

# The Development Experience of China's Special Economic Zones, and Practice of Free Zones

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September 2022

# BACKGROUND – Global Value Chain Restructuring

The restructuring of the global value chains will reshape the pattern of global industry and trade in the next 10 years.

—Britain's Standard Chartered Bank



Routes of global industrial transfers since 1950s

evolution pattern of global industrial transfers

## The First Round of Industrial Transfer

**Route:** From the US and Europe to Japan (1950s - 1960s)

**Industry:** Traditional Industry such as : Steel, textile etc.

**Result :** accelerate industrialization, economic powerful country and world factory

## The Second Round of Industrial Transfer

**Route:** From Japan to Four Asian Tigers (1960s – 1970s)

**Industry :** Labor-intensive industry such as textile, high energy consumption, polluted heavy industry

**Result :** Four Asian Tigers economic miracle, labor-intensive processing industry, emerging industrial country or region

## The Third Round of Industrial Transfer

**Route:** From Four Asian Tigers to China's coastal area (mid 1980s), then inland area

**Industry :** Labor and capital intensive industry, technology-intensive industry with low value-add.

**Result :** China's processing industry developed rapidly, forming Peal River Delta and Yangtze River Delta economic development model, world newly industrialized country, the new world factory

## The Fourth Round of Industrial Transfer

**Route:** From China to Southeast Asia, Africa and Latin America

**Industry :** Labor-intensive processing and manufacturing industry



# **The Development Experience of China Special Economic Zones**

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# The Development of China Special Economic Zones

Chinese national-level SEZs have been divided into 12 different types. After 35 years of development, the total number of national-level SEZs has been achieved nearly 550. Considering SEZs in other levels, the amount might increase to near 10,000.

Category	Type	Number (Only National-Level)
Non-Customs Special Supervision Zones with <b>Special function</b>	Economic & Technological Development Zone	215
	Hi-Tech Industrial Development Zone	129
	Modern Service Industry Zone	30
Customs Special Supervision Zones with <b>Special function</b>	Bonded Zone	10
	Export Processing Zone	45
	Bonded Logistics Park	4
	Bonded Port	14
	Comprehensive Bonded Zone	50
	Cross-Border Industrial Park (Border Economic Cooperation Zone)	18
	Pilot Free Trade Zone	11
	Special Economic Zone	5
SEZs with <b>comprehensive functions</b>	New Area	11
	<b>Total</b>	<b>550</b>

# The Development of China Special Economic Zones

Geographically,  
The initial parks/zones were established in the coastal cities.  
Then, parks/zones gradually expanded to regional central cities.  
Finally, parks/zones are expanding to the whole country.



# The Development of China Special Economic Zones

Chronologically, SEZs(Industrial Parks) have experienced a three-stage development.

- |                                   |                                                                                                                                                                                                    |
|-----------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Experiment (1980-1990):</b> | <b>SEZs, and Economic &amp; Technological Development Zones</b>                                                                                                                                    |
| <b>2. Expansion (1990-2010):</b>  | <b>Bonded Zones, Export Processing Zones, Bonded Logistics Zones, Bonded Ports, Comprehensive Bonded Zones, Cross-Border Cooperation Zones, Hi-Tech Industrial Development Zones, and New Area</b> |
| <b>3. Innovation (2010-now):</b>  | <b>Pilot Free Trade Zones, Modern Service Industry Zones</b>                                                                                                                                       |

# Different Generations of SEZs

## SEZ 1.0

### □ Objective :

- for labor-intensive industries
- create employment
- improve technology

### □ Planning and design:

- separated from residential area with low plot ratio and low density
- small-scale light industrial zones and multi-story factories near residential areas

### □ Examples :

- assembly processing industrial zones
- multi-story factory
- Low density integrated plant



# Different Generations of SEZs

## SEZ 2.0

### □ Objectives :

- capital- and technology-intensive industries
- apply more functions such as testing, R&D and design

### □ Planning and design :

- industrial clusters
- living facilities in the zones
- specialized zones emerge

### □ Examples :

- Oil/Petroleum park
- parks of Vehicles/machinery/equipment
- Pharmaceuticals park





# Different Generations of SEZs

## SEZ 3.0

### □ Objectives :

- focus on technology- intensive industries
- attract in the operational headquarters of MNCs
- Facilitate the development of local small and medium enterprises

### □ Planning and design :

- integrate both industry and service sector ( plot ratio 2.0-2.5 )
- create a community combining residents, enterprises, research institutes and higher education organizations

### □ Examples :

- science and technology incubation area
- modern service industries park



# Different Generations of SEZs

## SEZ 4.0

### □ Objectives :

- for knowledge-intensive industries
- focus on high value industries

### □ Planning and design :

- with high plot ratio and high density
- commercial complex and office towers

### □ Social functions :

- life-work-fun-study together
- urbanized working environment with multiple functions

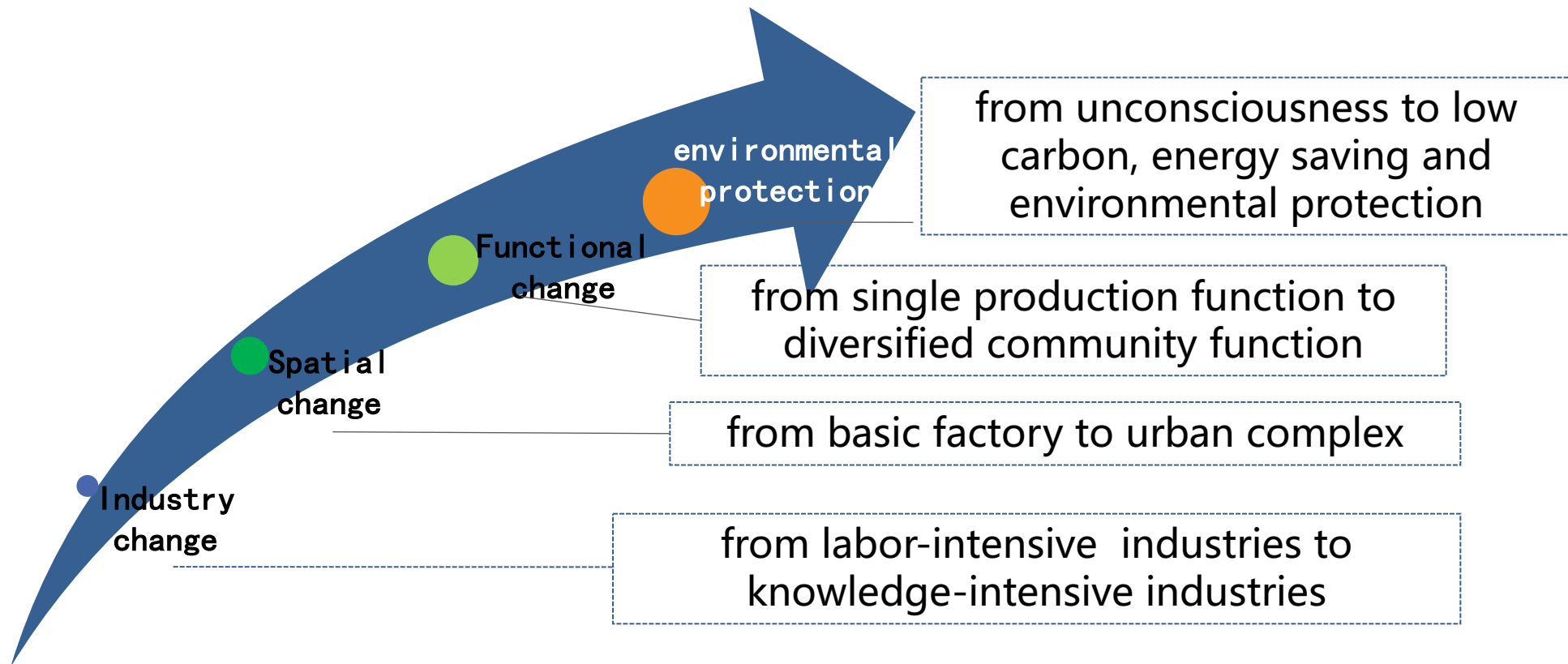
### □ Energy saving and environmental protection :

- low carbon life
- life & science park
- video and audio making

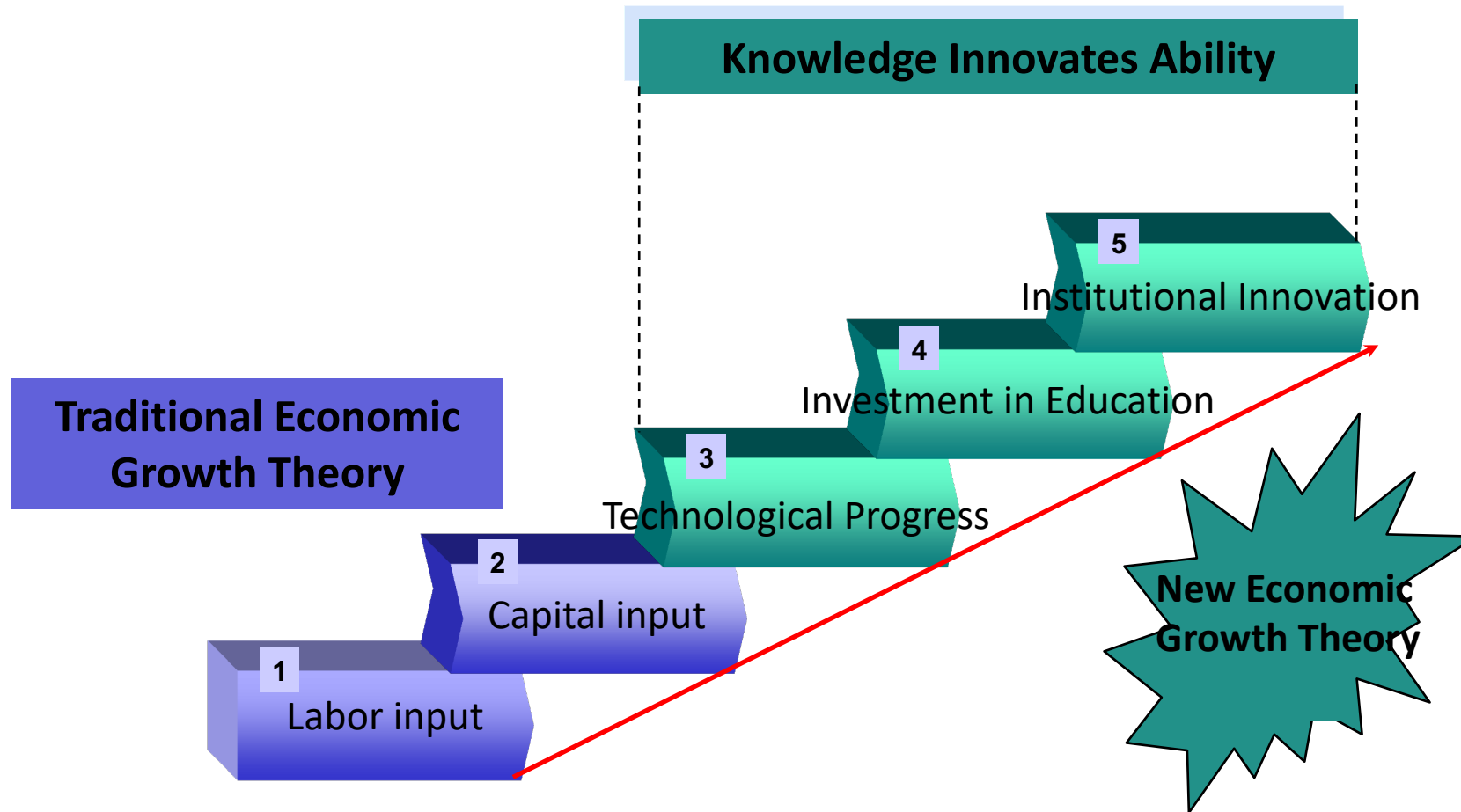


# SEZ Growth Through Generation Steps

SEZ 1.0	SEZ 2.0	SEZ 3.0	SEZ 4.0
<b>labor-intensive industries</b> single manufacturing	<b>capital-intensive industries</b> working and basic living	<b>technology-intensive industries</b> working living and commercial	<b>knowledge-intensive industries</b> life-Work-Fun-Study together



# The Dynamic Change of Economic Growth



# How to Innovate Next

**China's industrial transformation and upgrading is a process of moving towards a new type of industrialization and urbanization**

**The content of China's new industrialization can be summarized as realizing the double upgrading of industrial chain and value chain in the global industrial division system.**





# Free Zones in China

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# The Introduction of Chinese Free Zones

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- China Free Zones began with the establishment of free trade zones (FTZs) and export processing zones (EPZs)
  - Based on the common policy and international practice of free zones by RKC
  - Implementing a supervisory policy of “within the country territory but out of customs territory”
- From 1990 up to now, free zones in China have presented different models successively, based on the specific requirements and environments in different periods

# 1990' s : Free Trade Zones

- Early 90' s: free trade zone began with the early exploration of Shanghai FTZ
- Followed with another 14 FTZs
- Mostly located in SEZs and coastal cities
  - Based on the ports and economic environment of the earliest opened cities
  - Developing their open economy
- With limited business scope
  - International trading, or bonded storage, exhibition, or...





# 2000' s: Export Processing Zones

- EPZs emerged as processing trade grew fast in 90' s
  - Centralized processing could greatly facilitate the smooth supply chain
- From 2001 to 2009, 53 EPZs had been established
- Site preference shifted from coastal regions to inland China
  - Mostly located in economic and high-tech zones
- With limited business scope
  - Early: export processing
  - Later on: plus logistics and other producer services



# 2006: Comprehensive Free Trade Zones

- The Comprehensive Free Trade Zones aimed to upgrade the value chain
  - Global industrial transfers spread into the country' s inland central region
  - China got access to WTO and started to further opening up
  - The global value chain, such as logistics, after sale service, and R&D, is under restructuring
- Exploring a comprehensive system of free zone approach in China with:
  - "new generation "concept of free zones to realize cluster-based supply chains
  - Integrating functions , manufacturing & processing, logistics, maintenance, R&D etc.
  - Positioning from manufacturing center to diversified economic development center



# 2013: Pilot Free Trade Zones

- The Pilot FTZ is a significant measure to promote reform and opening-up
  - Started from 2013 with strategic requirement: 'serving China from global perspective'
  - Exploring to establish new system of foreign investment focusing on pre-establishment national treatment and negative list approach
  - Further opening in six major realms of financial, shipping, trading, professional, cultural, and social service sectors
  - Innovating the products, services, and processes with simplification concept
  - Investment and trade facilitation up to international standards
  - Convenience and efficiency, and internationally recognized legal environment



# Current Zone Network

<b>Free Trade Zone</b>	<ul style="list-style-type: none"><li>• Since 1990</li><li>• Focus on further opening up of the SEZs and coastal cities</li></ul>
<b>Export Processing Zone</b>	<ul style="list-style-type: none"><li>• Since 2000</li><li>• Focus on facilitating the processing trade</li></ul>
<b>Bonded Logistics Park</b>	<ul style="list-style-type: none"><li>• Since 2003</li><li>• Focus on developing international logistics</li></ul>
<b>Free Trade Port Area</b>	<ul style="list-style-type: none"><li>• Since 2005</li><li>• Focus on developing international logistics and facilitating port operation</li></ul>
<b>Comprehensive Free Trade Zone</b>	<ul style="list-style-type: none"><li>• Since 2006</li><li>• Focus on opening-up inland, and facilitating inland foreign trade</li></ul>
<b>Pilot Free Trade Zone</b>	<ul style="list-style-type: none"><li>• Since 2013</li><li>• Focus on further reform and opening-up, especially on service sector</li></ul>

**Total No. of Active Zones = 168**

# Achievements of FTZs and EPZs in China

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In 2021, FTZs, EPZs and other Free Zones :

- Exported **\$596.2 billion** in merchandise
- Employed more than **1.15 million** jobs
- Received approximately **\$1.2 trillion** worth of foreign and domestic merchandise - an annual increase of **24.7%**
- The value of imports and exports of free zones accounted for **20%** of all goods imported & exported of the country

# Achievements of FTZs and EPZs in China

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The major achievements of Chinese FTZs, EPZs and other Free Zones :

- Expanding foreign investment and trade
  - Introducing foreign capital and advanced technology
  - Becoming a growth point of foreign trade in China
- Facilitating international industrial transfer
  - Mostly transferred from U.S., Europe, Japan, Korea and Taiwan
  - Becoming global processing bases of smart phone, notebook, LCD, ...
- Boosting regional development
  - The regions become important international trading centers and logistics hubs



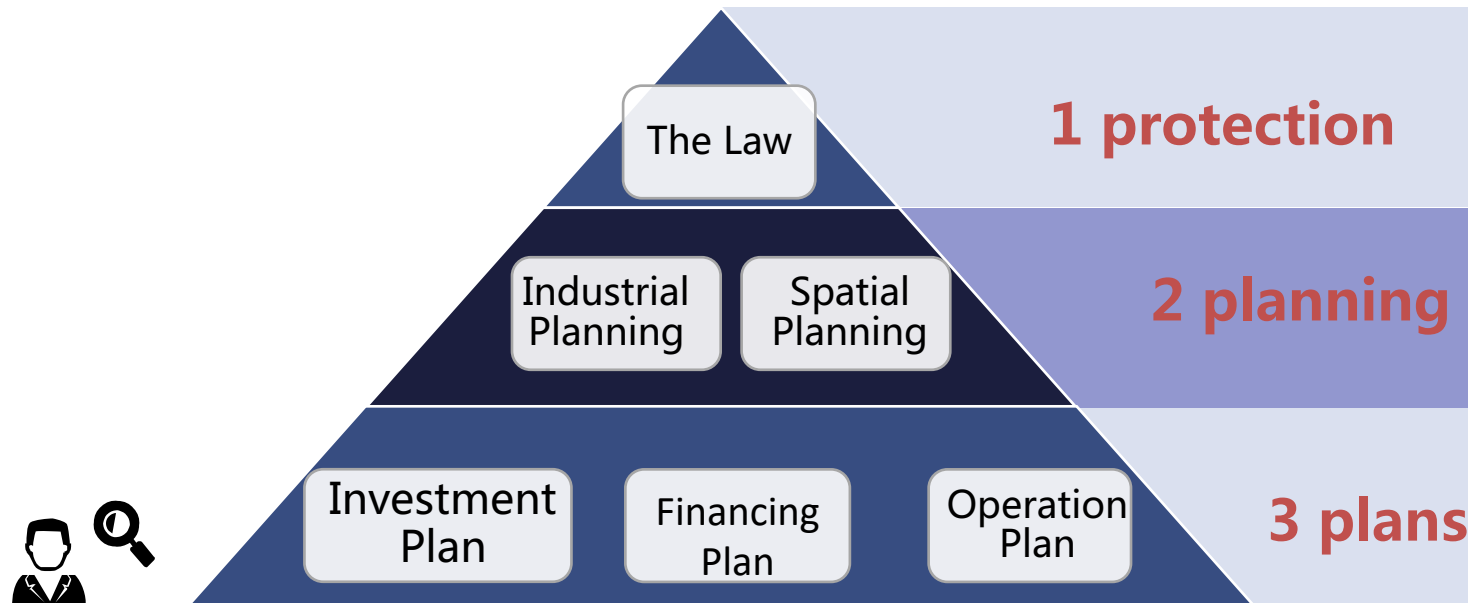
# **The Enlightenment from Study of Chinese Free Zones**

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# Planning Principles

## The Zones' "123" preliminary job

"123"





# The Enlightenment from Study of Chinese Free Zones

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- Capturing the opportunity of global industrial transfer to introduce the selected industry through a best use of the world free zone policy and common practice;
- Upgrading cluster-based industries and to fulfil industrial value chain from R&D, manufacturing, to logistics, trading, repairing & maintenance, and final financial service in free zone business environment.

**THANK YOU**

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