

Chapter 8

Role Played by China's Pilot Free Trade Zones in the Construction of the "Belt and Road"



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Abstract This paper analyzes the national missions and construction process of pilot free trade zones in China, the framework and effectiveness of pilot free trade zones serving the construction of the "Belt and Road", the new ground in pursuing opening-up on all fronts and the construction of free trade ports. Six suggestions are put forward on how to better play the role of pilot free trade zones and free trade ports in the construction of the "Belt and Road": to grant more powers to pilot free trade zones and free trade ports in carrying out reforms; enhance cooperation and exchange at international customs ports; strengthen the mechanism for the comprehensive coordination of multimodal transportation and important hubs; intensify industrial park cooperation and the capacity for international cooperation; formulate targeted taxation policies for promoting the development of new technology and new models; and provide a Chinese model for reshaping the international economic and trade rules system.

Keyword Construction of the "Belt and Road" · Pilot free trade zone · Free trade port

1 National Missions and the Process of Constructing Pilot Free Trade Zones

The pilot free trade zone ("FTZ"), the important decision of the Chinese government, is a significant measure in promoting reform and opening-up under the new situation. By piloting in some regions, the new policies are tested in the fields of investment, trade, finance, and government functions, so as to replace old drivers with new drivers for economic development, as well as blaze new trails and accumulate new experiences for the whole country.

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The construction of FTZs was implemented in three batches. In September 2013, the Shanghai Pilot Free Trade Zone became the first FTZ. In April 2015, the second batch of FTZs began in Guangdong, Tianjin and Fujian, and the Shanghai Pilot Free Trade Zone was expanded. In April 2017, the third batch of FTZs was deployed in Zhejiang, Liaoning, Henan, Hubei, Sichuan, Chongqing and Shaanxi. Until now, 11 pilot FTZs across the country have formed a “1 + 3 + 7” array. Early FTZs were mainly located in coastal regions, and later FTZs were deployed in the central and western regions, thus reflecting the strategic intention of promoting the opening-up of the central and western regions.

FTZs play the following roles. First, before the adoption of new reform and opening-up policies, in order to prevent systemic risks, local trials were needed, and the pilot zones were the pioneers of that reform. Second, becoming a national-level pilot zone is an honor with the first-mover advantage, local governments responded positively and the central government mobilized their enthusiasm for reform in this way. Third, the content of FTZ construction should reflect the needs of the country and enhance the national awareness and coordination of local governments. Fourth, new experiences and practical cases formed by FTZs can be replicated and borrowed throughout the whole country.

Data show that FTZs have a high degree of opening-up, thus being representative. In 2016, the total population of the 11 provinces and cities where FTZs are located was 593.6 million with the regional GDP of 36.84 trillion yuan, accounting for 43.8% and 47.8% of the national total, respectively. The total value of imports and exports of goods was USD2.32 trillion, and the total investment of foreign-invested enterprises was USD2.91 trillion, accounting for 63.4% and 57.1% of the national total, respectively. From the perspective of the export-oriented degree (export-oriented index I = regional total value of imports and exports of goods/regional GDP, and export-oriented index II = regional total investment of foreign-invested enterprises/regional GDP), in 2016, the national averages were respectively 0.316 and 0.441, but the average values of the provinces where 11 pilot free trade zones are located were respectively 0.419 and 0.526, both of which were higher than the national average.

The export-oriented level of the economy of coastal provinces and cities where FTZs are located is much higher than that of the central and western regions. If the 11 pilot free trade zones are divided into two types as coastal ones and those in central and western regions, the former includes six FTZs in Shanghai, Guangdong, Tianjin, Fujian, Zhejiang and Liaoning and the latter includes five FTZs in Chongqing, Henan, Hubei, Sichuan and Shaanxi. The average regional per capita GDP of the coastal provinces and cities where FTZs are located is 78,100 yuan/year, with the export-oriented indexes I and II being 0.611 and 0.736 respectively. Among them, Shanghai is an international metropolis with a high population density, an industrial agglomeration, and a lot of foreign-funded enterprises. Its export-oriented indexes I and II are 1.022 and 1.73 respectively. The average regional per capita GDP of the central and western provinces and cities where FTZs are located is 46,800 yuan/year, with the export-oriented indexes I and II being 0.117 and 0.196 respectively. This reflects the importance of promoting the degree of opening-up and optimizing the strategic layout of the central and western regions, as well as the

necessity for differentiated institutions in FTZs of different regions. See Table 1 for more details.

The institutional innovation of FTZs covers seven important areas for reform (5 + 2): investment liberalization, trade facilitation, open financial innovation, oversight both during and after the handling of matters, improvement of the business environment, technological innovation and serving national strategies (“Belt and Road” and regional economic cooperation). The first five reform areas are the key points of the first round of reform that reflect the promotion of reform and development through opening-up and the formation of the reversed transmission mechanism. The latter two reform areas are added after an increase in the number of pilot free trade zones and reflect the idea of “open + innovation”. For example, in terms of investment liberalization, FTZs take the lead in implementing the pilot reform policies such as the negative list for the access of foreign investment, further opening-up of the service sector, business registration reform, oversight both during and after the handling of matters, reform of “separating permits from business licenses” and promotion of services for overseas investment. Good results are achieved and these policies have been replicated throughout the country.

2 Framework and Effectiveness of Pilot Free Trade Zones Serving the Construction of the “Belt and Road”

In September 2013, the Chinese government proposed a significant initiative to jointly build the “Silk Road Economic Belt” and the “21st Century Maritime Silk Road” (hereinafter referred to as the “Belt and Road”). In March 2015, it put forward the *Vision and Actions on Jointly Building the Belt and Road*. The countries and regions along the “Belt and Road” will promote practical cooperation in all fields, and work to build a community of shared interests, destiny and responsibility featuring mutual political trust, economic integration and cultural inclusiveness.

FTZs serving the construction of the “Belt and Road” have many advantages. First, they are important nodes and windows for China’s opening-up to the outside world; second, they have a demonstration effect; third, FTZs have abundant resources and internationally important ports, such as Shanghai Port, Shenzhen Port, Guangzhou Port, Tianjin Port, Zhejiang Zhoushan Port, Xiamen Port, Dalian Port, Yingkou Port, etc.; the “Lujiazui Financial Area”, the cluster of international financial centers in Shanghai; important domestic transportation hubs, such as Zhengzhou, Wuhan, Chengdu, Xi’an, etc.; cultural tourism resources, such as Xi’an, the ancient capital of culture; high-tech parks and bases for headquarters, such as the Shanghai Zhangjiang Hi-Tech Park, the Chengdu High-tech Park, etc.; as well as agricultural parks, such as the Shaanxi Yangling Agricultural Area.

The contents of FTZs serving the construction of the “Belt and Road” can be found in the *Master Plan for Pilot Free Trade Zones* of relevant provinces and cities. Due to the differences in geographical location, natural endowments and industrial structure

Table 1 Level of economic development and opening-up of the provinces with pilot free trade zones

National/provincial	Indicators						
	Permanent population at the year-end (100 M)	Regional GDP (trillion RMB)	Per capita regional GDP (10 KRMB)	Total value of imports and exports of goods (100 MUSD)	Total investment of foreign-invested enterprises (100 MUSD)	Export-oriented index I	Export-oriented index II
National	13.558	77.04	5.68	36,679	51,143	0.316	0.441
Province or city with pilot free trade zone	5.936	36.84	6.20	23,242	29,177	0.419	0.526
Percentage in national total (%)	43.8	47.8		63.4	57.1		
Coastal pilot free trade zones	2.882	22.52	7.81	20,716	24,978	0.611	0.736
1. Shanghai	0.242	2.81	11.64	4337	7342	1.022	1.730
2. Guangdong Province	1.099	8.08	7.35	9552	7815	0.785	0.642
3. Tianjin	0.156	1.78	11.45	1026	2225	0.381	0.826
4. Fujian Province	0.387	2.88	7.43	1568	2263	0.361	0.522
5. Liaoning Province	0.437	2.22	5.08	865	2132	0.258	0.637
6. Zhejiang Province	0.559	4.72	8.45	3365	3198	0.473	0.449
Central and western pilot free trade zones	3.054	14.32	4.68	2526	4199	0.117	0.195
1. Chongqing	0.304	1.77	5.82	627	880	0.235	0.330
2. Henan Province	0.953	4.04	4.24	712	822	0.117	0.135
3. Hubei Province	0.588	3.26	5.55	393	993	0.080	0.202
4. Sichuan Province	0.826	3.29	3.98	493	941	0.099	0.190

(continued)

Table 1 (continued)

National/provincial	Indicators						
	Permanent population at the year-end (100 M)	Regional GDP (trillion RMB)	Per capita regional GDP (10 KRMB)	Total value of imports and exports of goods (100 MUSD)	Total investment of foreign-invested enterprises (100 MUSD)	Export-oriented index I	Export-oriented index II
5. Shaanxi Province	0.381	1.94	5.08	299	560	0.103	0.192

Source: National Bureau of Statistics, www.stats.gov.cn

Note: Export-oriented index I = regional total value of imports and exports of goods/regional GDP, and export-oriented index II = regional total investment of foreign-invested enterprises/ regional GDP

of FTZs, there are differences in their missions. For example, the Shanghai Pilot Free Trade Zone intends to create a bridgehead serving the construction of the “Belt and Road” and facilitating market players in going global and construct three platforms for international economic and trade cooperation, financial services and a headquarters economy. Guangdong and Fujian aim to become “an important hub and core area of the 21st Century Maritime Silk Road”, and Henan and Chongqing expect to grow into important hubs. There are eight types of FTZs serving the construction of the “Belt and Road”: (I) customs clearance and regulatory cooperation; (II) transportation hub and multimodal transportation; (III) financial cooperation and exchange; (IV) cooperation in technological innovation; (V) cooperation in international capacity; (VI) cultural cooperation and exchange; (VII) establishment of a targeted cooperation mechanism; (VIII) the buildup of an open cooperation service platform. See Table 2 and Table 3 for more details.

The pilot policies were rather effective. Taking Shanghai as an example, from 2014 to 2016, it invested 246 projects in countries and regions along the “Belt and Road” with the actual investment amounting to 5.49 billion US dollars, seeing an average annual growth rate of nearly 1.6 times; it contracted 3,019 projects with the cumulative contract amount of 21.7 billion US dollars, witnessing an average annual growth rate of 9.4%; the trade value exceeded 500 billion yuan; the Shanghai Chamber of Commerce for Import and Export established a trade association with 92 business associations and enterprises along the route. In terms of finance, the “Panda Bonds” for enterprises along the “Belt and Road” issued more than 200 billion yuan. In terms of cultural exchanges, in 2016, Shanghai accepted more than 16,000 international students from countries and regions along the “Belt and Road”, and established the cooperation mechanisms in the fields of art festivals, film festivals, art galleries, museums, music creations and performances. Shanghai achieved direct flights with 24 countries and regions along the “Belt and Road” and established close ties with more than 100 main ports. Throughout the country, multimodal transportation developed rapidly. For example, 1,012 Sino-Euro trains departed from Chengdu in 2017 and ranked top in China.

3 New Ground in Pursuing Opening-Up on All Fronts and the Construction of Free Trade Ports

In October 2017, the Report to the 19th National Congress of the Communist Party of China put forward the request for “making new ground in pursuing opening-up on all fronts” and “granting more powers to pilot free trade zones to conduct reform, and exploring the opening of free trade ports”. At present, more than 10 provinces and cities across the country are actively formulating plans and preparing for the establishment of free trade ports, such as Shanghai, Zhejiang, Guangdong, Fujian, Hainan, Tianjin, Jiangsu, Liaoning, Shandong, Sichuan and Shaanxi.

Table 2 Missions of some pilot free trade zones serving the construction of the “Belt and Road”

Province	Developmental goals	I	II	III	IV	V	VI	VII	VIII
1. Shanghai	Innovating the cooperated development model, creating a bridgehead serving the construction of the “Belt and Road” and facilitating market players in going global	✓		✓	✓	✓	✓		✓
2. Guangdong	Important nexus for the 21st Century Maritime Silk Road	✓		✓	✓	✓			
3. Fujian	Constructing the core area for the 21st Century Maritime Silk Road	✓		✓	✓	✓		✓	
4. Zhejiang	Important demonstration area of the maritime opening-up gateway in eastern China	✓		✓	✓	✓			
5. Liaoning	Expanding and enriching regional opening-up and cooperation in Northeast Asia	✓		✓	✓	✓		✓	
6. Henan	A modern comprehensive traffic hub serving the “Belt and Road”		✓	✓	✓	✓			
7. Chongqing	An important hub of the “Belt and Road” and the Yangtze River Economic Belt		✓	✓	✓	✓			
8. Hubei	International cooperation on the capacity for production and equipment manufacturing and embracing the “Belt and Road”		✓	✓	✓	✓			
9. Shaanxi	An important fulcrum for economic cooperation and cultural exchanges of the “Belt and Road”		✓	✓	✓	✓	✓		

Source Master Plan for Pilot Free Trade Zone of the relevant provinces and cities printed and circulated by the State Council, and the Plan for Comprehensively Deepening the Reform and the Opening-up of China (Shanghai) Pilot Free Trade Zone, collated by the author

Table 3 Eight types of FTZs serving the construction of the “Belt and Road”

Type	Area	Specific work (matters)
I	Customs clearance and regulatory cooperation	<ol style="list-style-type: none"> (1) Carry out cooperation and exchange in the fields of customs, inspection and quarantine, certification and accreditation, and standard measurement, build electronic port public platforms and conduct international trade information and data exchange and service sharing (2) Explore cooperation on supply chain safety and convenience with countries and regions along the “Belt and Road”
II	Transportation hub and multimodal transportation	<ol style="list-style-type: none"> (1) Carry out multimodal transportation, including land-air and highway-railway intermodal transportation, pilot express land-air intermodal transportation, and build an international logistics center for multimodal transportation (2) Increase flights of international cargo airlines, and intensify the Sino-Euro trains (Zhengzhou, Wuhan, Chongqing, etc.) (3) Explore the coordinated linkage between domestic transportation hubs and important foreign hub cities
III	Financial cooperation and exchange	<ol style="list-style-type: none"> (1) Provide more financial services, such as the issuance of “Panda Bonds”, and direct investment activities such as the establishment of, capital increase or participation in financial institutions with RMB
IV	Cooperation in technological innovation	<ol style="list-style-type: none"> (1) Build innovative platforms in countries along the route and encourage companies to set up overseas R&D centers (2) Encourage youth communications, volunteer exchanges, academic communications and exchanges (3) Explore the construction of the Information Silk Road starting from the telecommunication and internet industries

(continued)

Table 3 (continued)

Type	Area	Specific work (matters)
V	Cooperation in international capacity (incl. modern agriculture)	<ol style="list-style-type: none"> (1) By the principles of opening-up and sharing, enhance the construction of overseas economic and trade cooperation zones, industrial cluster areas, agricultural cooperation zones and cooperation on international capacity such as “double parks in two countries” (2) Support domestic enterprises in establishing regional operation headquarters for overseas marketing, logistics and settlement, etc. in countries along the “Belt and Road” by means of self-construction, acquisition and equity cooperation (3) Build an international cooperation center for modern agriculture of the “Belt and Road” in the Yangling Demonstration Zone
VI	Cultural cooperation and exchanges	<ol style="list-style-type: none"> (1) Cooperate on the protection of cultural relics and archaeological research, and carry out international exchanges for and cooperation regarding museums (2) Sign the tourism cooperation framework agreements and jointly organize international tourism exhibitions (3) Conduct extensive cooperation in the fields of prevention and control of key infectious diseases, prevention and control of acute infectious diseases, emergency medical rescue, traditional medicine, health systems and policies, and the health industry (4) Carry out joint education, exchanges and cooperation among universities and foster multi-bilateral trade and investment talents
VII	Establishment of targeted cooperation mechanism	<ol style="list-style-type: none"> (1) Liaoning cooperates and exchanges with northeastern Asia
VIII	The buildup of an open cooperation service platform	<ol style="list-style-type: none"> (1) Economic and trade cooperation with high standards to promote investment and trade facilitation (2) Enhance the functions of financial services, provide financing and insurance services, and deepen cooperation within financial markets (3) Explore internationally competitive offshore tax arrangements

Source Same as the previous table, collated by the author

With regard to making new ground in pursuing opening-up on all fronts, pilot free trade zones (FTZs) and free trade ports (FTPs) are interlinked, mutually supportive, and complementary to each other. There are overlaps between the two, but some differences also exist.

FTPs have the following differences from FTZs. First, the starting point is different. The FTZs are regarded as the “test field” for institutional innovation and for gaining experience that can be replicated and promoted, but the FTPs are special economic function zones that must continuously serve their economic functions. Second, they have different industries. The FTZs are actually the pilot zones for the all-around reform with bonded areas, logistics hubs, high technologies, finance, high-end manufacturing, tourism, agriculture and headquarters economy, but the FTPs mainly center on the “port” with relatively concentrated industries. Third, they have different aims of construction. The construction of FTPs can be seaports, airports, inland ports, islands and important national ports with good basic conditions.

FTPs have natural connections with FTZs. First, the aims of construction are highly relevant. In China, regions with a highly prosperous trade and a high degree of opening-up are selected for the construction of FTZs, such as Shanghai, Guangdong, Fujian, Zhejiang, Tianjin, Liaoning, etc. These regions have good foundations for ports, so they are also preferred for the construction of FTPs. Second, the continuity of reform and preliminary trials of FTZs, such as cross-border e-commerce, international repairing, new modes of port supervision, “single window” of international trade, and the regulation of cargo status by categorization, are also the key contents of FTPs. Third, both of them have the characteristics of experimentation. There are hundreds of seaports, airports and inland ports in China. The construction of FTPs must provide new experiences and set good examples.

The construction of FTPs must meet the highest international standards and reflect Chinese characteristics. There are two meanings of meeting the highest international standards. One is benchmarking new international agreements, such as the WTO Trade Facilitation Agreement, and the other is high international efficiency, as well as good experience and advanced management models of other countries. International benchmarking should not be simply regarded as a link to preferential policies.

FTPs can form a “1 + X + Y” system of industrial functions. “1” refers to ports, port services and shipping; “X” refers to the general industries around the port, such as the importation and exportation of cargo, international transit, bulk commodity trading, international procurement and distribution, shipping finance, tax refund from port of departure, service trade, bonded display, financial leasing, etc., and “Y” refers to emerging industries, namely new technologies, new business patterns and new models, such as sea-railway intermodal transportation, cross-border e-commerce, global supply chain management, global aircraft and ship repairing, cross-border R&D, remanufacturing, high value-added services at ports, and intelligence industries at ports.

FTPs can shape an institutional design of “1 + X”. “1” is the fundamental policy arrangements applicable for all free trade ports, such as the customs supervision mode, market access rules, intensive organizational structure, measures to support financial and personnel exchanges, taxation system and risk prevention; “X” is the

differentiated policy arrangements that are determined according to the geographical location of free trade ports and regional cooperation requirements, such as facing Northeast Asia, Guangdong-Hong Kong-Macao cooperation, and cross-strait economic cooperation.

The construction of FTPs requires a systematic perspective, which mainly involves eight factors: port integration, regulatory system, organizational structure, taxation policy, capital flow, port infrastructure, industries with distinctive local features, and an inland economy. The policies that the government may adopt include: relatively loose regulatory rules; fully authorized integrated management institutions; clear and transparent tax policies; and encouraging competitive industries with distinctive local features.

In the next 3–5 years, there is the expectation of building another 10 national free trade ports, including seaport-airport integrated ports, such as Shanghai and Guangdong; islands, such as Hainan; regional shipping centers, such as Xiamen in Fujian and Dalian in Liaoning; special-purpose ports, such as Zhoushan in Ningbo; and inland airports, such as Chengdu. Therefore, the FTZs and FTPs will become important hubs for serving the construction of the “Belt and Road” by China.

4 Countermeasures and Suggestions

Considering the new situations of profound changes in the international economic structure, the rise of anti-globalization and trade protectionism, and increased trade frictions, it is of great significance to accelerate the construction of high-quality and high-level pilot free trade zones and free trade ports, and better serve the construction of the “Belt and Road”. Thus, relevant countermeasures and suggestions are recommended as follows:

First of all, to grant more powers to pilot free trade zones and free trade ports to carry out reforms. The meanings of powers to conduct reform are explained as follows. First, new reform and opening-up policies are piloted according to national needs, with some local experiments for the accumulation of experience, such as policies of opening up to foreign investment and financial opening-up. Second, according to regional economic developmental needs, some new policies and management models are piloted, such as new policies within the powers of local governments. Third, from the perspective of facilitating the development of industrial parks, new market access and taxation policies are granted to pilot free trade zones and free trade ports so that they can make full use of their resources, take the lead in accelerating the development of “Made in China 2025”, new technologies and new models, and actively respond to international competition and play a demonstration role.

Second, to enhance cooperation and exchange at international customs ports. International trade frictions can increase the cost of trading enterprises, but improving the efficiency of customs ports may reduce their costs. For example, reducing the administrative cost of importing and exporting per unit container, shortening the time for import and export customs clearance and port loading and unloading. In

1989, Singapore adopted the TradeNet 1.0 trade network system, which was similar to a “single window” of international trade. It was upgraded to version 4.0 in 2007 and then upgraded to the TradeXchange trade regulation system. It can exchange information with the United States of America, Canada, Australia and other countries, strengthen cooperation with countries along the “Belt and Road” in the fields of customs, inspection and quarantine, certification and accreditation and standard measurement, and achieve data exchange and the sharing of services.

Third, to strengthen the mechanism for the comprehensive coordination of multimodal transportation and important hubs. The Sino-Euro trains (Zhengzhou, Wuhan, Chongqing, etc.) provide special railway lines between the central and western regions of China and European cities, and boost the increasing trade links of the “Silk Road Economic Belt”. However, most of the Sino-Euro trains rely on subsidies to operate with unbalanced development and fierce competition for cargo, and reflect the operational mode of “one house for one family”. The mechanism for comprehensive coordination should be formed. First, the horizontal coordination mechanism should be formed to realize the collection and transportation, and unified scheduling of trains, and the sharing of all train transportation resources. Second, various types of intermodal transportation may be explored, such as land-air intermodal transportation, highway-railway intermodal transportation, and pilot express air-railway intermodal transportation. Third, the international logistics center for multimodal transportation should be established to explore the coordination and linkage between domestic transportation hubs and important foreign hub cities.

Fourth, to intensify industrial park cooperation and international capacity cooperation. Against the background of global innovation, the goals of park cooperation are not simply technology transfer and the opening of markets, but also the formation of a “community” dedicated to global markets, cross-border innovation cooperation, and complementarity of innovation resources. The pilot free trade zones have the successful experience of operating industrial parks, thus laying the foundation for cooperation and exchange. The Chengdu Area of China (Sichuan) Pilot Free Trade Zone (the “Chengdu High-tech Zone”) is launching the global top science park partnership program (TSPPP) to shape an international innovation network platform. This program not only blazes new trails for international cooperation, but also becomes a new carrier for cooperation in science and technology parks, and promotes cross-border R&D and international cooperation by various enterprises, especially small and medium-sized enterprises.

Fifth, to formulate targeted taxation policies for promoting the development of new technologies and new models. The future construction of pilot free trade zones and free trade ports should provide carriers for the development of emerging industries. For example, international transit consolidation, global supply chain management, global aircraft repairs, global ship repairs, remanufacturing, new types of trade in services, offshore investments, offshore businesses, etc. The taxation system should have a broad base and reflect fairness; taxation policies should have international competitiveness and be leading; and policies should reflect targeted functions. During the introduction of emerging industries, special taxation policies can be adopted to boost the development of these industries. For example, financial

leasing and preferential tax policies for cross-border e-commerce can contribute to the development of these industries.

Sixth, to provide a Chinese model for reshaping the system of international economic and trade rules. FTZs in different regions actively carry out differentiated institutional innovations. Shanghai enhances the pilot reform of integrating open innovation with high international standards and advanced levels, with consideration for domestic situations; Zhoushan in Zhejiang advances institutional innovation of the whole petroleum industry chain; Chongqing implements the strategy of developing the western region; Sichuan builds the new highland for the inland economy; Liaoning is open to Northeastern Asia; and Xiamen in Fujian constructs a shipping center in southeastern China. After years of efforts, plenty of new experiences and best practices have been obtained by these pilot free trade zones. After refining and sorting, they can form the Chinese model, experience and typical cases to enrich the connotation for the construction of the “Belt and Road”.