

The Economic Influence of Innovation Within the Xiamen Free Trade Zone on Adjacent Regions

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Abstract: Since state council published the overall strategies of Fujian Free Trade Zone [FTZ] 2015, Xiamen FTZ has developed to the biggest trade zone in Fujian province and become the essential parts of the foreign trade. Given its significant role in the economic development of both Fujian and China, this paper focuses on the financial innovation mechanisms introduced within the zone, using a real enterprise case study. Additionally, the paper further explores the surrounding regions influenced by the FTZ, including provincial city, administrative region and silk roads. The paper address case analysis and literature analysis these two research methods. It explores Xiamen FTZ's financial innovation models and their impacts on both enterprises and regions separately, particularly in loans, insurance, and financial services, assessing their varying effects on enterprises. Furthermore, it highlights the positive influence of financial innovation in the Xiamen FTZ on surrounding areas and Belt and Road countries.

Keywords: Xiamen Free Trade Zone, financial innovation, enterprises, regions, economic influence

1. Introduction

As a key component of the Fujian Free Trade Zone, the Xiamen Free Trade Zone is strategically positioned to serve as a cross-strait regional financial service center. Therefore, researching its financial innovations and their broader impact is essential [1]. Previous studies have demonstrated the pioneering achievements of the Xiamen Free Trade Zone. One paper highlights the fruits and shortage of insurance, bank and bond business' cooperation and innovation, the Another scholarly paper indicates the strategic significance and core competitive advantages of the Xiamen FTZ. These paper serve as proof that it is meaningful and important to study the financial innovation of Xiamen FTZ. However, they do not explore how enterprise work financial instrument under the financial innovation and the what is the influence on the surrounding areas caused by innovation in detail. To fill this gap, this paper investigates the mechanism of Xiamen FTZ financial innovations with their impact on corporate operations and the effects of Xiamen FTZ financial innovations on peripheral regions. Using case analysis and literature review, the study investigates financial instrument innovations within the FTZ and their effects. This research provides valuable insights into the role of financial innovation in promoting regional economic development and international cooperation. Additionally, it serves as a reference for businesses looking to leverage financial innovations to enhance their competitiveness.

2. Multi-level positive impacts of financial innovation in Xiamen Free Trade Zone

2.1. Impact on businesses and the economy

As a part of Free trade zone reform and opening up experimental field, The Xiamen Free Trade Zone (XFTZ) has created a range of financial innovation mechanisms including dedicated financial units for small businesses and the pioneering “bank-customs-insurance” tariff guarantee model, enhancing corporate efficiency while extending their influence to neighboring regions. XFTZ has seen growing collaboration in banking services in recent years, with a clear progress in innovative practices. Taking Xiamen Bank as an example, it has drawn on the “credit factory” business launched by Taipei Fubon Bank and established a new financial department specifically for serving small and micro enterprise customers [2]. The traditional loan process is slow and failed to meet small businesses’ needs for it relied on one or a few officers to handle everything. This is why the “Credit Factory” model was created [3]. In banks, this model assigns specialized teams to handle small business loans step-by-step [3]. In 2023, the “Credit Factory 2.0” model was upgraded, adopting a digital-first and human-assisted approach with big data-driven risk assessment. This shift has significantly improved access to affordable loans for small and medium businesses.

Beyond banking innovations, insurance institutions in the Xiamen Free Trade Zone pioneered the “Bank-Customs-Insurance” tariff guarantee model, a credit enhancement mechanism that integrates enterprise applications, insurance underwriting, and bank credit endorsement [4]. PICC Property firstly implement this model, which lead to the company achieving a 50% reduction in capital costs and a 24-hour reduction in average customs clearance time [4].

In enhancing financial services, the XFTZ has also coordinated diverse financial innovation mechanism under the existing regulatory framework to provide businesses with one-stop solutions [5]. For example, the Bank-Insurance Quad-Party Financing model connects exporters, export credit agencies, and domestic banks, establishing a four-party management mechanism for accounts receivable financing. In the shipping sector, collaboration between banks, insurers, and shipping companies that solve the forwarders’ financing problems [5]. By July 2024, the Xiamen Free Trade Zone had released over 170 innovative cases, which facilitated capital flow, supported industrial development, and integrated into the international market. In summary, these financial innovations have catered to businesses of various types and scales, significantly contributing to economic development.

2.2. Impact on surrounding cities and international aspects

As the largest sector of the Fujian Free Trade Zone, The Xiamen FTZ enjoys a natural geographical advantage, enabling its development to radiate to both sides of the Taiwan province and the surrounding areas.

The greatest geographical advantage of the Xiamen Free Trade Zone lies in its extraordinary economic significance to Taiwan. [1] Xiamen is at the forefront of economic cooperation across the Taiwan province in China. The Xiamen FTZ also influence others administrative region. Its second advantage is to drive the economic integration of the Xiamen-Zhangzhou-Quanzhou region and the development of the Western Taiwan Province Economic Zone, and to promote infrastructure construction along China's southeast coast [1]. Finally, it supports international trade regions such as the “Belt and Road Initiative”. One of the main positioning of the XFTZ is to build a trade center with core advantages and international competitiveness between the two sides of the Taiwan province. Many of the financial innovations are formulated for Taiwan, which has greatly helped the development of Taiwanese enterprises. Most Taiwanese enterprises have been investing and doing business in Xiamen for several decades. Before the completion of the FTZ, they encountered

difficulties in terms of labor and expansion. The majority of Taiwanese businesspeople hope to find greater development opportunities from the construction of the free trade zone [6]. The securities business innovation achievements of the free trade zone can precisely address these issues [6].

A key example of this support is the establishment of the "Taiwanese Capital Board" at the Xiamen Cross-Strait Equity Exchange Center in 2019.[2] Through a combination of government promotion, policy support, and market-oriented operations, it aims to promote the development and growth of the "Taiwanese Capital Board" in Xiamen, guide Taiwanese enterprises outside Xiamen to gather in the XFTZ, and provide multi-level services, incubation, and inclusive financial financing support for Taiwanese enterprises doing business in Xiamen, thereby facilitating the better development of Taiwanese businesspeople in Fujian [2].

As of February 2021, the total number of listed and displayed enterprises on the Strait Equity Exchange Center has reached 6,216, including 237 Taiwanese enterprises. [2], facilitating over 10 billion yuan in financing. In addition, the service scope of the "Taiwanese Capital Board" has continued to expand. Both Taiwanese enterprises in the Xiamen area and those outside Xiamen will receive more support and assistance from the government, which is conducive to the formation of a cluster of Taiwanese businesspeople. This has significantly facilitated the development of Taiwan-affiliated enterprises in Xiamen while enhancing cross-strait economic collaboration. And the FTZ will provide more assistance to Taiwan province in the future.

Beyond Taiwan, the Xiamen FTZ has also positively influenced other administrative regions. With the support of the Xiamen Free Trade Zone Management Committee, several banks have entered the Da Zhang Small Commodities Trading Market for Hong Kong, Macao, Taiwan, and guided merchants and business owners to open digital RMB wallets. This has enabled the smooth implementation of opening Class IV wallets with overseas mobile phone numbers, which further enhanced the business environment of our city and provide a safe, convenient, and efficient online consumption payment experience for compatriots from Hong Kong, Macao, and Taiwan province as well as foreign nationals visiting China for business or tourism. This convenience facilitates economic exchanges, leading to an expansion of market scale and optimization of resource allocation, and strengthen the economic ties. The financial innovations in the free trade zone have also benefited other cities in the province. By innovating the existing cross-border capital flow processes of headquarters, it has broken through the limitations of the existing foreign currency funds pool and cross-border RMB two-way funds pool of headquarters, reducing the capital transaction and operation costs of headquarters enterprises [7]. This has made Xiamen the regional capital headquarters and settlement headquarters for cities like Zhangzhou and Quanzhou in Fujian. Financial innovation not only has a positive impact on domestic cooperation and trade but on that of other countries around the world.

In July 2019, Xiamen Maritime Silk Road Investment Fund, the first local government investment fund in China mainly serving cross-border investment, was approved. It is jointly participated by the Xiamen FTZ Industrial Guidance Fund and completes the investment in overseas holding entities of electric vehicle through the form of ODI. It has introduced more strategic emerging industry cooperation projects to our city and enabled our enterprises to go global, creating an investment service circle for the Belt and Road enterprises that resulted in a 28.4% growth in non-financial outbound direct investment under the Belt and Road Initiative in 2023. In summary, the financial innovations in the Xiamen Free Trade Zone have had far-reaching positive impacts. They have strengthened cross-Strait economic cooperation with Taiwan province and, within Fujian province, optimized cross-border capital flows for corporate headquarters, benefiting cities such as Zhangzhou and Quanzhou. In terms of international cooperation, particularly under the Belt and Road Initiative, the Xiamen Maritime Silk Road Investment Fund has stimulated cross-border investment. Overall, these innovations have significantly contributed to economic growth at various levels.

3. Conclusion

This paper discusses several financial innovation models and their impact on surrounding businesses, extending to the influence of financial innovation on neighboring regions and even other countries. It introduces three financial innovation mechanisms from the perspectives of loans, insurance, and services respectively, showcasing the outcomes of innovation. These mechanisms in different fields exert varying impacts on enterprises. The paper further demonstrates the positive effects of financial innovation, starting from the cities surrounding Xiamen, extending to administrative regions such as Hong Kong, Macau, and Taiwan, and other countries along the Belt and Road. It expounds on the impacts on the surrounding areas from near to far and from small to large. These two points prove the importance and effectiveness of financial innovation in the Free Trade Zone, which can promote the development of entities ranging from micro enterprises to various countries. However, the article focuses only on Xiamen Free Trade Zone in isolation and fails to conduct a more in-depth analysis in combination with the Regional Comprehensive Economic Partnership. Future research should aim to establish quantifiable indicators to continuously assess the performance of financial innovation in the Xiamen Free Trade Zone and further explore its broader impacts.

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