

**International Economy**

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**EVOLUTION OF DEVELOPMENT  
OF FREE ECONOMIC ZONES IN CHINA****Abstract**

One of factors of successful development of economy of China is creation and constant modernization of free economic zones. In modern Chinese practice, the following zones of the state level are defined: special economic zones, zones of technical and economic development, zones of development of new and high technology, duty-free zones, zones of frontier economic cooperation, export-industrial zones.

**Key words:**

Free economic zones, economy of China, stages of development of free economic zones.

**JEL:** F0.

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Recently, Chinese People's Republic shows the stable economic and social growth. One of the most important components of this success is creation and permanent modernization of the free economic zones (FEZ).

In China free economic zones were of social experimental character. Transition from the administrative system to the market one in China was founded as unacceptable mechanism of development. Effectiveness of the market economy in the country at the first stage of transition was checked and worked out at the example of FEZ. Since 1979 in China, FEZ became an important component of the economic policy of the country. In those years, by means of the policy of regional development of the country, their number was permanently increased.

From the beginning of this grandiose FEZ experiment, it was planned to raise the economy of the country by means of foreign investments. But it was understood that by means of only foreign capital attracting in China, the real progress of the country is not reached. Economy requires not only the capital inflow, but also new technologies, which increase the level of production, flood the internal market and come in the external export markets with the competitive national products. Therefore, official state policy adhered to the conception of import limitation in the country of old-fashioned and secondary technologies, promoting the creation of scientific and research centers by the foreign corporations on the territory of China.

The basic factors of FEZ development can be defined as following.

The world practice shows that the model of effective FEZ development includes the factor of state regulation, which guarantee the creation and provision of FEZ activity; systems of permanent investments receipts, in particular technological investments, which promote the rapid growth of FEZ; factor of clusterization, which plays an important role in the increase of competitiveness of technologies and technological chain. Graphical model of FEZ development is presented in the Figure 1.

From the viewpoint of Fez mechanisms of development, on practice we distinctly define three stages with the main economic factors:

- stage of growth pole;
- stage of stable development;
- stage of branches clusterization.

At the stage of growth pole, the main factor of development is the factor of state regulation; at the stage of stable development – permanent receipts of external investments; stage of clusterization is specified by the main factor – attracting and assimilation of innovation technologies.

Figure 1

**Model of FEZ development**

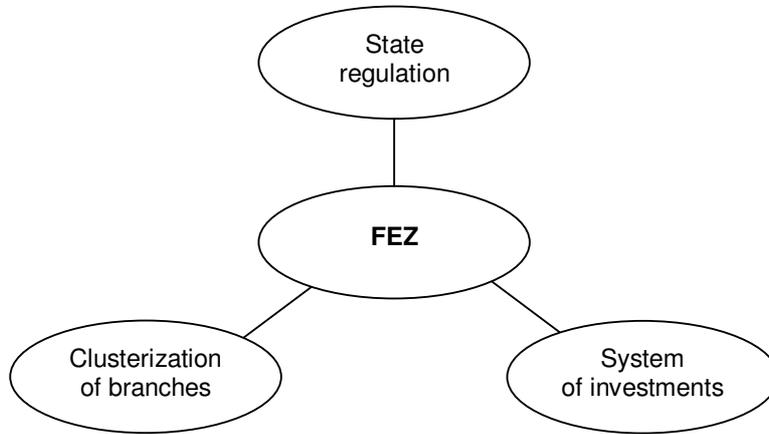
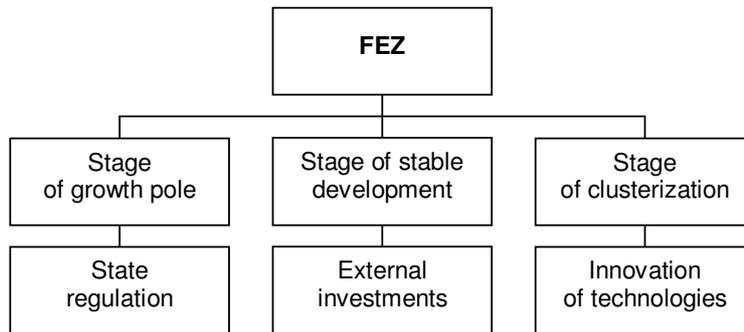


Figure 2

**Structure of the main stages of FEZ development in China**



Because of difference between geographical and humanitarian factors, regional FEZ is developed.

Their successful development depends on different factors. Graphical structure of the main stages of FEZ development is presented in Figure 2.

In Chinese People's Republic the national theory of FEZ evolution was developed and realized in practice. This theory provides for the permanent creation of backgrounds for transfer of zone into the new qualitative condition, in other words its economic and social modernization.

For example, at the stage of the growth pole development at the moment of arrangement of productive social infrastructure of FEZ, state investments play the leading role. Normative and legal base should be maximally «transparent» and clear for private investors. At that, it should offer them quite tangible benefits from investments implementation in the zone. Private investments also would be in asset but they are realized in highly profitable projects (trade, service industry etc). Implementation of state regime together with the acceptable infrastructure promotes the transition to the more effective model of development.

At the stage of FEZ stable development, private capital is dominant in this zone. The role of the state is to channel this capital in accordance with the priorities of national economy development. The obvious priority branches are productive enterprises with the export-oriented types of products. With increase of the number of enterprises in the zone and complication of industrial-engineering links among them, the backgrounds for the qualitative growth of the zone are created.

With the participation of the state, enterprises pass to the complex processing of local or imported raw materials with the formation of the system of enterprises and branches, which are combined thanks to the technological chains into clusters.

It is expedient to define the basic stages and peculiarities of FEZ formation in China. During 1980–90-s, the state policy of China towards FEZ passed several stages, from the creation of separate special economic zones and opening of maritime towns and regions to the expansion of openness of intercontinental and border districts.

Practical measures concerning FEZ creation in China can be described in such sequence: in a certain district it is decided to build the FEZ infrastructure compactly, to create highly effectual managerial authorities and mechanisms of productive management, to involve foreign capitals and technologies, improve normative and legal acts and ascertain preferential policy for the FEZ functioning.

Under such approach, FEZ in China became to develop rapidly and form its regional principles of work in the process of development.

The main peculiarities of FEZ in China are: – independent economic development on the basis of the principles of market regulation; basis on the foreign capital investments; export orientation of enterprise, broad attracting of imported raw materials; including of extensive national regions; active interaction of FEZ with the other territory of the country; differentiated tax system with the consideration of the regional peculiarities of FEZ.

From the middle of the XX century with the development of technology and science and globalization in the world economy, different peculiarities of FEZ emerged in China. In the modern Chinese practice, we can define the following zones of state level:

- 5 special economic zones (SEZ). They are placed in the area of sea-port towns of the provinces Fujian and Guangdong on the coast of South China Sea;
- 54 state zones of the technological economic development (ZTED) – on the cost of Yellow, East China and South China Seas, in the cities Dalian, Qinhuangdao, Tientsin, Yantai, Qingdao;
- 53 state zones of development of new and high technology (ZDNHT), which comprehend such cities as Peking, Hankow, Guangzhou, Chongqing;
- -15 duty-free zones (DFZ), the biggest of them are located on the East cost, (Shenzhen, Guangzhou, Shantou, Tientsin, and Shanghai);
- -14 zones of near-border economic cooperation (ZNEC). These zones are the territories of the near-border open city Hunchun (province Jilin), Suifenhe and Heihe (province Heilongjiang), Manchuria;
- 57 of export and productive zones (EPZ) [1].

Besides above mentioned zones of the state level in China, there are a great number of zones of provincial and municipal level. Up to 2003, there were 6866 different FEZ in China, which occupy the territory of 38,6 thousands of square km [1].

The models of FEZ development in China are differing by the variety. In order to choose the model of FEZ development, the Chinese government proceeded from the current needs of the country and experience of functioning of special zones in other countries. The experience of Singapore and the USA was examined.

In the preparation of organization of special economic zones it was offered some variants of the regime of their functioning. For the period of 20 years, FEZ in China developed on the basis of national model of development: special economic zones – coastal open cities – technological and economic zones of development – coastal areas – free zones – zones of development of new and high technology, near-border and internal open zones.

After summarizing the experience of FEZ functioning, the optimal regime of FEZ in the economic development of provinces is carried out. At that stage of modernization in the country **the zones of technological and economic development and zones of development of new and high technologies** – technological parks are of widespread and preferential development.

State zones of technological and economic development (SZTED) are the most effective FEZ.

The history of SZTED development is connected with the conception of re-orientation of export on the highly technological competitive production. In 1984 in China, the decision concerning «opening» of 14 cities-seaports on the coast of Yellow Sea, East-Chinese and South-Chinese Seas.

The majority of SZTED are located on the outskirts of big cities. The most distant is within 80 km from the center of the city, and the nearest is within less than 1 km from the city. The squares of SZTED are different. The square of the biggest one is more than 40 km<sup>2</sup>, and the smallest – 3 km<sup>2</sup>. Nowadays, 32 from 54 SZTED are located in the east part of China.

The course of FEZ development is permanently improved. At the initial stage of development, the course of FEZ development was defined: the main sources of capitals – foreign; priority directions – production sector; orientation – export; final objective – incentive of new and high technology development. Modern SZTED more often develops on the basis of national scientific discoveries and achievements.

*Figure 3*

**Growth of GDP in SZTED**

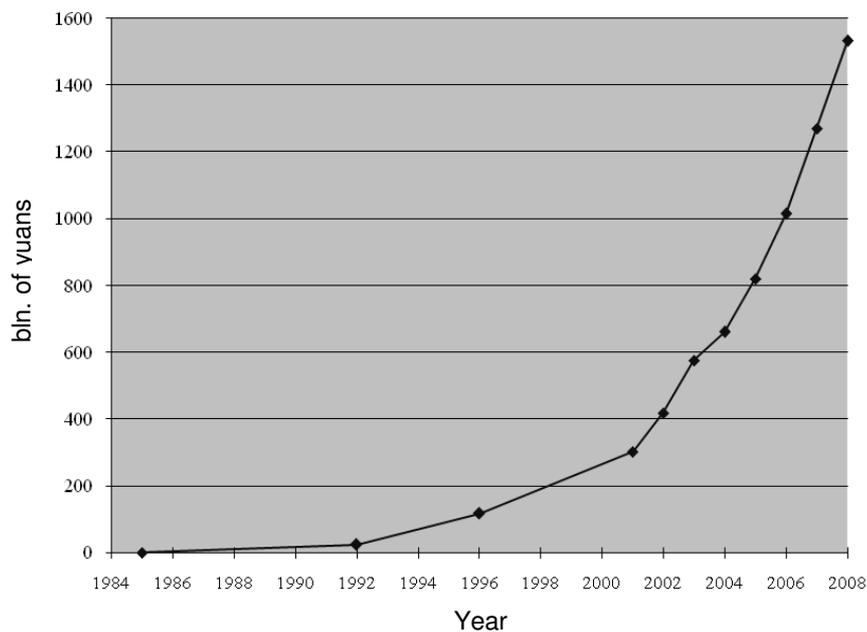
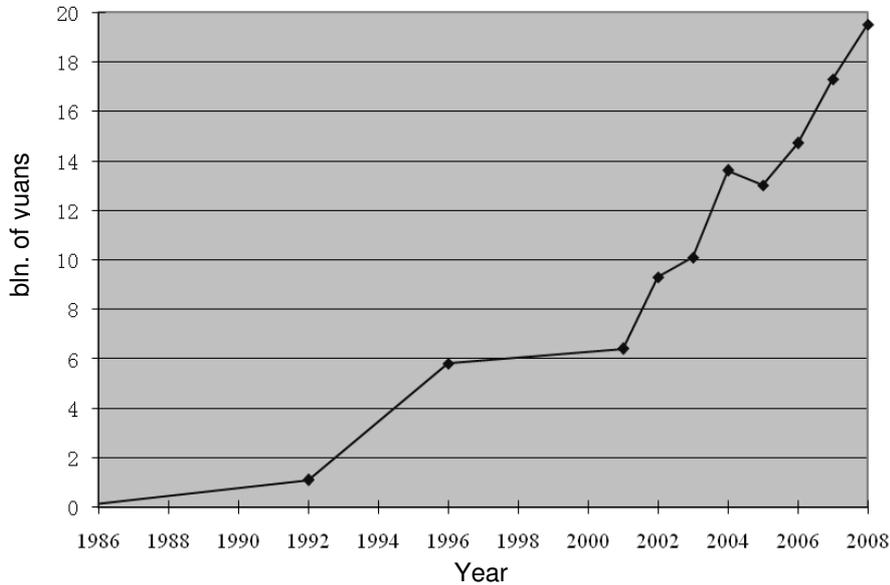


Figure 4

**Real utilization of foreign capital in SZTED**

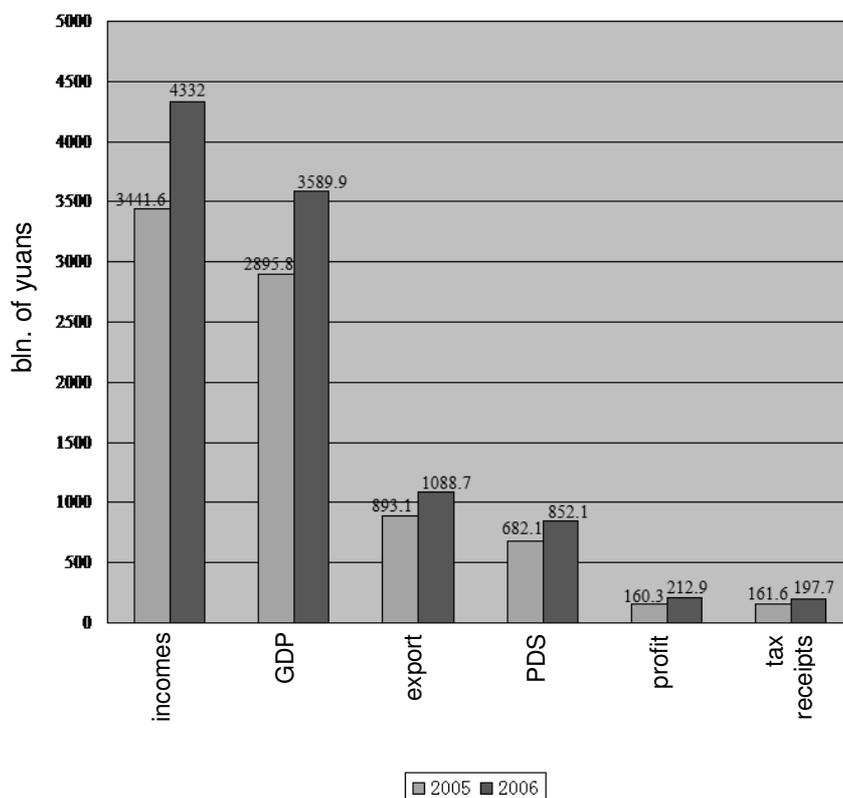
The main models concerning FEZ management are the following. To create FEZ in China, the decision of administration of province and State Council of Chinese People's Republic is required. It is connected with the conception of the split-level of confirmation of decisions on the basis of local economic and industrial development and other complex state factors.

In the modern practice there are two main models of SZTED management.

Firstly, the model of administrative management, which is widely applied at the initial stage of zones' creation. The management team, which includes provincial or municipal directors, is formed in the zone. They solve main strategic questions but do not influence on the concrete economic questions. In some zones administration can register companies with the foreign capital on the principal of «one seal», in other words investor adjusts the foundation of enterprises only with the administration of the zone. The main task of the administration of the zone is to provide favorable conditions for investors and work of enterprises of the zone. Special bodies of state authority Special government bodies play an important role in the activity of zones.

Figure 5

**Dynamics of economic indicators in State Zones of development of new and high technologies in China**



Secondly, the model of combination of mechanisms of administrative and market regulation. At such model, the committee on management and company on zones' assimilation, construction, infrastructure, investments attracting exists simultaneously.

Successes of conception of modernization and transformation of initial FEZ into the modern SZTED are undeniable.

For more than 30 years, FEZ in China was wide-spread and developed those territories and cities, where SZTED were successfully organized. According to the statistical data, the GDP growth in SZTED from year to year more than

three-fold exceeds the average growth in the country. In 2006 it was expressed in 24.04% in SZTED and 10.7% in the state sector, in 2007 – consequently 25.48% and 11.4%. In Figures 3 and 4 the dynamics of GDP growth and utilization of the foreign capital from 1998 to 2008 is presented [2].

Analysis of Figures 3 and 4 shows us that GDP increased in eight times. In 2006, the volume of the real utilization of foreign investments in SZTED reached 14.71 billion of dollars in the USA, 23.34% from the total in the country [2].

In Figure 5 the main economic indicators in the state zones of development of new and high technologies in 2005-2006 are shown. The growth of all indicators is more than 20%.

The net profit in the State zones of development of new and high technologies from 2001 to 2008 increased six-fold [2].

The presented materials strongly indicate the perspective development of free economic zones and possibility of their permanent modernization on the existed legislative base. Chinese experience concerning development of free economic zones is very useful for other countries.

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The article was received on December 27, 2011.