

**ECONOMIC ZONE ON THE
WEST COAST OF TAIWAN STRAIT**

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Executive Summary

1. In early May 2009, the Chinese State Council announced a plan and approved “Several Opinions Concerning Support for the More Rapid Establishment of Economic Zone on the West Coast of Taiwan Strait (EZWCTS) by Fujian Province.”
2. The State Council emphasized that EZWCTS will capitalize on the province’s unique advantages with regard to Taiwan to strengthen industrial cooperation and cultural exchanges across the strait.
3. This indicates that the proposed EZWCTS has been officially raised to state-level, and this pilot project will become another economic growth engine of China.
4. Fujian’s enthusiasm in EZWCTS was triggered by the overall success of several central-supported regional development strategies implemented since the 1990s; the province raised the proposal in 2003.
5. Fujian’s intention to promote and speed up EZWCTS is encouraged by the current changing situation across the strait. Indeed, cross-strait relationship has taken a dramatic turn since Taiwan president Ma Ying-Jeou took office in May 2008.
6. Although Fujian’s economy has been developing fast these years, it still faces some difficulties and bottle-necks compared with other provinces in terms of economic scale and structures, thus hindering its potential for attracting FDI.
7. The short-term goal of the EZWCTS is to increase local GDP from 755 billion yuan in 2006 to 1 trillion yuan in 2010. The long-term goal is to build a developed and prosperous economic belt along the west coast of Taiwan Strait.

8. EZWCTS will greatly enhance the infrastructure of Fujian with the assistance of the central government. The central government has already formulated a package of preferential policies and capital investment for the EZWCTS.
9. EZWCTS is also of great significance to cross-strait relations. Beijing and Taiwan have just endorsed an agreement on cross-strait financial cooperation with many financial cooperation programs likely to be initiated and tested in EZWCTS.
10. By modernizing fundamental facilities and integrating resources across the strait, a more dynamic and harmonious region and a more developed and prosperous economic belt along the west coast of Taiwan Strait are set to emerge in the near future.

ECONOMIC ZONE ON THE WEST COAST OF TAIWAN STRAIT

ZHAO Hong & LIANG Ruobing*

Fujian to Develop a New Economic Zone

- 1.1 In early May 2009, the Chinese State Council announced a plan and approved “Several Opinions Concerning Support for the More Rapid Establishment of Economic Zone on the West Coast of Taiwan Strait (EZWCTS) by Fujian Province” as part of the overall package to speed up the development of its Fujian province.
- 1.2 According to this plan, mainland will strengthen partnership with Taiwan to develop its Fujian Province through the construction of the EZWCTS. The State Council emphasized that the EZWCTS will be built as a trial zone for interaction between the people across the strait, a corridor for opening toward the rest of the world, a major advanced manufacturing centre on the eastern coast, and one of China’s main natural and cultural tourism areas.
- 1.3 This plan points out that given the new circumstances of positive changes in cross-strait relations, even more vigorous measures must be adopted in order to further exploit the comparative advantages of Fujian Province. Preferential test policies will be implemented to hasten the establishment of the EZWCTS and the rapid and successful development of the Fujian economy and society.
- 1.4 This indicates that the proposed EZWCTS has been officially raised to state-level, and this experimental area will become another key economic growth engine of China.

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- 1.5 The proposed EZWCTS is not new. Fujian government initially raised the proposal in 2003, and in 2004, expanded the economic zone to cover parts of its neighboring provinces, including south Zhejiang, east Guangdong and southeast Jiangxi. At the same time, an outline and construction framework of EZWCTS (Provisional Version) was made.
- 1.6 EZWCTS lies just below the Yangtze River Delta to the north, adjoins the Pearl River Delta to the south, and is a major component of China's coastal economic belt. It consists of 21 prefecture cities, the focus of which is on 9 cities of Fujian province, including Xiamen, Fuzhou, Quanzhou, Putian, Zhangzhou, Ningde, Sanming, Longyan and Nanping.¹ Among them, the core area is the coastal belt from Fuzhou through Quanzhou to Xiamen, which is right opposite the eastern part of Taiwan Island (Figure 1 in the appendix).
- 1.7 For the EZWCTS, the Fujian Province is obviously capitalizing on its locational advantages, such as its proximity to Taiwan and frequent business exchanges with the island, to promote regional economic development. Facing Yangtze River Delta (YRD) in the north and Pearl River Delta (PRD) in the south, Fujian governmental officials are pressured to catch up with the two deltas by further enhancing economic cooperation with Taiwan.
- 1.8 Fujian's enthusiasm in EZWCTS was triggered by the overall success of several central-supported regional development strategies implemented since the 1990s, such as the Western Development, Pan-Pearl River Delta Cooperation, and the Revitalization of Heavy Industrial Bases of the Northeast. These projects have made great achievements and significantly promoted the local economies (Figure 2 in the appendix).
- 1.9 In November 2005, the EZWCTS was formally incorporated into the 11th Five-year economic plan of the central government after being approved at the fifth plenary session of the 16th Central Committee of CCP in August 2004. As

¹ The other 12 cities include Wenzhou, Jinhua, Quzhou and Lishui of Zhejiang Province, Shantou, Chaozhou, Meizhou and Jieyang of Guangdong, and Ganzhou, Fuzhou, Yingtan and Shangrao of Jiangxi.

an endorsement, President Hu Jintao traveled to Fujian to inspect the economic zone and later to promote it as a development strategy in early 2006.

- 1.10 Fujian's intention to promote and speed up EZWCTS is greatly encouraged by the current changing situation across the strait. Indeed, cross-strait relationship has taken a dramatic turn since Taiwan president Ma Ying-Jeou took office in May 2008. In less than a year, Taiwan's Straits Exchange Foundation (SEF) and the Mainland's Association for Relations Across the Taiwan Strait (ARATS) have held three rounds of talks.
- 1.11 Alongside the talks are concrete steps to normalize and improve economic relations. By late 2008, the "three links" were largely achieved with the signing of four agreements, including those on air transport, direct sea transport, postal cooperation, and food safety. Moreover, restrictions on two-way investment are expected to be gradually lifted, after the two sides reached a consensus on April 26, 2009, to jointly promote mainland Chinese investment in Taiwan.
- 1.12 Fujian's determination to develop the EZWCTS was largely prompted by the support shown by China's top leaders. In a three-day visit to Fujian from 9 May 2009, Chinese Premier Wen Jiabao called for the acceleration of the EZWCTS to boost social and economic development in the region and combat the global economic downturn, stressing that "creativity of new cooperation mechanisms and trial of major reform measures are the cores of the EZWCTS."
- 1.13 At the first Taiwan Strait Forum in Xiamen on 16 May, during his inspection tour in Fujian in May 2009, Jia Qinglin, Chairman of the National Committee of the Chinese People's Political Consultative Conference, said the building of EZWCTS needs to be speeded up, and the province can "make bold attempts" to implement the plan and expand mutual investment and cooperation in agriculture, finance, tourism and infrastructure construction.

Why EZWCTS?

- 2.1 Although Fujian's economy has been developing fast these years, it still faces some difficulties and bottle-necks compared with some other provinces in terms of economic scale and structures, thus hindering its potential for attracting FDI.

**TABLE 1 GROSS REGIONAL PRODUCT
(BILLION YUAN)**

Region	2003	2004	2005	2006	2007
Fujian	498	576	657	759	925
Shanghai	669	807	916	1 037	1 219
Jiangsu	1 244	1 500	1 831	2 165	2 574
Zhejiang	971	1 165	1 344	1 575	1 878
Guangdong	1 545	1 887	2 237	2 6106	3 108

Source: China Statistical Yearbook, 2008

- 2.2 Table 1 shows that the economic scale of Fujian is much smaller than those of provinces in YRD and PRD.² In 2007, the GDP of Fujian was 925 billion yuan, about 36% that of Jiangsu and 30% that of Guangdong; its GDP per capita was 26,000 yuan, much lower than that of YRD (48,000 yuan) and PRD (57,000 yuan).
- 2.3 In terms of industrial structure, Fujian is also behind those of provinces in YRD and PRD (Table 2). In 2007, the proportion of primary, secondary and tertiary industries in GDP in Fujian, YRD and PRD are 11:49:40, 3:54:43, and 2:51:47 respectively. Fujian has a larger agricultural sector than that of the YRD and PRD, reflecting its relatively underdeveloped economy.

² YRD comprises the triangular-shaped territory of Shanghai, southern Jiangsu province and northern Zhejiang province. The PRD covers nine prefectures in the province of Guangdong, namely Guangzhou, Shenzhen, Zhuhai, Dongguan, Zhongshan, Foshan, Huizhou, Jiangmen, and Zhaoqing, and the SARs of Hong Kong and Macau.

**TABLE 2 ECONOMIC INDICATORS OF THREE ECONOMIC ZONES
2007**

	GDP (billion yuan)	GDP per capita (yuan)	Industrial structure
Fujian	925	25 908	11:49:40
EZWCTS	1 783	19 786	10:50:40
YRD	4 686	48 069	3:54:43
PRD	2 542	56 581	2:51:47

Sources: Authors' calculation based on data from Provincial Statistics Yearbook of Fujian, Jiangxi, Zhejiang, and Guangdong, 2008 and Statistics Yearbook of Yangtze River Delta, Pearl River Delta, Hong Kong and Macau Special Administrative Regions, 2008.

2.4 In the YRD and PRD, there are several large-scaled industrial agglomerations which are more productive and therefore generate more economic growth, while those in Fujian are few, small-scaled, and mostly low value-added labor-intensive industries (Table 3).

**TABLE 3 SELECTED INDICATORS OF CORE CITIES OF
FUJIAN, YRD AND PRD, 2007**

	GDP (billion yuan)	GDP per capita (yuan)	Population (million)
Fujian			
Xiamen	139	56 188	2.4
Quanzhou	228	29 601	7.7
Fuzhou	198	29 515	6.7
YRD			
Shanghai	1 210	66 367	18.6
Suzhou	570	67 387	8.8
PRD			
Shenzhen	680	79 645	8.6
Guangzhou	711	71 808	10.1

Sources: Provincial Statistics Yearbook of Fujian, Jiangxi, Zhejiang, and Guangdong, 2008; Statistics Yearbook of Yangtze River Delta, Pearl River Delta, Hong Kong and Macau, 2008, China Statistics Press.

2.5 Thus, Fujian's competitiveness in attracting Taiwanese investment has been declining, especially high value-added industries such as electronics and

electrical appliances manufacturers as reflected in the history of Taiwanese investment in the mainland. By the year 2008, Taiwan's verified FDI in Fujian was US\$808 million, accounting for 7.6% of Taiwan's total verified FDI in the mainland, while that in Shanghai and Jiangsu were US\$1,704 million and US\$4,229 million, accounting for 16% and 40% respectively (Table 4).

**TABLE 4 TAIWAN'S VERIFIED FDI REGIONAL DISTRIBUTION
(US\$ MILLION)**

Year	Total	Fujian	Shanghai	Jiangsu	Zhejiang	Guangdong
2000	2 604	100	321	931	69	1 020
2001	2 784	120	376	1 046	209	788
2002	6 723	750	949	2 223	512	1 635
2003	7 699	492	1 104	2 601	608	2 055
2004	6 941	453	1 175	2 487	690	1 404
2005	6 007	398	1 018	2 349	485	1 220
2006	7 642	520	1 042	2 883	591	1 415
2007	9 971	388	1 440	3 842	691	1 979
2008	10 692	809	1 704	4 229	612	1 505

Source: Department of Statistics, Ministry of Economic Affairs, Taiwan,
<http://210.69.121.6/gnweb/Indicator/Indicator01.aspx?rptcod=E07>

2.6 During the early stages of the opening-up, Fujian was one of the most attractive destinations for Taiwanese investment. In 1993, Guangdong and Fujian were two provinces which attracted the most of Taiwanese investment, accounting for 33% and 16% of total Taiwanese investment in the mainland respectively.³

2.7 However, the attractiveness of Fujian for FDI has been decreasing since then. During the past decade, annual Taiwanese investment in Fujian fluctuated from some US\$470 million in 1997 to below US\$388 million in 2007, with the highest at over US\$700 million in 2002 (Chart 1 in the appendix). In 2008, the percentage share of Taiwanese investment flowing into Fujian only stood at 8% of the national total (Chart 2 in the appendix).

³ Lu, D. and Zhu, G., "Singapore Foreign Direct Investment in China: Features and Implications," *ASEAN Economic Bulletin* (Singapore), Vol.12, No.1, 1995, pp.53~63.

- 2.8 These years, as Bohai Rim Economic Zone in Tianjin emerges, Taiwanese investment also has the tendency to move northward from YRD and PRD. Currently, there is no impressive agglomeration of high value-added industries in Fujian.
- 2.9 In terms of bilateral trade with Taiwan, Fujian is also lagging behind those of provinces in YRD and PRD. For instance, in 2007, Fujian's bilateral trade with Taiwan was US\$6.9 billion, accounting for 5.5% of total cross-strait bilateral trade (US\$124.5 billion), while that of Guangdong, Jiangsu and Shanghai were US\$37.8 billion, US\$34.4 billion and US\$15.2 billion, accounting for 30.3%, 27.6% and 12.2% respectively.⁴ Fujian provincial government hopes that the establishment of the EZWCTS will revitalize its economy with the development of business with Taiwan.

Significance of the EZWCTS

- 3.1 The EZWCTS covers many aspects of economic and social development – particularly economic growth and sustainable development of social and ecological system – in Fujian and its surrounding regions.
- 3.2 The EZWCTS will accelerate economic development along the coastal cities in Fujian Province. Fujian's GDP in 2007 was 924.9 billion RMB. The main growth engines in Fujian are Xiamen, Fuzhou, Quanzhou, Zhangzhou and Putian. The short-term goal of the EZWCTS is to increase local GDP and GDP per capita of the Fujian province from 755 billion yuan and 21 thousand yuan in 2006 to 1 trillion yuan and 28 thousand yuan in 2010 respectively.⁵ The long-term goal is to build a developed and prosperous economic belt along the west coast of Taiwan Strait.

⁴ The trade data of China, Jiangsu, Guangdong and Shanghai are from 2008 Statistics Yearbook of China, Jiangsu, Guangdong and Shanghai respectively. Fujian's data is from People's Daily online, <http://tw.people.com.cn/GB/98292/8522508.html>.

⁵ Outline of the Construction of Economic Zone on the West Coast of Taiwan Strait (Provisional Version), Provincial Party Committee and Provincial Government of Fujian, 29 January 2007.

- 3.3 To realize this goal, Fujian has to upgrade its industrial structure, further balance urban-rural economic development, construct more infrastructures, facilitate closer Fujian-Taiwan economic cooperation, enhance international and inter-provincial trade and investment, and encourage scientific and technological innovation.
- 3.4 The EZWCTS will greatly enhance the infrastructure in Fujian with the assistance of the central government. The central government has already formulated a package of preferential policies and capital investment for the EZWCTS. Up to now, more than 50 state ministries, departments and central-owned enterprises had signed agreements of cooperation with the Fujian provincial government, expressing their willingness to support the EZWCTS in terms of infrastructure building, finance service, taxation, and so on.
- 3.5 For instance, the Ministry of Railway had endorsed an agreement with Fujian province to invest over 100 billion yuan to construct a 2000-km railway from 2004 to 2014.⁶ In January 2008, another agreement was signed to extend the railway by another 1900 kilometers from 2012 to 2020.
- 3.6 When completed, Fujian would have a 5000-km railway connecting Fujian with YRD, PRD and some inland provinces. This will greatly promote the fundamental facilities of Fujian province and enhance its competitiveness in attracting FDI, creating economic growth momentum.
- 3.7 The EZWCTS is also of great significance to cross-strait relations. Beijing and Taiwan have just signed agreements on cross-strait financial cooperation and many financial cooperation programs are likely to be initiated and tested in the EZWCTS. This cooperation is important to Taiwan's businesses, including those in the financial sectors, as expanding their businesses into the mainland will provide them with alternative avenues of growth to meet the challenges of the financial crisis.

⁶ These lines include Fuzhou-Wenzhou, Fuzhou-Xiamen, Xiangtang (Jiangxi)-Putian, Longyan-Xiamen, and Shenzhen-Xiamen (see Figure 3 in the appendix).

- 3.8 The central government has adopted several preferential policies to strengthen Fujian-Taiwan links in terms of trade, investment, transportation, and so on. The Ministry of Commerce (MOC) is planning to establish some new Taiwanese investment zones in Fuzhou, Xiamen and Quanzhou, and lift restrictions on petty trade across the Taiwan Strait. According to a regulation recently passed by the Ministry of Finance and State Administration of Taxation, shipping companies of both mainland and Taiwan can enjoy tax exemptions on their business income for ships plying between Fujian's coastal regions and the three islands of Taiwan, namely Kinmen, Matsu and Penghu.
- 3.9 To attract Taiwanese investment, the MOC will also assist Fujian in the establishing of a logistics hub for Taiwanese invested companies on the transportation of parts and fittings of machinery and raw materials. Procedures have also been simplified specially for Taiwanese investors. It is now a simple procedure of application and approval.

Prospects of the EZWCTS

- 4.1 The Chinese State Council's recent approval of "Several Opinions Concerning Support for the More Rapid Establishment of a Straits West Coast Economic Zone by Fujian Province" will greatly stimulate the construction and development of the EZWCTS, which will enhance economic integration between Fujian and Taiwan. The State Council emphasized that the EZWCTS will be exploiting the province's unique advantages with regard to Taiwan, strengthening industrial cooperation and cultural exchanges across the strait.
- 4.2 There is little doubt that the EZWCTS will benefit regional economies with the improvement in competitiveness through infrastructure construction and mutual economic links across the Taiwan Strait. The infrastructure connecting EZWCTS with YRD and PRD will also benefit the region in terms of economic growth as well as social development. Lower transportation costs will promote inter-provincial flow of capital, goods and labor.

- 4.3 Mainland and Taiwan have recognized that cross-strait economic integration needs to be pursued in a measured and balanced fashion, not in a pell-mell rush. The EZWCTS can be a test area for implementing some new policies and can play a pioneer role in implementing the Economic Cooperation Framework Agreement (ECFA).
- 4.4 As a comprehensive agreement on economic cooperation, the ECFA is targeting at a higher level of economic integration including free flow of capital, technology and information. Such an agreement is of special significance and importance to Taiwan's businesses, including those in the financial sector, which are eager to expand their businesses into the mainland to overcome their current difficulties.
- 4.5 Cross-strait financial cooperation agreement was discussed informally in the 2nd round of cross-strait talks in November 2008 and formally concluded in the 3rd round in April 2009. The EZWCTS can be a platform for some policies, such as unifying statistics and accounting criterion, setting up settlement mechanism, establishing cross-strait information exchange network, and resolving various technical issues in cross-strait financial cooperation.
- 4.6 The EZWCTS can also facilitate cooperation with Taiwan in some new industries. The Taiwan government has recently scheduled several industries as promotion targets for the island's future or "star" industries. The first is the biotechnology industry. Taiwan has recently announced a plan to establish an NT\$60 billion (US\$1.78 billion) venture capital fund to transform the biotechnology sector into the island's next star industry.⁷ This project is expected to span 10 years. Biotech is said to have global demand and is almost "recession-proof", as stock prices of related forms reportedly suffered the smallest Wall Street losses on average.

⁷ "The nation's next star industry", Taiwan Journal, March 4, 2009, <http://taiwanjournal.nat.gov.tw/ct.asp?xItem=49502&CtNode=118>

- 4.7 Others include green energy, of which the twin pillars will be solar energy and light-emitting diode industries. The current value of production is about US\$4.7 billion. This amount is expected to increase to US\$14 billion by 2012 and over US\$20 billion by 2015.⁸
- 4.8 Taiwan's culture and creative industry are also an area the government has targeted as a future star industry. Through deregulation and enlarging the markets, it is hoped that more resources will be dedicated to this industry. The EZWCTS has been hoping to cooperate with Taiwan in developing its cultural industry and other related industries as Fujian shares many cultural roots with Taiwan.
- 4.9 On the part of Taiwan, it can also initiate specific cooperative projects with the EZWCTS. One area is the food industry; the mainland is working hard to make efficient use of lands and natural resources to develop its agricultural sector. Taiwan's well-known ability in developing its agricultural sector, in particular orchid growing and fish farming, will be much sought after in the mainland.
- 4.10 In sum, by modernizing fundamental facilities and enhancing economic development, the EZWCTS can become an advanced platform for cross-strait interaction and cooperation. Taiwan can capitalize on its abilities and work with the EZWCTS on selected industries, such as financial and agricultural sectors and some new "star" industries. By integrating resources across the strait, a more dynamic and harmonious region and a more developed and prosperous economic belt along the west coast of Taiwan Strait are set to emerge in the near future.

⁸ "An economic power's blueprint for future success", Taiwan Journal, April 2, 2009, <http://taiwanjournal.nat.gov.tw/ct.asp?xItem=49502&CtNode=118>

Appendix

FIGURE 1 CORE CITIES IN THE EZWCTS



FIGURE 2 MAIN ECONOMIC DELTAS AND REGIONAL DEVELOPMENT STRATEGIES IN CHINA

The map illustrates the main economic deltas and regional development strategies in China. The regions are color-coded: pink for the northeast, yellow for the Bohai Rim, light blue for the Yangtze River Delta (YRD), light green for the East China Waterfront (EZWC), and light orange for the Pearl River (PR). A dashed line outlines the 'Revitalization of heavy industrial bases of the northeast' strategy, covering the northeast region. A dotted line outlines the 'Western development' strategy, covering the western and central regions. Labels for 'Bohai Rim', 'YRD', 'EZWC', and 'PR' are placed near their respective regions. The map also shows the names of the provinces and autonomous regions in Chinese.

FIGURE 3 MAIN CONSTRUCTION PLAN OF FUJIAN'S RAILWAY



CHART 1 REGIONAL DISTRIBUTION OF TAIWAN'S FDI IN THE MAINLAND, 1997-2008

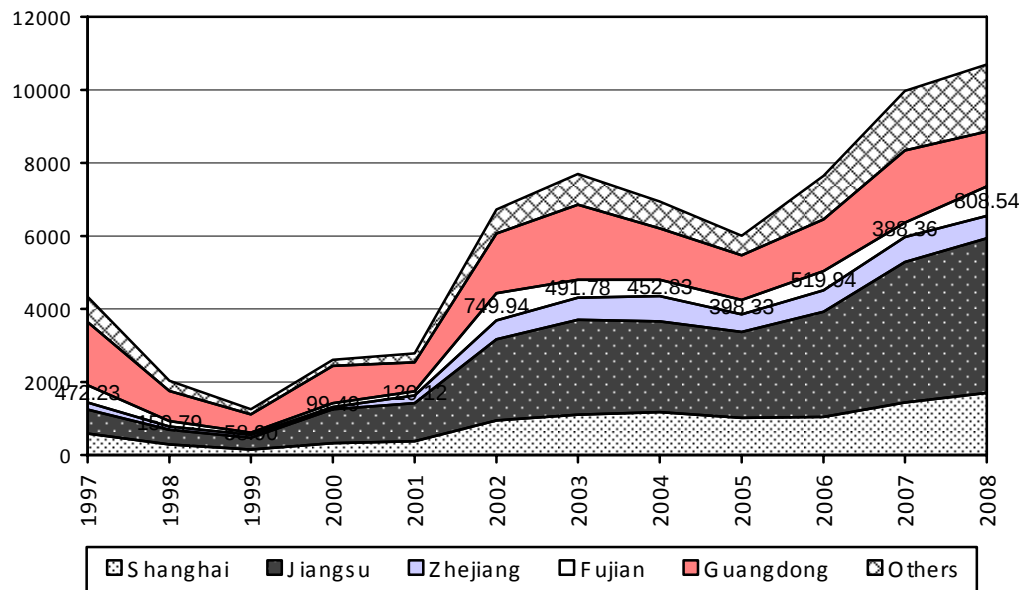


CHART 2 MAIN REGIONS ATTRACTING MOST TAIWAN'S FDI, 1997-2008

