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Analysis of the Current State and Development Directions of China's Free Economic Zone System

Habibonov Usmonjon Sherzodjon o'g'li

1. Master's student at Nordic University

* Correspondence: u.habibjonov@nordicuniversity.org

Abstract: This article analyzes the current state of free economic zones (FEZs) established in China and their stages of development. Additionally, it provides comprehensive information on the evolution of China's FEZ system and its main types. The research employs both qualitative and quantitative methods, including an extensive literature review and empirical analyses based on surveys and interviews with enterprises and investors operating within FEZs. By examining government policies, statistical data, and recent studies, the research identifies key challenges and opportunities within the system. The findings provide insights into the effectiveness of existing strategies and offer recommendations for improving the FEZ system to support sustainable economic development and global competitiveness.

Keywords: China, free economic zones, special economic zones, SEZ, FEZ, economic growth, innovative technologies, industrial zones.

1. Introduction

A comparative analysis of the operations of free economic zones (FEZ) in countries such as China, Malaysia, the UAE, and Senegal indicates that each country develops its FEZs based on unique strategies and objectives. In China, FEZs are primarily established to promote exports and attract foreign investments, with exports exceeding \$1.6 trillion through these zones in 2023. In Malaysia, FEZs focus on the development of innovative technologies, with a 15% growth observed in this sector in 2023. [1] In the United Arab Emirates (UAE), FEZs are geared towards the development of the finance and service sectors, contributing 32.6% to the country's GDP in 2023. Meanwhile, Senegal has been developing its FEZs to diversify agricultural and industrial production, with investments in these sectors increasing by 19.8% in 2023. Thus, each country manages its FEZs according to its economic conditions, and their success significantly impacts the local economy. [2]

Since their establishment in the late 1970s, China's free economic zones have experienced remarkable growth, playing a crucial role in the country's economic transformation and integration into the global economy. The creation of the first four special economic zones in Shenzhen, Zhuhai, Shantou, and Xiamen in 1980 marked a significant turning point in China's economic policy. This development signaled the country's shift toward market-oriented reforms and its opening to foreign investments. These initial SEZs served as economic testing grounds, allowing the Chinese government to experiment with new policies and approaches in a controlled environment before expanding them to other regions of the country. Over the past 4 to 10 years, China's free economic zone system has significantly expanded in scale and scope, encompassing various zones and locations across the country.

Citation: Sherzodjon o'g'li, H. U. Analysis of the Current State and Development Directions of China's Free Economic Zone System. Pioneer: Journal of Advanced Research and Scientific Progress 2025, 4(1), 8-10.

Received: 10th Feb 2025

Revised: 11th Feb 2025

Accepted: 24th Feb 2025

Published: 28th Feb 2025



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2. Materials and Methods

The methodology of the research consists of several key stages and includes both qualitative and quantitative methods to analyze the current state and development directions of China's free economic zone system. In the first stage, comprehensive information about China's free economic zones is gathered through a review of existing literature. This process involves analyzing scientific articles, government reports, and statistical data provided by international organizations. Additionally, recent studies conducted in recent years are examined to understand the policies and strategies implemented in China's free economic zones.

In the second stage, an empirical study is conducted. During this process, opinions of enterprises and investors operating in free economic zones are collected through interviews and surveys. [3] The obtained data is processed using statistical analysis methods, which allows for identifying issues within China's free economic zone system and determining development directions. As a result, recommendations are developed based on the research findings, contributing to the further improvement of China's free economic zone system.

3. Results

As of 2024, China has over 3,000 free economic zones (FEZs), including special economic zones (SEZs), economic and technological development zones, high-tech development zones, free trade zones, and other specialized zones. These zones play a crucial role in attracting foreign direct investment, promoting export-oriented industrialization, and supporting key sectors such as manufacturing, services, and technology. [4] One of the most notable features of China's modern free economic zone system is its hierarchical structure. These zones are established at national, provincial, and local levels. National-level zones, such as special economic zones and economic-technological development zones, are approved by the State Council and receive the highest level of political support and institutional autonomy[5].

This table presents the main types of free economic zones (FEZs) in China, highlighting their unique characteristics, functions, and contributions to economic growth. Additionally, China's FEZs are classified into key categories, including special economic zones (SEZs), pilot free trade zones (FTZs), export processing zones (EPZs), and high-tech industrial zones. The table examines the role of these zones in attracting foreign investment, promoting trade, and fostering innovation. Using qualitative and quantitative methods, including a literature review and economic analysis, the study identifies the strengths and weaknesses of each FEZ type. The findings provide insights into the effectiveness of China's FEZ system and offer recommendations for enhancing its impact on sustainable economic development and global competitiveness[6].

Table 1 systematically presents the classification of China's free economic zones, distinguishing them by type, number of zones, approval level (national or provincial), and their main functions.

Table 1. Main types of free economic zones in China. [5] [6]

Zone types	Number of zones	Approval level	Main features
Special economic zones	7	national	Comprehensive reforms, preferential policies, institutional autonomy, focus on export-oriented industries.
Economic and technological development zones	219	national	Focus on attracting foreign direct investment, modernizing industries, and developing modern services.
High-tech industrial development zones	168	provincial	Focus on promoting high-tech industries, innovation, and technology transfer.

Free trade zones	21	national	Focus on trade facilitation, financial services, and logistics, with a greater emphasis on further opening the services sector.
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China's free economic zone system has undergone significant changes, placing greater emphasis on industrial modernization and technological innovation. This strategic shift reflects China's progress on its path of economic development. In the early stages of the FEZ system, the primary goal was to attract labor-intensive, export-oriented manufacturing industries, leveraging China's comparative advantage in cheap labor[3]. However, as the country has grown economically, the focus has gradually shifted towards developing high-value-added sectors such as advanced manufacturing, services, and technology[4]. Provincial-level zones, such as high-tech industrial development zones, are approved by provincial governments and are subject to a mix of national and provincial policies. Local-level zones, such as free trade zones, are established by municipal or district governments and are governed by various local policies and regulations. [7]

The establishment of economic cooperation zones in border areas, such as the China-Kazakhstan International Border Cooperation Center and the China-Vietnam (Shenzhen-Haiphong) Economic and Trade Cooperation Zone, serves as an example of this regional approach. These zones are strategically positioned to promote economic integration and trade between China and its neighboring countries, facilitating the efficient utilization of each region's complementary strengths and resources[5].

This includes efforts within FEZs to modernize industries and promote technological innovation, such as the establishment of innovation demonstration zones and the development of specialized industrial clusters[6]. Additionally, there is an increasing focus on environmental sustainability and social well-being in FEZs, with measures such as stricter environmental regulations and improvements in labor conditions and social protection for workers. [8]

Figure 1 provides a visual representation of the evolution of China's free economic zone system. It outlines the hierarchical and geographical structure of the FEZs from national to local levels.

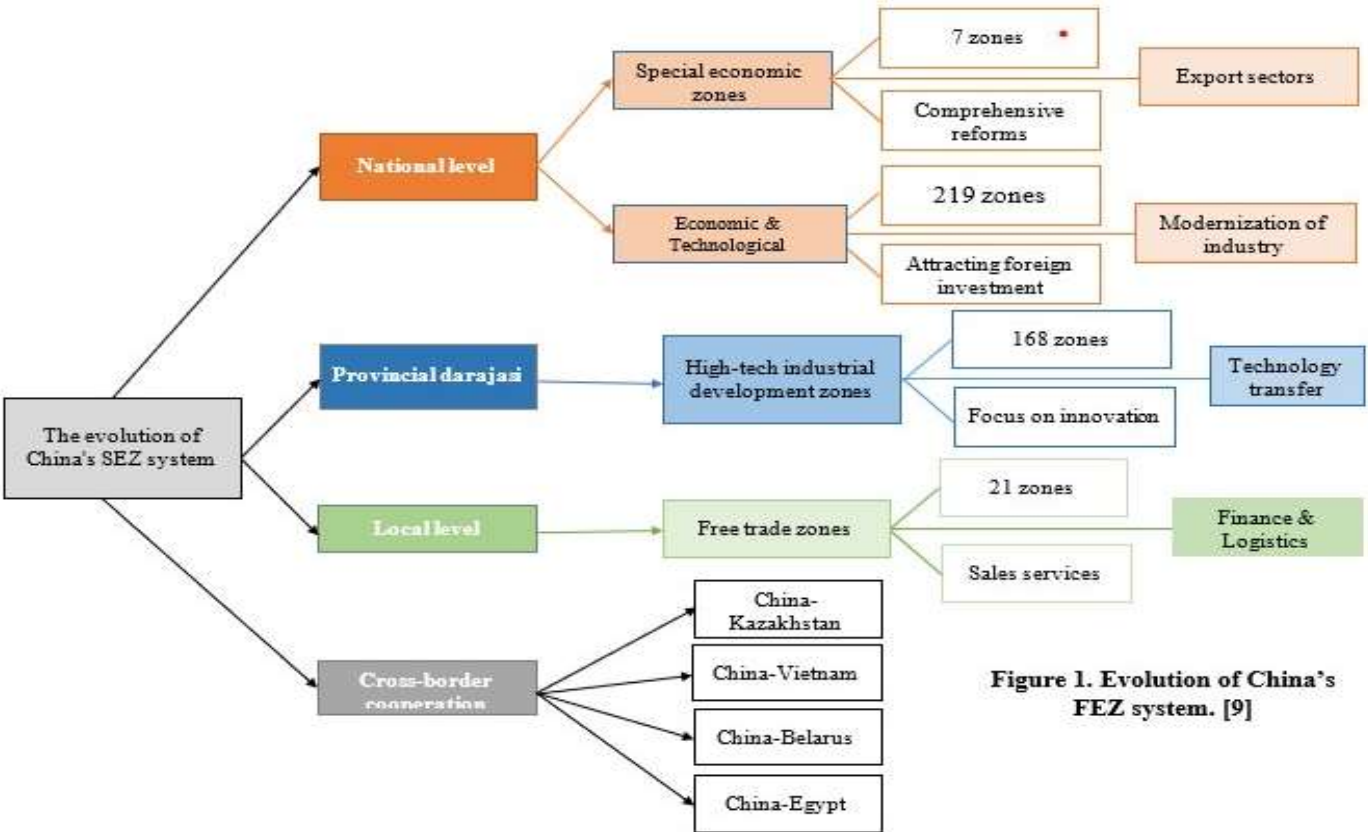


Figure 1. Evolution of China's FEZ system. [9]

China's modern free economic zone (FEZ) system represents a complex and dynamic landscape shaped by various economic, political, and social factors[10] [11], [12]. While FEZs have significantly contributed to China's economic transformation and integration into the global economy, they also face key challenges such as regional disparities, limited integration stability, and environmental and social sustainability concerns. As China continues its pursuit of becoming a high-income, innovation-driven economy, its FEZ system is also expected to evolve. [10] This may involve a greater emphasis on high-quality growth, innovation, sustainability, and efforts to enhance regional integration and coordination[13] [14]. Ultimately, the long-term success of China's FEZ system in supporting the country's economic and social development will depend on policymakers' ability to balance these competing objectives and navigate the complex challenges and opportunities presented by the global economy[15].

4. Discussion

The analysis reveals that China's Free Economic Zone (FEZ) system has evolved into a sophisticated and multilayered structure that significantly contributes to national economic growth, innovation, and global competitiveness. The empirical findings confirm that while national-level zones remain central to China's economic strategy, provincial and local zones are increasingly tailored to regional priorities and industrial strengths. The study also underscores the strategic shift from labor-intensive manufacturing to innovation-driven, high-value sectors such as advanced technology and financial services. However, challenges persist, particularly in ensuring balanced regional development and addressing environmental and social sustainability. Therefore, to ensure the long-term effectiveness of the FEZ model, it is crucial for policymakers to strengthen coordination across administrative levels and integrate inclusive, green development frameworks into future planning. This dynamic adjustment will reinforce China's ambition to transition towards a more sustainable and innovation-led economy.

5. Conclusion

In conclusion, the evolution of China's free economic zone (FEZ) system reflects the country's adaptability and responsiveness to changing economic realities. As China progresses along its development path, its FEZs have transformed from a system focused on attracting labor-intensive industries to one aimed at fostering high-tech innovation and supporting regional integration. This strategic shift indicates China's commitment to adopting a more sophisticated and sustainable economic growth model, prioritizing technological advancement, regional coordination, and cross-border cooperation.

The Chinese government's response, outlined in its Five-Year Plan and the 'Made in China 2025' strategy, demonstrates a strategic pivot to address these challenges. The focus has shifted from quantity to quality, emphasizing sustainable development, innovation-driven growth, and better integration with local economies. This transition is exemplified by new initiatives such as the Xiong'an New Area, which places a strong emphasis on ecological sustainability and technological innovation.

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