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Research Report on China's Overseas Economic and Trade Cooperation Zones

Shen Yuliang etc.

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Development Readiness of Digital Economy in Various
Countries along the "Belt and Road"

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沈玉良 等著

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Research Report on China's Overseas Economic and Trade Cooperation Zones

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In the compilation process of this Report, great supports were provided by Wang Zhan (former President and Research Professor of SASS), Wang Zhen (Vice resident and Research Professor of SASS), Mr. Wu Yongquan (Director of Thailand Board of Investment (BOI) in China), Ms. Chyi Lee (Head of World Business Strategic Intelligence at KASIKORNBANK), Ms. Yang Yang (Commercial Counselor of the Chinese Embassy in Thailand), Mr. Zhang Shuming (Director of Foreign Economic Cooperation Section, Zhejiang Provincial Department of Commerce), Ms. Yang Liu (Deputy Director of the ASEAN National Cooperation Section, Guangxi Zhuang Autonomous Region Provincial Department of Commerce), Mr. Yuan Kaikun (Deputy Director of Wuxi Municipal Commercial Bureau, Jiangsu Province), Mr. Wang Zhiwei (Deputy Director of Suzhou Municipal Commercial Bureau, Jiangsu Province), Mr. Song Zhe (Deputy General Manager of Business Unit of Great Stone Industrial Park in Belarus), Mr. Xu Genluo (President of Thai-China Industrial Park in Rayong of Thailand), Mr. Yu Suo (Vice President of Industrial Park in Long Giang of Vietnam), Mr. Cao Jianguo (Chairman of Hailiang Group), Mr. Lu Yong (Deputy Director of Strategic Development Department, Guangxi Beibu Gulf International Port Group Co., Ltd.). Great gratitude is hereby expressed for all of them!

Economic zone is an important carrier for the investment and trade facilitation of a country. Even countries such as the United States, where investment and trade are highly liberalized, still take advantage of the economic zones as important platforms for expanding employment and making manufacturing industry more competitive. Since China launched reform and opening-up, it has established economic zones in various forms, such as bonded zones, export processing zones, industrial parks and economic and technological development zones, with a view to echoing with needs of economic globalization. As far as special Customs supervision zones are concerned, as of 2014, there were 122 special customs supervision zones in various forms across China, including 12 bonded areas, five bonded logistics parks, 45 export processing zones, 44 bonded port areas and comprehensive bonded areas and a cross-border industrial park, totaling 470.3 square kilometers. The construction of various special customs supervision zones serves as an important platform for China to attract foreign investment and promote trade. More importantly, through these regional settings, China's investment and trade facilitation have been greatly promoted. These useful experience can be available for reference by developing countries and in particular those newcomer countries launching reform and opening-up.

China kicked off construction of overseas economic and trade cooperation zones in 2006. Under the leadership of the Chinese Ministry of Commerce, relevant agreements have been signed with national governments of those countries characterized by political stability and friendly relations with China. The Chinese enterprises, with approval of domestic governments, play the mainstay role in construction and management. Different types of overseas economic and trade cooperation zones have taken shape accordingly. According to the statistics of the Ministry of Commerce, by the end of 2016, 77 overseas cooperation zones were under construction in 36 countries, which absorbed investment totaling USD24.19 billion, attracted 1,522 enterprises, realized total output value of USD70.28 billion, paid taxes and dues totaling USD2.67 billion to the host countries, and created 212,000 local jobs. Among them, 56 overseas cooperation zones were located in 20 countries along the "Belt and Road", accounting for 72.72% of the total number of cooperation zones under construction, which absorbed investment totaling USD18.55 billion, attracted 1,082 enterprises, realized total output value of USD50.69 billion,

paid taxes and dues totaling USD1.07 billion to the host countries, and created 177,000 local jobs.

In this Report, field research and theoretical research are jointly applied so as to survey and analyze the evolution trends of the worldwide economic zones, Thai-China Industrial Park in Rayong of Thailand, Industrial Park in Long Giang of Vietnam, Great Stone Industrial Park in Belarus, Sihanoukville Special Economic Zone in Cambodia and Malaysia-China Kuantan Industrial Park. On this basis, ideas and policy recommendations are put forward for further advancing China's overseas economic and trade cooperation zones.

Economic Zones in Various Countries along the “Belt and Road”

For either a developing country or a developed country, various types of economic zones, as always, are not only important vehicles for promoting the liberalization and facilitation of investment and trade in such country (region), but also important means to boost economic growth, improve trade structure and impel industrial structure upgrading. In this section, characteristics and development trends of economic zones in various countries along the “Belt and Road” are analyzed based on the insights into various types of economic zones.

Various types of economic zones: characteristics and trends

In 1959, the world's first modern special economic zone was established at Shannon Airport in Ireland. After the 1970s, with the increase in foreign direct investment, various types of economic zones also sprang up at large quantities.

According to classification standards of “Economic Zone”, economic zones fall into five major categories according to the United Nations Industrial Development Organization (UNIDO), namely, “Special Economic Zones”, “Industrial Parks”, “Eco-Industrial Parks”, “Technology Parks” and “Innovation Parks”. Special Economic Zones (SEZ) refer to a generic term that includes “Free Trade Zone” (FTZ), “Export Processing Zone” (EPZ) and “Free Trade Port” (FTP), etc. Industrial Parks provide land for producers, which are equipped with roads, traffic facilities and public utilities. Some industrial parks offer factory buildings or other public facilities (power supply, water supply and sewage supply), and other industrial parks are

engaged in consulting and financial services, training, technical guidance, information services, joint research and business support services, etc. According to our research findings, trade and investment functions have been recently added in the industrial parks of many countries. In other words, export processing zones or bonded zones are set up in industrial parks, which are so-called “small parks within big parks”, such as those industrial parks in Thailand. Some industrial parks decide on eligibility of export processing enterprises according to the export declarations by enterprises, and issue proper taxation policies, such as industrial parks in Vietnam and special economic zones in Myanmar. The United States Environmental Protection Agency (USEPA) defines “Eco-Industrial Parks” as manufacturing and service parks which strengthen environmental construction through collaborative management of the environment and reuse (including energy, water and materials). Technology Parks are also known as science parks, research parks, innovation centers and technology-oriented parks. The International Association of Science Parks (IASP) defines “Technology Parks” as the parks which are organized and managed by professionals to promote innovation based on knowledge.

Among the abovementioned types of economic zones, SEZ is the fastest growing and the most commonly established all over the world. As estimated by *The Economist*, fewer than 1,000 SEZs were dotted around the globe before 2000, and this number skyrocketed to more than 4,300 in 2015.¹

According to the analysis results of Foreign Investment Advisory Service (FIAS) of the World Bank Group, SEZ mainly presents three basic characteristics, i.e., geographically defined closed area; single management and a set of institutional arrangements for independent customs area and procedure streamlining. The basic characteristics of various types of special economic zones are as shown in Table 1. First, according to the enterprise needs, export processing zone has evolved into hybrid zone and single factory zone. Hybrid zone is a mixture of industrial park and export processing zone, which is established to satisfy different market demands confronting the enterprises, and reverses the previous market positioning that export processing zones mainly specialize in exports. Second, the development of intra-firm trade of multinationals leads to the emergence of a single factory mode tailored for individual enterprises in the export

¹The Economist, “Special Economic Zones: No so Special”, *The Economist*, 4 March, 2015.

Table 1 Types of Economic Zones

SEZ Type	Development Goal	Area (Hectare)	Geographic Location	Major Function	Target Market
Free Trade Zone (FTZ)	Trade	<50	Port area	Trade-related activities	Domestic market; re-export
Export Processing Zone (EPZ) (traditional)	Manufacturing Export	<100 (land exclusively used for EPZ)	No specific area	Manufacturing; other processing activities	Mainly export
Export Processing Zone (EPZ) (hybrid)	Manufacturing Export	<100 (land partly used for EP)	No specific area	Manufacturing; other processing activities	Domestic market; export
Export Processing Zone (single factory)	Manufacturing Export	Tailored for individual enterprises	No specific area	Manufacturing; other processing activities	Export
Free Trade Port (FTP)	Integrated Development	>10,000	No specific area	Multifunction	Domestic market; export
Urban Free Zone	Urban Development	<50	Urban area or rural area	Multifunction	Domestic market

Source: Akinci Gokhan, Crittle James, "Special Economic Zones, Performance Lessons Learned and implications for zone development", <http://documents.worldbank.org/curated/en/343901468330977533/Special-economic-zone-performance-lessons-learned-and-implication-for-zone-development>, 2008.

processing zones. In such export processing zones, intermediate products trades roll out assembly products (in particular electronic products) after multiple imports and exports between countries. Third, the market demands of SEZs evolve from original single export demands to equal emphasis on both domestic and international markets, which is highlighted by the institutional design of FTZ.

Although economic globalization greatly upgrades the level of trade liberalization, various countries are still enthusiastic about the establishment of economic zones. The development characteristics and trends of various economic zones around the globe are hereby explained as follows: First, spatial layout of the global economic zones: These economic zones are mainly the places where the factory economy is brisk. Among 122 countries and region included into the statistics, the active EMZs (import for re-export) are distributed in 11 countries and region, and the active EPZs are distributed in 51 countries and region. It can be seen from distribution map that EMZs are mainly concentrated in East Asia, Southeast Asia, North America, Central America and parts of Africa ¹. Second, Economic Zone Operation Mode: Both public and private economic zones coexist. From the perspective of development trends, many countries are increasingly inclined to privately run various economic zones or adopt public-private partnership (PPP). For example, Vietnam supplies land for economic zones by means of long-term lease. Infrastructures outside the economic zones, such as expressways and ports, are provided by governmental public sector, while private sector is obliged for infrastructures and management of economic zones. Take another example. Thilawa Special Economic Zone in Myanmar is one of the three SEZs jointly established by the governments of Myanmar and Japan. Myanmar Government promulgates the laws especially for Thilawa Special Economic Zone, which go beyond the limits of Myanmar investment system, and cover land acquisition, investment access and labor utilization. This not only greatly improves investment facilitation, but also provides legal protection for enterprise investment and mitigates investment risks. The infrastructure construction of Thilawa Special Economic Zone, including factory building, power supply, hydraulic engineering, sewage treatment and corresponding management services, takes effect through market-oriented mode.

¹Jean-Marc Siroën, Ayçil Yücer, "Trade Performance of Free Trade Zones", working paper 2014, <https://en.ird.fr/content/view/full/81642>.

**Table 2 Distribution of Global Economic Zones According to
Business Nature of Economic Zones**

Part of the World	Public Economic Zone	Percentage	Private Economic Zone	Percentage	Total	Percentage
Americas	235	20.78%	634	45.74%	869	34.53%
Asia and the Pacific	459	40.58%	556	40.12%	1,015	40.33%
Middle East and North Africa	149	13.17%	38	2.74%	187	7.43%
Western Europe	227	20.07%	0	0.00%	227	9.02%
Central and Eastern Europe and Central Asia	38	3.36%	94	6.78%	132	5.24%
Sub-Saharan African countries	23	2.03%	64	4.62%	87	3.46%
Total	1,131	100.00%	1,386	100.00%	2,517	100.00%

Source: Akinci Gokhan, Crittle James, "Special Economic Zones, Performance Lessons Learned and implications for zone development", <http://documents.worldbank.org/curated/en/343901468330977533/Special-economic-zone-performance-lessons-learned-and-implication-for-zone-development>, 2008.

Third, Investment Sources and Product Export Destinations of Economic Zones: The United States boasts of the largest number of economic zones in investment destination countries (41 countries), followed by Japan and the European Union (24 countries). China also become one of the countries and regions with the most abundant investments from various economic zones around the globe. From the perspective of export destinations of these economic zones, the United States witnesses the largest number of product export destinations for enterprises in the economic zones, followed by the European Union. Fourth, Industrial Types of Economic Zones: Economic zones in low-income countries are mainly engaged in traditional manufacturing, including textiles, apparels, leather, plastics and metal processing products. Economic zones in middle-income countries are specialized in those fields with long industrial chain (such as electronics and automobiles) and relatively high intensity of technology and capital, as well as trade logistics zones with product agglomeration function. Fifth, economic zones in various countries implement tax exemption and reduction and trade and investment facilitation policies at varying degree. Tax exemption and

reduction involve income tax exemption and reduction. When products are exported, special economic zones can enjoy exemption from tax to imported equipment and materials, while implement investment and trade facilitation policies differentiated from those policies outside special economic zones.

Table 3 The Number of Economic Zones in Major Investment Destination Countries (Regions)

Country (Region)	The Untied States	Japan	The European Union	South Korea	Taiwan, China	Chinese Mainland	Hong Kong, China
The Number of Economic Zones in Investment Destination Countries	41	24	24	20	9	8	4
Major Export Destination Countries of Economic Zones	US	EU	Japan	Russia	Middle East	–	–
The Number of Economic Zones	19	16	8	5	5	–	–

Source: Akinci Gokhan, Crittle James, “Special Economic Zones, Performance Lessons Learned and implications for zone development”, <http://documents.worldbank.org/curated/en/343901468330977533/Special-economic-zone-performance-lessons-learned-and-implication-for-zone-development>, 2008.

Characteristics and trends of economic zones in various countries along the “Belt and Road”

Economic zones in various countries along the “Belt and Road” show remarkably different characteristics in different parts of the world. This characteristic is related to the depth and participation of countries in participating in global value chains, but also is associated with opening-up strategy at country level.

First, on the whole, the countries along “The 21st Century Maritime Silk Road” have significantly higher degree of activity of economic zones than those countries along “The Silk Road Economic Belt”. According to the statistics on the most active export processing zones or free trade zones (Jean-Marc Siroën. Ayçıl Yücer, 2014), 60% countries are active along “The 21st Century Maritime Silk Road”, whereas merely 18.52% of countries

are active along “The Silk Road Economic Belt”. Sporadic features are revealed in different areas along the “Belt and Road”, which are not only owed to re-layout of global production after the 1990s and the impacts on trade flows and flow directions, but also are related to sea transport as dominating means for global transport of goods. As shown in Table 4, statistics results of the UNIDO on the ASEAN economic zones are given: Among the 10 ASEAN countries, the first economic zone was established in Singapore as early as the late 1950. Afterwards, Thailand, Malaysia, the Philippines and Indonesia established economic zones basically in the 1970s, followed by the new ASEAN countries (Vietnam, Laos, Myanmar and Cambodia). Brunei also began to set up economic zones in 2007.

Table 4 Overview of Various Economic Zones in ASEAN

Country (Region)	Inception Year	Economic Zones in Total	Among them				
			Industrial Zones	Special Economic Zone	Eco- Industrial Parks	Technology Parks	Innovation Parks
Brunei	2007	6	5	0	0	1	0
Cambodia	2005	5	0	5	0	0	0
Indonesia	1973	270	260	5	1	4	0
Laos	2010	15	0	15	0	0	0
Malaysia	1971	226	200	18	0	6	0
Myanmar	1990	22	19	3	0	0	0
The Philippines	1969	90	70	17	0	3	0
Singapore	1951	6	2	0	1	2	1
Thailand	1972	50	44	0	0	6	0
Vietnam	1986	313	292	18	0	3	0

Source: UNIDO, “Economic Zones in the ASEAN: Industrial parks Innovation districts as strategies for industrial competitiveness”, https://www.unido.org/fileadmin/user.../UCO_Viet_Nam_Study_FINAL.pdf, 2015.

The data on special economic zones in Cambodia are provided by Kasikorn Bank in 2017; the data on special economic zones in Myanmar (mainly Thilawa Special Economic Zone, Kyaukpyu Special Economic Zone and Dawei Special Economic Zone) are cited from survey results of this project.

Second, the construction of economic zones is launched in conjunction with the implementation of national development strategies and industrial policies. Many countries along the “Belt and Road” regard the construction of economic zones as an important initiative for national strategies and industrial upgrading. 1) Through the introduction of specialized investment laws for economic zones and laws earmarked for investment-related project approval, land, environment, labor and other aspects, foreign investment projects are kicked off quickly. Many low-income countries along the “Belt and Road” present respective high proportions of economic zones attracting FDI in national gross FDI. 2) Export is boosted through trade facilitation, and especially the tax design is made for the intermediate product export (processing trade) mode under the global division of labor, which propels the rapid growth of trade in these countries. 3) Multinationals drive local enterprises to forge ahead and integrate local enterprises into global value chains. The relationships between economic zones and national development strategies/industrial policies in the relevant countries along the “Belt and Road” are as shown in Table 5.

Third, export-oriented special economic zones are still dominating among various types of economic zones, but their system designs are more flexible in order to adapt to both domestic and international markets. A key motivation for low-and middle-income countries to establish special economic zones is impelling an increase in foreign exchange. Therefore, export-oriented economic zones are generally set up. In early stage, special economic zones are mainly established in the form of “enclave”. In other words, special economic zones and domestic markets are separated from each other. The products of the enterprises in special economic zones target at foreign markets, while domestic goods and goods of special economic zones cannot be freely circulated. This mode was mostly applied in the infancy of opening up to the outside world. In order to promote exports and earn foreign exchange under the premise of controlling the risks caused by opening-up and shocks on the domestic markets, “enclave-type” special economic zones were chosen as the main platform for “limited” opening-up. However, with the activation of the domestic markets in these countries, the original system mode of pure export processing zones often gives way to flexible economic zones. For example, the industrial parks apply information systems to identify whether enterprise products target at domestic market or international market so as to reduce operating costs of