



Utrecht University

China's Export Product Gauge Kaifang

Opening-up and roll-out of Special Economic Zones within
the Belt and Road Initiative as part of the relationship between
the European Union and China

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Thesis - Bachelor of Arts (GE3V18002)

History (International Relations in Historical Perspective)

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18 January 2019

Abstract

With a rule-based international order less obvious than before, this thesis aims to analyse the likelihood of a stable alliance between the European Union and China.

This thesis looks into the development of Special Economic Zones as a driver of Chinese economic growth since its opening-up and reform in 1979. Additionally, it looks at how the relationship between the EU and China has developed during that time. Furthermore, it delves into how the EU was connected with non-Chinese SEZs and draws up similarities and differences with Chinese SEZs. An outline of the recent Belt and Road Initiative will be given, which is relevant as China has placed SEZs within this initiative. Four theoretical concepts will be evaluated to determine the most appropriate theory for encompassing China's global rise, political and economic clout, its regional outreach and the export of SEZs as part of the BRI. Ultimately, the EU must review and engage with SEZs within the BRI with more scrutiny. The role China plays in the international order will increase due to its expanding position as a regional hegemon which is enabled by the growth potential of the BRI and specifically by using SEZs as an export product, which in turn allows for domestic economic growth to continue, and domestic stability ensures.

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1.1 Introduction

China has become increasingly important to the European Union (EU). Not only with regard to economic value. In 2017, China accounted for EUR 30 billion of foreign direct investment (FDI) in Europe, compared to a mere EUR 2 billion in 2010.¹ Challenges such as cross-border security issues, tackling energy and climate change, and judicial issues have made China more relevant. Politically the Middle Kingdom has increased its clout on the world stage. More importantly, how must the European Union maneuver and with whom as ally in the current globalised yet disorderly world order. The rule-based international order with respect for multilateralism and cooperation is treading heavy waters. Anti-liberalist and anti-democratic tendencies have arisen, protectionism and nationalism seem to prevail over cross-border collaboration. China and the EU regard each other as allies in many fields, yet how realistically this alliance is in the future proves uncertain. Especially, as the foundational ideology of both are antithetical.

China has reached a seat at the table of global leaders due to the unprecedented economic development over the past 40 years which has balanced on assimilating to the ‘Western’ capitalist market institution whilst at its core remaining committed to the Chinese communist ideology. Deng Xiaoping gained immortality with his economic reform policy of “*gaige kaifang*” during 1979.² Throwing off the fully centrally planned economic perils, this opening-up resulted in China’s real gross domestic product (GDP) growing between 1979 to 2017 at an average annual rate of nearly ten per cent.³ This may be the fastest sustained expansion by a major economy in history—and has lifted more than 800 million people out of poverty.⁴

Part of this ‘reform and opening-up’ system was the implementation of Special Economic Zones (SEZs) throughout the country.⁵ These zones were characterised by favourable factors for

¹ Saarela, A. (19 July, 2018) “A new era in EU-China relations: more wide-ranging strategic cooperation?” Policy Department for External Relations. Directorate Generale for External Policies of the Union. European Parliament, p. 14
[http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU\(2018\)570493](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU(2018)570493) accessed 16 January 2019

² China’s economic reform process began in December 1978 when the Third Plenum of the Eleventh Central Committee of the Communist Party adopted Deng Xiaoping’s economic proposals. Implementation of the (economic) reforms began in 1979.

³ Morrison, W. M. (5 February, 2018). China's economic rise: history, trends, challenges, and implications for the United States. Library of Congress, Congressional Research Service, p.1

⁴ World Bank, China Overview. <http://www.worldbank.org/en/country/china/overview> accessed 16 January 2019.

⁵ A special economic zone (SEZ) is an area in which business and trade laws are different from the rest of the country. SEZs are located within a country's national borders, and their aims include: increased trade, increased investment, job creation and effective administration. To encourage businesses to set up in the zone, financial policies are introduced. These policies typically regard investing, taxation, trading, quotas, customs and labour regulations. Additionally, companies may be offered tax holidays, where upon establishing in a zone they are granted a period of lower taxation.

foreign companies to invest.

The Chinese government has realised that its former economic growth figures are becoming less and less realistic. A growing economy is vital to maintaining social stability on the Mainland. However, China faces a number of major economic challenges which could suppress future growth. The ability of the Chinese government to implement reforms to tackle this issue will resolve whether China can continue to maintain economic growth rates, or will instead have to adjust to the experience of significantly lower growth rates. Stability on the side of China is required for it to become a solid and reliable partner for the EU.

Coming up with a potential solution for these significant challenges, President, Xi Jinping announced in 2013 China's ambitious plans for so-called 'Silk Road Economic Belt' and 'Maritime Silk Road of the Twenty-First Century' respectively.⁶ These two initiatives were eventually combined into the 'One Belt, One Road' initiative (OBOR), with China as its hub. This plan is momentarily better known as the Belt and Road Initiative (BRI). In 2015, Chinese authorities issued an official document that describes the measures and objectives of the BRI.⁷ It sets out to promote regional and cross-continental connectivity between China and countries in Eurasia.

All in all, as part of this BRI, SEZs have been taken on as a mechanism for economic growth in less-developed Asian regions.⁸ It could even be considered as a key component of the country's economic success to be implemented in other developing countries.⁹

To answer the question to what extent the roll-out of Special Economic Zones within the Belt and Road Initiative affect the relationship between the EU and China, in the past, currently and in the future, this paper will build on the following:

Firstly, delve into the theoretical framework regarding Chinese economic growth and its

⁶ President Xi Jinping, 7 September 2013, speech at Nazarbayev University, Kazakhstan, during attendance of the Eighth G20 Summit and Thirteenth Meeting of Council of Heads of Member States of Shanghai.(FMPRC) https://www.fmprc.gov.cn/mfa_eng/topics_665678/xjpfwzysiesgjtffhshzzfh_665686/t1076334.shtml accessed 16 January 2019.

⁷ http://english.gov.cn/archive/publications/2015/03/30/content_281475080249035.html
Accessed 13 December 2018.

⁸ Mayer, M. (2018). *Rethinking the Silk Road*. Palgrave Macmillan. p. 18; Demissie, A. (2018). Special Economic Zones: Integrating African Countries in China's Belt and Road Initiative. In *Rethinking the Silk Road* (pp. 69-84). Palgrave Macmillan, Singapore.

⁹ Bräutigam, D. & Tang, X. (2014) "'Going Global in Groups': Structural Transformation and China's Special Economic Zones Overseas." *World Development*. 63, pp. 78–91; Fei, D. (2017) "Worlding Developmentalism: China's Economic Zones Within and Beyond Its Border: Worlding Developmentalism." *Journal of International Development*. Vol. 29, no. 6. p. 826.

country's relationship with the EU. Additionally, this research will give an overview of the development of the SEZs, its contribution to the Chinese economy overall and how they have been incorporated in the BRI by the Chinese government. As of which the question arises what role do and will SEZs play in the BRI? It will assess the historical engagement between the European Union and SEZs. Such a historical view is necessary to be able to review the current strategy proposals by the EU in how to engage with China in its multi state-to-state relations and reflect on the potential and conflict of these economic zones with the EU.

Specific cases of use of SEZ in other countries with which the EU has engaged in the past will be used.

Policy outlines concerning the strategy on how to engage with one another by both the EU and China will be reviewed.

Ultimately, this paper contends that in order for the EU to assess whether China a stable alliance is possible it must review and engage with SEZs within the BRI with more scrutiny. The role China plays in the international order will increase, is the hypothesis of this paper, due to its expanding position as a regional hegemon which is enabled by the growth potential of the BRI and specifically by using SEZs as an export product, which in turn allows for domestic economic growth to continue.

In other words, China is using the BRI to tackle domestic issues and take up its position as global leader by engaging in regionalism. Killing two birds with one stone. The EU in response must spread its wings in order for a China-EU flock to be formed.

1.2 Justification and Methodology

Firstly, this work will focus on scholarly literature regarding the SEZs in China internally. Relaying its development since its policy commencement in the 80s, and what role it currently (still) plays in the Chinese economy. Secondly, an overview will be given of the initiation of the BRI and the following expansion of SEZs within this framework. After which the research will continue into the engagement of the European Union with SEZs across the world in the past. A few case studies may be used for this purpose, Africa, Ireland and Kaliningrad.

Afterwards this work will juxtapose these examples with the way the EU has engaged with ('Chinese') SEZs within the BRI framework in the recent past, taking Kazakhstan and the Belarus International Park as case studies. Lastly, the recent publication of the EU on its strategy with Asia will be reviewed to be able to conclude whether the EU has a clear strategy on its approach and

engagement with SEZs in the BRI context.¹⁰ Accordingly, the Chinese policy paper on its relationship with the EU - published last December will be assessed.¹¹

Besides these two specific policy documents, mostly secondary scholarly resources will be used. Policy papers are already highly politically influenced and to get to the core of this, the author aims to balance western scholars and Chinese scholars.

1.3 Theoretical Framework

1.3.1 General Outline

What theoretical framework is most applicable to comprehend the development of SEZs within China since its inception in 1978 and its evolution into an ‘export product’ within the BRI, resulting in China’s current global standing? This section outlines four concepts to theorise on the development of Chinese SEZs and what role it plays within the BRI. Ultimately, arguing that regionalism is the most adequate concept to compass the use of SEZs by China in the BRI.

Although consensus exists that China has experienced an unparalleled level of economic growth over the past decades and that in 2013, China managed to overtake the US as the biggest economy in the world, measured in PPP,¹² there is little agreement on China’s ability to actually challenge the Western liberal world order or on whether China must be regarded as only a “partial global power”.¹³ Additionally, how to place the course China is taking with regard to its foreign policy has up until now remained unclear.¹⁴ It remains interesting, as China’s economic growth, although less impressive than before, still marches onwards and its economic clout increases; taking up more than 15 per cent of the global economy in 2017.¹⁵

¹⁰ JOINT COMMUNICATION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE, THE COMMITTEE OF THE REGIONS AND THE EUROPEAN INVESTMENT BANK Connecting Europe and Asia - Building blocks for an EU Strategy. Brussels, 19.9.2018 JOIN(2018) 31 final

¹¹ China's Policy Paper on the European Union 2018/12/18, FMPRC.

https://www.fmprc.gov.cn/mfa_eng/wjdt_665385/2649_665393/t1622890.shtml accessed on 16 January 2019

¹² Mayer, M. (2018) ed. *Rethinking the Silk Road: China's Belt and Road Initiative and Emerging Eurasian Relations*. Singapore: Palgrave Macmillan. p. 5.

¹³ Shambaugh, D. (2013). *China Goes Global: The Partial Power*. (Oxford: Oxford University Press)

¹⁴ Jisi, W. (2011), “China’s Search for a Grand Strategy,” *Foreign Affairs* 90.2 : 68–79.

¹⁵ Saarela, A. (19 July, 2018) “A new era in EU-China relations: more wide-ranging strategic cooperation?” Policy Department for External Relations. Directorate Generale for External Policies of the Union. European Parliament, p. 25.

[http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU\(2018\)570493](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU(2018)570493) accessed 16 January 2019

1.3.2 Constructive Engagement

A conventional IR theory can be discussed when we look at the relationship between the EU and China. “*The development of EU–China relations since the end of the Cold War shows a combination of material (realist), idealist (liberal), and ideational (constructivist) elements. Self-interest reasons were evident, for instance, in the adoption by the EU and its member states of a firm policy of engagement vis-a`-vis China since the mid-1990s. With the so-called policy of ‘constructive engagement’, the EU and its member states aimed to support China’s transformation process and its integration in the world economy and regulatory system.*”¹⁶

Casarini thus argues that constructive engagement has been the compass on which the EU’s foreign policy regarding China has built. One may question whether this is still the case? Casarini already points out that such a label faded with the alienation between China and the EU, partly due to US pressure in 2007/2008.¹⁷ This pressure related generally to the arms embargo which was placed on China, Chinese human rights record, surrounding seas disputes and its stance towards Taiwan’s self-governance. Only after the Financial Crisis and the recognition by the Obama administration that China was to play a much larger role in a world of complex interdependence and its policy shift, ‘the Asian pivot’, did the EU once-again start to align with China on certain overlapping areas.¹⁸ Ultimately, Casarini proposes to create a G-3, the US - China - Europe.¹⁹

However beneficial Casarini’s proposal may have seem back in 2009, recent events have made such a formation highly unlikely. With the US retreating from the global multilateralist rule-based order, China is left up with the EU and visa versa to tackle the challenges it faces. Although the EU has formed a relatively aligned bloc with regard to its foreign policy, it remains highly important to note the impossibility for EU external actors to believe they engage with the EU as if it were one state. The EU is anything but one state and remains a politically highly divisive institution. Whilst China may be engaging with EU at the top level, through par example the ASEM summit,²⁰ it may at the simultaneously be interacting with a EU Member State bilaterally.²¹ This

¹⁶ Casarini, N. (2009). *Remaking global order: The evolution of Europe-China relations and its implications for East Asia and the United States*. Oxford University Press, pp. 8-9.

¹⁷ Casarini, N. (2009). *Remaking global order: The evolution of Europe-China relations and its implications for East Asia and the United States*. Oxford University Press, p. 176.

¹⁸ Casarini, N. (2009). *Remaking global order: The evolution of Europe-China relations and its implications for East Asia and the United States*. Oxford University Press, pp. 189-192.

¹⁹ Casarini, N. (2009). *Remaking global order: The evolution of Europe-China relations and its implications for East Asia and the United States*. Oxford University Press, p. 192.

²⁰ Bersick, S., & van der Velde, P. (Eds.). (2011). *The Asia-Europe Meeting: Contributing to a New Global Governance Architecture: The Eighth ASEM Summit in Brussels*. (Vol. 15). Amsterdam University Press. pp. 15-22

²¹ Pavličević, D. (2018). “‘China Threat’ and ‘China Opportunity’: Politics of Dreams and Fears in China-Central and

at times may frustrate and fractionate European member states, which occasionally is used by China to attempt to divide and rule the EU. This point will be elaborated on further in the paper.

1.3.3 Mayer's Broad Approach

Mayer contends that conventional International Relations (IR) theories are not adequate enough to encompass China's rise to the global stage.²² Thus, Mayer argues three broader approaches: first, a focus on power dynamics; second, the exploration of regional socio-economic, institutional, and technological transformations; and, third, inquiries into the comprehensive reconstruction of China's own identity and the role of knowledge.²³

As will be further outlined, the current relationship between the EU and China has gone beyond constructive engagement. Mayer's theory is more encompassing and less time-dependent. However, it does not cover the BRI specifically and thus makes it less applicable to the current geopolitical situation with China's outreach in Central Asia. Additionally, it does not fully take in the full potential that SEZs carry with them as motor of economic development (as we have seen in China domestically) for beyond China's borders.

1.3.4 Worlding Developmentalism

Another concept is 'worlding developmentalism' which aims "to understand the development trajectory of post-reform China from within to beyond its national border. This notion identifies an uneven process of 'going global' that involves (i) a polymorphous yet capable state to spearhead the country's international presence through various diplomatic, political, financial and ideological apparatuses; and (ii) a diverse composite of population who exploits available development resources and negotiates transnational livelihood opportunities for their own economic and social benefits. As China is gaining substantial foothold in vast territories of the Global South, worlding also begins to incorporate the agency of host countries, regions and populations who experience profound socio-economic transformations as a result of Chinese overseas practices."²⁴

This research supports this concept in order to comprehend Chinese developmentalism on

Eastern European Relations." *Journal of Contemporary China*. Vol. 27, no. 113: pp. 688–702.

²² Mayer, M. (2018). China's Rise as Eurasian Power: The Revival of the Silk Road and Its Consequences.. In *Rethinking the Silk Road* (pp. 1-42). Palgrave Macmillan, Singapore.

²³ Mayer, M. (2018) ed. *Rethinking the Silk Road: China's Belt and Road Initiative and Emerging Eurasian Relations*. Singapore: Palgrave Macmillan. p. 14.

²⁴ Fei, D. (2017). Worlding Developmentalism: China's Economic Zones Within and Beyond Its Border: Worlding Developmentalism. *Journal of International Development*. vol. 29, no. 6. p. 836.

the basis of SEZ in the global era. Additionally, it argues that the role SEZ will play in the future will continue to grow due to its implementation in the BRI. However, it is too specific to take the overall outreach of China in the region and the global dimension into consideration accurately.

1.3.5 Regionalism

Which is why we must turn to grander theories; globalisation seems to be in fashion momentarily. This era is distinctive for its digital connectivity and enhanced mobility has enabled many people across the world and our economies to come closer to each other and become more intertwined. It does leave out however an important development which has occurred since the end of the 1980s. The world has since witness a new interest in and a resurgence of regional cooperation. Not only on the European continent, think also of NAFTA, Mercosur, SADC, ASEAN and the APEC.²⁵ especially in the 1990s the regional level has taken up a more dominant role in geopolitical affairs.

“Much of this is related to the relationship between the state, regionalism and globalisation. A multilayered framework of governance is evolving where governance is increasingly dispersed between the nation-state, the regional level and global institutions” such as the World Bank, the International Monetary Fund (IMF) or the World Trade Organisation (WTO).²⁶ Regional cooperation from a hegemonic stability theory perspective boils down to powerful states within the region or outside, which are willing to and capable of acting as “regional paymaster, easing distributional tensions and thus smoothing the path of integration”.²⁷

Regionalism can be characterised as formal, often experiencing state-led projects and processes and a body of norms, values, objectives, ideas and a type of international order or society.²⁸ It is, at least in part, an intentional process of political, security or economic

²⁵ Wunderlich, J. U. (2016). *Regionalism, globalisation and international order: Europe and Southeast Asia*. Routledge, p. 1.

²⁶ Wunderlich, J. U. (2016). *Regionalism, globalisation and international order: Europe and Southeast Asia*. Routledge, p. 3

²⁷ See Mattli, W. (1999) 'Explaining Regional Integration Outcomes', *Journal of European Public Policy* 6 (1), p. 56. Cf. Gilpin, R. (1987) *The Political Economy of International Relations*, Princeton: Princeton University Press, pp. 87-90; Grieco, J. M. (1988) 'Anarchy and the limits of cooperation: a realist critique of the newest liberal institutionalism', *International Organization* 42 (3): 485-507; Börzel, T. A. (2015). *Theorizing Regionalism: Cooperation, Integration, and Governance*, p. 6

²⁸ See Schulz, M., Inotai, A., and Sunkel, O., (eds) (2001) *Comparing Regionalisms: Implications for Global Development*, Basingstoke: Palgrave; Schulz, M., Söderbaum, F., and Öjendal, J., (eds) (2001) *Regionalization in a Globalizing World. A Comparative Perspective on Forms, Actors and Processes*, London and New York: ZED Books.

cooperation.²⁹ Powerful states facilitate the emergence of regionalism in pursuit of economic or geopolitical interests.³⁰ This may be in external form, as well as by way of domestic issues. Globalisation nonetheless is a major extrinsic driver for regionalism. Global markets presupposes increased cross-border mobility and economic connections and trade issues are less cumbersome to deal with at the regional than at the multilateral level.³¹

Therefore, regionalism is the most adequate theory as it allows to take into consideration China's current standing within (multilateralist) geopolitics, its development since 1979, the function of SEZs and the BRI herewith.

2. Past EU-China Relations

2.1 Brief history of ties 1970 - 2000

In the 1970s and 1980s, Sino-European relations were viewed as derivative of Cold War constraints and as such of secondary significance. Chinese leaders, for instance, tended to use relations with European countries as part of their policy to gain strategic advantage vis-à-vis the United States and the Soviet Union.³² With the so-called policy of 'constructive engagement', the EU and its member states aimed to support China's transformation process and its integration in the world economy and regulatory system.³³

Noteworthy, is that as certain individual EU member started to prioritise its relationship with Asian countries, the European Commission (EC) became more active too. Along with initiatives by individual EU Member States, the EC released its Communication Towards a New Asia Strategy in 1994 with the aim to strengthen the Union's economic presence in Asia, contribute to the stability of the region, and promote economic development, consolidation of democracy, and respect for human rights in Asia.³⁴

²⁹ Wunderlich, J. U. (2016). *Regionalism, globalisation and international order: Europe and Southeast Asia*. Routledge, p. 3

³⁰ Ibid.

³¹ Schirm, S. A. (2002) *Globalization and the New Regionalism*. Global Markets, Domestic Politics and Regional Cooperation, Cambridge: Polity Press; Breslin, S. et al. (eds) (2002) *New Regionalism in the Global Political Economy: Theories and Cases*, London: Routledge.

³² Casarini (2009), p. 4.

³³ Casarini (2009), p. 8.

³⁴ Casarini (2009), p. 38.

2.2 Contemptuous strategic partnership

As of 2003 the EU and China agreed on forming a comprehensive strategic partnership. This entailed elevating EU–China relations beyond merely economics, i.e. trade and investment issues (remember the accession of China to the WTO) to address some of the world's most pressing political and security challenges. Anything approaching a comprehensive strategic partnership over the past decade linking the EU and China has failed to materialise thus far, however according to Maher.³⁵ He argues how clashing political values, diverging geopolitical interests and priorities, and competing conceptions of world order has limited and will continue to limit the scope and depth of any EU–China strategic relationship. EU–China relations are - according to him, and are likely to remain, contested, uneven and—apart from trade and investment—shallow, and embody a limited rather than a strategic partnership. This had much to do with issues as varied as China's human rights record, the Taiwanese issue, As China's economic, military and political power continues to expand, Chinese leaders no longer view the EU as a viable or attractive strategic partner with the same fervour they did a few years ago. Maher quotes Timothy Garton Ash 'A decade ago, Chinese policy makers took the European Union seriously as an emerging political force, a potential new pole in a multipolar world. Today, they treat it with something close to contempt.'³⁶

2.3 Allies by Necessity - Ties after 2016

Alas, the tables have turned with the election of Trump as the US president. Already in 2017 president Xi Jinping endorsed by quoting the infamous Charles Dickens, the global multilateralist rule-based order at the Davos event, of which the stage had not felt the shoes of a Chinese president before.³⁷ Since that time the Chinese president has been forced to turn itself more and more to Europe to find an equal, reliable and consistent global power. Especially now that he has found himself amidst troubled trade waters, reflecting on the announcement that

³⁵ Maher, R. (2016). The elusive EU–China strategic partnership. *International Affairs*, 92(4), pp. 959-976.

³⁶ Maher, R. (2016). The elusive EU–China strategic partnership. *International Affairs*, 92(4), p. 975; Timothy Garton Ash, 'Can Europe survive the rise of the rest?', *New York Times*, 1 Sept. 2012, accessed via <https://www.nytimes.com/2012/09/02/opinion/sunday/can-europe-survive-the-rise-of-the-rest.html> on 16 January 2019

³⁷ Barkin, N., & Elizabeth Piper, (17 January 2017) "In Davos, Xi makes case for Chinese leadership role", Reuters accessed via <https://www.reuters.com/article/us-davos-meeting-china/in-davos-xi-makes-case-for-chinese-leadership-role-idUSKBN15118V> on 16 January 2019; Full Text: Xi Jinping's keynote speech at the World Economic Forum. State Council Information Office accessed via http://www.china.org.cn/node_7247529/content_40569136.htm on 16 January 2019.

China's 2018 trade surplus with the US was its largest in more than a decade, despite the tariff war initiated by president Trump against China over the last year. China's surplus with the US grew 17 per cent from a year ago to hit USD 323.3 billion in 2018.³⁸ It was the highest on record dating to 2006 and the deficit that the US has with China is likely even bigger than these figures indicate since China calculates the numbers using different methods, sometimes excluding goods that end up in the US via other countries. Exports to the United States rose 11.3 per cent year on year in 2018, while imports from the US to China rose a meager 0.7 per cent during the same period. China states its overall trade surplus for 2018 was USD 351.8 billion. On March 2nd president Trump is scheduled to increase American tariffs from 10 per cent to 25 per cent on USD 200 billion of imported Chinese goods. Research shows however that tariffs harm a country's economy, and finds that this damage lasts for a long time, even after a five year cooling period. Additionally they found no statistically significant long-term association between rising tariffs and subsequent changes in trade balances.³⁹

Besides a trade war and protectionism, the Chinese have lost a major country in tackling the environmental and energy challenges they face with the abjuration of the Paris 2015 Climate Agreement by the US.

It is therefore noteworthy that the Chinese government has recently engaged on top-level joint documents with the EU in order for its partnership to thrive. In 2013 the EU-China 2020 Strategic Agenda for Cooperation was adopted,⁴⁰ which may have been too soon for any mentioning of the BRI or SEZs. However, it acknowledged the need for the EU and China to “strengthen cooperation in developing smart, upgraded and fully interconnected infrastructure systems. Expand cooperation in interoperability of seamless supply chain logistics networks between Asia and Europe, maritime markets and routes, rail services, logistics, safety, and energy efficiency.”⁴¹

During the past year important joint conferences and statements were held and made. There was the eight EU-China High Level Strategic Dialogue on 1 June 2018,⁴² and the 20th Bilateral

³⁸ <https://www.cnbc.com/2019/01/14/china-2018-full-year-december-trade-exports-imports-trade-balance.html> accessed 16 January 2019

³⁹ Furceri, D., Hannan, S. A., Ostry, J. D., & Rose, A. K. (2018). *Macroeconomic Consequences of Tariffs*. (No. w25402). National Bureau of Economic Research.

⁴⁰ EU-China 2020 Strategic Agenda for Cooperation, (2013) European External Action Service http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf accessed on 16 January 2019

⁴¹ EU-China 2020 Strategic Agenda for Cooperation, (2013) European External Action Service, p. 8 http://eeas.europa.eu/archives/docs/china/docs/eu-china_2020_strategic_agenda_en.pdf accessed on 16 January 2019

⁴² <https://eeas.europa.eu/headquarters/headquarters-homepage/45708/remarks-hrvp-federica-mogherini-following->

Summit.⁴³ Both reaffirmed their commitment to deepening and reinforcing the global dimension of their partnership for peace, security, economic growth and sustainable development, reform and civilisation, by comprehensively implementing the EU-China 2020 Strategic Agenda for Cooperation. A specific aim was to forge synergies between the China's Belt and Road Initiative under the EU-China Connectivity Platform, and the EU Investment Plan (Trans-European Networks (TEN-T)). However, in the recent strategy outlines only passing references are made to the role of SEZs in the BRI, a missed opportunity: “In addition, they agreed to forge synergies between China's belt and road initiative and the EU's initiative with a view to improve Europe-Asia connectivity.”

Why the relations remain relevant lies closely with the economic clout both have. The EU and China are two of the biggest traders in the world: the European Union is China's biggest trading partner, while China is the EU's second largest trading partner. China has become a hub of global supply chains and is the top trading partner of an estimated 120 countries or regions. Technology developments, business innovations and decreasing trade costs continue to transform global patterns of production. Chinese foreign direct investment (FDI) activity in the EU fell 17 % compared to 2016, worth to EUR 30 billion in 2017. The EU FDI transactions in China also fell from EUR 8 billion to around EUR 6 billion in 2017.⁴⁴

It is highly important for EU-China relations to remain coherent as a bloc. To illustrate this point, Whilst China may be engaging with EU at the top level, through par example the ASEM summit,⁴⁵ it may at the simultaneously be interacting with a EU Member State bilaterally.⁴⁶ This at times may frustrate and fractionate European member states, which occasionally is used by China to attempt to divide and rule the EU.

To illustrate this point; Pavličević shows the various challenges which lie in front of the relationship that the Central Eastern European Countries (CEEC) Bloc has with China. This may be done in a ‘16 + 1’ framework, however noting that disillusionment may be looming as misconception between its relationship with the EU and with China exists. From a Chinese perspective, the 16+1 remains a strategic format with which it can increase its political influence.

eu-china-strategic-dialogue-wang-yi-chinas-state_en accessed on 16 January 2019

⁴³ <https://www.consilium.europa.eu/en/meetings/international-summit/2018/07/16/> accessed 16 January 2019.

⁴⁴ <http://www.oecd.org/investment/investment-policy/FDI-in-Figures-April-2018.pdf> accessed 15 January 2019.

⁴⁵ Bersick, S., & van der Velde, P. (Eds.). (2011). *The Asia-Europe Meeting: Contributing to a New Global Governance Architecture: The Eighth ASEM Summit in Brussels*. (Vol. 15). Amsterdam University Press. pp. 15-22

⁴⁶ Pavličević, D. (2018). “‘China Threat’ and ‘China Opportunity’: Politics of Dreams and Fears in China-Central and Eastern European Relations.” *Journal of Contemporary China*. Vol. 27, no. 113: pp. 688–702.

Mainly through its economic tools by pushing forward BRI with FDI in CEEC, it is in the position of pitting the CEEC up against the EU. The CEEC has only recently become more critical of this, as the promised effects of investments and economic growth remain partly unfruitful. Ultimately, these countries may only be able to deflect such divide and rule policy as *“for all the 16 participants, their role in the platform will be beneficial if in line with their respective most important partner – the EU. The 16+1 platform can enhance opportunities on both bi- and multilateral levels, but only by adhering to the Union’s standards will the recipients be able to channel and benefit from Chinese investments. In other words, 16+1 needs to shift from being an alternative to becoming a full-fledged complement of the framework of EU–Chinese relations.”*⁴⁷

3. Special Economic Zones

3.1 Definition

A special economic zone (SEZ) is an area in which business and trade laws are different from the rest of the country. SEZs are located within a country's national borders, and their aims include: increased trade, increased investment, job creation and effective administration. To encourage businesses to set up in the zone, financial policies are introduced. These policies typically regard investing, taxation, trading, quotas, customs and labour regulations. Additionally, companies may be offered tax holidays, where upon establishing in a zone they are granted a period of lower taxation.⁴⁸ SEZs are policy tools that promote trade and investment of countries and regions. The rationale behind SEZs lies in the attraction of transnational capital to facilitate domestic industrialisation through pro-investment policies.⁴⁹ When successful, SEZs generate significant local employment, increase exports, and accelerate economic growth.

In some countries the zones have been criticised for being ineffective, denying fundamental labour rights, unable to integrate with the domestic economy.

By providing serviced land, infrastructure, and an improved regulatory environment, SEZs potentially lower the costs and risks to firms. Additionally specialisation may set in, e.g. focusing

⁴⁷ Lagazzi, A. (2018). “EU-China Investments: Solving the 16+1 equation”. *Clingendael Spectator*. (27 november 2018).

⁴⁸ Leong, C.K. (2013). “Special Economic Zones and Growth in China and India: An Empirical Investigation.” *International Economics and Economic Policy*. Vol. 10, no. 4., pp. 549–567.

⁴⁹ Wu, F. 2009. Export Processing Zones. In *International encyclopedia of human geography*. Kitchin, R., Thrift, N. (eds). Elsevier: Amsterdam; London; Oxford.

on logistics or cross-border trade.⁵⁰

3.2.1 General History of Special Economic Zones

While regional harmonisation of SEZ policy remains in its infancy, following are brief descriptions of attempts at such an harmonisation.

3.2.2 Growth triangles in Asia.

In 1993, Indonesia, Malaysia, and Thailand launched the subregional growth triangle—the “transnational export processing zone”—to accelerate their subregion’s economic growth and industrial transformation. As growth triangles create greater economies of scale and allow firms to exploit complementarities and comparative advantages of member countries in various production factors, such as natural resources, low labor costs, and technology, they may offer greater potential to attract investments than standalone SEZ programs. In addition to the coordinated investment in infrastructure and human resources, the governments of these three countries are trying to harmonize regulations governing investment, tax, land, labor and immigration, and customs to market this subregion effectively to investors. This growth triangle is fostering economic expansion of participating regions through industrial linkages and by positioning the area as an integrated manufacturing base of various high value-added products. These linkages have contributed to developing advanced manufacturing as well as R&D capacity across the region. Many other subregions followed similar triangle initiatives.⁵¹

3.3 History of Special Economic Zones in China

Such rapidly industrializing countries as Taiwan and South Korea established export processing zones (EPZs) in the mid-1960s and early 1970s. The reforming socialist economy of China created special economic zones (SEZs) in 1979 as did the former socialist economies in Eastern and Central Europe (e.g., Bulgaria, Poland) and former Soviet republics in the late 1980s and early 1990s. Although the FEZ has become a truly global phenomenon, most comparative studies focus narrowly on the economic characteristics and roles of EPZs in developing countries.⁵² Little consideration has been given to how this phenomena as part of the Chinese

⁵⁰ Farole, T., & Akinci, G. (2011). *Special economic zones: progress, emerging challenges, and future directions*. The World Bank, pp. 127-128

⁵¹ Farole, T., & Akinci, G. (2011). *Special economic zones: progress, emerging challenges, and future directions*. The World Bank, pp. 147-148.

⁵² Referred to are: (Kreye *et al.*, 1987; Park, 1993; Rabbani, 1983; Vittal, 1977; Warr, 1989; Wong and Chu, 1984)

economic growth success-story will play out as an export product to the surrounding Belt and Road countries. Thus, this paper illustrates the distinctiveness of Chinese SEZs.

3.4 Development and specific characteristics of Chinese Special Economic Zones

3.4.1 Historical Development

The Chinese economy in the late 1970s was troubled by enormous difficulties. After the collectivisation of household farms in the 1950s, emphasis was placed on rapid industrialisation, through large-scale investments and under centrally controlled economic circumstances. As a result, by 1978 nearly three-fourths of industrial production was produced by centrally controlled, state-owned enterprises (SOEs), according to centrally planned output targets.⁵³ Private enterprises and foreign-invested firms were generally excluded and managerial and economic practice within the country proved to be ineffective.

To gain experience and to avoid unnecessary economic and social instabilities that a unanticipated, drastic policy transition could cause, safeguards were taken by the Chinese leadership; reform and opening up were to proceed, but only at a restrained rate.

The State Council of China thus announced in July 1979 special economic privileges to the southern coastal provinces of Guangdong and Fujian, allowing them to experiment with, on a trial-and-error basis, nonconventional, market-oriented, and outward-looking measures to accelerate economic growth. Establishment of SEZs was one of the key ingredients of the policy package. Shortly after, four SEZs were opened in Shenzhen, Zhuhai, Shantou of Guangdong Province and Xiamen of Fujian Province. Their overall aim was to attract labour-intensive investments and facilitate export-oriented production.

3.4.2 Specificities Chinese SEZs

To fully comprehend the uniqueness of China's SEZs we must realise that China has built its economic development on a two-legged track. Whilst opening up towards certain capitalist mechanisms and ideas, it had to remain a stable and communist society. In practice this meant that the Chinese government opened up the various areas as a experimental laboratoria, which enabled

⁵³ Morrison, W. M. (2018). China's economic rise: history, trends, challenges, and implications for the United States. Library of Congress, Congressional Research Service, p.2.

China to test ‘things’ as wide as, attracting and utilising foreign capital, acquiring advanced foreign production and managerial technologies, developing a comprehensive economic structure and promoting foreign trade in accordance with the comparative advantages of the region, and gaining experience in economic system reforms according to the international norm, namely the practice of market economies.⁵⁴

In short, realising a distinctive process of working with capitalist logic and socialist ideal.⁵⁵ Focus was heavily placed on the industrial sector as the Chinese soon realised the potential they had in-house when it came to human resource, labour cost and efficiency and natural resources. This was further ingrained in the domestic economy when variation amongst SEZs started to occur, and each started to specialise.

In the SEZ not just state-owned companies operated, but privatisation and private-initiative was encouraged too. This resulted in domestic enterprises, thus both private and state-owned, to operate alongside foreign companies and interact with them with a beneficial perspective. In turn maintaining connections with non-SEZ companies through which technological knowledge, industrial innovations and managerial skills were transferred. Overall leading to a spur in economic growth, not just within the SEZ, but as a spillover-effect into the rest of mainland China.

As such the government succeeded in experimenting with economic reforms and buoyant SEZs factors were implemented in the rest of the domestic economy, as such achieving a semi-free market mechanism, attracting foreign investment, boosting exports, and importing high technology products into China. Additional reforms were decentralised economic policymaking in several sectors, especially trade. Certain economic control was given to provincial and local governments, which were generally allowed to operate and compete on free market principles, rather than under the direction of state planning. This also resulted in more local and regional levels of governments calling SEZs into their parts.⁵⁶

The decision to allow FDI in four SEZs in southern China, quickly spread to 14 large cities

⁵⁴ See Lim, K. F. (2010) “On China’s Growing Geo-Economic Influence and the Evolution of Variegated Capitalism.” *Geoforum*. vol. 41, no. 5. pp. 677–88.

⁵⁵ Fei, D. (2017) “Worlding Developmentalism: China’s Economic Zones Within and Beyond Its Border: Worlding Developmentalism.” *Journal of International Development*. vol. 29, no. 6. p. 830

⁵⁶ Wei YD, Li W, Wang C. (2009). Restructuring Industrial Districts, Scaling Up Regional Development: A Study of the Wenzhou Model, China. *Economic Geography* 83(4): pp. 421–444.

and 256 districts.⁵⁷

This was however not done loosely. The communist authorities maintained specific criteria for not just its own companies, but also for foreign companies to comply with; e.g. maintaining a trade surplus, and the requirement of foreign investments in the SEZs as a source of both physical capital and technologies. The effectiveness of attracting and utilising foreign capital and technologies was specified as an integral component in evaluating the zones' overall performance and openness.

The flow of foreign investment in light industrial production gave many of the Chinese SEZs the edge over competitors on the international market.

What distinguishes the Chinese SEZ from many others is the accessible, inexpensive labour and facilities in the SEZ which may help in the production of labour-intensive, manufacturing items in a cost-effective manner and strengthen competitiveness in the marketplace. The Chinese authorities decided to ease regulations and make it more transparent, which in turn led to more foreign capital flowing into the country.

3.4.3 Performance Shenzhen SEZ

Ge evaluated the performance of the Chinese SEZs by focussing primarily on Shenzhen, as it was established first and developed most rapidly. "While the overall Chinese economy expanded at an impressive annual average rate of approximately 10% during 1980-1995, Shenzhen SEZ has grown at an astonishing 35.5 % in real terms."⁵⁸ The secondary sector has been the primary source for the phenomenal growth; industrial production, especially the labour-intensive, light industrial manufacturing proved to be fruitful. This may be used as an characteristic for the whole of China, initially having the secondary sector take over from the primary sector as a result of the SEZ instigated incentives. After which over a period of time of two decades, the tertiary sector starts to catch up. With ultimately leads to a general growth and economic powerhouse status for the whole of China.

⁵⁷ Richet, X., Delteil, V., & Dieuaide, P. (Eds.). (2014). *Strategies of multinational corporations and social regulations: European and Asian Perspectives*. Springer Science & Business Media, p. 63.

⁵⁸ Ge, W. (1999). "Special Economic Zones and the Opening of the Chinese Economy: Some Lessons for Economic Liberalization." *World Development*. Vol. 27, no. 7. Pp. 1272-1273. .

The rapid expansion in labour employment is closely associated with the upward trend of foreign investment in the SEZ.

Productivity gains have contributed a great deal to the exceptional economic growth in the SEZ, in addition to the expanded physical inputs of capital and labour. A crucial argument made in favour of having foreign enterprises operating side-by-side with the domestic counterparts is to speed up the dissemination of technologies. Research shows that technology spill-over does exist, and on balance, the domestic firms in the SEZ have indeed benefited from the co-existence with foreign firms and have consequently distributed advantages to non-SEZ domestic enterprises.⁵⁹

3.4.4 Evolvement SEZ and current challenges

When, why and how the SEZ evolves under, is influenced by, or adapts to diverse economic, political, sociocultural and spatial conditions on an international, regional, national and local scale.

Leong aims to construct a general model of the evolution of the SEZ, which has become adaptable and transferable within countries (intranational SEZs) and potentially so across countries (cross-national growth zones) with different economic and political systems and in different geographical regions.⁶⁰ The results indicate that export and FDI growth have positive and statistically significant effects on economic growth in these countries, which can be characterised with a minimum level of liberalised economic policies. The presence of SEZs increases regional growth but increasing the number of SEZs already in the country has negligible effect on growth. The key to faster economic growth appears to be a greater pace of liberalisation.⁶¹

As China needs to step up its game if it wishes to maintain same levels of economic growth.

Current president Xi Jinping was deputy mayor of Xiamen, a Southeast coastal city which jumped on the successful bandwagon of SEZ back in 1985.⁶² SEZs were an important factor in the economic growth over the past 30 years. However, after the 2008 Financial Crisis due to the

⁵⁹ Ge, W. (1999). "Special Economic Zones and the Opening of the Chinese Economy: Some Lessons for Economic Liberalization." *World Development*. Vol. 27, no. 7. Pp. 1277-1278.

⁶⁰ Leong, C. K. (2013). Special economic zones and growth in China and India: an empirical investigation. *International Economics and Economic Policy*, 10(4), pp. 549-555.

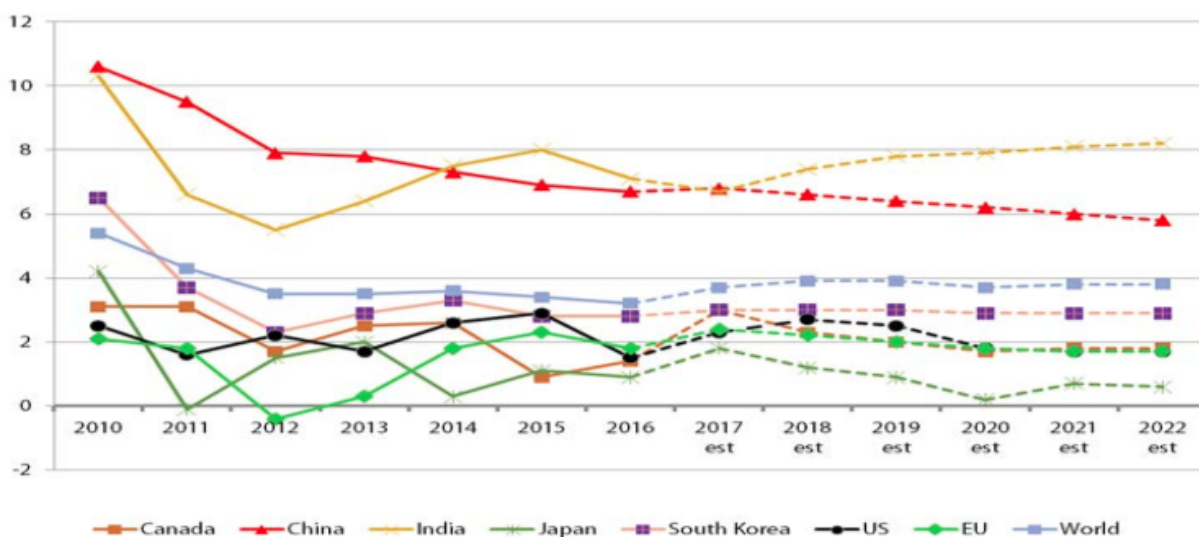
⁶¹ Leong, C. K. (2013). Special economic zones and growth in China and India: an empirical investigation. *International Economics and Economic Policy*, 10(4), pp. 560-567.

⁶² <https://www.economist.com/china/2018/12/08/forty-years-after-deng-opened-china-reformists-are-cowed>
Accessed 13 December 2018.

implosion of the American subprime mortgage market, the growth of the global economy stalled. This had a significant impact on the Chinese economy, which can be seen in a decline in real GDP growth to 6.8 per cent in 2008 and in early 2009 over 20 million migrant workers lost their jobs.⁶³ The Chinese government approved a stimulus package of USD 586 billion, directing funds mostly to infrastructure and loosening monetary policies to increase lending in the domestic financial sector.⁶⁴ Unlike the reduction in spending by European member states, China was able to effectively ride out the effects of the sharp global fall in demand for Chinese products. From 2008 to 2010, China's real GDP growth averaged 9.7%. However, the rate of GDP growth slowed for the next six consecutive years, declining from 10.6% in 2010 to 6.7% in 2016 (although it rose to 6.8% in 2017). Just this year it was announced that China injects another USD 84 billion to boost the economy and avoid cash squeeze for corporations, through banks.⁶⁵

Figure

Real GDP growth (annual percentage change), 2010- 2022 (est.) of China and selected economies⁶⁶



⁶³ Morrison, W. M. (5 February, 2018). China's economic rise: history, trends, challenges, and implications for the United States. Library of Congress, Congressional Research Service, p.5.

⁶⁴ See He, D., Zhang, Z., & Zhang, W. (2009). How large will be the effect of China's fiscal stimulus package on output and employment? *Pacific Economic Review*, 14(5), 730-744; Naughton, B. (2009). Understanding the Chinese stimulus package. *China Leadership Monitor*, 28(2), 1-12.

⁶⁵ China injects record \$84bn to boost economy and avoid cash squeeze <https://amp.ft.com/content/7136dfa8-1944-11e9-9e64-d150b3105d21> accessed 17 January 2019.

⁶⁶ IMF DataMapper (POLDEP as of October 2017) https://www.imf.org/external/datamapper/NGDP_RPCH@WEQ/OEMDC/ADVEC/WEOWORLD accessed 16 January 2019. ; World Economic Outlook Update, January 2018

China faces numerous challenges such as distortive economic policies that have resulted in overreliance on fixed investment and exports for economic growth (rather than on consumer demand or services), government support for state-owned enterprises [SOE], a weak and relatively non-transparent banking system, hidden domestic debt, widening income gaps, internal regional imbalances and urbanisation challenges, overcapacity (by heavy industries), growing pollution, rising labour costs, increasingly imbalanced demography, and the relative lack of the rule of law in China.

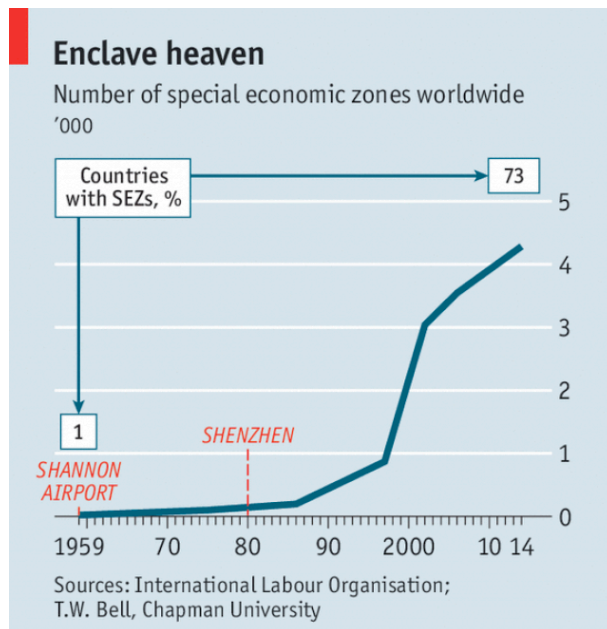
The Chinese government has acknowledged these problems and has pledged to address them by implementing policies to increase the role of the market in the economy, boost innovation, make consumer spending the driving force of the economy, expand social safety net coverage, encourage the development of less-polluting industries (such as services), become more energy efficient and diverge from fossil fuel to the use of renewable energy, and crack down on official government corruption.

China furthermore aims at creating a “new normal” with which it aspires to continue a healthy steady economic growth, with emphasis on ensuring stability and more equity amongst the division of wealth in Chinese society.⁶⁷

⁶⁷ Further elaborated on in the section on the BRI.

4. Past EU interaction with SEZs

4.1 Unsuccessful European SEZ interaction



Economist.com

Special Economic Zones have become a prevalent policy instrument for promoting export oriented economic growth. It has however been limited successful for Western policymakers, as they attempted to role such initiatives out in Africa. Often resulting in low levels of export-oriented production, capital-intensive investment, limited job opportunities, and increase inequality in society.⁶⁸

Between 1986 to 2014, the number of SEZs went from 176 to over 4000.⁶⁹

Source: The Economist (2015)⁷⁰

Literature does often relate to SEZ within the context of development aid, e.g. (specifically) Africa,⁷¹ it has not been researched how the EU has interacted with SEZs both within its continental boundaries as well as beyond, e.g. Chinese SEZs on a sic commercial basis.

Aforementioned aid is generally the reason for imposing stricter rules to what extent it may be used in the context of fiscal incentives to attract (foreign) investment.⁷²

⁶⁸ See Farole, T. (2011). *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experiences*. The World Bank; Nel, E.L., & Rogerson, C.M. (2013) Special Economic Zones in South Africa: Reflections from

International Debates. *Urban Forum*. 24 (2): 205–217.

⁶⁹ Farole, T. (2011). *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experiences*. The World Bank, p. 1; *The Economist* (2015). “Political priority, economic gamble.” April 4, 2015.

⁷⁰ <https://www.economist.com/finance-and-economics/2015/04/04/political-priority-economic-gamble> accessed 16 January 2019.

⁷¹ See Davies, R. B., & Mazhikeyev, A. (2015). *The impact of special economic zones on exporting behavior*(No. 15/28). Working Paper Series, UCD Centre for Economic Research.

⁷² Farole, T. (2011). *Special Economic Zones in Africa: Comparing Performance and Learning from Global Experiences*. The World Bank, p. 182.

4.2 Internal EU SEZ legislation

Within the EU itself, legislation was drafted by the European Commission in the 1980s in order to create a level playing-field between the countries which had so-called ‘free zones’. Examples of this are Commission Regulations (EEC) which lay down provisions for the implementation of *free zones* and *free warehouses*.⁷³ This regulation allowed an inhabitant of the community to start a free zone, adhere to certain rules and accept certain exceptions in the agricultural sector. At the time such zones existed in Denmark, West-Germany, Greece, Spain, Ireland, Italy, Portugal and the UK.

4.3 Case studies

To continue, two case studies will be highlighted.

4.3.1 Ireland

A certain degree of attention must be paid to the eldest SEZ in the world.⁷⁴ Back in the 1950s when Ireland suffered from a lack in economic growth and was yet to become a member of the EU, a proposal was drafted by the former director of Shannon Airport, Brendan O’Regan.⁷⁵ His realisation that in order to generate more commercial (passenger) traffic, special tax incentives were required covering a special manufacturing zone, would ultimately lead to economic revival through both employment as well as a driver for innovation.⁷⁶ Ultimately, it became the prime example of a industrial free trade zone (FTZ) or export processing zone (EPZ) within industrialised countries for non-industrialised countries.⁷⁷ It was regarded as a success by UNIDO and other international agencies which recommended other developing countries to mimic the Shannon success story.⁷⁸

⁷³ Commission Regulation (EEC) No 2562/90 of 30 July 1990 laying down provisions for the implementation of Council Regulation (EEC) No 2504/88 on *free zones* and *free warehouses*, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31990R2562&qid=1547744080300&from=EN> accessed on 16 January 2019

⁷⁴ Although this may be disputed, this paper continues on the premise that Shannon Free Zone was the first effective and up-and-running free zone. Patrick Neveling, a social scientist who has formerly been connected to Utrecht University in the Netherlands, argues that the first SEZ in modern times was actually established more than a decade earlier than Shannon’s, in Puerto Rico in 1947. See <http://www.focaaiblog.com/2014/07/17/capitalism-the-most-recent-seventy-two-years-by-patrick-neveling/> accessed 16 January 2019

⁷⁵ <https://www.theguardian.com/cities/2016/apr/19/story-of-cities-25-shannon-ireland-china-economic-boom> accessed 16 January 2019.

⁷⁶ Sklair, L. (1988) “Foreign Investment and Irish Development: A Study of the International Division of Labour in the Midwest Region of Ireland.” *Progress in Planning*. issue 29. pp. 147–216.

⁷⁷ Callanan, B. (2000). *Ireland's Shannon story: leaders, visions, and networks: a case study of local and regional development*. Dublin: Irish Academic Press.

⁷⁸ O’Malley, E. (1986). Free Trade Zones in Ireland and Four Asian Countries. *Trocaire Development Report 1986*,

A second Zone, Smithstown, was established in order for domestic suppliers to interact with the international firms at Shannon's Free Zone unhindered and most beneficially. Eventually it became the blueprint for economic growth for developing nations by institutions such as the World Bank.

Ireland was in a privileged position in the sense that it had a relative highly skilled labour force, native English-speaking population, relative good infrastructure, proximity to the European continent and guaranteed access to the UK market, and a managerial culture comparable to that of the US / EU. Additionally, free trade with European countries was introduced under the Anglo-Irish Free Trade Agreement of 1965 and by accession to EEC membership in 1973.⁷⁹

Over the years the Shannon SEZ attracted a large number of multinational companies. Currently there are over 100 international firms and 6,500 people employed at Shannon Free Zone in a diverse range of activities.⁸⁰ Since 2005 the Shannon SEZ has had the same 12.5 per cent corporate tax rate as the rest of Ireland. Now most enterprises in the zone are in services, not manufacturing. Incentives on offer to companies in the zone are on the whole no different to those offered in the rest of the Irish economy. EU state aid rules have also made it illegal in most cases to demarcate specific territories and afford them special laws or exemptions to taxes and regulations. Quite unlike the aforementioned regulations in the early 1990s, which streamlined regulations, but allowed them.

China lacked the unique characteristics of the Shannon Free Zone, which it made up for by maintaining low labour costs, tapping into its huge population, increasing employee/production efficiency and being able to provide more natural resources. Ireland - initially - had better market access, yet did not have the size of the Chinese hinterland transform to a more domestic consumption-driven growth.

However, similar to the transition the Shannon Free Zone made, China's SEZ have transformed over the years from cheap low-added value light industrial production, to firstly more service-oriented industries and secondly to high-added value heavy (efficient) industrial production. With the latter utilising many modern innovations and sourcing from cleaner energy sources.

pp. 24-26.

⁷⁹ O'Malley, E. (1986). Free Trade Zones in Ireland and Four Asian Countries. *Trocaire Development Report 1986*, p. 25.

⁸⁰ <https://www.shannonchamber.ie/about/about-shannon/shannon-for-business/shannon-free-zone/> accessed on 16 January 2019.

4.3.2 Kaliningrad

Kaliningrad is taken as an example as it is an Russian exclave, surrounded by EU Member States, As such it is heavily dependent on EU-Russian relations and of economic stability/growth in both blocs.⁸¹

Prior to the collapse of the Soviet Union, plans were drafted to create a free entrepreneurial zone in Kaliningrad Oblast. On July 14th, 1990, the Supreme Soviet of the Russian Soviet Socialist Federal Republic declared the Kaliningrad Region as a zone of free entrepreneurship.⁸² Due the the dissolution of the Soviet Union and the creation of various independent states, the region of Kaliningrad became separate from the Russian territory. With a distance of 370 km to Russia, economic growth and stability came under pressure; industrial output and trade immediately declined shortly after.⁸³

A mechanism which ensured compensation measures based on customs preferences, was made into law.⁸⁴ Aim of the law was to standardise legal matters regulating economic activities and bring about favourable conditions for social-economic development as a result of the ties between the Russian Federation and the Kaliningrad Region.

Exclavity is in principle an institutional phenomenon.⁸⁵ It is a path-dependent and artificially constructed economic reality that, if taken for granted, creates its own specific economic conditions, incentives and benefits.⁸⁶ Such conditions for the Kaliningrad exclave can be regarded in terms of a trade-off between EU proximity and separation from Russia (keeping in mind the advantages and disadvantages associated with both factors).⁸⁷ As such we can already note a major difference with the typical Chinese SEZ.

In 1996 a Russian Federal Law was enacted specifying its design and the SEZ regime has been

⁸¹ Liuhto, K. (2005). The economic impact of the EU enlargement and forthcoming change in legislation of the special economic zone upon the Kaliningrad region. *Russian-European Centre for Economic Policy (RECEP), Moscow*, 15-16.

⁸² The order of the Council of Ministers of the Russian Soviet Socialist Federal Republic as of September 25th 1991 No. 497 approved the “Regulation on Free Economic Zone in the Kaliningrad Region (FEZ Yantar)”.

⁸³ Liuhto, K. (2005). Kaliningrad after the EU Enlargement but before the legislative change concerning its special economic zone. *Kaliningrad, 2020*, p. 75.

⁸⁴ Regulation on the FEZ Yantar, later on – in the federal law “*On Special Economic Zone in the Kaliningrad Region*” No. 13-FZ as of 22.01.1996.

⁸⁵ and exclaves / enclaves.

⁸⁶ Amin, A. (1999). “An Institutionalist Perspective on Regional Economic Development”, *International Journal of Urban and Regional Research* 23(2), pp. 365–378.

⁸⁷ Gareev, T. (2013) “The Special Economic Zone in the Kaliningrad Region: Development Tool or Institutional Trap?” *Baltic Journal of Economics*. vol. 13, no. 2. p. 114.

extended and reformed by a law enacted in April 2006 (Special Economic Zone for Kaliningrad). It has however terminated in 2016, resulting in higher prices for goods and unemployment rising due to companies going bankrupt.⁸⁸ A shorter time-frame with a less high GDP growth rate can be deduced compared to Chinese SEZs.

It was envisaged customs duties and other customs fees were not due for any commodities in the SEZ. Besides customs preferences and low labour costs, simplification of procedures for the shipment of commodities to the Russian market functioned as driver for the development of import-saving productions.⁸⁹ This only seems partly applicable to China, with its initial reliance on foreign markets for its export.

Another important factor of economic growth was a favourable situation of the region regarding the main importing districts of the Russian Federation, well-built logistic system and convenient transport infrastructure with the raw materials and semi-finished products supplied abroad.⁹⁰

As a result of modern technologies, based upon foreign cooperation and investments, goods produced in Kaliningrad had advantages compared to many Russian and foreign goods in terms of price and quality.⁹¹

Although the SEZ Kaliningrad was expanded around 2012, it came under heavy scrutiny as its customs regime largely favours exports and the only manufacturing industries with a comparative advantage in the region are woodworking and food processing. SEZ Kaliningrad may also be adversely affected by the expansion of the EU, the accession of Russia to the WTO, and the creation of a Common European Economic Space.⁹²

Ultimately, the SEZ's evolution made the exclave's economy weak despite complacent nominal economic growth indicators. Additionally, certain intra-regional value-chains were excessively stimulated at the expense of long-term sustainability of the region.⁹³

⁸⁸ <https://www.worldfinance.com/markets/separate-from-the-rest> accessed 16 January 2019.

⁸⁹ Liuhto, K. (2005) Kaliningrad 2020: Its future competitiveness and role in the Baltic Sea economic region. *Pan-European Institute*, p. 78

⁹⁰ Liuhto, K. (2005) Kaliningrad 2020: Its future competitiveness and role in the Baltic Sea economic region. *Pan-European Institute*, p. 79

⁹¹ Liuhto, K. (2005) Kaliningrad 2020: Its future competitiveness and role in the Baltic Sea economic region. *Pan-European Institute*, p. 85.

⁹² Curtis, T., Hill, S., & Lin, C. C. (2006). Special Economic Zones (SEZs): Chinese, Russian, and Latin American Cases and the Use of SEZs as an Economic Development Tool. *International Economic Development Program, Ford School of Public Policy, University of Michigan U.S.* p. 13

⁹³ Gareev, T. (2013) "The Special Economic Zone in the Kaliningrad Region: Development Tool or Institutional Trap?" *Baltic Journal of Economics*. vol. 13, no. 2. p. 127.

Kaliningrad stands out in that FDI did not seem to rise after its initial success as an export zone.

Compared to Russia, the region accounts for not more than 0.2 per cent of the foreign investment stock of the Russian Federation in 2005. This indicator shows that Kaliningrad has not used its full potential with its geographical proximity to the EU or the SEZ to attract foreign investments.⁹⁴

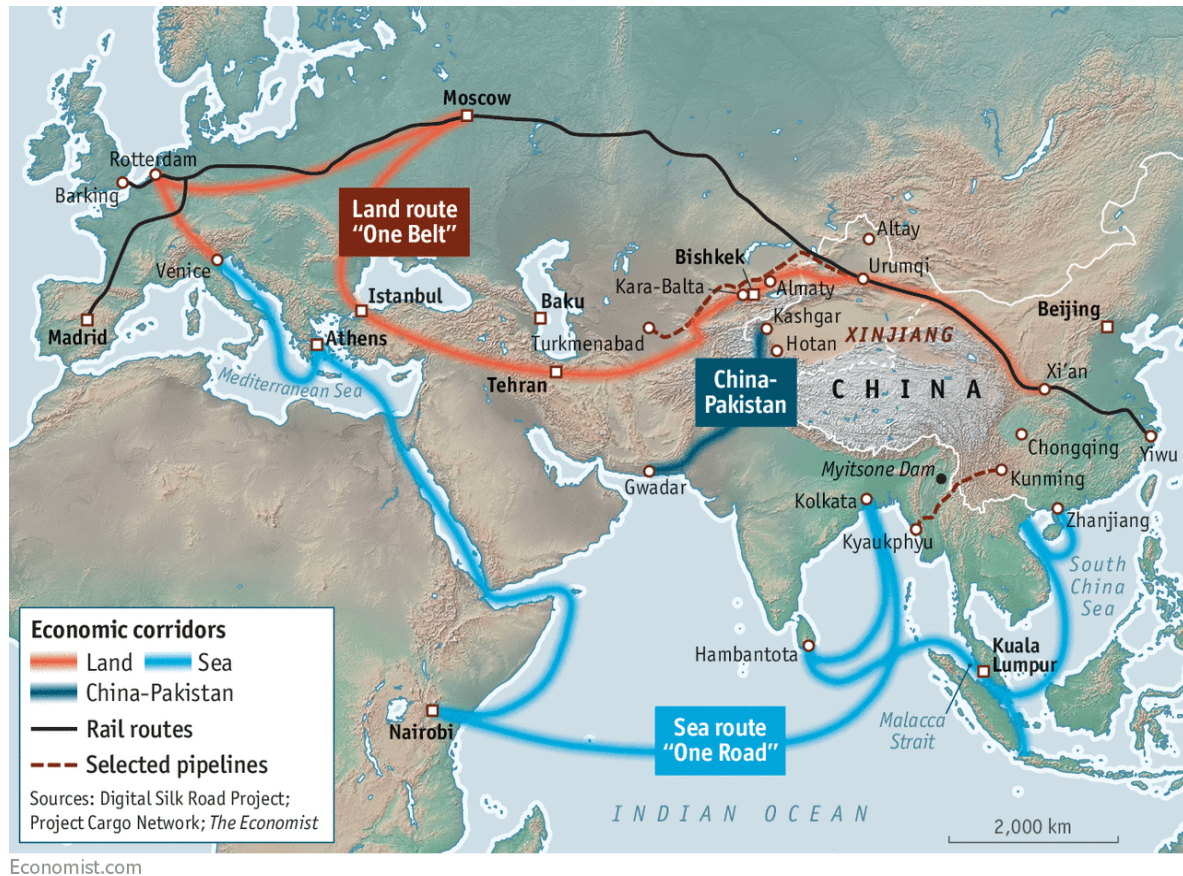
Thus, China's SEZs differ with Kaliningrad with regard to geography, political situation, geopolitical dependency, economic success (i.e. FDI) and discrepancy in labour force.

5. Belt and Road Initiative

5.1. Announcement

In his 1893 adventure novel "Claudius Bombarnac," Jules Verne imagined a "Grand Transasiatic Railway" running from the Caspian Sea to Beijing. Back then, the mere thought of a rail link across Eurasia was almost as ridiculous as launching men to the moon with a cannon.

⁹⁴ Liuhto, K. (2005). Kaliningrad after the EU Enlargement but before the legislative change concerning its special economic zone. *Kaliningrad, 2020*. P. 94.



At the Nazarbayev University in Kazakhstan President Xi Jinping revealed that on land, the ‘Silk Road Economic Belt’ would mainly target Central Asia and Europe, while the Maritime Silk Road would mainly target Southeast, South and North Asia.

5.2 Structure

The belt-shaped economic areas are formed with economic and trade integration. Certain corridors can be identified. The China-Myanmar-India-Bangladesh Economic Corridor, China-Pakistan Economic Corridor, Central Asia natural gas pipeline, China-Myanmar Petroleum pipeline, etc., and several railways, air routes, road network, water transport, telecommunication lines, etc. as development axle, centering on the economically developed cities along the axle, represented by Beijing, Shanghai, Guangzhou, Fuzhou, Yangzhou, Xi’an, Urumqi in China and several big cities in the Asian, African and European regions.⁹⁵

The infrastructure level of the countries along “One Belt and One Road” is at the middle

⁹⁵ Xiao L. (2016) *New Patterns of Global Governance and China’s Strategy of Free Trade Zone*. In: National Test. Springer, Singapore, p. 353

and lower level in the world. With reference to the infrastructure indicator in the logistics performance index issued by the World Bank, in 2013, the average infrastructure index of the countries along One Belt and One Road was 2.7 points, With the global average in that year hovering at 2.91 points.⁹⁶

The United Nations has acknowledged the importance of the outroll of China's initiative as the Security Council recognised the BRI, and CPEC in particular, in a resolution issued on March 17, 2017.⁹⁷

Reviewing the official BRI document published in 2015 shows to be more of an outline rather than referring to any concrete methodology to achieve the aims. The document does not offer any time frame or deadline, and more importantly, does not suggest any business model to make the initiative work.⁹⁸ However, China has taken remarkable steps to show it is serious on the BRI. During the 19th Party Congress in President Xi Jinping stated that socialism with Chinese characteristics had entered a new era. He stated that China would work to become a “moderately prosperous society in all respects” by 2050.

Major goals include boosting living standards for poor and rural people, addressing income disparities (e.g., rich-poor and urban-rural), making private consumption the driver of the economy, boosting services, reducing pollution, promoting innovation and economic modernization, and improving overall living standards.⁹⁹ As a result the Chinese constitution was amended to include the BRI.¹⁰⁰

In terms of financial resources, the Chinese have proven to be very serious. Already USD 150 billion is being invested each year to enhance economic integration.¹⁰¹

Endorsing the view by some scholars that with the BRI implementation, (geo-)political and economic factors are interwoven, some argue that the BRI represents China's “Marshall Plan” or

⁹⁶ Xiao L. (2016) *New Patterns of Global Governance and China's Strategy of Free Trade Zone*. In: National Test. Springer, Singapore, p. 356

⁹⁷ United Nations Security Council Resolution, 17 March, 2017, S/RES/2344 2017: para. 34.

⁹⁸ Yu, J. (2018) *The Belt and Road Initiative: Domestic Interests, Bureaucratic Politics and the EU-China Relations*. *Asia Europe Journal*. Vol. 16, no. 3 (223–236), p. 235.

⁹⁹ China's goals are to achieve average annual GDP growth of 4.8% from 2020 to 2035 and 3.4% from 2030 to 2050. It seeks to achieve per capita GDP of \$20,000 by 2025 (making China a high income country), \$45,000 by 2035 (35% of U.S. levels), and \$120,000 by 2050 (half of U.S. levels).

¹⁰⁰ <https://www.forbes.com/sites/wadeshepard/2017/10/25/why-china-just-added-the-belt-and-road-initiative-to-its-constitution/#641e7d6442ab> accessed 17 January 2019.

¹⁰¹ Saarela, A. (19 July, 2018) “A new era in EU-China relations: more wide-ranging strategic cooperation?” Policy Department for External Relations. Directorate Generale for External Policies of the Union. European Parliament, p. 42.

[http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU\(2018\)570493](http://www.europarl.europa.eu/thinktank/en/document.html?reference=EXPO_STU(2018)570493) accessed 17 January 2019

a new “gloeonomic strategy.”¹⁰² Although the former nomenclature presents a clear notion of the concept, it lacks to encompass both (financial) scale, geographic spread and cultural diversity.

6. SEZ within BRI framework

6.1 SEZ as *Wündermittel*

As part of the BRI the Chinese government has set out to construct SEZs initially in cross border locations. In 2007 it was already clear that the Central Asian steppe was becoming more relevant for China. The trade volume between Central Asia and China tripled since 2002. Government development policy in China’s western regions has induced trade growth between Xinjiang and Central Asia. The reason for this is that Chinese authorities at the time strived to develop Xinjiang using the economical *wündermittel*, adopted for coastal provinces, of granting significant tax break for investors and concentrating these economical incentives in SEZs. Study shows that in 2007 the government allowed for corporations, which invest in Xinjiang, are exempted of tax on profits for two years following their establishment. Ultimately, tax rates in the West of China are weaker than in the rest of the country. A tax break of three per cent on profits is granted to foreign companies operating in Xinjiang for at least ten years. A ten per cent tax cut is granted to any company, which exports more than 70 per cent of its production.

Moreover, Beijing allowed duty-free imports by air from Central Asia to Xinjiang.¹⁰³ Trade flows mainly consist of three blocks: economic activities of the Xinjiang Production and Construction Corps, commerce conducted by traders of the coastal province of Zhejiang, based in Xinjiang, and petty trade notably between Kazakhstan and Xinjiang.¹⁰⁴

However, lately more SEZs can be seen to develop further from China, along the Asian trail of the Silk Route well into the African sphere of the Road. As it stands (per 2017), USD 18 billion has already been invested in approximately 56 special “economic and trade cooperation zones” connected to these corridors.¹⁰⁵

¹⁰² Mayer, M. (2018). *Rethinking the Silk Road*. Palgrave Macmillan. pp. 6-7; Yu, H. (2017). “Motivation behind China’s ‘One Belt, One Road’ Initiatives and Establishment of the Asian Infrastructure Investment Bank.” *Journal of Contemporary China*. Vol. 26, no. 105, p. 358.

¹⁰³ Raballand, G., & Andrésy, A. (2007). Why should trade between Central Asia and China continue to expand?. *Asia Europe Journal*, 5(2), 235-252. P. 247

¹⁰⁴ Raballand, G., & Andrésy, A. (2007). Why should trade between Central Asia and China continue to expand?. *Asia Europe Journal*, 5(2), 235-252. P. 235

¹⁰⁵ http://www.chinadaily.com.cn/business/2017-03/03/content_28416864.htm accessed 16 January 2019

6.2 First SEZ within the BRI

The first of its kind was a cross border economic zone in Khorgos. This city is located near the border with Kazakhstan, which benefits from a significant role in the BRI, as a strategic transit country crossed by most of the land corridors projected to reach Europe. The Khorgos Gateway connects Kazakhstan to China by rail.

Khorgos will soon enter the record books as home to the world's biggest dry port. Perhaps appropriately, yet ironically, Khorgos occupies one of the furthest points on Earth from any ocean. Momentarily, the China-Kazakhstan Khorgos International Border Cooperation Center functions as one of the best-operating SEZs in the BRI. However, its potential remains not fully utilised. The nearby Altynkol train station received 40,000 containers in the first 10 months of 2017, double 2016's traffic. The ultimate goal is for trains to be able to travel unhindered the 3,000 km across Kazakhstan from China via Khorgos, all the way to the Caspian Sea and into Russia.¹⁰⁶



Figure

The gateway project involves the dry port on the Kazakhstan side and exchange railway stations on either side of the border. Image by South China Morning Post.¹⁰⁷

More than 400 companies have established bases there since 2014, and total trade volume has risen to about USD 8.7 billion. Between March 2011, when the first line opened, and the end of June last year, over 9,000 trips delivered nearly 800,000 containers of goods, connecting 48

¹⁰⁶ <https://www.channelnewsasia.com/news/asia/next-to-china-kazakhstan-walks-a-shaky-path-9832560>, accessed 16 Januari 2019

¹⁰⁷ <https://multimedia.scmp.com/news/china/article/One-Belt-One-Road/khorgos.html>, accessed 16 January 2019

Chinese cities with 42 cities in 14 European countries. The cost of rail freight is only 20 per cent of the cost of moving cargo by air, and three times quicker than shipping by sea.¹⁰⁸

All in all, China has reportedly invested over USD 42 billion in Kazakhstan.¹⁰⁹

However, criticism exist on the way Khorgos and its Chinese dominated-SEZ conduct business. In 2016 protests broke out against a proposed regulation later withdrawn under public pressure that would make agricultural land available to foreign companies on long-term lease. Much of the financing of these projects derives from China. Either via the China Development Bank or the China Export-Import Bank. However, these lendings often come with conditions favouring Chinese companies, products and labour. And often enough deflecting priority to environmental and good-business conduct standards. Thus limiting the added value for local businesses and communities. This complicates Astana's efforts to support the development of its own enterprises and business environment along the "New Silk Road."

7. Observations regarding Europe and SEZ in the Belt and Road Framework

This chapter will set out certain observations regarding the EU and the SEZ as a factor in geopolitical relations with China as part of the BRI.

Firstly, the reasons behind the BRI, relate to concerns about the overcapacity in the Chinese economy. Secondly, China needs access to new markets. Thirdly, China is restructuring its economy and needs to transition from a export-led economy to one of domestic consumption. Fourth, China must overcome the geographic imbalance between its coastal areas and inland regions.

Another important aspect to take into consideration is how the pooling of SEZs may prove to be beneficial for China. As argued, regionalism uses globalisation as a driver. Based on increased SEZs around the Belt, scattered around a large geographic location, China may form a network of SEZs and stimulate the signing of free trade agreements between China and those SEZs, and ultimately with those countries.¹¹⁰ The advantages on the outset may seem substantial. However, these ties may be used as leverage, even if it is at the SEZ level. Regionalist hegemons

¹⁰⁸ http://www.xinhuanet.com/english/2018-08/23/c_137412638.htm accessed 16 January 2019

¹⁰⁹ Murugesan, S. (2018). New perspectives on China's foreign and trade policy. *Asian Journal of German and European Studies*, 3(1), 12

¹¹⁰ Hu Weijia, "Combining FTA Strategy with Belt and Road Initiative Will Boost China's Trade Situation", *Global Times*, 6 January 2016, www.globaltimes.cn/content/962249.shtml

thrive through such a construct, which is why the EU must review and address the implementation and dissemination of SEZs along the BRI more closely.

China's increased political influence has already caused many (liberal) countries to raise political questions (e.g., South China Sea disputes), social questions (e.g., criticism about human rights), and economic questions (e.g., steel dumping investigations, debt-trap potential).¹¹¹

As the Chinese government has construed it as a multilateralist project, it will enhance its sway in the region through soft power. Granting access to China's massive market and capital investment is a "favour" that the host country will need to return sooner or later.¹¹² The BRI is a regional project on the Eurasian continent, but will have impact worldwide. Although China may not intend to threaten the global order, it will certainly cause for shifts herein.

If the Maritime Silk Route gains traction, other trade routes across the oceans will become less important.

All in all, as Thomas Lairson formulates it: "China will challenge the global position of the USA and the traditional Western view of world trade "but it is not likely to undermine global stability."¹¹³

However, as China pushes westwards into (Central) Asia it will be able to gain more access and more or less unopposed to inner Asia's vast natural sources and at the same time lock into its own orbit the world's greatest energy zones around the Caspian Sea and the Persian Gulf. By rolling out the SEZ along the Silk Road, China will become the main market for these countries' exports, thus becoming their major trading partner which in case may result in overleveraged dependency. The BRI also illuminates the goals of a country prepared to encourage global integration through its SEZs on an unprecedented scale, involving over 60 countries. In so doing China will also be creating the conditions for the regionalism of Asia as one giant entity. Smaller regions will remain, yet China may ultimately be decisively relevant for the whole region. This, were it to emerge, will dwarf the European Union in scale, size and economic potential.¹¹⁴

Another potential threat to European engagement with SEZs in the Belt and Road context

¹¹¹ Zhang, W., Alon, I., & Lattemann, C. (Eds.). (2018). *China's belt and road initiative : Changing the rules of globalization* (Palgrave studies of internationalization in emerging markets). Cham: Palgrave Macmillan, pp. 329-331

¹¹² Lin, J. (2018) Chapter 10: Small State, Smart Influence: China's Belt and Road Extended to New Zealand in *China's belt and road initiative : Changing the rules of globalization* (ed. Zhang et al). Cham: Palgrave Macmillan, pp. 179-192.

Zhang, W., Alon, I., & Lattemann, C. (Eds.). (2018). *China's belt and road initiative : Changing the rules of globalization* (Palgrave studies of internationalization in emerging markets). Cham: Palgrave Macmillan, pp. 329-331

¹¹³ Zhang, W., Alon, I., & Lattemann, C. (Eds.). (2018). *China's belt and road initiative : Changing the rules of globalization* (Palgrave studies of internationalization in emerging markets). Cham: Palgrave Macmillan, p. 331.

¹¹⁴ Ehteshami, A. (Ed.), Horesh, N. (Ed.). (2018). *China's Presence in the Middle East*. London: Routledge, p. 198.

is the possibility of SEZs serving as testing grounds for linking investment opportunities and social credit ratings.¹¹⁵

Taking Belarus as an example: Policy briefs have been written and high expectations are placed upon the inflow of FDI and transforming the Belarusian economy.¹¹⁶

With these preferential treatments in place, the industrial park is expected to see the number of participating companies rise to 70 by 2020, and total investment exceed 2 billion U.S. dollars by the same year.¹¹⁷ What stands out from research into these lesser-known SEZs is that it shifts authorities' focus to enable the development of more market oriented economies, in general and the Great Stone Industrial Park in particular.¹¹⁸ Nonetheless, concerns may be raised on the lack of progress on social and cultural indicators, the dependency on sectoral development and the limited level reached on integrating Belarus' SEZ with its further domestic economy.

On Europe's part, concerns over the establishment of 'special economic zones' that provide Chinese enterprises with special treatment in Europe have been voiced.

Some criticize that Chinese firms do not respect measures for environmental protection, lack respect for the rights and benefits of local workers and are even reluctant to hire locals. Others argue that the subsidies provided by the Chinese government to the SOEs would put European enterprises at a disadvantage because of unfair competition.

The EU also has concerns about China's policy vis-à-vis maritime issues as well as doubts as to whether international norms and standards could be respected by the AIIB and other new China-led institutions.¹¹⁹

¹¹⁵ Meissner, M. (2017) China's Social Credit System. A big-data enabled approach to market regulation with broad implications for doing business in China. Mercator Institute for China Studies.

¹¹⁶ Zhou, T., & Zhou, Y. (September, 2018) A proactive and steady approach for the building of the China-Belarus Industrial Park. *China Centre for International Knowledge on Development*;
Kolkin, D. (November, 2018) Belarus: Comparative Research on Industrial Parks and Special Economic Zones. *European Bank for Reconstruction and Development*.

¹¹⁷ http://www.xinhuanet.com/english/2018-08/13/c_137386724.htm accessed 17 January 2019

¹¹⁸ <https://www.ebrd.com/news/2018/belarus-industrial-park-can-help-boost-gdp-ebd-supported-reports-find-.html> accessed 17 January 2019.

¹¹⁹ Minghao, Z. (2016) The Belt and Road Initiative and Its Implications for China-Europe Relations. *The International Spectator* vol. 51, no. 4. pp. 109–118.

Conclusion

In the past the EU has spent too little attention towards SEZs and it contends that even taking more recent strategy papers into account the EU still has not been aware enough of the challenges which SEZs in the BRI framework pose to its relationship with China. More so, it addresses this issue as one of the more important challenges for EU's role in the world to be tackled in order for it, not to remain the last bloc to abide by the rules. In essence it needs to assess whether a stable alliance with China is possible with more regard for the role that SEZs play in the roll-out of the BRI.

The role China plays in the international order will increase, is the hypothesis of this paper, due to its expanding position as a regional hegemon which is enabled by the growth potential of the BRI and specifically by using SEZs as an export product, which in turn allows for domestic economic growth to continue. This was argued first on a theoretical footing. Regionalism is the most appropriate concept in which the features of SEZs, the Belt and Road and economic growth / clout are encompassed. The research further shows that little is done by the EU in engaging with SEZs. Additionally, the roll-out of SEZs which the EU initiated (take Africa as an example) had very little success. In the past its own experiences have been limited, with Ireland and Kaliningrad the rare exceptions, but these case studies showed varied outcomes and differentiated from Chinese SEZs. On the other hand, the examples of SEZs in China itself and as part of the BRI in Kazakhstan and also in Belarus, show that SEZs can be driver of economic growth and may result in being of decisive influence in whether the BRI manages to ensure growth for not just China but also for its counterparties. Hence, the EU needs to review this more carefully. The current strategy is not adequate enough. Further research and policy outlining needs to be done to create a better-suited strategy by the EU towards SEZs within the BRI. As the opening-up and roll-out of Special Economic Zones within the Belt and Road Initiative plays a major role in the potential of an alliance between the EU and China to re-instigate the rule-based international order.

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