

**CHINA'S SPECIAL ECONOMIC
FUNCTIONAL AREAS (I):
ECONOMIC DEVELOPMENT
EXPERIMENTS**

LI Yao & Sarah Y. TONG

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Executive Summary

1. Special Economic Functional Areas (hereafter SEFAs) are a significant feature of China's economic reform and development of the past decades. The setting up of SEFAs in the form of Special Economic Zones began in the late 1970s when China started its reform and opening-up.
2. As of August 2017, these special areas were in all 31 provincial administrative regions and 224 of 334 prefecture-level cities of mainland China. They serve as the most dynamic drivers of the country's economy and a test ground for new reforms and economic opening without disrupting the rest of the country.
3. The development of China's SEFAs went through three periods. In the early years, especially in the 1980s, most special areas were located in the coastal regions to promote China's economic opening.
4. Thereafter, the High Tech Industrial Development Zones and Economic and Technological Development Zones emphasise more on specific economic activities and certain industries.
5. Since 2000, the development of SEFAs with multi-base and comprehensive functions has been incorporated into China's national development strategy.
6. The economic functional areas in China can be grouped roughly into three categories according to their major functions and experimental objectives: (1) outward-oriented zones; (2) industry specific zones or zones with high-tech priority; and (3) pilot districts for comprehensive reforms.
7. These areas have different but sometime overlapped objectives, including facilitating international trade; building regional growth poles; speeding up the development of specific industries; encouraging R&D; promoting comprehensive economic reform; facilitating cross-country economic cooperation; and promoting Chinese economic development model abroad.

8. SEFAs have contributed substantially to China's economic opening and transformation. The changing functional focus and geographic distribution are also consistent with the evolution of China's overall reform progress and regional development strategy. As a large country with huge internal diversity, SEFAs can still play an important role in China's future reforms.
9. The further development of SEFAs in China is however not without challenges. For example, it is difficult to strike a good balance between top-down government initiatives and bottom-up market impulses. Another challenge is to prevent policy arbitrage by businesses and competition among different localities.