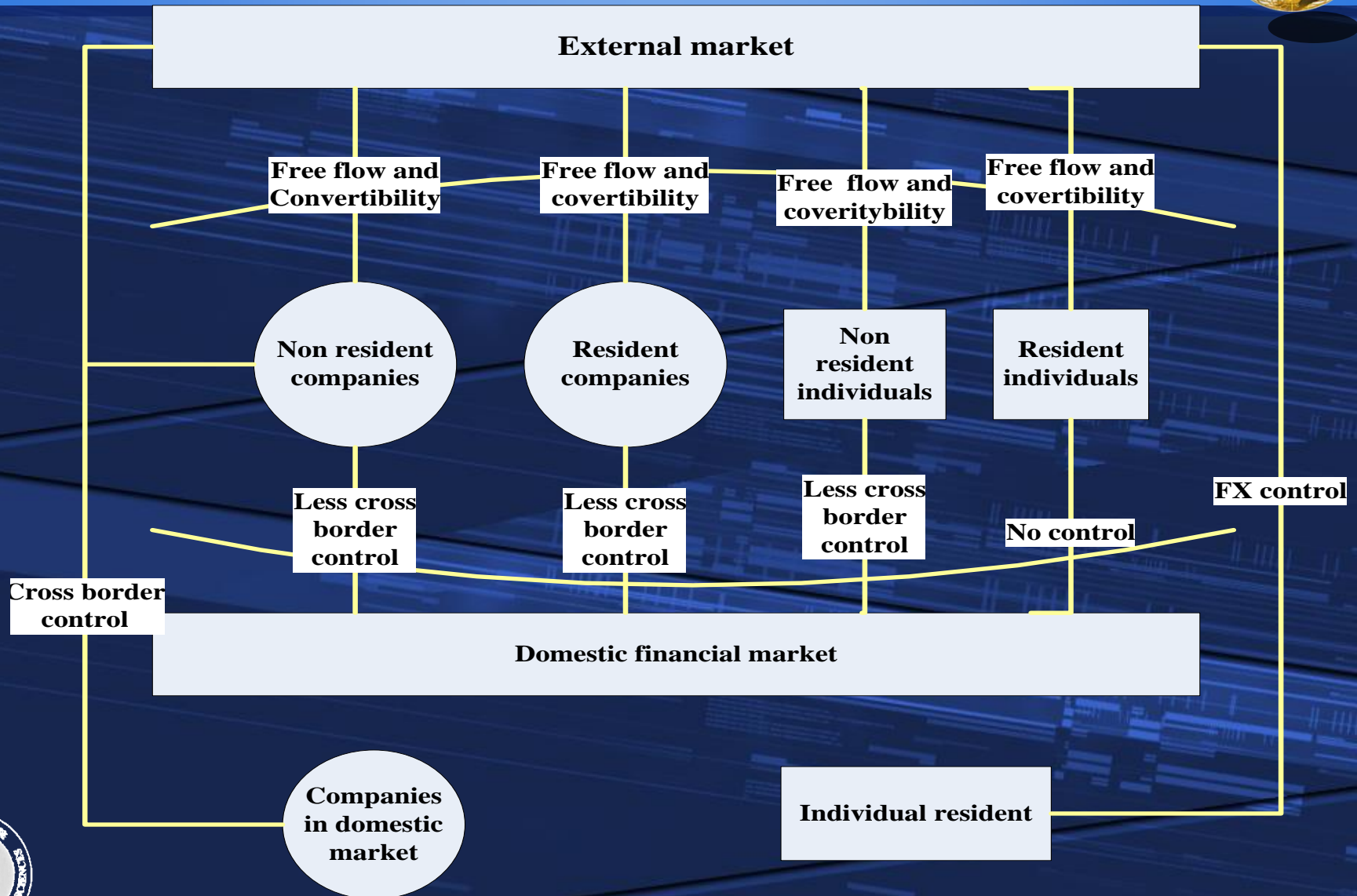
# Financial opening and reform



- In the financial sector, further reforms and opening measures also have been tested.
- Capital account liberalization has been tested with FT account.
- Free convertibility of RMB is also applied to FT account and oversea accounts.
- MNC are granted with rights to set up RMB pool to use the pooling fund cross border freely.
- International petroleum and gold futures market have been established in Shanghai FTZ and foreigner could directly access to these futures market.



# FT account capital free flow







- Companies could open FT account with which funds could be freely moving between FTZs and oversea accounts.
- By the end of 2021, there are 65 financial institutions that have been authorized to set up FT account system (54 banks, 3 securities companies, 4 financial companies and 2 exchanges.)
- By the end of 2021, there are 13200 FT accounts have been opened with which RMB 15.7 trillion cross border payments have been processed.
- FT account system has been introduced to Hainan, Guangdong and Tianjin FTZs for wider area experiment.





- Non-banking foreign financial institutions such as foreign life insurance company, securities company, fund managing company and futures company now can come to FTZs do business either in the form of joint ventures with controlling share or 100% owned subsidiaries.
- Companies in FTZs outbound direct investment are liberalized and need not to be approved by government departments first.
- Financial leasing companies in FTZ are allowed to do business cross border and borrow abroad freely.
- Financial leasing companies cross border payment is free from foreign exchange control.







- By all these further reform and opening measures, FTZs served as a pioneer for whole country's next stage reform and opening. It also serves as preparation for responding external pressure to open new area and new industries that are still not fully open to foreigners.
- So with successful operation of Shanghai FTZ and replication the experience of Shanghai FTZ to other FTZs and rest of China, China becomes more confident to take responsibility of further opening its market and implementing higher international standard of free trade and investment.



# Relation between FTZ and FTA



- FTZ is a pressure test ground for high standard FTA.
- China is to trying to negotiate FTA with our trading partners as more as possible. For the existing FTAs between China and its partners China is willing to upgrade if there is demand for both sides. For example, China now is negotiating with New Zealand and Australia to upgrade bilateral FTA.
- China is making serious efforts to further liberalize trade and investment with our trade partner.
- FTZ will provide the test and experience for higher level of liberalization of trade and investment with our trading partners.







- It was under this background, China took an active move towards FTAAP and hopes to gain more welfare through trade and investment liberalization.
- It is from this point of view, I believe that China will uphold the policy of further opening and promote globalization to the right direction rather than retreat and reverse the globalization trend.
- Chinese president Xi Jin Ping made it clear in many international occasions that China will open wider its door and promote free trade.
- As the second largest economy and biggest trading country in the world China is imperative to uphold free and open economic policy.





*Thank You!*

**Questions and comments are welcomed!**