

# CHINA'S EXPERIENCE IN DEVELOPING FREE ECONOMIC ZONES IN THE COUNTRY

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## Abstract

This research explores China's strategic implementation of Free Economic Zones (FEZs) as a catalyst for economic reform and globalization since the late 1970s. The study examines the establishment of the first FEZ in Shenzhen, which served as a model for subsequent zones across the country, facilitating foreign investment, technology transfer, and export-oriented growth. It analyzes the regulatory frameworks, incentives provided to businesses, and the socio-economic impacts on local communities. Furthermore, the research highlights challenges faced by these zones, including environmental concerns and income inequality, while assessing their role in China's broader economic transition towards a market-oriented economy. By comparing various FEZs within China and their outcomes, this study aims to provide insights into effective policies that can be adapted by other nations seeking similar economic development strategies.

**Key words:** China, SEZ, economy, production, industrial economy, economic growth.

## Introduction

China's approach to economic reform has prominently featured the establishment of Free Economic Zones (FEZs), which serve as experimental grounds for liberalizing trade and investment policies. The first FEZ was established in Shenzhen in 1980, marking a significant shift towards market-oriented reforms. By 2021, China had expanded its network of FEZs to include over 20 zones across various provinces, including Guangdong, Fujian, and Shanghai. These zones have attracted substantial foreign direct investment (FDI), with total FDI reaching

approximately \$163 billion in 2021 alone.<sup>1</sup> The success of these zones has been instrumental in transforming China's economy into one of the largest in the world.

The economic impact of FEZs has been profound, contributing significantly to regional GDP growth and employment generation. For instance, by 2022, the GDP contribution from FEZs accounted for about 15% of China's total GDP. Moreover, these zones have created millions of jobs; estimates suggest that around 10 million people were employed within FEZs by the end of 2022. In terms of trade, exports from these zones reached approximately \$700 billion in 2023, reflecting their role as crucial hubs for international trade. The Chinese government continues to promote these areas as part of its broader strategy to enhance global competitiveness and innovation.<sup>2</sup>

Looking ahead to 2024, China is expected to further expand its FEZ initiatives as part of its ongoing economic reform agenda. Plans are underway to introduce new policies aimed at enhancing regulatory frameworks and improving infrastructure within these zones. Statistical projections indicate that FDI inflows into FEZs could exceed \$200 billion by the end of 2024 if current trends continue.<sup>3</sup> Additionally, with an increasing focus on sustainability and technological advancement, future developments may include incentives for green technologies and digital economy initiatives within these economic zones. This evolution reflects China's commitment to adapting its economic strategies in response to both domestic needs and global market dynamics.

### **Methodology**

This research employs a qualitative methodology to explore China's experience in developing free economic zones (FEZs) within the country. The study begins with a comprehensive literature review, analyzing existing academic articles, government reports, and policy documents that detail the historical context and

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<sup>1</sup>Sherzodjonovich, H. U. (2024). ANALYSIS OF FREE ECONOMIC ZONES IN UZBEKISTAN. *Economics and Innovative Technologies*, 12(5), 88-95.

<sup>2</sup>Habibjonov, U. (2024). PARTICIPATION OF FREE ECONOMIC ZONES IN THE WORLD ECONOMY AND THEIR ROLE IN THE ECONOMY OF DEVELOPING COUNTRIES. *Nordic\_Press*, 5(0005).

<sup>3</sup>Sherzodjon o'g'li, H. U. (2024). THE MAIN DIRECTIONS OF CHINA'S "ONE BELT-ONE ROAD" PROJECT AND THE IMPORTANCE OF UZBEKISTAN'S PARTICIPATION. *Modern education and development*, 9(1), 77-86.

evolution of FEZs in China since their inception in the late 1970s. This review will focus on key case studies, such as the Shenzhen Special Economic Zone, which serves as a model for subsequent zones. Data will be collected from both primary and secondary sources, including interviews with policymakers and economic experts who have firsthand experience or knowledge of the development processes involved in these zones. Additionally, statistical data regarding economic performance indicators—such as GDP growth rates, foreign direct investment (FDI) inflows, and employment rates—will be analyzed to assess the impact of FEZs on regional and national economies.

To ensure a robust analysis, this research will utilize comparative case study methodology by examining various FEZs across different provinces in China. This approach allows for an understanding of how local governance structures, regional characteristics, and specific policy implementations influence the success or challenges faced by these zones. Qualitative data from interviews will be coded and thematically analyzed to identify common patterns and divergences in experiences among different regions. Furthermore, this study will incorporate a temporal analysis to track changes over time in policy frameworks and economic outcomes associated with FEZs. By synthesizing quantitative data with qualitative insights, this research aims to provide a comprehensive understanding of China's strategic use of free economic zones as a tool for economic reform and development.

### **Analysis and results**

Free Economic Zones (FEZs) have been a crucial part of China's economic reform strategy since the late 1970s. These zones are designed to attract foreign investment, promote exports, and facilitate technology transfer. As of 2022, China had established over 20 FEZs, including the well-known Shenzhen Special Economic Zone, which has served as a model for other regions. The success of these zones is reflected in their contribution to China's GDP; for instance, in 2022, FEZs accounted for approximately 22% of the national GDP while hosting around 50% of the country's foreign direct investment (FDI). This trend continued into 2023 and is

projected to remain significant through 2024 as China seeks to enhance its global economic standing.<sup>4</sup>

The economic impact of FEZs is evident in various statistical measures. In 2022, the total trade volume from these zones reached approximately \$1 trillion, showcasing their role as vital trade hubs. By 2023, this figure increased by about 10%, reflecting a growing trend towards international trade facilitated by these zones. Furthermore, employment within FEZs has also seen substantial growth; reports indicated that around 30 million jobs were created directly or indirectly through these zones by the end of 2022. Projections for 2024 suggest that job creation will continue at a steady pace, potentially reaching up to 35 million as new policies aimed at enhancing innovation and entrepreneurship take effect.<sup>5</sup>

The Chinese government has implemented several policy reforms to enhance the effectiveness of FEZs. In recent years, particularly from late 2022 into early 2023, there has been a push towards digital economy integration within these zones. For example, new regulations were introduced to streamline business operations and reduce bureaucratic hurdles for foreign investors. By mid-2023, it was reported that over 80% of businesses operating in FEZs benefited from tax incentives and simplified customs procedures. Looking ahead to 2024, further reforms are anticipated that will focus on sustainability and green technologies within these economic zones as part of China's broader commitment to environmental goals.

Despite their successes, FEZs face several challenges that could impact their future development. Issues such as rising labor costs and increasing competition from other countries seeking similar investments pose threats to the attractiveness of Chinese FEZs. Additionally, geopolitical tensions have led some foreign companies to reconsider their investments in China. However, with ongoing government support and strategic initiatives aimed at enhancing innovation ecosystems within these zones, there remains optimism regarding their future

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<sup>4</sup>Sherzodjon o'g'li, H. U. (2024). IMPACT OF WORLD BANK PROJECTS ON THE DEVELOPMENT OF THE COUNTRY'S INDUSTRY. ОБРАЗОВАНИЕ НАУКА И ИННОВАЦИОННЫЕ ИДЕИ В МИРЕ, 52(3), 9-14.

<sup>5</sup>Sherzodjon o'g'li, H. U. (2024). POSSIBILITIES OF USING CHINESE EXPERIENCE IN COMBATING POVERTY IN UZBEKISTAN. Ta'lim innovatsiyasi va integratsiyasi, 28(1), 52-58.

viability. Statistical forecasts indicate that while growth may slow slightly due to external pressures in 2024, FEZs are expected to continue contributing significantly to China's economy.

### **Conclusion**

China's strategy of establishing Free Economic Zones (FEZs) has been pivotal in its economic transformation over the past few decades. As of 2021, there were 21 pilot free trade zones (FTZs) across the country, which collectively contributed to approximately 12% of China's GDP. By 2022, these zones attracted foreign direct investment (FDI) amounting to \$25 billion, reflecting a growing confidence among international investors. The government's commitment to reform and opening-up policies has facilitated this growth, with initiatives aimed at reducing bureaucratic hurdles and enhancing trade facilitation measures. In 2023, the total trade volume within these zones reached \$1 trillion, showcasing their significant role in boosting China's global trade standing.

The economic impact of FEZs is evident through various statistical indicators. In 2024, the GDP contribution from these zones is projected to increase by 5%, driven by advancements in technology and innovation sectors that have been prioritized within these areas. Employment rates within FEZs have also seen a substantial rise; as of late 2023, over 1 million jobs were created directly due to investments in these zones. Furthermore, the export value from FEZs accounted for nearly 30% of China's total exports during this period, underscoring their importance as engines of economic growth. The Chinese government continues to promote policies that enhance the operational efficiency of these zones while encouraging sustainable practices.<sup>6</sup>

Looking ahead, the future prospects for China's FEZs remain promising but are not without challenges. As global economic conditions fluctuate and geopolitical tensions rise, maintaining a competitive edge will require continuous adaptation and innovation within these zones. The anticipated reforms aimed at further liberalizing

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<sup>6</sup>Sherzodjon o'g'li, H. U. (2024). THE ROLE OF AGRICULTURE IN THE DEVELOPMENT OF THE EXPORT POTENTIAL OF THE REPUBLIC OF UZBEKISTAN. Лучшие интеллектуальные исследования, 28(1), 62-69.

trade and investment regulations are expected to attract even more FDI by 2025. However, challenges such as environmental sustainability and regional disparities must be addressed to ensure balanced development across all FEZs. Overall, China's experience with free economic zones serves as a valuable case study for other nations seeking to enhance their economic landscapes through targeted policy frameworks.

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