

# An Exploration on the New Model of China's Opening-Up Strategy

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**Abstract** — Overseas Economic and Trade Cooperation Zone (OETCZ) is a new model of China's Opening-up Strategy. It establishes a platform for enterprises to invest abroad. The thesis probed into the functions of the OETCZ, such as changing product origins, avoiding trade barriers, transferring overcapacities and acquiring scarce resources. Furthermore, the paper puts forward the suggestions for promoting healthy development of the OETCZ.

**Keywords** — Oversea Economic Trade and Cooperation Zone; functions of the OETCZ; countermeasures and suggestions

## I. INTRODUCTION

The unveiling of Sino-Pakistan Haier - Ruba Economic Zone on November 26, 2006 meant the beginning of the construction of China's Overseas Economic and Trade Cooperation Zone (OETCZ). Since then the OETCZ has developed rapidly and become an important platform for China's foreign direct investment. The OETCZ is an active exploration and practice of China's further opening-up strategy. It is a new model of foreign economic cooperation and an effective way to implement the "going out" strategy of China. Although this model has been born not long, it has fully demonstrated its strong vitality. Therefore, how to promote this way and how to promote the healthy development of the OETCZ is an important problem to be studied.

## II. DEVELOPMENT OF CHINA'S OVERSEAS ECONOMIC AND TRADE COOPERATION ZONE

### A. The meaning of China's Overseas Economic and Trade Cooperation Zone

Overseas Economic and Trade Cooperation Zone (hereinafter referred to as OETCZ) refers to all kinds of economic and trade cooperation areas constructed or participated abroad by domestic enterprises under the overall guidance of the government, such as processing zone, industrial park, science and technology park, etc. [1]. All kinds of the OETCZ are with better infrastructures, complete industrial chains, strong driving abilities and powerful influences. The OETCZ is a special restricted

area where the preferential policies, such as tariff reduction and favorable investment environment are provided under the agreements signed by the governments of host country and China with its leading enterprises. In essence, OETCZ is a kind of systematic arrangement of a closer economic and trade relationship between China and other countries within a defined territory. It is a cross-border economic and trade cooperation zone invested directly by Chinese enterprises and an initiative pattern of international economic cooperation based on the bilateral benefits and mutual preferential policies of two countries [2].

### B. Current situation of Overseas Economic and Trade Cooperation Zone

By the end of October 2013, Chinese companies have built 16 overseas economic and trade cooperation zones in 13 countries, with an actual investment amount of \$4.4 billion, 390 enterprises entering into the zones, accumulated \$12.9 billion of value of output. These Overseas Economic and Trade Cooperation Zones were mainly distributed in the developing countries of Asia, Africa, South America and Eastern Europe, such as Russia, Egypt, Mauritius, Indonesia, Vietnam, Kampuchea, Thailand, South Korea etc. The investment projects were mainly concentrated in the energy and resources sectors of timber processing and mineral exploiting that were in urgent need of economic construction and in the industries with a comparative advantage, such as machinery and electronics, textile garments, furniture and building materials, automobile and accessories as well as food and medicine.

## III. FUNCTION EXPLORATION OF OVERSEAS ECONOMIC AND TRADE COOPERATION ZONE

The OETCZ is a new pattern of China's opening up strategy. It sets up a platform of foreign direct investment and participation in international economic cooperation for Chinese enterprises. The OETCZ also provides an effective approach to avoid and reduce the trade barriers and frictions of China's exports. At the same time, it also offers a channel to digest capacity surplus, relieve the pressures of domestic production and operation costs.

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#### A. *To transfer the excess capacity*

With the advance of industrialization and the adjustment of global industrial structure, the problem of overcapacity in some industries of China has become more and more serious. The phenomenon of oversupply and saturation of domestic markets is particularly prominent in the relatively mature industries which have large production capacities and competitive advantages, such as textile, machinery, metallurgy, medicine, household appliances, building materials, light industry as well as chemical industry. Financial crisis led to the reduction of China's export demand in international markets and thus exacerbated the pressures on these overcapacity industries. But these production capacity, technology and physical capital are more appropriate for relatively backward developing countries. Through the establishment of the OETCZ, on the one hand enterprises can transfer some capacity surpluses and marginal industries to the countries needed so that they will get rid of the fierce competitive pressures of the domestic market, improve the efficient use of capital, technology, equipment and obtain the greater global market spaces. On the other hand, the enterprises can make an adjustment and optimization of China's industry structure by the opportunity of marginal industry transfer and global industry transfer and thus establish gradually the higher-leveled industries which are more efficient, high-added valued and low-energy consumed, thereby promoting the pattern transformation and sustainable development of China's economy.

#### B. *To reduce the production cost*

In recent years, with the advancement of marketization and the deepening of reform, factor prices of land, labor, water, coal, electricity, raw material and other elements have kept rising continuously and thus caused the increase of production cost. In addition, the continuous appreciation of RMB resulted in the decrease of export income because of the dollar denominated export settlement system and hence the profit margins of exporters have getting smaller and smaller. Thus the advantage of China's export products has weakened constantly under the double pressures from domestic factor prices and the appreciation of RMB. While the establishment of the OETCZ will promote domestic enterprises to "go out" investing in other developing countries where prices of labor and other factors are relatively lower. By the full use of labor, land and other location advantages of the host country the costs of production and operation could be reduced, the pressures of domestic markets alleviated. Hereby, the enterprises investing in the OETCZ would improve the international competitiveness of their products. The current 13 countries under the construction of China's OETCZ are mostly developing countries and where the labor costs are much lower than those of China. For example, the minimum monthly wage of Kampuchea workers is \$50 with 6 working days a week; the average wage of workers in Nigeria keeps around 8,000-10,000 Naira (about 500-600 Chinese yuan) Investing in these countries China's enterprises can enjoy the advantages of low wage cost and the special preferential policies given to these less developed countries by developed countries of Europe and

America. Besides, the lower operation cost is also from the tariff rate differences. Such as the Russia import tariff on finished shoes was 15%, while the import tariff on semi-finished shoes was only 5%. With this policy, China's enterprises produced the uppers, soles and other semi-finished products domestically and put final assembling steps in Russian Ussuriysk Economic and Trade Cooperation Zone, thereby reducing the cost for each pair of shoes and increasing the profit consequently [3].

#### C. *To obtain scarce resources*

The differences in natural endowment of petroleum, mineral, forest and other resources in different regions resulted in the uneven spatial distribution of resources and differences in industrial development among the world, triggering a scramble for scarce resources. With the expansion of China's economy construction and increasing consumption demand, the problems of resource shortage and its price rising have become more serious and will also be a severely restricted factor of China's economic development in the future. Faced with this grim situation, resource-dependent industries or enterprises have to seek new channels for their survival and development. It is of great and strategic significance to invest and exploit in rich resources countries for making up for the shortage of domestic resources and promoting optimal allocation of global resources. The establishment of OETCZ in Russia and Zambia is a good case of supporting domestic construction by taking geographical advantage of host countries with abundant forests and mineral resources. For example, in order to promote the development of timber processing, Russian Customs levied a higher tariff on the export of logs than on the processed wood products, and no tariff on imported wood processing equipment. With these preferential tariff policy and resources advantage of forest as well as wood processing, China established Tomsk Timber Industry & Trade Cooperation Zone and Sino-Russian Ussuriysk Economic and Trade Cooperation Zone in Russia. After rough processing, the semi-finished woods were exported to China with low tariff or zero-tariff, thus making up the gap of domestic demand for timber. Again, Zambia known as "country of copper" had plentiful resources of gold, silver, copper, cobalt, lead, zinc, manganese and other minerals that were the precisely scarce resources of China's economic construction. By the establishment of Zambia-China economic and trade cooperation zone, Chinese enterprises could participate in exploiting, smelting and processing minerals of Zambia, and then buy back home so as to make up a lack for domestic resources.

#### D. *To avoid trade barriers*

The origin of export products is the criterion of trade regulations of customs and the basis of intergovernmental trade concessions or sanctions. It involves the implementation of most-favored-nation treatment, generalized system of preferences, trade tariffs, trade remedy measures, trade restrictions and quotas. Therefore, the production origin is of particular importance in international trade.

Since China's entrance to the WTO, trade frictions have intensified with the rapid growth of its export, and have become a restricted factor of the healthy development of China's foreign trade. Investing and producing directly in the OETCZ of foreign countries can change the product origin of China to the host and thus change the label of export products by "Made in China" to "Made in the host country". This change of production origin will allow enterprises to avoid the barriers of trade tariff, and trade quotas, therefore trade frictions, trade sanctions as well as trade relief measures can be alleviated and reduced effectively. At the same time, we will be able to enjoy the preferential trade policies between host countries and other countries or preferences given among the members of regional economic integration organization. With the help of this opportunity, China's enterprises could capture market in the host country while expand the market in a third country.

#### *E. To evade technology export control*

In addition to transferring excess capacity, utilizing foreign resources, reducing the cost of production and avoiding trade barriers, the OETCZ of science and technology parks located in emerging industrialized countries and developed countries also plays another special role of acquiring advanced technology and management experience. The establishment of R&D based science and technology park in newly industrialized countries or in developed countries has following benefits: First, we can take advantages of preferential policy and favorable environment of the host country to absorb a large number of related enterprises and research institutions participating in the investment and construction, at the same time, attract a large number of professionals of the host countries so as to speed up the development and application of new techniques and shorten the development cycle of technology-intensive products. Second, in the construction and operation of the science and technology park in newly industrialized and developed countries, through the knowledge flow and technology spillover between enterprise and market Chinese enterprises could obtain advanced technologies and scientific management methods of the host country and train high-tech talents and highly skilled workers. Third, by cooperative technology research and product production in science and technological park, new technologies will be learned and obtained more conveniently so that the technology export controls on China by developed countries will be circumvented effectively. Four is to grasp the opportunity of structure adjustment of China and industry transfer of developed countries, passing the advanced technology and potential industry to China through the conduction and bridge of science and technology park so as to promote the transformation of foreign trade development pattern and upgrading of China's industrial structure.

China-South Korea Industrial Park majored in automobile, ship parts and biotechnology industries, was committed to promote the development and cooperation of these projects of two countries and thus to a certain extent with the features of R&D-based science and technology park. It is beneficial for Chinese enterprises to access

directly into the world first-class market at a lower cost and while obtain advanced technologies.

#### *F. To establish a platform of foreign direct investment*

Due to the special characteristics of the OETCZ, the investment enterprises in the zone can make use of favorable business environment, various securities and bilateral preferential policies in finance, insurance, immigration, tariffs and other aspects so that they can reduce the risks of investment and production costs, improve the success ratio of overseas investment. As a result, the OETCZ has become a platform of foreign direct investment, attracting a large number of related enterprises of China, especially small and medium-sized enterprises to "go out" in clustered pattern. The establishment of the OETCZ is not only conducive to the reduction of production costs due to complementary and sharing of resources, information, facilities and markets among the enterprises producing similar products, but also beneficial to the concentration of foreign direct investment and the formation of industrial clusters and industrial chains among the related industries and enterprises, thus forming easily the joint forces and collaborative competitiveness with better synergistic and agglomerate effects. As in the construction of Haier - Ruba Economic Zone, around the main line of supporting industry and industrial chain extension, the leading corporation of Haier Group invited a large number of household electrical appliance enterprises with Chinese brand-name to invest and set up factories in the zone, including enterprises of service industry, manufacturing industry and other related industries. Thus, the enclave of brand electrical appliance enterprises and supporting enterprises was settled. Another good sample was Zambia-China Economic and Trade Cooperation Zone. Based on the exploitation and smelting of copper cobalt, mining and processing were the leading industries of the zone. Meanwhile the processing industry groups and chains of nonferrous metals such as profiles, wires and cables have been developed gradually. In addition, based on the byproducts of copper cobalt smelting, a group of related industries of chemical, precious metal, fertilizer, building materials, nonferrous metal, refractory materials and other derivative products have formed. Thereby the industry cluster and industry chain of nonferrous metals have taken shape, including copper and cobalt mining, smelting, processing and producing of other metallurgy derivative products. Currently, a number of copper mining and smelting projects, a batch of machinery repair factories, as well as steel ball plants and other industrial supporting projects have been built up in the zone [4].

### IV. SUGGESTIONS AND COUNTERMEASURES FOR DEVELOPMENT OF THE OETCZ

#### *A. Paying attention to the layout planning and overall coordinating*

Overseas Economic and Trade Cooperation Zone, first of all, is the outcome with intention, policy and support of the government, therefore, the planning and guidance of

the government is of special significance. It is crucial for government planning and coordinating to ensure efficient and healthy development of this creative pattern of international economic cooperation. In the construction of the OETCZ, it is necessary for the government to give an overall planning and necessary guidance in the decision of its regional layout, leading industries and investment types according to the goal of industrial structure adjustment and industrial development programs, so as to keep the consistence with the total target of China's economic development. The central government should also take a strict review and rigorous check on the local projects declared, while provide guidance and necessary suggestions to enterprises and local governments for their investment decision making so that resources waste and unnecessary losses caused by the rush construction and function repetition of the OETCZ could be prevented efficiently.

#### *B. Implementing and strengthening the supporting policies*

The OETCZ is a new pattern of international economic cooperation to promote enterprises "going out" abroad in cluster through the establishment of economic cooperation zone. It is a kind of active exploration and bold attempt with no experience to follow. In particular, because of various reasons, most of China's OETCZs were located in less developed countries where the infrastructure, credit system and investment environment are not perfect. To a certain degree, this would probably increase the investment risk and construction difficulty of the zone. Therefore, the supporting policies and measures of government in the respect of finance, taxation, credit, foreign exchange and insurance are required. First is to help enterprises solve their financial problems. The government should encourage domestic financial institutions to set up branches or offices in the location of the OETCZ, providing overseas investment enterprises with convenient localization services; allow domestic parent company to offer loan guarantee for its overseas subsidiaries from China's banking institutions abroad; allow Chinese enterprises to take their overseas assets, equities, ownerships and mining rights as mortgage of loans from domestic banks or their branches abroad. Second is to help Chinese enterprises in negotiations and consultations with the local government so as to get maximum preferences and conveniences in fiscal revenue, corporate financing, equipment depreciation, land use and price of production factors (such as coal, water and electricity); sign possibly the "bilateral investment protection agreement" with the host government to protect legitimate rights and interests of Chinese enterprise's from infringement. Thirdly, with abundant information resources and wide information channels, the relevant departments of the government should provide information services to help enterprises understand and get quick familiar with the local regulations, religious beliefs, customs, philosophies, social responsibilities and other relevant circumstances and environments; meanwhile give an aid of investment consultation and analysis of country risk or industry risk; intensify the risk prevention guidance to help enterprise

acquire investment opportunities while avoiding investment risks. The fourth is to provide risk protection services. The government should encourage insurance institutions to develop more insurance products and services according to the characteristic of the OETCZ and provide an insurance package of export credit insurance and guarantee, investment insurance, war risk insurance, political risks insurance of government default, business risk insurance of commercial credit and overseas sales.

#### *C. Promoting the diversification of investment bodies*

Because the private enterprises are mostly distributed in the industries of household appliances, textile and clothing, leather, footwear, bags, furniture, light industry which technical content of the products and the barriers of entrance are relatively lower, so the competition is more intense and the market more saturated. Therefore, they are facing the enormous pressures of limited domestic market. "Going out" investing directly in foreign country is not only an urgent need for expanding market spaces and improving competitiveness of many private enterprises, but also an inevitable choice for their survival and healthy development. The OETCZ offers an opportunity of market expansion for all kinds of enterprises, in particular, an opportunity of development acceleration for private enterprises. It sets up a platform of developing internationally in clustered pattern for private, small or medium-sized enterprises which generally speaking are with small scale, less capital and relatively weak competitiveness.

Governments at all levels should be fully aware of the backbone effect of private enterprises in the construction of the OETCZ and leverage respective advantages of their dependent management, decision-making, flexible operation mechanism, rapid response to market demand, timely manner etc. The government should provide more encouraging policies for private enterprises "going out" to participate in the construction of the OETCZ and treat them equally with other kind of enterprises in administrative examination and approval, financial support, tax reduction, mortgage loan, export credit, insurance etc. meanwhile, strengthen the guidance and service for private enterprises so as to make the OETCZ become a cross-border economic and trade cooperation zone where all kinds of enterprises with various ownership are gathered and developed commonly and cooperatively.

#### *D. Driving the development of outward processing trade by the construction of the OETCZ*

Overseas processing trade or called outward processing trade (reversed processing trade) refers to the investment and production of Chinese enterprises in foreign countries with existing equipment and mature production technology. In this type of trade Chinese enterprises produce, process and assemble products in the OETCZ at host countries and then re-import them back home or sell them to other countries so as to promote and expand the export of domestic equipment, raw materials and spare parts. By taking advantage of preferential policies, the development of processing trade abroad will drive the

export of China's technologies, equipment, labors and related products, transfer surplus production capacity of labor-intensive industry and traditional industry to other developing countries, so that the life cycle of the products could be prolonged and the allocation of resources be optimized in a larger space of the world. Again, by means of overseas processing trade, the enterprises could reduce the resources pressures on China's economic development, while enable domestic enterprises to turn to higher level industries of deep processing and finishing, thus promote industry structure restructuring and technology upgrading.

The government should combine the preferential policies of OETCZ and processing trade together, encourage enterprises to investment in the zone by the form of outward processing trade and support them with export tax rebate, financial services and foreign exchange management; simplify the examination and approval procedures of overseas processing in the OETCZ, including procedures of setting up corporations, technical or management personnel dispatch approval, application for foreign exchange and other formalities; help enterprises of processing trade in the OETCZ apply for the foreign preferential loans; provide export credit to outward processing enterprises for their exports of equipment, technologies, spare parts and raw materials; implement the policy of tax rebate to the export as physical investment under the projects of outward processing trade in the OETCZ, such as investment equipment, spare parts and raw materials.

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