

The Evolution and Development of International Free Trade Zone Policies

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Abstract

The free trade zone is generally a non-tariff area that allows foreign goods to be tax-free and import-free. This paper discusses the policy evolution and development of the free trade zone in the narrow sense. In addition, because the free trade zone is affected by the start time, geographical location, and economic level of the hinterland, the policies of the respective trade zones are very different. This paper chooses to transform the function of the free trade zone from the external manifestation of the free trade zone policy. In-depth understanding of the evolution and development of the free trade zone policy in the process of functional evolution in the development of the three internationally renowned and unique free trade zones of the Free Trade Zone, the Irish Shannon Free Trade Zone and the Hamburg Free Trade Zone Gaining inspiration and summing up experience, hoping to provide ideas and help for China's development of free trade zone.

Keywords

Free trade zone; Free trade zone policy; Cologne Free Trade Zone; Hamburg Free Trade Port Area; FTZ function evolution.

1. Introduction

From the perspective of international practice, free navigation, free trade, and no tariffs are the most basic rules for the operation and operation of free ports (zones). Throughout the development history of the free trade zone, the establishment of free ports (zones) in any country or region in the world is often based on the framework of these international practices, combined with the national conditions and the external international environment, and the degree of openness and freedom of the free trade port is discretionary. Make adjustments to design free trade zone policies that meet their own development needs. However, because the free trade zones in the world are affected by the start time, geographic location, and hinterland economic level, their policies are very different and it is difficult to sort out. Therefore, this article chooses to start with the external manifestation of the free trade zone policy-the evolution of the function of the free trade zone, and indirectly understand the evolution and development of the free trade zone policy through the evolution of the function of the free trade zone.

1.1 Overview of the definition of a free trade zone

In a broad sense, a free trade area refers to two or more countries (regions). In order to achieve regional economic integration, on the premise of signing free trade agreements with each other, member countries (regions) Cancel the tariff system, but still retain tariff barriers for non-member countries (regions).[1]

In a narrow sense, free trade zone is also a concept of customs organization. The specific annex (F.1) of the International Customs Organization (WCO) 《Kyoto Convention》 in 1973 defines it as: a

free zone refers to a part of a country's territory, and any goods imported into this part of the territory are subject to import tax. As far as other taxes are concerned, they are considered to be outside the customs territory and exempt from the customary customs supervision system.

The object of this article is the free trade zone in the narrow sense. As a collective concept, the "free trade port", "free processing zone", "processing export zone", "free industrial zone", and "free port" are mentioned below. and other names belong to this category. In order to preserve the originality of the document, the author does not subdivide it.

1.2 The evolution of the functions of the free trade zone

1.2.1. The first generation of free trade zones: transformation in trade

Since the establishment of the first free trade port in Italy in 1547, the first-generation free trade zone has quickly swept Europe from the Mediterranean coast. As a new concept in the period of trade protection, the liberalization of free port policies during this period was relatively limited. These free trade zones can only play the role of commodity distribution centers; with the continuous progress of the world trade process and the expansion of commercial activities, some colonial free ports in Europe have gradually emerged the functions of storage, sorting, modification, and exhibition, but in essence it serves the re-export trade.

1.2.2. The second-generation free trade zone: processing value-added type

After World War II, with the promotion of the third technological revolution and the acceleration of economic globalization, world trade has become more liberalized and convenient. Countries began to rebuild free ports and free trade zones that were destroyed or closed during the war. The second-generation free trade zone that emerged at this stage not only broke through the restrictions of the first-generation ports in space, and extended from the port area to the port hinterland and even inland; it also resulted in functional differences, with lower added value. The re-export trade of China has become a "industrial manufacturing" function with higher value-added.

Correspondingly, during this period, the policies in the free trade zone tended to take "processing trade" as the dominant function, such as adopting a separate "quota-free, duty-free, and bonded" policy for imported raw materials in the zone; at the same time, industrial and trade enterprises often adopted Policies such as rapid approval of company registration and preferential taxation are used to attract international companies to invest and build factories in the zone.

1.2.3. The third-generation free trade zone: resource allocation type

After the 1980s, the reform of information technology further promoted the expansion of the functions of the free trade zone. On the one hand, the processing and manufacturing functions of the free trade zone are transforming to high-tech and higher value-added industries; on the other hand, the functions of the free trade zone and the port city are increasingly integrated.

The policy of the free trade zone during this period is no longer constrained to give policy dividends to specific industries, but tends to upgrade and transform the transfer, storage, and processing functions of the first two generations of free trade zones, and expand such functions as ship finance, insurance, and maritime affairs. Arbitration, tourism, shopping and other service industries to form a multifunctional industrial complex linked by Hong Kong and the city.

Hu Fengqiao believes that the generational evolution of the free trade zone is the expansion and improvement of the original port.[3] Moreover, with the development of time, the development of the free trade zone has gradually shown the characteristics of "increased number, integrated functions, and strengthened management", which also reflects the free trade zone policy as the free trade zone has increased and expanded its functions. The adjustment of the international economic structure changes the state of adjustment.

2. The evolution and development of some international free trade zone policies

At present, the third-generation emerging free ports represented by Hong Kong, Singapore and Dubai have formed and become regional or even global international shipping centers and economic centers. However, the traditional second-generation free ports are still widespread, and some of them have fallen into decline. Even with its extinction, some are working hard to transform into the third-generation free trade zone, and some second-generation free trade zones are reborn in the inland areas. Therefore, this article selects two famous and representative free trade zones in the world-Panama Cologne Free Trade Zone with re-export trade function, the traditional and classic Hamburg Free Trade Zone in Germany Understand relevant content.

2.1 Panama Colon Free Trade Zone

2.1.1 Basic situation

Panama's Colon Free Trade Zone was established in 1948 and officially put into operation in 1953. It is the largest free trade zone in the Western Hemisphere and the second largest in the world. As of 2012, the Colon Free Trade Zone covers an area of nearly 800 hectares, has 3062 registered companies and 32,813 employees. The value created by economic activities accounts for approximately 7% of Panama's GDP.[2]

2.1.2 Development History

Driven by domestic and foreign political and economic factors, the development and evolution of the Panama Colon Free Trade Zone has gone through three stages.

(1) "Warehouse type" (only re-export trade is allowed, processing is not allowed)

Panama's geographical location is superior, but the domestic market is small. Therefore, since Panama issued the "Decree No. 18" in 1948 to reduce taxes in the Colon Free Trade Zone, the Colon Free Trade Zone adopted re-exports in the 1950s and 1970s. Trade operation model. Table 1 shows the comparison of taxation policies within and outside the free trade zone during this period.

Table 1: Comparison of tax policies outside the Cologne Free Trade Zone

	National tax system	Cologne Free Trade Zone
Income tax	30%-40%	2.5%-8.5% (exempt within two years)
Franchise tax	√	×
Sale tax	√	×
Municipal tax	√	×
Value-added tax	√	×
Import and export taxes	√	×

At this time, the companies in the Cologne Free Trade Zone are mostly located in warehouses, and some exhibits are displayed through the small window outside the warehouse. However, the real best-selling products are only contacted with foreign merchants by telephone or telegram. These products are often traded in a small amount. The amount is relatively large, but due to the single transaction method, the types of best-selling products of each company are not many. In a short period of time, this "warehouse-type" re-export trade policy has brought prosperity to the Cologne Free Trade Zone.

(2) "Department store street type" (can be processed, manufactured, and retailed)

In the middle and late 1970s, due to the unfavorable influence of domestic and foreign political and economic environments, the development model of the Cologne Free Trade Zone's re-export distribution type was in trouble. In order to alleviate the decline in the late 20th century, the Cologne Free Trade Zone increased its processing and retail business, and transformed its business mode into a "departmental street type." At this stage, the Panamanian government drafted the "Maquila Plan" modeled on the "Caribbean Basin Revitalization Act" of the United States. The plan provides 12-year

tax-free import preferences for Caribbean and Central American countries, and encourages other countries to invest in processing and manufacturing. For example, any natural person and legal person customer deposits in the region do not need to disclose their identity; no company business license is required. And as long as the company hires 10 Panamanian locals, the company can be registered.

(3) The stage of multiple coexistence of "storage area" and "shop area"

After entering the 21st century, in order to adapt to the changes in the international economic situation, the Cologne Free Trade Zone began to try to comprehensively develop high value-added service industries such as finance, insurance, real estate, transportation, communications, and tourism based on the original processing and retailing. At present, the business structure of the Cologne Free Trade Zone presents a coexistence of "storage area" and "shop area". Among them, the warehouse area is still mainly engaged in re-export trade, responsible for logistics and simple processing industries such as warehousing, packaging, assembly and processing of goods; while the commercial area is mainly engaged in product display and duty-free retail business, because the goods in the area are exempt from import taxes and fees, and the prices are low. , To a certain extent promoted the development of tourism in this area.

2.1.3 Existing problems

As a relatively successful free trade zone in the world, the development of the Cologne free trade zone still has some problems. Due to the relatively loose regulatory measures adopted by the government, there have been many illegal problems in the history of the Cologne Free Trade Zone. For example, the military colludes with importers to obtain tax-free income; there are also many smugglers who smuggle weapons and other illegal goods through the free trade zone and then transfer them to some places with high crime rates in South America.

2.2 Hamburg Free Trade Zone

In general, the Cologne Free Trade Zone is still a more successful free trade zone in the world. At present, there are more than 2,000 enterprises in the Cologne Free Trade Zone, and a total of 20,000 people are employed here, accounting for a large proportion of the employed population in Cologne. In addition, five large-scale terminals and an international airport have been built, with import and export and re-export trade volume reaching tens of billions of dollars. It can be said that the prosperity and development of Cologne is based on the free trade zone.

2.2.1 Basic Situation

The Free Port of Hamburg in Germany was built in 1888 on the basis of the Port of Hamburg. It has an area of 16.34 square kilometers and is one of the earliest free ports in the world. According to the resolution of the German Bundestag, the Hamburg Freeport was cancelled from 2013 and integrated into the city of Hamburg as a whole. So far, the Port of Hamburg has become an ordinary customs port of the European Union.

2.2.2 Development History

Throughout the history of the Hamburg Freeport from its birth to its demise, its development process can also be divided into three stages according to its functions.

(1) Functional stage of re-export trade

In 1888, the Free Port of Hamburg opened. During the prevalence of international trade protectionism, it broke through the trade protectionist blockade, and featured the free port tax system, successfully attracting merchant ships from various countries. At this time, the Hamburg Freeport mainly carried out re-export trade for Africa, Eastern Europe and South America. The completion of the free port made Hamburg one of the world's largest transshipments for coffee, cocoa, spices and carpets. Before the First World War, Hamburg had a population of one million, and the Port of Hamburg became the third largest port in the world after London and New York.

However, in the early 20th century, the two world wars destroyed the Port of Hamburg, and Germany's status as a defeated country inhibited foreign trade, leading to the suspension of the Hamburg Free Port.

(2) Modernization reconstruction and comprehensive functional stage

From the 1950s to the 1990s, the United States, which became a postwar power, promoted free trade between the United States and Europe through the "Marshall Plan". The Port of Hamburg began its modernization and reconstruction, and completed the upgrade and transformation of containerization, automation, and informationization. In 1994, because Germany was a member of the European Union, the Hamburg Freeport was transformed into an EU Free Zone. In the same year, the "European Community Customs Code" came into effect. The Hamburg Freeport began to implement a unified European free zone policy: trade services, logistics distribution, and maintenance can be carried out in the zone. Transformation and substantial processing.

The Hamburg Free Zone continues the concept of a free port. With its superior geographical location, good port conditions, advanced transportation and loading equipment, preferential tax policies and convenient customs procedures, it has developed into a typical European free zone.

2.2.3 The period of gradual disappearance

With the integration of the EU's internal market and the improvement of the common market policy, as well as the multilateral and bilateral trade agreements signed by the EU with other countries and regions, the living environment of the Hamburg Freeport Zone has been greatly changed. The advantages of the Hamburg Free Trade Port's own system are gradually lost, which are manifested in the following aspects:

- (1) Freeport's advantages of tax-free and inspection-free are lost. Two-thirds of the total cargo distributed in the Port of Hamburg occurs within the EU market. The absence of tariffs within the EU means that the duty-free advantage of the free port is of no value to the EU internal market.
- (2) The attractiveness of the free port's bonded storage function has declined. The EU's inclusive policy of allowing the construction of bonded warehouses in various places eliminates the need for companies engaged in re-export trade to rely on free ports.
- (3) Processing functions in the European Free Zone tend to shrink. In recent years, the global ports and shipping centers have shown a trend of shifting to the Asia-Pacific region, and export processing zones in developing countries have fully undertaken related businesses.
- (4) Port logistics efficiency is limited. Under the new conditions of the development of the modern shipping industry, the competitiveness of ports has switched from the previous tax reduction and exemption level to the efficiency and service provision. The Hamburg Free Trade Port area has caused traffic congestion and delays in the supply of goods due to its various customs clearance restrictions, which has become an obstacle to the improvement of port efficiency.

To sum up, in the current environment where the degree of trade liberalization across the EU is very high, the Port of Hamburg ended the free port system in order to adapt to changes in the times and market demand.

3. Implications for China's development of free trade

3.1 Status Quo of China's Free Trade Zone

my country's Shanghai, Tianjin, Fujian, Guangzhou and the other seven free trade zones are all free trade zones. In May 1990, Shanghai Waigaoqiao Free Trade Zone was formally established. After that, my country has successively established six types of special customs supervision areas including bonded areas, export processing areas, bonded logistics parks, border cooperation areas, bonded port areas, and comprehensive bonded areas. In July 2013, the State Council executive meeting passed the "China (Shanghai) Pilot Free Trade Zone Overall Plan" (hereinafter referred to as the "Shanghai Overall Plan"). In September 2013, my country's first free trade zone-China (Shanghai) Free Trade Zone The pilot area was established. In December 2014, the Standing Committee of the National

People's Congress authorized the State Council to expand the area of the Shanghai Free Trade Zone to 120.72 square kilometers, including seven areas. In April 2015, the State Council approved the China (Tianjin) Pilot Free Trade Zone Overall Plan, the China (Fujian) Pilot Free Trade Zone Overall Plan, and the China (Guangzhou) Pilot Free Trade Zone Overall Plan. In the same month, Tianjin, Fujian and Guangzhou Free Trade Zones were established. The areas of the three free trade zones are 119.9, 118.04, and 116.2 square kilometers, and each includes three areas. In August 2016, the State Council approved the establishment of China (Liaoning) Pilot Free Trade Zone, China (Zhejiang) Pilot Free Trade Zone, There are 7 free trade zones in China (Henan) Pilot Free Trade Zone, China (Hubei) Pilot Free Trade Zone, China (Chongqing) Pilot Free Trade Zone, China (Sichuan) Pilot Free Trade Zone, and China (Shaanxi) Pilot Free Trade Zone. In April 2018, the State Council issued the "Guiding Opinions on Supporting Hainan's Comprehensive Deepening of Reform and Opening-up" to support the establishment of China (Hainan) Pilot Free Trade Zone.

3.2 Enlightenment

This article summarizes some enlightenments for China's development of free trade zones by understanding the development history of the three famous international free trade zones.

3.2.1 Free trade zone policies must keep pace with the times

The main advantage of the free trade zone is the tariff exemption, tax incentives and approval convenience enjoyed by the "inside customs", but this policy is easy to be copied by other free trade zones, forming homogeneous competition. Combining the transformation of the Cologne Free Trade Zone from a "warehouse-type" to a "department-street-type" and "comprehensive" management policy and the continuous transformation of Ireland's Shannon Free Trade Zone for sustainable development, we can know that the free trade zone's policies and functions should be based The country's own conditions, development needs in different periods, and domestic and international political and economic conditions should be adjusted and updated in a timely manner.

3.2.2 Pay attention to the functional linkage of the port and city of the free trade zone

Learning from the lessons of the "distorted development" in the Cologne Free Trade Zone and the City of Cologne and the experience of the Hamburg Free Port, it is not difficult to discover such a rule-"Hong Kong rejuvenates the city, the port rejuvenates the city, the port and the city grows together, and the prosperity goes together." In the early stage of the free trade port (zone) planning, China should focus on the linkage between the functions of the free trade zone and its immediate hinterland to promote mutual development.

3.2.3 Simplify the tax system

In order to attract foreign investment, most of the international free trade zones have adopted many preferential tax policies. However, the establishment of China's free trade zones mainly aims to open up the service industry, implement national treatment and negative list management policies, and have no special preferential taxation and income tax.

In order to further reduce the operating costs of enterprises in the zone, the free trade zone can explore the simplification of taxation items and tax rate levels in the future to promote the transformation and development of China's free trade zone.

3.2.4 Coordinate the relationship between FTZ and FTA

From the example of Hamburg Free Port (on behalf of FTZ) joining the European Union (on behalf of FTA) and its eventual demise, it can be seen that China's free trade zone policy construction needs to coordinate the relationship between the free trade zone (FTZ) and the regional free trade agreement (FTA). At present, the construction of the global multilateral trading system is progressing slowly, but regional economic cooperation is gaining momentum. Therefore, in the future world trade, "interregional" trade will replace "international" trade and become the mainstream. In the face of this situation, the value of the free trade port (area) should be reflected in filling the gaps that are not covered by regional free trade agreements on the one hand, and on the other hand using its role as a

global trade hub and its unique "offshore" Attributes, open gaps on the regional borderline, connect different regions, and realize the optimal allocation of resources on a global scale.

4. Conclusion

This article starts from the perspective of the functional evolution of the free trade zone. Through the study of the development history of the three free trade zones, the Cologne free trade zone, the Shannon free trade zone and the Hamburg free trade zone, it focuses on understanding the changes that have occurred in their functions. The evolution and development process of trade zone policies are as follows:

- (1) Initially, since the free trade zone is mainly used for entrepot trade, the policy of the free trade zone at this time is mainly to attract merchant ships to carry out trade transit business with tax-free preferential treatment;
- (2) In the post-World War II trade-industry mixed free trade zone where processing and manufacturing are the mainstay and trade is supplemented, the free trade zone policies are mostly tax-free import preferences, encouraging other countries or enterprises to invest in processing and manufacturing;
- (3) When the current comprehensive functional free trade zone with functions such as distribution and allocation, investment promotion, offshore finance, tourism and convalescence, etc., the free trade zone policies tend to improve the advantages of service and logistics efficiency, and coordinate signing Various free trade agreements to reduce losses caused by preferential trade arrangements.
- (4) The future development trend is "green, smart, high-tech".

In short, a free trade zone policy is a country (or region) at different stages of development, taking into account the international system and domestic realities in accordance with different needs to carry out different development orientations in the free trade zone. For countries or regions that want to develop free trade, they should consider the formulation of free trade policies based on factors such as strategic objectives, location, port shape, domestic and foreign environments, and technological differences.

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