China's Special Economic Zones

Experience Gained

Chinese Special Economic Zones (SEZs) vary in scope and function. Some are designated geographical spaces where special policies and measures support specific economic functions. Others include free-trade areas, industry parks, technical innovation parks and bonded zones that facilitate experimentation and innovation over a wide range of industries.

China's experience with SEZs has developed over time. It began in the early 1980s when market-oriented reforms were introduced in selected SEZ areas such as Shenzhen. These were followed in the mid-1980s by the establishment of open coastal cities such as Zhangzhou, designed to stimulate economic growth by leveraging their geographical location and economic opening. Building on that experience, central and provincial authorities set up high tech development zones in the late 1980s to capitalize on global capital, technology and talent. In the 1990s, in response to China's economic growth and changing trends, the Chinese Government created new zones such as the China-Singapore Cooperation Park and upgraded existing SEZs to take advantage of new opportunities. Since the beginning of the 21st century, a large number of regional zones have been established to stimulate and anchor regional development.

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Various management models have been followed. These include a) administrative management, with managerial functions performed by government-instituted administrative bodies; b) administrative committee, with management by government-appointed committees; and c) joint management by SEZ partners and government-instituted administrative bodies.

SEZs have contributed significantly to China's development. They have permitted experimentation with market-oriented reforms, and acted as a catalyst for efficient allocation of domestic and international resources. They have also deepened economic opening by attracting international capital, technology, and technical and managerial expertise that stimulated industrial development and China's greater integration into the global economy. In recent years, national

Continued on back...

Types of Chinese SEZs

Administrative Areas	• Based on existing administrative regions • Newly established administrative regions run as SEZs
Geographical Areas	• Based on geographical features and resources
International Cooperation	• Economic or industrial cooperation areas established with another country
Local Industrial Parks	• Industrial and specific industry parks designated by local governments
Industry Clusters	• Established to support the development of certain industries • Clusters of industries
Corporate SEZs	• Industrial parks established by enterprises with their own supply and market chains

Existing SEZs in China

- In 2014, there were 6 SEZs, 14 open coastal cities, 4 pilot free trade areas and five financial reform pilot areas.
- There were also 31 bonded areas, 114 national high-tech development parks, 164 national agricultural technology parks, 85 national eco-industrial parks, 55 national ecological civilization demonstration areas, and 283 national modern agriculture demonstration areas.

Continued from page 1

SEZs have contributed 22% of China's GDP, 45% of total national foreign direct investment, and 60% of exports. SEZs are estimated to have created over 30 million jobs, increased the income of participating farmers by 30%, and accelerated industrialization, agricultural modernization, and urbanization.

SEZs need to adapt to changing conditions and continue to spur innovation. They face a number of challenges, which requires that they take a long-term perspective, attract and develop new industries, reduce duplication, deepen reforms and encourage local entrepreneurship.

Accurate functional positioning will allow SEZs to maximize their contribution according to their strengths and comparative advantages. In general, SEZs can pilot and test institutional innovations, while free-trade oriented zones can experiment with financial models to attract investment. Joint inter-city and port development zones can leverage resource sharing and clustering for regional development. Industry clustering can take advantage of geographic location and resources. Experience indicates that effective strategic planning is required across a number of areas. Policies need to be transparent, targeted, consistent, actionable, and inclusive. Industrial upgrading and market expansion depend on industry and market-focused planning. Planning also needs to include identification of capital investments and requirements for infrastructure and supporting services.

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Chinese experience with SEZs has indicated a number of factors that contribute to their success and effective operation. (i) SEZs need to be linked to economic opening and capitalize on innovation. (ii) A bottom-up, problem solving approach has to be combined with top-down governmental support. (iii) SEZs can promote industrial expansion by cultivating market leaders, supporting research and development, and building brands. (iv) They can incubate local ideas by integrating learning, innovation and production. (v) They can bring together resources and expertise from government, industry, and research institutions to move into more advanced value chains.

Africa can benefit from China's experience and adapt to local circumstances. Key lessons are that (i) good infrastructure is essential, and (ii) effective organization and management should focus on security, policy support, investment promotion, environmental governance, service oriented management, and introduction of talent. China's experience indicates that geography, resources, market, human resources and capital are all necessary for successful SEZs. This suggests that SEZs in African countries should be located in areas with good transport, logistics and access to resources. Additional factors for success include a developed market economy and local industry, a high concentration of talent, innovative human resource policies, and access to quality financial markets and investment facilities. ■

Experience Gained in the Development of China's Special Economic Zones, China Development Bank