

The Successful Cases of Inland Free Trade Zones and Inspirations to China

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Abstract. The free trade zones (FTZ) are developed from the free ports, usually located in the coastal areas. But with the further development of a country's economy, some industries moved to the hinterlands where location are key to a country, this laid the foundation of inland free trade zones. The development mode of inland free trade zones is different from that of coastal free trade zones due to heterogeneous geographical location and production factors. This paper summarized the establishment process of China's inland free trade zones, made statistical analysis current theoretical research on inland free trade zones by knowledge map, and combined with the status quo of several typical inland free trade zones in foreign countries, then finally provided suggestions for the development of China's inland free trade (pilot) zones which was established in 2017.

1. Introduction of Free Trade Zones in China

1.1 A description of the establishments of Free Trade Zones in China

With the continuous deepen of the Reform and Opening-up, the degree of internationalization of China's economy is also increasing, and the regional economic trade between China and other countries in the world has made great progress. Especially since China's accession to the WTO, with the gradual liberalization of various WTO policies, China's economy has achieved rapid development, ranking the second in the global economic aggregate, and becoming the world's largest exporter and second largest importer. But, in 2008, the world financial crisis, domestic excess production capacity since 2014, and barriers to trade and investment barriers to ascension in recent years, making China's past economic development model, trade patterns and foreign investment policy need to be adjusted. At the same time, China also needs to summarize the experiences of early to set up special economic zones, after a series of deepening reform, to carry on the Reform and Opening-up. On this background, China's free trade zones (FTZ) have also emerged.

China's first (pilot) free trade zone was approved in Shanghai in 2013. Shanghai is one of the earliest trading ports in China, and has become the first free trade zone set up by the state due to its long development history, superior geographical location, convenient transportation and high degree of opening to the outer economies.

The second batch of free trade zones were set up in 2014, located in the coastal cities of Tianjin city, Fujian province and Guangdong province, all of which are suitable for the development of free trade zones with advantageous geographical location, foreign trade tradition and history that similar to Shanghai.

In 2017, the third batch of free trade zones was approved, and they were formally found in the following year, which are distributed in 7 provinces or municipalities, including Henan, Hubei, Chongqing, Sichuan and Shaanxi. This batch of FTZs are all inland free trade zones. So far, China's 11 pilot free trade zones have been extended from the most developed and open areas in the coastal areas to the northeast and inland areas, the great development of the western region, the revitalization of the northeast, the rise of the central region and other major themes, further demonstrating that China's opening up and communication with the outside world is further enhanced in the process.

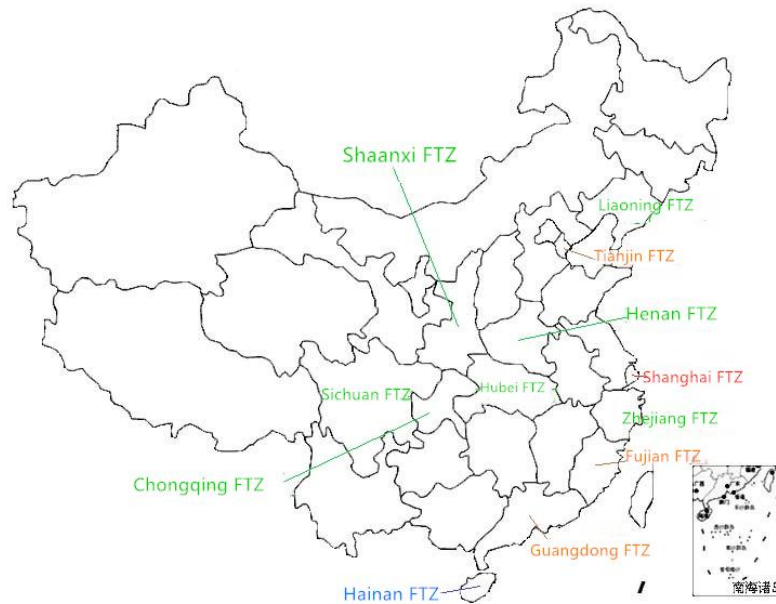


Fig. 1 The current existence of Free Trade Zone in China

Hainan free trade (port) zone, the 12th pilot free trade zone in China, was established in April 2018 and its area is the whole island of Hainan, an independent island which were set as a independent province in 1988.

1.2 The necessities of setting up Inland Free Trade Zones

Although inland regions cannot possess ports by sea, they have been still essential to a nation's development, which can be summarized as follows:

(1) Balance the current uneven regional development and expanded the achievements of the Reform and Opening-up. In the first stage of Reform and Opening-up, China has achieved substantial economic achievements as a whole, but the coastal cities occupy the majority of the development achievements, and the economic gap between inland and coastal areas is basically in an expanding state. The establishment of inland free trade zones can bring economic vitality and development space to the inland areas, then narrow the gap between inland areas and coastal areas and achieve balanced development in the second stage of Reform and Opening-up.

(2) Optimize the allocation of production factors nationwide. Although the economy of southeast coastal areas has been highly developed, in recent years, a series of problems such as limited land space resources, high labor costs and other constraints on development have also emerged, leading to rising export costs. On the contrary, the land resources and human resources used to serve the production factors in the inland areas are relatively sufficient and have low costs, and some labor-intensive industries transferred to the inland areas can make full use of this advantage. The science and technology industries also have development potential due to the abundant resources of universities and scientific research in the inland areas.

(3) Adapt to the new information age of high-speed railway aviation. With the development of science and technology, international railway transport and cargo plane may catch up and even surpass the traditional way of cargo ship. Takes the advantage of less, existing Han-Euro trains, Chongqing-Euro trains and the cargo airport in Zhengzhou where iPhone are sent out, have already send millions tons of goods per year. Foreign railway hub of transportation and airport center often exist in the inland region key city, if they are included in the free trade zone and given necessary support policy, the efficiency of foreign trade and foreign investment or outward foreign investment can boost across the country.

2. Typical Inland Free Trade Zones Worldwide

2.1 Manaus Free Trade Zone in Brazil

Manaus, Brazil, is located in the central part of the Amazon River plain in Brazil, with a population of more than 20 million and about 1700 kilometers away from the estuary of the Amazon river. It is a typical hinterland city in northern Brazil, as well as the capital of Amazonas state. It is a large industrial city with a long history. At the time of the serious imbalance of regional development under the background of the era of (with Sao Paulo, Rio DE Janeiro's southern coastal region economic gap is too big), Brazil's government in June 1957, for the first time put forward setting up free trade area in Manaus, and import and export tariff reductions and other measures, to the region for industrial upgrading, development of foreign trade, and hopes to promote the development of relatively backward area north. Brazil's Free Economic Zone of Manaus was formally established in February 1967 with the establishment of a central Zone management committee for the region and relevant plans.



Fig. 2 The geographic position of Manus city in Brazil (Source: Google map)

Manaus free trade area is located at the junction of Negro and amazon river surrounding natural resource endowment, the abundant human resources (Some inland cities in China such as Wuhan shares this feature). At the same time, the Brazil government has also set up the free trade zone administration bureau for the FTZ, to formulate appropriate policies in the zone and provide legal support.

The development of Brazil Manaus free trade zone has gone through four development stages: tourism, industrial services, agriculture and animal husbandry, and comprehensive industries. The development path is orderly based on its own needs and local resources, and each stage shows the overall characteristics of mutual promotion and common development. The land use planning of the park is also in line with the fact that the local land resources are sufficient, which is suitable for the development of ecological agriculture in the inland free trade zone, and also provides sufficient development space for the multinational companies stationed in the free trade zone.

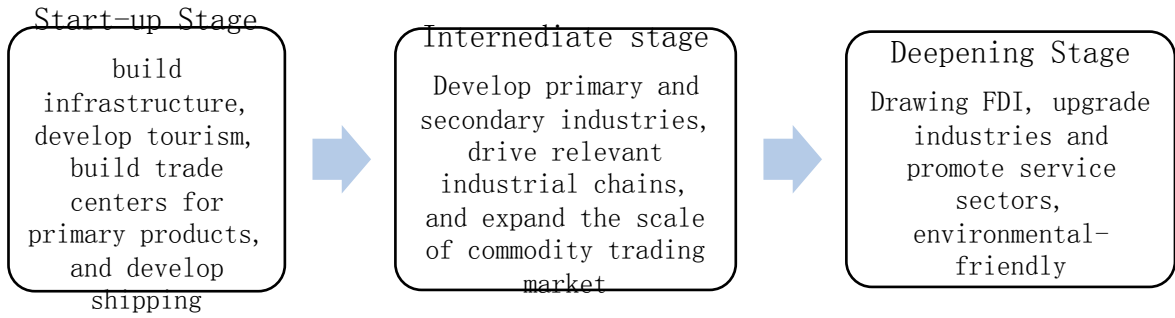


Fig. 3 The developmental stage of Manus FTZ

2.2 Noida Free Trade Zone in India

As another enormous developing country, India has set up special economic zones earlier than China. In 1965 the India government had set a Free Trade Zone in Kandla Free Trade Zone nearby the border with Pakistan, and then set export processing zones or FTZs successively in Mumbai, Falta, Madras, Cochin, and Visakhapatnam. Yet these special economic zones are all by sea. Noida Free Trade zone in India, also known as New Okhla Industrial Development Authority, is the only special economic zone with no outlet to the sea, established in 1976.

Noida, as one of the four satellite cities nearby the Indian capital New Delhi, the reason why it had been set up free trade zone was different Manaus in Brazil. Setting Manus FTZ is for to balance the regional development, and Noida case is to undertake the industrial transfer from the congested capital New Delhi, evacuate non-essential industries and elements in the capital, and making the distribution of the working population more reasonable. In the meantime, Noida will make use of its status of transportation hub to develop large trading transfer and trading platforms or other economic functions, aiming at realizing the inland free trade zone with export processing, low tax or exemption, and concentration of advantageous industries.

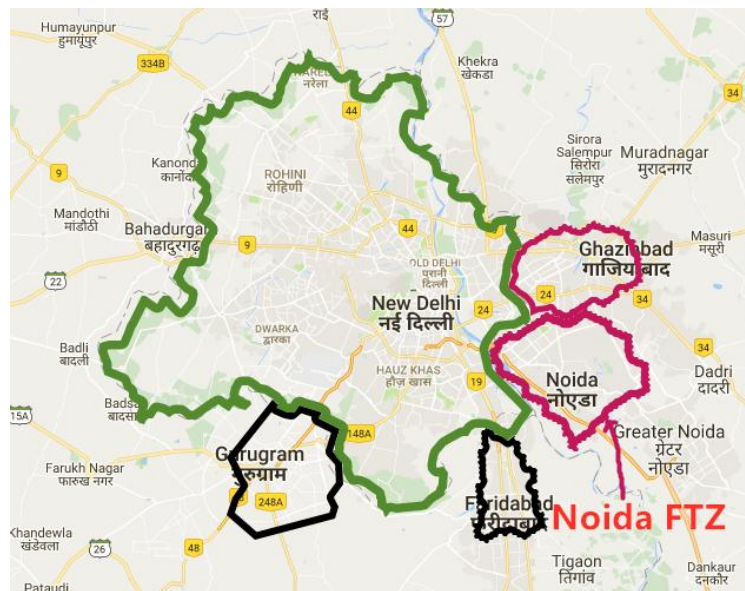


Fig. 4 The location map of Noida FTZ

2.3 Shannon Free Trade Zone in Ireland

Shannon free trade zone in Ireland originally covers an area of 2.43 square kilometers, which is located in the west of Ireland and more than 200 kilometers away from the capital Dublin. Shannon free trade zone is the first free trade zone in the world, and is also an international business park originated from the airport duty-free shop. Established in 1942, Shannon airport was the first airport connecting Ireland and the United States. In 1947, the world's first Duty Free Shop was open there,

offering duty-free sales of alcohol, tobacco and other goods. In 1959, the Irish government set up a special manufacturing zone in the area adjacent to Shannon airport. The government agency, Shannon Development, was established and gradually introduced supports including tax, financing and financial to create jobs and output.



Fig. 5 The location map of Shannon FTZ in Ireland
(Source: Civil Aviation Management, 2010 (03))

To adapt the different stages of economic development, the Irish Shannon free trade area has experienced 5 periods, as: (1) Air refueling and duty-free sales service mode (1940s); (2) Export processing mode (1950s-60s); (3) Science, technology and industry model (1960s-1980s); (4) Information technology industry model (1990s-2000s); and (5) Today's high and new technology industry cluster s[1]. In phase (1), Shannon international airport in the park makes full use of the geographical advantage of the aviation central axis between continental Europe and the US, providing refueling and duty-free sales services for trans-oceanic aircraft. Subsequently, in the late 1950s, due to the improvement of aircraft range, the demand for refueling service was greatly reduced. The Shannon free trade zone set up a duty-free export processing zone mainly attracting foreign investment. In the 1960s to 1980s, the Ireland government set up institutions of higher learning in this region, such as Limerick University and Limerick Institute of Technology, providing sufficient talent and knowledge reserves for upgrading the region from labor-intensive export processing zone to technology-intensive technology industrial zone. Then, in the information age began at 1990s, Ireland implemented a corporate income tax cut (statistics reduced to 12.5%), which allowed more high-tech enterprises and international financial industry to flourish further. Now, the area of Shannon free trade zone has expanded to more than 10,000 square kilometers, covering industries such as aerospace, healthcare, finance, logistics and tourism, etc. By 2014, it had settled more than 130 companies and provided more than 7,000 jobs, with annual sales of more than 3 billion euros and annual output value of more than 600 million euros.

3. Experience Summary and Inspirations to New Inland FTZs

Throughout the successful inland free trade zones abroad, the reasons for their successes are not only the rationality of the site selection, but also the full support of governmental policies. At the same time, they also conform to the overall environment of world economic development and domestic industrial transfer. On the supply side, the lower production cost of the inland free trade zone has well undertaken the transfer of some domestic foreign trade industries, enabling the potential of resource location in the inland region to be brought into play. On the demand side, the

inland free trade zone reduces the cost of imports and enables citizens in inland areas to enjoy imported goods and services at lower prices as in coastal regions. In addition, the effective operation of the inland free trade zone also optimizes the distribution of population and industries, easing the crowded population, land resource shortage and natural environment pressure in coastal areas.

China's inland free trade zones are still in the initial stage of development. The free trade zones in various inland areas still have great room for development in terms of industrial development, construction of supporting transportation facilities, introduction of foreign capital and optimization of supporting policies. The development of inland free trade zones has also greatly contributed to the balanced development and further implementation of China's regions. Meanwhile, as China's inland free trade zone is still in its infancy, the following points should be noted:

- (1) Using "Negative List" in the free trade zone and follow up the observation and adjustment.
- (2) FTZs should highlight their own features to avoid vicious homogenization of competition.
- (3) Improve supporting transportation infrastructure, such as air transport or railway.
- (4) Strengthening personnel training and introduction, as well as improving supporting policies, like Shannon FTZ had set up colleges to feedback the local's development.

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