

Comparative Analysis of Shandong Free Trade Zone and Liaoning Free Trade Zone

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Abstract. Free trade zone is a trade-oriented reform based on its functions and positioning by regional characteristics. To build free trade zones, China began to promote the reform of free trade zones, and since then various free trade zones have been established in succession. This paper is based on the effectiveness of the Liaoning Provincial Free Trade Zone and Shandong Provincial Free Trade Zone, from the three aspects of the Regional Comprehensive Economic Partnership's national trade initiatives, cross-border funds facilitation of financial policies, and the East and West Avenue Golden Hub. According to analyzing and comparing the policy initiatives and the case effectiveness of the free trade zones in the two provinces which have similar target positioning and concerning the problems in the above three aspects, it is important to give three suggestions as follows. First, put forward a proposal to solve the problem of foreign investment enterprise. Second, expanding the trade scope of the Belt and Road. Third, opening up cross-border funds. And last, there are also some corresponding prospects about the above three problems.

Keywords: Free trade zone; cross border funds; international shipping center; regional comprehensive economic partnership.

1. Introduction

The construction of Pilot Free Trade Zones (PFTZs) is an essential strategic initiative taken by the Communist Party of China (CPC) Central Committee, with Comrade Xi Jinping at its core to promote reform and opening up in the new era. There are 21 PFTZs across the country at present, basically forming a new pattern of full coverage. With institutional innovation as the core, these PFTZs combine their functional positioning with features to rejuvenate the modernization of Chinese Characteristics. Among them, Liaoning PFTZ and Shandong PFTZ are similar in their positioning and development direction. More specifically, Shenyang, Dalian, and Yingkou, which are the three experimental zones in Liaoning, share alike objectives with the three experimental zones of Jinan, Qingdao, and Yantai in Shandong. The development goals of these experimental zones comprise three characterized aspects: cross-border financial centers, the East-West Golden Hubs, and the RCEP, which comprehensively cover the policies related to the PFTZs. These consistencies can be attributed to analyzing the merits and demerits of the PFTZs policies comparatively. Therefore, Liaoning PFTZ and Shandong PFTZ are utilized for research.

Up to this point, the contrastive study of PFTZs is insufficient, only limited to studies that highlighted Shanghai Free Trade Zones (FTZ). For instance, Wanzhen Li and Liyuan Zhou compared Liaoning FTZ and Zhengzhou Bonded Area with Shanghai FTZ [1]. As for the inclusive study of multiple PFTZs, Xiaoshen Cai and Shujun Wang particularly evaluated the governmental patterns of 11 FTZ [2]. Nevertheless, previous studies have relatively little concern about discrepancies analysis of PFTZs in other regions. Furthermore, Guanglan Zhou's study indicates that it is challenging for a single variable or few variables to promote the green development and economic growth of PFTZs, hence an in-depth analysis of the PFTZs in two provinces is notably crucial [3].

By evaluating the effects of policies in a total of six FTZs in Shandong and Liaoning provinces, this paper suggests three main findings. First, the Shenyang Zone lacks a targeted selection of enterprises with small cross-border RMB trade settlement volumes, while the Jinan Zone lacks

policies related to foreign investment services. Second, in terms of trade between Japan and South Korea, the Yingkou Zone pays more attention to exchanges and interaction, while the Yantai Zone focuses more on the implementation of industrial parks. Yantai Zone puts scant emphasis on cross-border e-commerce, and its cross-border approval process still needs to be simplified. Thirdly, the construction of the Northeast Asia shipping center in Dalian Zonen is defective as yet compared with Qingdao Zone, which is short of comprehensive platform services in various aspects. Simultaneously, the Dalian Zone still requires industrial construction of ports, such as maritime law and arbitration.

This paper mainly leads to three contributions. First, it proposes choices and strategies for the development of China's FTZs under different institutional environments. Second, this paper hope to supplement the absence of a comparative analysis of FTZs in two provinces. Third, through the comparison of policies in zones with analogous development targets, this paper is looking forward to helping in the high-quality advancement and proffering advice to the formulation and optimization of relevant policies in China.

2. The Comparative Analysis of PFTZs in the Two Provinces

2.1. RCEP Economy and Trade Cooperation Deepen the Japan-South Korea Industry Chain Docking

RCEP (Regional Comprehensive Economic Partnership Agreement), which includes China, Japan, and South Korea for the first time in the same free trade area, is expected to play a more significant role in the future global economy and trade setup than it does now [4]. Against this background, the two provinces have taken initiatives as shown in Table 1.

Table 1 illustrates that in terms of policy, Yantai Zone strives for practical support; Yingkou Zone focuses on optimizing the business environment, simplifying administrative approval procedures, and improving efficiency. As for cooperation mechanisms, the Yantai Zone establishes industrial parks with Japan and South Korea by organizing economy and trade fairs. When it comes to industry docking, Yantai Zone aims at the advancement of high-end equipment manufacturing, emerging materials, biomedicine, and other industries collaborating with Japan and South Korea whilst extending and perking up the industrial chain. Contrarily, Yingkou Zone devotes itself to the energy and chemical industry, logistics, cross-border e-commerce, and other industry docking to strengthen the competitiveness of the regional economy.

In the trade between China and South Korea, China's trade creation has a greater effect on South Korea's technology-intensive industry products, while has a smaller effect on South Korea's labor-intensive products [5]. For China's FTZ, however, it is more favorable for capital-intensive enterprises than labor-intensive enterprises in capital investment [6]. That is to say, it appears that the government policy objectives of the two zones are the same: Yingkou Zone anticipates attracting capital-intensive industries by inviting South Korea's top 100 firms, while Yantai Zone plows money into capital-intensive firms through the measures of reaching capital-intensive cooperation projects and setting up Japan-South Korea industrial parks. Through the investment and stationing of capital-intensive enterprises, not only will the industrial structure of Yantai and Yingkou Zones be optimized, bringing a large number of employment opportunities and new technologies to the two zones, but in the long run, the FTZ equipped with wider coverage of policies will also bring more outputs and benefits to the boost of the local economy and foreign trade [7]. At the same time, local and neighboring domestic firms will face industrial competition and impact from foreign capital firms.

Table 1. Comparison of policies and cases in Yantai zone and Yingkou zone

	Policies	Cases
Shandong Province	<p>Shandong Province encourages cooperation with Japanese and Korean companies by offering tax and financial incentives.</p> <p>Shandong Province actively builds cooperation mechanisms and platforms with local governments and enterprises in Japan and South Korea to promote all-round collaboration between the two countries in integrated circuits, gene technology, smart home appliances, marine equipment and other aspects.</p>	<p>Yantai Zone propelled the efficient flow of resources in the inter-region that aims at the RCEP "cumulative rules of origin" and "back-to-back" certificate of origin.</p> <p>Yantai Doosan Infracore has made it easier to import components from Japan and South Korea while obtaining more tax incentives.</p> <p>Yantai Zone has attracted foreign-invested enterprises to settle in through the construction of the China-Japan and China-South Korea Industrial Park. Up to June 2023, the South Korean capital in place in the industrial park has reached US\$81.39 million, accounting for 42% of the city; Japanese capital in place has reached US\$1.4 billion, an increase of 12.9%.</p>
Liaoning Province	<p>Liaoning Province provides policy support and preferential measures to encourage modern logistics, new energy vehicles, new materials and other industries to cluster in their PFTZs.</p> <p>Liaoning Province in-depth docked the negotiation process between RCEP and the China-Japan-South Korea FTZ while building the Yingkou Local Cooperation Demonstration Zone under the "RCEP+" FTA to enhance the level of economy and trade cooperation with Northeast Asia</p>	<p>Yingkou Zone keeps a close eye on the leading enterprises in South Korea, giving prominence to automobiles, information electronics, and fine chemicals while carrying out directional investment in the industrial chain. Recently, Yingkou Zone has promoted key projects such as Kia Motors, SeAH R&D Center, and Nongshim Aviation Catering to optimize the business environment and high-quality development of projects.</p> <p>By simplifying the application process and implementing credit grade and classification management, Yingkou Zone has realized "39 certificates in 1" and "one code for all", which improved the processing efficiency.</p>

2.2. Financial Policy Centered on the Free and Convenient Flow of Cross-border Funds

As the highest level of openness in the world, free trade ports are characterized by the free and convenient flow of cross-border funds. The construction of free trade ports is a core national strategy to expand opening-up in the new era of China. Free trade ports are striving to become the intersection of domestic and international dual circulation [8], and the comparison of the two areas is shown in Table 2.

Table 2. Comparison of policies and cases in Jinan zone and Shengyang zone

	Policies	Cases
Shandong Province	<p>Jinan Zone supports innovation in facilitating offshore trade settlement and requires commercial banks to ameliorate the business review process, in the meanwhile decides independently the types of documents to be audited for the transaction, and provides cross-border financial services convenience.</p> <p>Speaking of RMB cross-border payments, Jinan Zone is launching pilot projects in the application of facilitation measures and upgrading RMB cross-border payments in key regions, while instructing the implementation of publicity and counseling work by the People's Bank of China branches and major settlement banks where enterprises are located.</p>	<p>Jinan Zone innovatively launched the "Digital Safe" smart government service, which has shortened the time for starting a business by 85%, reduced the number of materials submitted by more than 60%, and provided digital government services to 21,000 start-ups and 44,000 people.</p> <p>Jinan government simplified the qualification review of government procurement project firms. Suppliers can apply independently and commit to moving in through the online Qilu Yuncai Mall. More than 11,000 suppliers have already checked in through the platform.</p>
	<p>The foreign exchange management department of Shengyang provides high-level financial support and cross-border capital receipts and payments facilitating services for enterprises, guides banks to set up management systems so that enterprises can strengthen the due diligence beforehand, improve the business review during the process and further enhance the auditing afterward.</p> <p>In terms of RMB cross-border payments, Shengyang Zone resells the debt of cross-border RMB trade loans issued in China to overseas banks through the linkage between domestic financial institutions and overseas branches, which enables overseas banks to review cross-border credit of domestic enterprises. In this way, domestic enterprises can indirectly obtain overseas RMB loan support, thus significantly reducing the financing cost of foreign enterprises.</p>	<p>As for investment from foreign firms, 126 foreign-funded ventures were set up in Shengyang, with contracted foreign funds of US\$5.54 billion and utilization of US\$3.92 billion of foreign investment, an increase of 375.1% over the previous year. There were 68 newly signed contracts for foreign contracted projects, with a contract value of US\$840 million and a completed turnover of US\$1.11 billion.</p> <p>The cross-border RMB settlement amount between Liaoning Province and RCEP member states was 119.106 billion yuan, a year-on-year increase of 51.16%; the cross-border RMB settlement amount with countries or regions along the "Belt and Road" was 112.384 billion yuan, a year-on-year increase of 60%.</p>

Table 2 reflects the differences between the Shengyang Zone and Jinan Zone in the aspect of financial foreign investment. Shengyang government attaches heavyweight to integrated services for foreign investment and has made corresponding enhancements to domestic services. Yet Jinan government gives more priority to risk management and targeted financial services for cooperation with foreign investors. Taking all the factors mentioned above into account, Jinan Zone lacks relevant policies for foreign investment services and Shengyang needs to strengthen risk management.

The low cost, compatibility, and time flexibility of e-commerce ought to be fully adopted to achieve higher transaction efficiency and develop the international trade market [9]. However, Liaoning FTZ has a low network penetration rate and poor public acceptance, and there is an impediment of technical bottlenecks in the introduction of electronic technology into foreign trade. FTZ is expected to promote the freedom and facilitation of cross-border trade and investment. Systematic financial risks cannot occur, despite limited regulatory resources. The large-scale inflow of illegal cross-border funds should be prohibited to avoid bringing shocks to China's financial market. Enterprises need hierarchical and categorical management to predict the risks of each market entity multi-dimensionally [8].

When it comes to RMB cross-border trade settlement, the popularization of RMB cross-border payments in the two zones mainly relies on the government and branches of the People's Bank of China. Jinan Zone adopts a pilot approach and places more emphasis on the facilitation of RMB cross-border payments. By contrast, Shengyang Zone reinforces corporate financing through the linkage between institutions. The overseas development areas for cross-border RMB business include countries and regions involved in RCEP and the "Belt and Road"[10]. Financial institutions set up branches in the above-mentioned areas and vigorously develop overseas RMB trading markets locally. Alongside the growth of branches, these institutions increase market-making transactions of mainstream overseas RMB commodities as well as keep the market circulating continuously. Various financial institutions cooperate and actively carry out RMB business innovation, supplying high-quality services of bond issuance and investment for corporations.

2.3. Improving the East-West Golden Avenue Hub

The construction of a modern comprehensive transportation hub lays a solid foundation for the development of the PFTZ and creates favorable conditions for the flow of various resources and factors, which is crucial for strengthening coordinated development between regions and enhancing regional competitiveness. Nowadays, relying on the location advantage of land and sea intersection on the "Belt and Road", Shandong and Liaoning FTZs are accelerating the opening-up of transportation hubs by unblocking the golden avenues of logistics and trade. The comparison of the two zones is shown in Table 3.

According to the gravity model of trade, the volume of bilateral trade is influenced by the distance between the two economies and is inversely proportional to each other. A case in point is that there is a close correlation between the development of intra-EU trade and the EU's transportation policies. This is because only by utilizing supportive transportation can all kinds of factors circulate in an economic space without internal national borders while saving costs and improving efficiency as much as possible [11]. However, as China and RCEP allies are engaged in more and more commercial intercourse, the demand for transportation infrastructure is magnificently increasing [12]. This indicates that to open up channels between economies and help trade liberalization and facilitation, the policies and digital innovation of transportation hub construction adopted by the Qingdao Zone and Dalian Zone are crucial and indispensable.

As two of the five Municipalities with Independent Planning Status, Qingdao and Dalian Zone have been working actively and prudently toward the connection of transportation infrastructure to provide powerful support for high-quality development. Table 3 shows the slightly different concentrations between the Qingdao Zone and Dalian Zone. Qingdao is one of the nodes of national logistics and comprehensive transportation hubs, and it is also equipped with international and regional seaports. So its policies reflect the concept of "positive interplay between domestic and international circulation ", and the paradigm of "all-round opening up by building connection with other countries over land and sea while creating synergy between its eastern and western regions". Dalian, on the other hand, with the three northeastern provinces as its economic hinterland, is also a critical comprehensive foreign trade port in the northeast region. Therefore, Dalian Zone focuses on deepening the construction and cooperation of logistics in Northeast Asia and establishing a logistics service system with international influence.

Table 3. Comparison of Policies and Cases in Qingdao Zone and Dalian Zone

	Policies	Cases
Shandong Province	<p>Shandong Port has formulated the "Action Plan for Breakthrough Development of Container Integration" and set up Shandong Port Group. Qingdao municipal government issued two plans that are intimately bound up with the implementation of building an international transportation hub, forming a strategic system of "dual outline".</p> <p>The "Qingdao-Port.Net" is built based on the concept of "customs-port coordination" and promotes port efficiency with interconnection.</p>	<p>Qingdao Port enlarges port integration, to be specific, it builds up partnerships in connectivity with Weihai Port and shares the resources of the logistics channel with each other. Together they opened the "China Master Weihai-Qingdao" container route and the two-way sea-rail intermodal container train. The Municipal Transportation Bureau has refined 38 projects under construction, 28 preliminary projects and 124 reserved projects, which is in accordance with the "five-year plan, three-year rolling, two-year prophase, one-year implementation" pattern to accomplish the construction of a modern three-dimensional transportation network by 2035.</p> <p>Qingdao Zone innovatively launched the new model of "Qingdao-Port.Net• Smart Inspection", deepened the linkage between customs and ports by building an information-oriented platform. The new model could deeply integrate enterprise demands, terminal operations and customs supervision, which seamlessly segued the online and offline connection of goods and information.</p>
Liaoning Province	<p>Liaoning FTZ, where Dalian Zone belongs, has been actively 'expanding the field of opening-up' and promoting institutional innovation in the field of PFTZ. Dalian Municipal Government has issued the "Policies for Promoting New Breakthroughs in the Comprehensive Revitalization of the Northeast Asian International Shipping and Logistics Center".</p> <p>China's first comprehensive ship digital platform has been established, which integrates cloud transactions, cloud services and cloud financing functions. It aims to assist in the construction of Northeast Asia's international shipping center.</p>	<p>Liaoning Province has advanced 10 reforms across the province, including five batches of items such as the new "industry + service" international cooperation pattern of China smart manufacturing, the innovation model of industry-finance synergy and the "three priorities + two merges" clearance service of the China-Europe Railway Express. More than 96% of foreign trade containers, 100% of commercial vehicles and more than 60% of inbound crude oil transshipment in Northeast China are undertaken by Dalian Port.</p> <p>Dalian Zone and Deta-Cyntek Technology Co Ltd., joined hands to create a comprehensive digital service platform for shipment in Northeast Asia. This platform provides "industry + finance" leasing and investment for second-hand ships and realizes the digital upgrade and standardization of the shipping industry.</p>

In the process of the transformation of economy growth mode, the application of emerging digital technologies continues to expand the space for economic development while accelerating the transformation and upgrading of China's industries. From the perspective of endogenous economy, technology progress turbocharges the evolution of FTZ: China's FTZs have capitalized on digital technologies to transform the momentum and patterns of industrial development, together with the

intelligence, digitization, and networking transformation of FTZs [13]. Yet the salient areas of these FTZs appear to be geographically varying. Qingdao Zone started with digital governance and built an information-sharing and data-unified network platform to serve enterprises, ports, and the government. The traditional regulatory pattern in Qingdao is broken. The government is empowered to modernize intelligent government. Dalian Zone considers digital product development as a high priority, sharing information with enterprises throughout the zone and tapping into transboundary innovation. Amidst the growth of the digital industry chain, digital cooperation is thriving. New service functions will be expanded throughout the life cycle of the shipping industry.

3. Conclusion

Nowadays, regional trade agreements are widely adopted and the rules of international economy and trade are becoming more and more complex, so the following three recommendations are made based on domestic and foreign situations.

3.1. Establishing Domestic Auxiliary Procedures for Foreign Enterprises and Trade Disputes

Following the increasing efforts of the Yantai Zone and Yingkou Zone to attract foreign investment, conflicts between foreign investors are bound to increase. In consideration of the potential risks, it is imperative to create third-party solutions and government judicial procedures. The government needs to set up specialized departments and make appropriate plans to avoid international disputes according to the size and type of investment projects, as well as disputes due to differences in the legislation or political provisions. Last but not least, FTZs should form the advantage of element convergence which includes high-end elements such as talents, management, technology, capital and service in the way of inputting public goods, and thus uplifting the specialized division of labor in China's capital-intensive industries to a higher level.

3.2. Trade Services That Open Up "Belt and Road" to Europe Still Need to be Strengthened

As international comprehensive logistics centers, Qingdao and Dalian have two critical goals. One is to become a financial center in the East Asian coastal region, improve international ports and transportation facilities, and attract a large amount of foreign trade. The second is to become an international re-export trade center similar to Hong Kong's implementation of "Belt and Road" that connects East Asia, West Asia and even Europe. At present, the first goal has been achieved, but the second goal still requires substantial investment. Although Qingdao and Dalian have opened up some trade routes extending to Europe, the trade volume is still small and is inadequate to create large-scale economic effects. Therefore, foreign countries alongside the "Belt and Road" and even European countries should increase policy publicity and international interaction. Domestically, relevant policies and corresponding infrastructure facilities should be refined. In the future, it is also hoped that the two provinces can reform green development through FTZs and expand trade business to "Belt and Road", driving the development of the domestic intermediary trade and countries alongside the "Belt and Road".

3.3. Cross-border Capital Opening Policies Need Innovation

The value of the RMB is in a period of depreciation and there is a lack of foreign investment. As the key political and financial centers of the two provinces, Shenyang Zone and Jinan Zone still need to be more open to foreign investment. The two zones should increase their institutional comparative advantages and provide preferential policies for RMB and related trade paid in RMB in order to cope with the current depreciation of RMB and consolidate the advantages and positions of the two provinces in international trade.

Authors Contributions

All the authors contributed equally and their names were listed in alphabetical order.

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