

# ***Research on the Impact of Establishment of China's FTA on Regional Economic Development***

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**Abstract:** With the gradual improvement of the epidemic, the development of FTAs is very promising, so relying on FTAs to achieve local and regional economic growth is a very interesting way of economic growth. At the same time, because most of the literature studying the development of FTAs focus on institutional innovation and the country's overall economic growth, the country's economic development process can also be characterized by a widening gap between rich and poor and serious and serious polarization. However, in the development process of a country, if only the overall economic development is considered and the regional economic growth is neglected, then the national economy might face the problems such as the growing gap between rich and poor and the increasing polarization. Therefore, this paper wants to study the relationship between the development of FTAs and regional economic development. Using survey method and case study, this paper firstly presents the problems of the current situation of FTAs and the limitations of institutional innovation for the article. Then this paper solves the related doubts by studying enterprises' innovative products and innovative trade strategies in five FTAs, concluding that enterprise innovation is the focus of FTA development.

**Keywords:** FTA development, regional economy, enterprise innovation

## **1. Introduction**

### **1.1. Research background**

Through different stages of development, China's 21 FTAs have launched many high-level innovations, formed several world-leading industry clusters, and made important contributions to economic development. According to the Ministry of Commerce, in 2021, 21 FTAs utilized 213 billion yuan of foreign investment. They achieved a total import and export volume of 6.8 trillion yuan, an increase of 19% and 29.5%, respectively. From the global perspective, the current trend of "anti-globalization" is rising, and protectionism in trade and investment is spreading. In this context, China's progress path, whether China will continue to adhere to reform and expand openness, has become the focus of the world's attention. From a domestic perspective, socialism with Chinese characteristics has entered a new era. China's reform and opening need to "start again" and plan, promote and explore at a higher starting point and level. Therefore, promoting the establishment and development of the FTA is crucial.

This article argues that the data and the growth ratio of total imports and exports to exploring the development of China's FTAs have a close relationship with the construction of the regional economy. The distribution of resources in China is not balanced, and there is a profound polarization in the development of each region. Therefore, enhancing the regional economy can bridge the gap between the rich and the poor and ensure the synergistic development of the national economy. Promoting the regional economy through the development of FTAs is also a different perspective on China's regional economic development.

FTA is meaningful. First of all, FTAs can make economies more dynamic. FTAs enable free trade products, providing a freer ground for trading imports and exports that have always had tariff and quantity restrictions. Cities that establish FTAs grow fast, and shopping malls, supermarkets, restaurants, and other establishments around the FTAs reap some economic benefits.

Moreover, FTAs also allow for the full development of culture. In these FTAs, various foreign trade products carry important cultural values. Through the FTAs, more famous Chinese snacks will be sold overseas, spreading Chinese food culture, building Chinese snack brands, building a valuable Chinese cultural image, and making the world feel Chinese culture. The FTA can realize the liberalization and facilitation of trade, and people can feel the humanization of trade through free trade. By experiencing the happiness of work and the fulfillment of life, be filled with positive spiritual pursuit, and achieve social harmony. In conclusion, the establishment of the FTA enhances China's political influence, promotes economic growth, spreads Chinese culture and achieves social harmony, and has high ethical, economic, cultural, and social values.

## 1.2. Literature review

According to the literature review, most studies are from an empirical perspective. In one piece of literature, Tan Na, Wang Lihui, and Liu Zhihong found that establishing FTAs can lead to regional economic growth [1]. Wang Shuli and Wu Chuhao also found that the construction of FTAs greatly reduces the synchronization of economic cycles between the province and other provinces by counting the GDP values of neighboring provinces in recent years [2]. In addition to the economic growth of the city where the FTA is located, Chen Yongsheng and Li Dan found that the establishment of the FTA also impacts the economic growth of neighboring cities [3]. Zhang Xin and Yang Lansing found that national FTA exchanges and cooperation are needed to promote the development of FTAs [4]. In Zhang Youwen's article, it is mentioned that the opening up of the foreign economy as a result of China's FTA development is very important, and the country needs to pay attention to it [5]. Ye Xiuqun's study found that the economic growth-promoting effect of FTAs is significant and has a significant lag [6]. In Liu Bingkan, Wang Yue's article, it was found that the economic growth promotion effect of Shanghai FTA is obvious, manifested in the promotion effect on the tertiary industry [7]. Fang Yunlong believes that the growth of the regional economy needs to rely on the government to transform its functions and drive the development of the FTA by leveraging the trade effect, which leads to economic growth [8]. Li believes establishing the Belt and Road is conducive to exporting special products from China's free trade zones, which will expand the scale of trade and drive economic growth [9]. At the same time, some literature also argues that achieving FTA development can also be achieved by relying on industrial upgrading [10].

The vast majority of the articles use an empirical research approach. The articles examine the relationship between the development of China's FTAs and national economic development, as well as some measures to promote the development of FTAs. It is argued in the articles that the core factor that enables the development of FTAs is the creation and change of institutions.

Conversely, few articles have been written to study the development of FTAs and regional economies. Meanwhile, with the development and progress of society, the core factor that can influence the development of FTAs nowadays should be the innovation ability of enterprises.

### 1.3. Research framework

As the research framework, this report will take the five regional FTAs of Beijing, Tianjin, Hebei, Shanghai, and Hunan, find a representative enterprise in each region based on the Internet industry, and describe their innovative products. In addition, this paper specifically analyzes the research background, process, and profitability of the results of this product through a case study approach. The innovative behaviors and strategies adopted by these enterprises in conducting trade are studied, supported by statistical data on GDP and enterprise revenue of these regions in recent years. Finally, relevant conclusions are given on how the development of FTAs increases the regional economy according to different geographical locations.

## 2. Method

### 2.1. Survey method

The survey research method is a research method that directly obtains relevant materials through investigation and understanding of objective situations and analyzes these materials. The survey was taken because it is close to the life of the people, to understand the people's thoughts, to see whether the regional economic development brought about by the development of the FTA has improved the people's daily life. Hence, they can intuitively feel the changes in their lives brought about by the regional economic enhancement driven by the development of the FTA. For the first time, this research will determine the purpose of designing the questionnaire. The questionnaire was designed because some companies do not provide relevant data on the Internet. Based on the survey, the article needs to summarize the advantages and disadvantages of regional economic development in recent years by investigating most people's views on the level of regional development to propose solution measures according to the current situation. After that, this research will randomly select 500-1000 people to distribute the questionnaire, designing some open-ended questions such as: "What do you think about the price level in your area?" and other simple questions. This paper will collect the questionnaire results and summarize the current economic development situation in different regions, emphasizing that the development of FTA can drive the regional economy.

### 2.2. Case study

The case study method is a training method in which problems that arise in actual work are given to trainees as cases to study and analyze to develop their analytical ability, judgment, problem-solving, and business execution skills. The reason for adopting a case study is that many innovative companies do not decide to publish recent data due to the short period they have been producing innovative products. Hence, it is impossible to compile exact data to get a conclusion. Therefore, it is more appropriate to analyze and summarize through successful classic cases.

Since the article adopts a case study approach, the article will use the problem formulation, the background of the case study, the introduction of the case product, the results of the case product study, and the economic development of the FTA to corroborate the conclusions of the article.

This paper will look for representative enterprises in five regions and analyze their development status, problems, and research process by studying the cases of their representative innovative products produced in the Internet industry. Moreover, conclude by compiling relevant data to analyze why enterprises can develop and drive the regional economy when trading innovative products in the FTA.

### 3. Result

#### 3.1. Analysis of the current situation

Recently, China's foreign trade report card for 2021 was released, and the scale of import and export of goods to trade exceeded 6 trillion U.S. dollars for the first time. Among them, the free trade pilot zone imports and export growth of 26.4%, showing a booming trend.

Figure 1 can see China's GDP in recent years. Shanghai FTA was founded in 2013, Tianjin and Hunan FTAs in 2015, Hebei FTA in 2019, and Beijing FTA in September 2020. GDP data of China in recent years shows that China has achieved rapid growth in GDP data since 2015, including a more rapid GDP growth rate in the period of 2020-2021 compared to previous years.

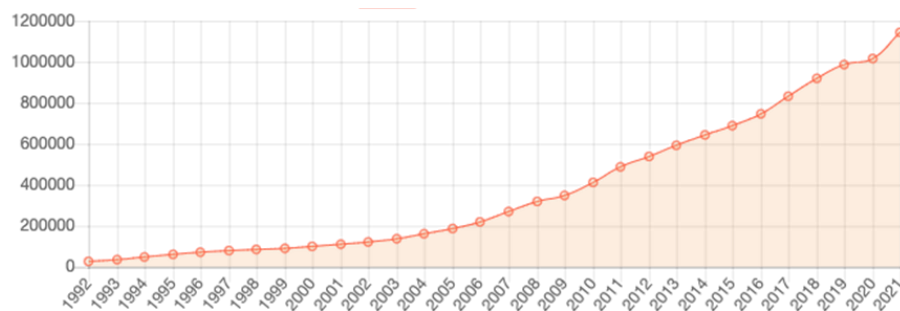


Figure 1: China's GDP figure.

GDP is the most central indicator of a country's economy. The high growth rate of China's GDP values means that China has taken some institutional changes and innovations in recent years, leading to high economic growth despite the epidemic.

Taking Beijing GDP data as an example, Beijing's GDP data plummeted in 2019-2020 due to the epidemic. While the Beijing Free Trade Zone was established in September 2020, several companies promoted the development of the Beijing Free Trade Zone by adopting bilateral policies and developing innovative products. This eventually led to economic growth in the Beijing area, causing Beijing's GDP data to rebound again in 2020-2021 with extremely fast growth.

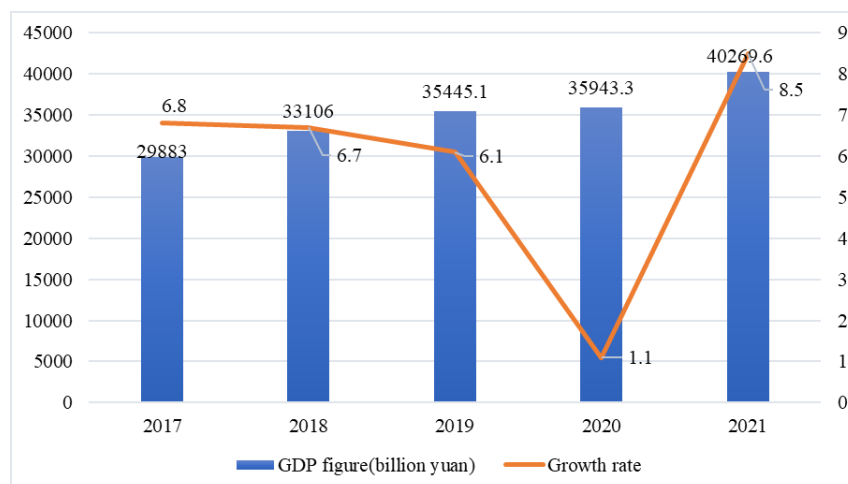


Figure 2: Beijing GDP data and Growth rate in 2017-2021.

Although the development of China's 21 FTAs has steadily moved forward and also made great progress, now China's FTAs are characterized by a small economic volume of trading partners,

insufficient tightness of trade relations with FTA partners, limited business opening, inability to fully adapt to the free trade area rules represented by TPP, and obvious conflict of interests among many countries in the Asia-Pacific region.

### 3.2. Problems identified

According to the “City Blue Book: China City Development Report No. 12” released today (Oct. 29). The Blue Book points out that there are five major problems in constructing China’s pilot FTAs, including the overall low level of openness, no breakthrough in capital flow, high tax rate, legal system to be improved, and lack of systematic pilot experience.

At present, the overall openness of the pilot FTAs is not high. Compared with the major international FTAs, there is still a large gap in the degree of openness of China’s pilot FTAs. Especially in some core areas such as telecommunications, culture, and medical care, the pace of opening is slow, and there are still certain restrictions on foreign investment access.

No breakthroughs have been achieved in capital flows. From Shanghai Pilot FTA practice, the pace of financial opening is slow, only building a separate accounting system and free trade accounts as the core of the risk management system. Especially in the free trade account, the account function currently only stays in the payment means to stage, the investment function and the stored value function have not been fully played, and the capital agglomeration effect has not been reflected. China’s pilot FTA has no substantial opening measures in exchange rate liberalization and interest rate marketization. And there is always a considerable distance from the goal of capital project convertibility.

The tax rate in the FTA is high. The current reform goal of China’s pilot FTA is mainly located in system innovation. Thus, the current tax reform in the construction of the pilot FTA mainly focuses on declaration efficiency and tax type selection without involving tax preferences. For example, the current regulations of enterprise income tax in Shanghai FTA are: enterprises in the FTA comprehensive bonded zone implement the tax rate of the comprehensive bonded zone (17.5%); enterprises not in the comprehensive bonded zone but the FTA, the tax rate is the same as that of the whole country, with no preferential treatment.

The pilot experience of the FTA is lacking systematically. In Hebei, Tianjin, and Hunan Pilot FTA, for example, many replicated pilots experience involves only a single sectoral reform, which is not systematic enough and not very friendly to industrial development.

In response to the above-mentioned current situation of FTA development, this article raises the following questions: How to predict the impact on the import and export volume caused by the conflict of interest in China’s FTAs? What is the core that can determine the development of FTAs? In what way should the existing problems of FTAs be changed?

### 3.3. Analysis of the causes

Take Beijing Boaojingdian Biotechnology, a company in the health sector in the Beijing Free Trade Zone, as an example. During the epidemic, this company actively responded to the national call. It developed the “Thermostable Amplified Microfluidic Multiviral Nucleic Acid Detection Chip System” using the core technologies of its research team. This can guarantee the one-time detection of no less than 6 common viruses of respiratory infections, including the new coronavirus, within 1.5 hours. This innovative product can guarantee the detection of no less than 6 common viruses of respiratory infections, including Neocoronavirus, within 1.5 hours and has played an active role in epidemic prevention and control. The company developed this product widely used in various regions of China and eventually reaped a 30% subsidy. The industrial output of the Beijing Free Trade Zone



achieved a triple increase in June, July, and August, promoting the development of the economy forward.



Figure 3: Core technology diagram.

In conclusion, this article believes that the reasons for the above many problems are mainly the following:

First, the small scope of the free trade test area restricts the experiment's effectiveness. Beijing and Shanghai FTAs focus on their regional science and technology industrial parks, and Tianjin FTA also focuses on its biological research park. The FTA's experimental scope is too small and does not have objectivity, resulting in some data's loss of reference value and weakened trade effect.

Second, Insufficient innovation. Although the import and export volume of foreign trade in China's FTAs increased in 2021, the development of FTAs also faced problems such as conflicts of interest. The innovation ability of enterprises is insufficient to provide innovative trade systems and products, resulting in the weak competitiveness of China's FTAs.

Third, Insufficient opening up to the outside world. The scale of international trade in China's FTA is relatively small, mostly exporting food, ceramics, and other products. Most of the trade in China's FTA is active in the Asia-Pacific region, thus leading to a small group of partners and prone to conflict of interest.

## 4. Discussion

In response to the problems mentioned above, this article will propose three solutions.

### 4.1. Enhance trade facilitation

The existing problem of insufficient trade scale in China's FTA can be solved by taking measures to enhance trade facilitation. Support the development of import and export trade innovation, and let the FTA become an innovation zone. Moreover, promote the tax declaration and repairs business of enterprises in the FTA, protect the quality of their products, and lays the foundation of foreign trade to increase competitiveness and expand the scale of trade.

Xiao told the Securities Daily that since the establishment of the Beijing and Hunan Pilot Free Trade Zones and the expansion of the Zhejiang Pilot Free Trade Zone one year ago. Both have made certain achievements in differentiated institutional innovation around their respective positioning. Beijing Pilot Free Trade Zone is actively innovating in expanding and opening up the financial sector and developing the digital economy. Hunan Pilot Free Trade Zone is an early pilot in the intensive development of international mail, international express mail, and cross-border e-commerce business. According to public data, in the past year, 5,934 new enterprises were established in Hunan Pilot Free Trade Zone, with actual utilization of foreign investment of USD 704 million. 270 new projects were

introduced, with a total investment of RMB 274.38 billion. Trade imports and export of RMB 146 billion were realized, accounting for more than 30% of the total foreign trade of Hunan Province in the same period. By the end of August, the 121 reform pilot tasks of the overall program of China (Hunan) Pilot Free Trade Zone had been implemented 97 items, with an implementation rate of 80.2%.

#### **4.2. Improve the investment convenience**

An industrial supply chain can be set up in China's FTA to increase supply inputs to the core links of the industrial chain and the projects involved and promote the formation of a complete industrial chain in the FTA.

According to some of the issues raised, we can summarize the corresponding solutions from the production cases of innovative products in the Shanghai Free Trade Zone. With the development of technology, more and more of the world's latest imported high-end medical devices are being produced locally through the FTA system. This allows domestic patients to enjoy high-quality medical services for the first time (hereinafter referred to as "LENS4K") was successfully delivered in the bonded area factory of Flextronics (Shanghai) Metal Parts company.

With the successful mass production of the project, the international high-end medical device company, Schluter, is accelerating the process of localized research and development and localized production with Shanghai as its point of origin, from pure import and export trade. "LENS4K is expected to reach an output value of 100 million RMB in three years, and Schluter has set a new goal of launching nearly 100 innovative products in China in the next five years. This is also a typical case of serving the internal cycle with external circulation and serving the industrial cycle with small regional circulation under the promotion of the system innovation of the Pilot Free Trade Zone and the action plan of Shanghai Pharmacovigilance. This for medical device quality and efficiency expansion marks the blossoming of the medical device registrar system and brings a win-win situation for all parties.

#### **4.3. Develop more innovative products**

Developing more innovative products enhances competitiveness and reduces conflicts of interest. Because the function and R&D technology of innovative products are advanced, if China can develop more innovative products in the FTA, then China can have more say in the trade market. Reduce the conflict of interest between countries, gradually become the Asia-Pacific trade center, and drive the local economic development.

The innovative product "Nucleic Acid Detection Chip System" developed in Beijing FTA can be seen from the fact that because of the new epidemic, countries need nucleic acid detection equipment to detect and control the number of epidemics. This has led to a huge trade in this product, which has boosted Beijing's GDP and the local economy.

### **5. Conclusion**

#### **5.1. Findings**

By studying the above enterprise innovation products in the FTZ, it is clear that it is not enough to use the institutional dividend to promote the development of the FTZ. Still, the innovation ability of enterprises is the core point of driving the overall development of the FTZ. Through the innovation of enterprises and the development of new products, the country can expand the scale of trade, enhance foreign trade, and then use brand new products to solve the problem of conflicting interests between countries. Innovative products can also attract the attention of investors, who then invest in

this product, further expanding the scale of investment in the regional FTA and achieving regional economic growth.

## 5.2. Research significance

This article addresses the focus of the development of the free trade zone, enhancing the relevant practitioners can start from the perspective of enterprise innovation. At the same time, the article also brings new ideas and ways to develop the regional economy so that relevant researchers can consider the development of the free trade zone. Because of the epidemic's impact, many international trade companies do not have a wide range of business, which also leads to many small and micro enterprises under the influence of the epidemic facing the crisis of closure. This article can help companies and international trade employees find a new development path. Practitioners in the international trade industry can use the resources they and their companies have to vigorously develop innovative products to expand the scale of their companies' business. It, in turn, will ensure a rebound in income, an increase in employee wages, and an increase in labor motivation to achieve a virtuous cycle.

## 5.3. Limitations

This article only adopts the survey and case study method, lacking the perspective of empirical research and specific analysis and statistics of more data. Most of the data in the article are also from the last 5 years, which can only study short-term trends and cannot study and prove the development of long-term trends. At the same time, the cases selected in the article mainly focus on enterprise innovation. They do not elaborate much on other perspectives, so there is a lack of case studies on institutional innovation, geographic location research, and other factors.

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