

## 4 Recent developments in FTZs and port hinterlands in Asia and Europe

### 4.1 FTZs in Asia

Many countries in Asian region have introduced FTZs to develop their national economies by attracting foreign direct investment (FDI) into the FTZs. In a world of limited amounts of investment funding available most Asian countries have selected this policy partly because it is easier to provide relatively well developed infrastructures in these small special areas than to establish good infrastructures throughout the whole country in a short period of time.

The characteristics of FTZs in Asian countries are basically same as described in Chapter 2. FTZs are considered as outside of customs territory, are designed to attract FDI and to provide a business friendly environment with incentives, good infrastructure and other advantages.

Most of all, FTZs, whether or not they are referred to by that name, have concentrated traditionally on manufacturing for export, and many of them are located along the coast or near sea transport routes to leverage international transportation.

Some differences in Asian FTZs can be attributable to differences in political, economic and social situations. For example, it could be argued that the whole of Singapore is a FTZ, while almost all other countries, such as the Republic of Korea and Malaysia, have designated very specific and small areas as FTZs compared to the size of whole country.

The situation in China is different again. Since China opened its economy to the world in 1980s, the country has introduced many kinds of special zones of various sizes covering large to relatively small areas, For example, Xiamen Special Economic Zone covers an area of 1,565 square kilometres and has a population of about 1.31 million while Tianjin Free Trade Zone (Bonded Zone) covers an area of five square kilometres. China's economic activities are taking place mainly through these various special zones, unlike most other countries.

By taking into account these paradigms in FTZs in the Asian region, three types of FTZ can be identified based on the extent of the FTZ's role in the whole economy, viz. the country or market size; economy; political and social situations (see Table 4.1). These types of FTZs, however, are not necessarily standard classifications of FTZs nor do they necessarily represent desirable policy directions. Instead, they are interesting because of their differences and important because of their contribution to their nation's economies.

The next part of this chapter examines the types of FTZs established in three different Asian countries – Singapore, China and the Republic of Korea.

One of important trends in FTZs in Asia is that many countries have been showing their interests in the logistics industry. This may be due to hopes of improving national export competitiveness through a sophisticated domestic logistics industry; establishing international logistics centres and attracting foreign companies; or for becoming a regional logistics hub to serve neighbouring countries. In fact, this trend has been accelerated as globalization of manufacturing gains momentum and introduction or integration of a few regional or global base distribution centres by multinational companies. In addition, fast growing container volumes in the Asian region is a factor prompting countries to take an interest in logistics as well as multimodal transport being part of the GATS agreement between governments.

**Table 4.1 Cases categorized by the role of FTZs (ESCAP secretariat)**

Factors	Case A	Case B	Case C
FTZs role in whole country's economy	relatively small, but whole country is similar to FTZs	depends on policy relatively small or medium or large	relies on special zones with FTZs
market size			
national GDP	small/medium	medium/small	large
personal GDP	large	medium/small	small
country size	small	medium	large
labour			
wage	high	high/medium/low	medium/low
skill	high	high/medium/low	medium/low
business environment	superior	good/medium/low	medium/low
example country	Singapore	South Korea, Malaysia	China

This has resulted in the development of port hinterland areas as logistics oriented complexes, especially just behind the main port boundary. These areas are usually designated as FTZs to utilize international transportation infrastructures whatever the names and main functions are. More details are found in the cases studies in the next part of this chapter.

## 4.2 Singapore

### 4.2.1 General business environment

Singapore is a free port and has relatively few excise and import duties. The country's free trade policy is at the core of its international trade policy. Virtually all goods which enter Singapore are duty-free. Some investors see that Singapore's strength lie in its strategic location; political stability; legal framework; financial services; business infrastructure.

In addition, Singapore is integrated in the global transport network through the connectivity of its seaport and airport. Free trade agreements (FTA) help to bolster trade with many countries such as the United States, Japan, the Republic of Korea, Australia, the European Free Trade Association and New Zealand. There are also many ongoing discussions with other countries for FTAs. Singapore is a member of the ASEAN Free Trade Area (AFTA) a market of 550 million people. As of 1 January 2003, nearly 92 per cent of all tariff lines in AFTA were reduced to between 0 to 5 per cent from an average of 12 per cent in 1992. Singapore has 47 Avoidance of Double Taxation Agreements, and has concluded 31 Investment Guarantee Agreements with other countries [Economic Development Board of Singapore (EDB), online].

Singapore's major business strategies are to leverage on excellent infrastructure and a pro business environment and to develop Singapore into a:

- headquarters hub
- logistics hub
- international financial hub
- R&D hub
- biomedical sciences and petrochemical industry hub
- international education hub

## 4.2.2 FTZs in Singapore

All dutiable goods imported into or manufactured in Singapore are subject to customs duty and/or goods and services tax (GST). The broad categories of dutiable goods for customs duty in Singapore are intoxicating liquors, tobacco products, motor vehicles and petroleum products. GST is a tax on domestic consumption within Singapore. It is paid at the rate of 5 per cent whenever customers buy goods or services from GST-registered businesses within Singapore.

FTZs in Singapore were first established in 1969 to facilitate entrepot trade in dutiable goods. Singapore has seven FTZs, six for seaborne cargo and one for air cargo, within which a wide range of facilities and services are provided for storage and re-export of dutiable and controlled goods. Goods can be stored within the zones without any customs documentation until they are released in the market. They can also be processed and re-exported with minimum customs formalities. FTZs in Singapore are primarily for transshipment cargoes, and the key characteristic of Singapore is that the whole country is similar to FTZs. This means that in examining the concept of an FTZ with reference to Singapore, the whole country system needs to be considered.

The FTZs are located at the Port of Singapore, Jurong Port, Sembawang Wharves, Pasir Panjang Wharves and Changi Airport (see Table 4.2). The FTZs provide 72 hour free storage for import/export of conventional and containerized cargo and 14 day free storage for transshipment/re-export cargo. The rental cost of FTZ facilities within port area is relatively expensive due to scarce land. Most logistics companies have facilities in FTZs both inside and outside the port, but relatively small space in the FTZs inside the port for goods requiring quick action.

The ALPS (Airport Logistics Park of Singapore) at Changi Airport was officially opened in March 2003. This 26 ha (237 thousand square metres) of dedicated infrastructure, strategically located within the airport free trade zone, leverages good connectivity and handling efficiency to enable quick turnaround, value-added logistics and regional distribution activities.

**Table 4.2 FTZs under the FTZ Act in Singapore**

	Size (1,000)	Major facilities
Keppel FTZ	2 590	3 container terminals (Keppel, Tangjong Pagar, Brani) with 30 berths
Pasir Panjang FTZ	650	Pasir Panjang container terminal, conventional terminal
Jurong FTZ	615	Jurong Port usually for conventional cargoes
Sembawang FTZ	199	Sembawang Wharves for motors, bulk cargoes
ALPS	237	Changi Airport

## 4.2.3 Other logistics related facilities

In addition to FTZs, Singapore has many distriparks and warehouse schemes which may be located within the FTZs or outside them. Distriparks in Singapore are, for example, Keppel Distripark with 200 thousand square metres, Alexandra Distripark with 210 thousand square metres, Pasir Panjang Distripark with 250 thousand square metres and Tanjong Pagar Distripark 65 thousand square metres.

The warehouse schemes of Singapore include *bonded warehouses* and *licensed warehouses* for logistics services. A **bonded warehouse** is conceptually an extension of the free trade zone (FTZ). Depending on the circumstances, a bonded warehouse may be the whole premises, a designated part of the premises, a storage tank or any other place approved by Customs. The designated part may be demarcated with lines, separating it from other areas. When imported goods are removed from the FTZ or imported via the causeway, and stored in a bonded warehouse, GST on the goods is suspended. Similarly, GST is suspended when the goods are transferred from one bonded warehouse to another.

GST is only charged when the goods are removed from the warehouse for the local market and not when the goods are re-exported. Bonded warehouses may be operated by the owners of the goods or by service warehouse operators who take responsibility for the security and proper control of the warehoused goods.

A **licensed warehouse** is a designated area approved and licensed by Singapore Customs for storing dutiable goods, namely liquor, tobacco, motor vehicles and petroleum, with the duty and GST payable suspended. The licensed area to store dutiable goods is demarcated with lines, separating it from other areas. The non-designated area of the same warehouse premises may be used for other purposes. A licensed warehouse may be operated by the owner of the goods or a service operator who is responsible for the security and proper control of the warehoused goods.

Singapore has also developed Banyan LogisPark consisting of 80 hectares of land on Jurong Island. This is dedicated to transshipment and breakbulk operations for bulk liquid petroleum and petrochemical products supporting manufacturers in Singapore and within the Asian chemicals industry. Banyan LogisPark was developed by JTC Corporation<sup>8</sup>, and opened officially in July 2003. JTC Corporation provides other LogisParks and ready-built warehouse in Jurong Island such as:

- Toh Guan LogisPark (30 hectares), Toh Tuck LogisPark (8 hectares); and
- Jurong East Warehouse Complex, Clementi LogisPark (13.5 hectares).

#### 4.2.4 Incentives under the Regional Headquarters Programme

To make Singapore as a regional base for management activities such as overseeing, managing and controlling regional and global operations and business, Singapore has introduced the Headquarters Programme which provides appropriate incentives according to the level of commitment the headquarters put into Singapore. According to EDB Singapore (EDB, online), there are 7,000 multinational companies in Singapore, and more than 4,000 manage regional responsibilities. Of these, some 280 companies' operations have been awarded EDB's headquarters status since 1986. Companies with headquarters in Singapore include manufacturers like Seagate, NEC, Matsushita Electronics, Pall Filtration, Bax Global and Siemens Medical. Asian MNCs (multinational companies) which conduct their global businesses from Singapore headquarters include Indian-based companies like the Scandent Group, Tata Consultancy, and Singapore's System Access (EDB, online).

The Headquarters Programme offers two incentive packages commensurate with the scale and value of the headquarters operation. The Regional Headquarters Award offers a concessionary tax rate of 15 per cent for 3+2 years based on incremental qualifying income from abroad. If a company qualified for a regional headquarters award satisfies all the minimum requirements by year three of the incentive period, it will enjoy the 15 per cent concessionary tax rate for an additional two years on qualifying income. Regardless of their industry or the size of their operations, companies with headquarters based in Singapore for some time, and which have displayed significant investment commitment, stand to be rewarded in due course with the International Headquarters Award (EDB, online).

<sup>8</sup> JTC Corporation formed in 1968 and tasked to develop and manage industrial facilities in Singapore which is also a statutory board under MTI (ministry of trade and industry) to ensure optimum usage of limited land is a developer of land and industrial facilities. It manages 35 industrial estates including specialized park such as a biomedical park, electronic park, a chemical hub on Jurong Island etc. JTC Corporation also developed the ALPS in Changi Airport.

#### 4.2.5 Key strengths and development strategies for a logistics hub

Singapore's key strengths in the logistics industry are its world class infrastructure and connectivity. According to a report from a working group of Singapore's Economic Review Committee (ERC)<sup>9</sup>, strengths are as follows (ERC, 2002):

- strong physical infrastructure
- good connectivity to major trading hubs and manufacturing bases (by both air and sea)
- major shippers and logistics service providers have their regional headquarters and offices in Singapore
- stable political, economic and social conditions
- an educated workforce
- a strong legal system and business friendly tax structure
- government that is pro-active in opening doors for businesses through bilateral and multilateral initiatives, e.g. FTAs.

However, Singapore, although a well recognized logistics hub and the world's 2<sup>nd</sup> container port, in terms of total container throughput, has weaknesses as spelled out in the report from the ERC. These are:

- relatively high costs of operation (especially land rental and wages)
- a small geographic space and domestic market
- an industry that is fragmented and lacks scale, with very few global players with global aspirations
- lack of a logistics cluster/ecosystem
- a lack of responsiveness to customers' needs
- a shortage of skilled, experienced and entrepreneurial logistics professionals
- inadequate technological capabilities to carry out a wide range of supply chain management (SCM) activities.

Singapore has recognized that offshore manufacturing (especially relocation of manufacturing to China), and growing competition in neighbouring countries in terms of logistics hubs are potential threats to its logistics hub strategy.

In order to overcome growing competition and to develop Singapore into an integrated logistics hub, Singapore is trying to become both a physical hub and a virtual hub. Singapore has realized that world class physical infrastructures have been relegated to a necessary but insufficient condition for countries to become a logistics hub, and that the highest value is no longer found in moving the cargo, but in controlling and optimising the flow of the cargo via information management and the promotion of a highest value-added logistics industry.

Singapore's major goals are, therefore (ERC, 2002):

- maintaining and leveraging its strong physical hub capacities (world class seaport and airport facilities, ship registry, ship repairs) and integrating these with knowledge-intensive supply chain management (SCM) skills and technologies

<sup>9</sup> The ERC was formed in 2001 to fundamentally review Singapore's development strategy, and formulate strategies to upgrade, transform and revitalise the economy. There were 7 sub-committees, and each sub-committee had working groups such as working group on logistics. In 2003, ERC released its final report.

- developing the 'softer' aspects of the transport and logistics services and human resource sectors
- developing Singapore as IT logistics nerve centre – IT is central to SCM
- developing Singapore as SCM nerve centre – establishing R&D centres in SCM, providing high-level education and training for knowledge management
- having a secured hub
- offering a multimodal hub – the integration of both physical and IT infrastructure, strengthening multimodal connectivity, sea and air connectivity
- offering a competitive tax regime
- establishing a champion agency to coordinate the government's efforts and act as a one-stop-shop for logistics promotion (In 2002 there were at least nine government agencies involved in transport and logistics supply chain).

In 2000, the transport and logistics industries contributed about 8 per cent to Singapore's GDP or S\$ 12.7 billion. In terms of employment, it absorbs 93,000 workers. Singapore has planned that transport and logistics industries will by 2012 contribute between 9-13 per cent of GDP and employ 120,000 to 170,000 workers once it has implemented its vision outlined by the ERC Working Group on Logistics (see Table 4.3).

**Table 4.3 Targeted economic contribution of the transport and logistics industry (ERC, 2002)**

Indicator	2000	2012 (status quo)	2012 (with vision)
Sector VA (Singapore \$)	12.7 billion	15-21 billion	30-42 billion
Sector VA growth (real)	1990-1995: 7.6% 1995-2000: 4.4%	2000-2012: 2-4%	2000-2012: 8-11%
Contribution to Singapore economy*	7.8%	5-7%	9-13%
Workforce	93 000	85 000-113 000	120 000-170 000

\* Singapore's average annual real GDP growth (2000-2012) is assumed at 6 per cent.

### 4.3 China

In 1978, China decided to reform the national economic setup by launching a policy of opening to the outside world in a planned way and step by step. Since 1980, China has established five special economic zones (SEZs) such as Shenzhen, Zhuhai and Shantou in Guangdong Province, Xiamen in Fujian Province and the entire province of Hainan. In 1984, China further opened 14 coastal cities to overseas investment: Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai.

In 1985, the state decided to expand the open coastal areas, extending the open economic zones of the Yangtze River Delta, Pearl River Delta, the Xiamen-Zhangzhou-Quanzhou Triangle, Fujian, Shandong Peninsula, Liaodong Peninsula, Hebei and Guangxi into an open coastal belt.

In 1990, China decided to open the Pudong New Area in Shanghai and other cities along the Yangtze River Valley. In 1992, the State Council had opened 13 border cities, counties and towns, and opened all the capital cities of the inland provinces and autonomous regions.

In addition during the 1990s China also established 15 FTZs, 56 state-level economic and technological development zones, and 53 new and high-tech industrial development zones (Chinagate, online).

Since its founding in 1992, the Shanghai Pudong New Area has made great progress in both absorbing foreign capital and accelerating the economic development of the Yangtze River Valley. The state has extended special preferential policies to the Pudong New Zone that are not yet enjoyed by the special economic zones. For instance, in addition to the preferential policies of reducing or eliminating customs duties and income tax, common to the economic and technological development zones and certain special economic zones, the state also permits the zone to allow foreign business people to open financial institutions, and run tertiary industries. In addition, the state has given Shanghai permission to set up a stock exchange, expand its examination and approval authority over investments and allow foreign-funded banks to engage in RMB business (Chinaforgroups, online).

Chinese special zones have undertaken the dual roles of 'windows' in developing the foreign-oriented economy and of 'radiators' in accelerating inland economic development by introducing a series of reforms in the foreign trade system by running these zones with different preferential policies.

It is estimated that there are around 4,000 development zones of various kinds, national, provincial or local level. Some local governments are tempted by the impact of successful development zones. Despite their rather limited situation, they joined in the movement of setting up development zones. According to official statistics, of the existing 3,837 development zones and industrial parks nationwide, only 1,251 have received approval from the State Council or provincial governments (Shanghai Flash, 2003).

#### 4.3.1 Types of zones

China has many types of zones and bonded areas (both of which offer relaxed import restrictions) at the state, provincial, city, and district level. Both foreign and Chinese companies may set up in all types of zones. National level zones fall into seven main categories as follows: (Walton, 2003).

**Economic and technological development zones (ETDZs)** are areas that provide international-standard facilities and supporting services. In general, these zones cover relatively large areas. For example:

- Dalian ETDZ has a planned area of 210 square kilometres, and at present it has a developed area of 50 square kilometres and constructed area of 30 square kilometres with a population of 220,000 and five districts under its jurisdiction (Dalian FTZ, online).
- Guangzhou ETDZ is one of the first state level development districts approved by the State Council in 1984. With a total planning area of 51.57 square kilometres, it is made up of three sections: the West Section, the East Section and Yonghe Economic Zone (Taiwanese Investment Zone, online).
- In Zhejiang Province eight state-level and 51 province-level economic and technological development zones have been established.
- Qinhuangdao Economic and Technological Development Zone (QETDZ) was firstly approved in 1984 as one of the development zones of 14 coastal cities. It is the only state level development zone of Hebei Province (Qinhuangdao Economic and Technological Development Zone, online).

**Free trade zones (FTZs)** are specialized areas for international trade, foreign investment, bonded warehouses, and export processing. For example:

- Shanghai Waigaoqiao FTZ has a planned area of 10 square kilometres just near the Waigaoqiao container terminal and it is located within Shanghai Pudong New Area.
- Tianjin FTZ has a planned area of 5.0 km<sup>2</sup> with developed area of 3.8 square kilometres.

**High-technology industrial development zones** encourage the transformation of scientific and technological advances into marketable products. For example:

- The Shanghai Zhangjiang Hi-Tech Park located within Shanghai Pudong New Area was established in July of 1992 as a national level park designated for the development of new and high technology. In August of 1999 the Shanghai Municipal Government issued the Focus on Zhangjiang strategic policy to accelerate the park's development. The Focus programme also increased the park's area from 17 to 25 square kilometres. The park's two leading industries are information technology and modern biotechnology and pharmaceuticals, and its principal focus is to develop innovation and entrepreneurship (Zhangjiang Hi-Tech Park, online).
- Tianjin Hi-Tech Industrial Park was one of the first group of hi-tech industrial development areas approved by the State Council. This high tech industrial park, possessing an area of 21.85 square kilometres, is composed of three parts: Huayuan Industry Development Area covering 12 square kilometres; Policy Area; Beijing-Tianjin-Tanggu Highway Radiating Areas (including Wuqing Development Area, Beichen Scientific & Technological Industrial Park, Tanggu Marine Scientific & Technological Industrial Park) (Tianjin Hi-Tech Industrial Park, online).

**Border and economic cooperation zones** encourage border trade and export processing, improved relations with neighbouring countries, and better economic conditions in areas populated by national minorities. For example:

- Dongxing Border Economic Cooperation Zone covering an area of 4.07 square kilometres was approved by the State Council in September 1992 to develop border trade with Viet Nam. It is located in Guangxi Zhuang Autonomous Region (Sino-Viet Nam Trade Network, online).
- Yining Border Economic Cooperation Zone in northwest China's Xinjiang Uygur Autonomous Region was approved to be one of the national border economic cooperation zone by the State Council in June 1992. This 10 square kilometres zone in Yining City targets both domestic market and Central Asia, and hopes to boost local economy by using its advantages in geography, resources and policies (People's Daily, online).
- Hunchun Border Economic Cooperation Zone in Yanbian Prefecture, Jilin Province was designated as a national development zone in September 1992 by the State Council. The total area of this Cooperation Zone is 88 square kilometres, and the planned area is 24 square kilometres (Yanbian Korean Nationality Autonomous Prefecture, online). In April 2000, the State Council approved the decision for the Hunchun Export Processing Area to be set up in the Cooperation Zone (The continuing opening up, online).

**Export processing zones** (EPZs) are special enclosed areas supervised by the General Administration of Customs. For example:

- Tianjin Export Processing Zone was set up in April 2000 by the approval of the State Council. It is located in the northeast of Tianjin Economic and Technological Development Zone with a planned area of 2.54 square kilometres. The area in the first stage of development is 1 square kilometre.
- Chengdu Export Processing Zone was established in April 2000 as ratified by the State Council. Chengdu EPZ is located in Southern Chengdu, with a planned area of about 0.5 square kilometre.

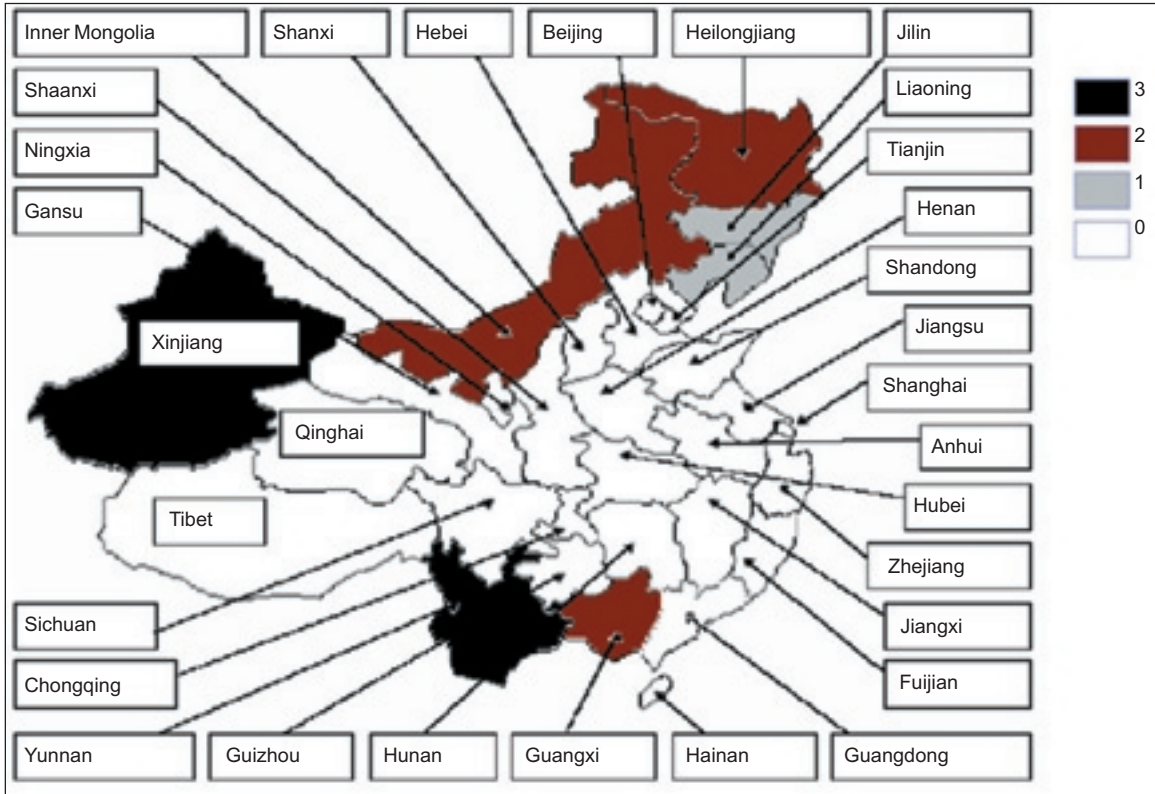


Figure 4.1 Border Economic Cooperative Zones (ESCAP secretariat)

Tourist and holiday resort zones encourage foreign investment in certain resort areas.

Taiwan Province of China investment zones aim to attract investment from Taiwan.

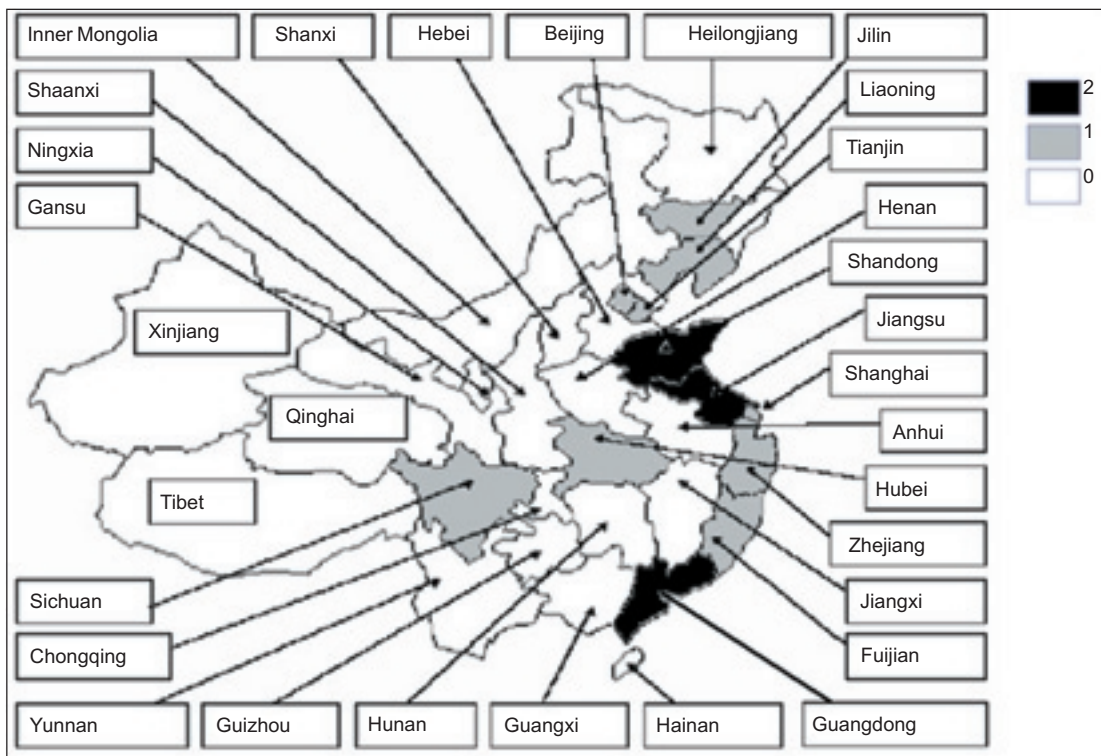


Figure 4.2 Export processing zones (ESCAP secretariat)

In 1984 China's government decided to establish economic and technological development zones (ETDZ) in 14 coastal cities by building upon the experiences learnt from the special economic zones. There are 54 ETDZs in China currently (Invest in China, online). The number may be different according to how to classify ETDZs. If the Shanghai Lujiajui Finance and Trade Zone is included, the number reaches 55 ETDZs.



**Figure 4.3 ETDZs in China**  
(Ministry of Commerce of the People's Republic of China, online)

From 1984 to 1988, 14 ETDZs including Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Minhang, Hongqiao, Caohejing, Ningbo, Fuzhou, Guangzhou, Zhanjiang have been established after the approval of the State Council (National Economic and Technological Development Zones, online).

In 1992 and 1993, 18 other national ETDZs including Yingkou, Changchun, Shenyang, Harbin, Weihai, Kunshan, Hangzhou, Xiaoshan, Wenzhou, Rongqiao, Dongshan, Guangzhou Nansha, Huizhou Dayawan, Wuhu, Wuhan, Chongqing, Beijing, Urumchi have been set up (National Economic and Technological Development Zones, online).

From 2000 to 2002, the State Council decided to build 17 zones including Hefei, Zhengzhou, Xi'an, Changsha, Chengdu, Kunming, Guiyang, Nanchang, Shihezi, Xining, Huhhot, Taiyuan, Nanning, Yinchuan, Lanzhou, Lasa, Nanjing. Kunming was established in 1992, and approved in 2000 by the State Council. It covers 9.8 square kilometres. Guiyang was established in 1993, and approved in 2000 by the State Council. It covers 63.13 square kilometres.

The State Council also ratified provisions that allow Suzhou Industrial Park<sup>10</sup> (1994), Hainan Yangpu ETDZ (1992), Shanghai Jinqiao Export Processing Zone<sup>11</sup> (1990), Ningbo Daxie ETDZ (1993) and

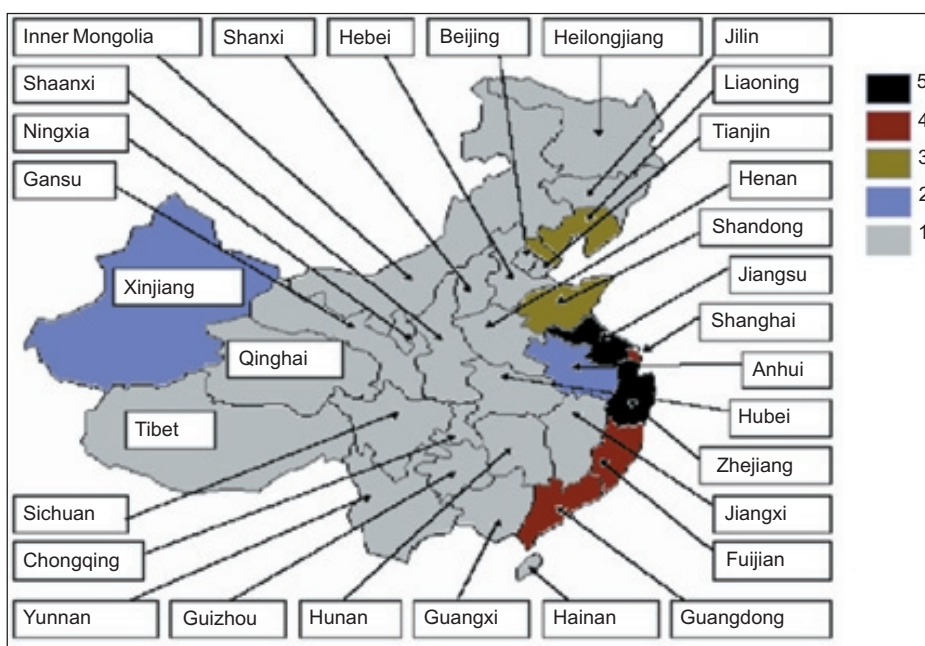
<sup>10</sup> The China-Singapore Suzhou Industrial Park with 260 square kilometres was established in 1994 when Chinese Vice Premier Li Lanqing and Singapore Senior Minister Lee Kuan Yew signed the Agreement on the Joint Development of Suzhou Industrial Park in Beijing.

<sup>11</sup> It covers 20 square kilometres and may differ from other export processing zones, 15 EPZs, which were approved in 2000 by the State Council.

Xiamen Haicang Investment Zone (1989), Shanghai Lujiaui Finance and Trade Zone (1990) to enjoy preferential policies. (National Economic and Technological Development Zones, online). Although different titles appear, such as Shanghai Jinqiao EPZ or Suzhou Industrial Park, they have been provided the same preferential policies with national ETDZs by the State Council (see Table 4.4).

**Table 4.4 State-approved ETDZs in China (Ministry of Commerce of the People’s Republic of China, online)**

Dalian	Qinhuangdao	Tianjin
Yantai	Qingdao	Nantong
Lianyungang	Shanghai Minhang	Shanghai Hongqiao
Shanghai Caohejing	Ningbo	Fuzhou
Guangzhou	Zhanjiang	Wenzhou
Kunshan	Yingkou	Weihai
Fuqing Rongqiao	Dongshan	Shenyang
Harbin	Changchun	Hangzhou
Wuhan	Chongqing	Wuhu
Guangzhou Nansha	Huizhou Dayawan	Xiaoshan
Beijing	Urumchi	Hefei
Zhengzhou	Xi an	Chengdu
Kunming	Changsha	Guiyang
Nanchang	Shihezi	Huhhot
Yinchuan	Suzhou	Ningbo Daxiedao
Shanghai Lujiazui	Hainan Yangpu	Xining
Shanghai Jinqiao	Xiamen Haicang	Nanning
Taiyuan	Lhasa	
Nanjing	Lanzhou	

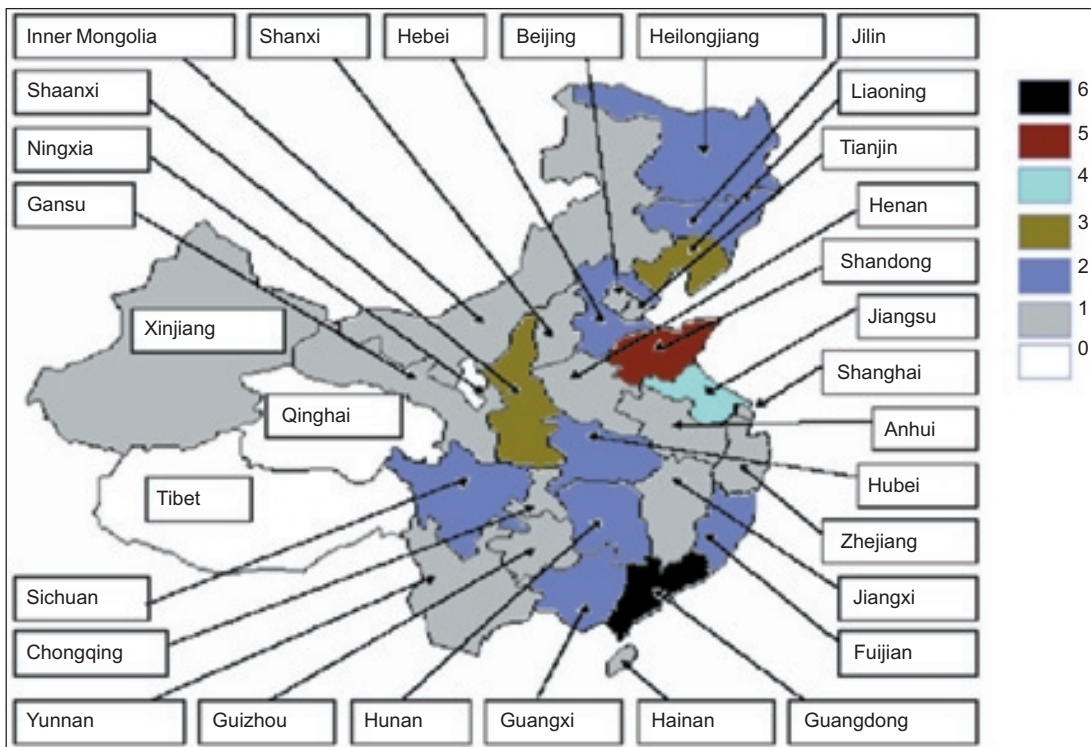


**Figure 4.4 Economic and technological development zones on the Chinese mainland (ESCAP secretariat)**

The State Council decided to establish high technology industrial zones in 1984, altogether 53 to date, some of which have been merged with economic and technological development zones.

**Table 4.5 State-approved high technology industrial zones in China (China Development Zones, online)**

ZhongGuanCun-HIDZ	Zhangjiang-HIDZ	Guangzhou-HIDZ
Shenzhen-HIDZ	Xi an-HIDZ	Harbin-HIDZ
Guilin-HIDZ	Zhuhai-HIDZ	Xiamen Huoju-HIDZ
Chengdu-HIDZ	Chongqing-HIDZ	MianYang-HIDZ
Kunming-HIDZ	Zhuzhou-HIDZ	Changsha-HIDZ
Urumchi-HIDZ	Baotou-HIDZ	Daqing-HIDZ
Jilin-HIDZ	Changchun-HIDZ	Shenyang-HIDZ
Anshan-HIDZ	Dalian-HIDZ	Tianjin-HIDZ
Shijiazhuang-HIDZ	Baoding-HIDZ	Taiyuan-HIDZ
Jinan-HIDZ	Weihai-HIDZ	Weifang-HIDZ
Zibo-HIDZ	Qingdao-HIDZ	Zhengzhou-HIDZ
Luoyang-HIDZ	Yangling-HIDZ	Baoji-HIDZ
Wuhan Donghu-HIDZ	Xiangfan-HIDZ	Hefei-HIDZ
Nanjing-HIDZ	Suzhou-HIDZ	Wuxi-HIDZ
Changzhou-HIDZ	Hangzhou-HIDZ	Nanchang-HIDZ
Fuzhou-HIDZ	Foshan-HIDZ	Zhongshan-HIDZ
Haikou-HIDZ	Guiyang-HIDZ	Nanning-HIDZ
Huizhou Zhongkai-HIDZ	Lanzhou-HIDZ	



**Figure 4.5 High technology industrial development zones (ESCAP secretariat)**

In 1990, it established free trade zones (bonded areas), altogether 15 to date, seven of which are located in special economic zones and five of which are located in ETDZs (National Economic and Technological Development Zones, online). In 1992 it established border economic cooperative zones, altogether 14 to date (Table 4.6).

**Table 4.6 Border economic cooperation zones (China International Electronic Commerce Network, online)**

Heihe	Huichun	Manzhouli
Dandong	Yining	Tacheng
Bole	Pingxiang	Dongxing
Ruili	Wanting	Hekou
Erlanhaote	Suifenhe	

Customs and the State Council approved the establishment of 15 export processing zones in April 2000 (see Table 4.7). That number has since grown to 38 EPZs. Mostly limited to an area of 2 square kilometres to 3 square kilometres, all EPZs must be established within the confines of an existing economic or development zone. According to the Interim Procedures of Supervision on Export Processing Zones by the Customs of China, approved by the State Council on April 27, 2000, an export processing zone in China can only be set up in current economic and technological development zones approved by the State Council.

The EPZ is intended to be a special closed area supervised by Customs. The central government set up these small areas, completely fenced in and under 24-hour Customs supervision, to promote exports and crack down on the illegal sale of duty-free imports of raw materials. Establishing EPZs at central locations throughout the country has helped Customs achieve these goals.

Business activities in EPZs permitted by the State Council are processing zone administration, export processing enterprises, storage enterprises specially offering services to export processing enterprises and transport enterprises verified by the customhouse specifically engaged in transportation of goods in the processing zone. Retail business, general trade, entrepot trade and other irrelevant businesses are prohibited.

**Table 4.7 EPZs in China (Walton, 2003)**

<b>Tianzhu Industrial Park</b> (Beijing)	<b>Chongqing</b> (Chongqing)	<b>Xiamen Xinglin</b> (Fujian)	<b>Guangzhou</b> (Guangdong)
<b>Shenzhen</b> (Guangdong)	Beihai (Guangxi)	Qinhuangdao (Hebei)	Zhengzhou (Henan)
<b>Wuhan</b> (Hubei)	Hohhot (Inner Mongolia)	<b>Kunshan</b> (Jiangsu)	<b>Suzhou*</b> (Jiangsu)
Wuhu (Jiangsu)	Wuxi (Jiangsu)	Nantong (Jiangsu)	Lianyungang (Jiangsu)
Nanjing (Jiangsu)	Suzhou New District**	Zhenjiang (Jiangsu)	<b>Huichun</b> (Jilin)
<b>Dalian</b> (Liaoning)	Shenyang (Liaoning)	Xi'an (Shaanxi)	<b>Weihai</b> (Shandong)
<b>Yantai</b> (Shandong)	Ji'nan (Shandong)	Qingdao (Shandong)	<b>Songjiang</b> (Shanghai)
Jinqiao (Shanghai) ***	Qingpu (Shanghai)	Minhang (Shanghai)	Caohejing (Shanghai)
<b>Chengdu</b> (Sichuan)	<b>Tianjin</b> (Tianjin)	Urumqi (Xinjiang)	<b>Hangzhou</b> (Zhejiang)
Ningbo (Zhejiang)	Jiaxing (Zhejiang)		

Those EPZs in bold font are the 15 ones first approved in April 2000 by the State Council.

Suzhou EPZ is located within the Suzhou Industrial Park.

\*\* see Case Study 4.1.

\*\*\* Shanghai Jinqiao EPZ is also included in the ETDZs.

### Case Study 4.1 Suzhou New District (SND)

The development of Suzhou New District (SND) was launched by Suzhou City Government in November 1990 in accordance with the guideline of “preservation of the old city and construction of a new city” by the State Council.

It was approved as national new & hi-tech industrial development zone by the State Council in November 1992. It was appointed as one of the first APEC science parks in China in 1997. It was designated by the State Environmental Protection Administration Bureau as the first National Demonstration Area of ISO 14000 in 1999.

In 2000 it was approved by China MOFTEC (Ministry of Foreign Trade and Economic Cooperation) and the Ministry of Science and Technology as the Hi-Tech Products Export Processing Base. In 2001, it was approved by the Ministry of Science and Technology and State Environmental Protection Administration Bureau as the first National Hi-Tech Environmental Protection Industrial Development Zone.

In April, 2003 it was approved by the State Council as the export processing zone. The total area of SND is 25 square kilometres with a population of 258,000. SND administers Tong’an Sub-Zone, Dongzhu Sub-Zone, Xushuguan Sub-Zone, Export Processing Zone and 7 townships.

The total planned area of SND is 52 square kilometres. The first phase of 25 square kilometres has been developed. The development of the second phase of 11 square kilometres in the north part was started in August 2001.

(Sino-Viet Nam Trade Network, online)



**Figure 4.6 Locations of EPZs approved by the State Council in April 2000 (China Development Zones, online)**

### 4.3.2 FTZs in China

FTZs in China are geographically defined areas ranging in size from smaller than 1 square kilometre up to 10 square kilometres. They are also called *bonded zones* and permit a wide range of business activities such as bonded warehousing, foreign exchange transactions, marketing, trading, and export

processing and manufacturing. They differ, however, from the *bonded logistics zones* approved in 2003 and 2004 by the State Council.

China established 15 FTZs in 13 cities such as Dalian, Tianjin, Qingdao, Zhangjiagang, Shanghai Waigaoqiao, Ningbo, Fuzhou, Xiamen, Shantou, Shenzhen (Shatoujia, Futian, Yantian), Guangzhou, Haikou, Zhuhai in early 1990s. (The State Council approved Shanghai Waigaoqiao FTZ in 1990, Tianjin in 1991, Dalian, Qingdao Guangzhou, etc. in 1992.) The whole area of 15 FTZs is 52.49 square kilometres, and more than 35,000 enterprises have been set up. Among half are foreign-investment enterprises.

Table 4.8 shows the data for Chinese FTZ's performances and number of enterprises registered in FTZs. These FTZs are supervised by municipal government and managed by each FTZ administrative committee. In general FTZs have been established near ports along the coastal line.

**Table 4.8 FTZs in China (Revised by ESCAP secretariat from Tianjin Port Free Trade Zone/ Airport Industrial Park, online)**

FTZs	GDP <sup>1</sup>	Goods value of import & export <sup>2</sup>	Enterprises registered <sup>3</sup>	Foreign invested enterprises registered <sup>4</sup>	Total foreign investment contracted <sup>5</sup>	Land approved by state	Actual land in FTZ
Shanghai Waigaoqiao	31.50	20.93	7 054	5 364	3.88	10	8.5
Dalian **	5.33	1.86	3 848 <sup>6</sup>	1 536 <sup>6</sup>	2.8 <sup>6</sup>	9.75	4.60
Tianjin	8.30	3.62	8 152	4 541	7.17	5	3.8
Qingdao	2.50	0.86	2 365 <sup>7</sup>	935 <sup>7</sup>	1.48 <sup>7</sup>	2.54	2.54
Zhangjiagang	3.90	1.90	3 312	373	1.88	4.10	4.10
Lingbo	4.01	1.18	4 586	742	2.20	2.30	2.30
Fuzhou	0.27	0.44	636	419	0.30	1.8	0.8
Xiamen	0.72	1.65	32 <sup>8</sup>	19 <sup>8</sup>	0.29	5	0.63
Shantou	1.19	0.16	1 103	269	0.34	2.34	2.34
Guangzhou	*	1.56	2 003	592	0.62	2	2
Shenzhen <sup>9</sup>	15.18	17.90	1 246	1 099	2.23	2.73	2.25
Zhuhai	0.40	0.70	137	106	0.35	3	3
Haikou	0.60	0.02	541	95	0.36	1.93	1.93
<b>Total</b>	<b>73.9</b>	<b>52.78</b>	<b>35 015</b>	<b>14 554</b>	<b>23.9</b>	<b>52.49</b>	<b>38.79</b>

<sup>1</sup> GDP in 2003 (unit: billion Yuan)

<sup>2</sup> In 2003 (unit: US\$ billion)

<sup>3</sup> As of 2003 (unit: number)

<sup>4</sup> As of 2003 (unit: number)

<sup>5</sup> From 1991 to 2003 (unit: US\$ billion)

<sup>6</sup> Dalian FTZ online

<sup>7</sup> Qingdao FTZ web site (Qingdao Free Trade Zone), as of April 2004

<sup>8</sup> Number of enterprises registered in 2003 (no data for total number of enterprises is available in original source)

<sup>9</sup> The data from the three FTZs in Shenzhen have been added together

\* The added value of Guangzhou could not be calculated separately. The office business of four zones such as Guangzhou Economic and Technology Development District, Guangzhou Hi-Tech Industrial Development Zone, Guangzhou Free Trade Zone and Guangzhou Export Processing Zone, has begun in joint operation. In 2003, GDP of the four zones reached 42.31 billion Yuan

\*\* The data of Dalian FTZ includes the data of Dalian Export Processing Zone



**Figure 4.7 Locations of FTZs in China**

Even though China has a total of 15 FTZs, the performance is quite different in each zone. For example, three FTZs – Shanghai, Shenzhen, Tianjin – account for more than 70 per cent (74.4 per cent in 2003) of the overall performance of all FTZs in terms of GDP.

The regulation of the FTZs is divided into central and local parts. For example, there are central regulations such as Measures of Customs Supervision and Management of FTZs, which was promulgated by General Administration of Customs after approved by the State Council of China in 1997 and Measures of Foreign Exchange Administration

in FTZs promulgated in 2002 by the State Administration of the Foreign Exchange Control. The local regulation is made by local government according to national relevant regulations, for instance, Regulations of Shenzhen FTZ made by Shenzhen municipal government, and Regulations of Zhuhai FTZ made by Zhuhai municipal government.

Enterprises in FTZs can basically enjoy almost same preferential policies with those of other special zones in China. Due to the unique advantage of treating FTZs together with EPZs as outside of Customs supervision areas, FTZs provide more incentives compared to those of other special zones in China. Major preferential policies are as follows (Walton, 2003)<sup>12</sup>:

- *Tax incentives:*
  - The prime income tax rate for foreign-invested enterprise (FIE) is 15 per cent of profit.
  - The national government has standardized most preferential policies for FTZs, including a package of tax incentives.
  - For the first two years of operations, companies are exempt from enterprise income tax. During the next three years, companies are taxed at 50 per cent of the normal FIE tax rate of 15 per cent. After five years, in-zone enterprises pay the full FIE tax rate.
  - If more than 70 per cent of the finished product is re-exported outside China territory, any remaining product is taxed at a reduced rate based on the original imported components.
- *Customs duty incentives:*
  - There are duty exemptions on all construction or infrastructure imports necessary for production and on all equipment, parts, and components imported for self-use.
  - Imports entering the FTZ from outside China proper are exempt from customs duties and VAT (value-added tax); customs duties and VAT are assessed only after the finished products leave the FTZ for regions outside the bonded area.

<sup>12</sup> These preferential policies are subject to any changes by relevant authorities.

- All finished goods 'imported' from the FTZ into China proper will have customs duty and VAT assessed based on a ratio of locally sourced inputs to imported components.
- *Local level incentives:*
  - Each zone can, and often does, offer its own incentives on top of the central government ones.
  - Local authorities can establish land-use or utility incentives and may also decide to exempt in-zone enterprises from local income tax.
- *No participation limit:*
  - FTZs remain the only locations in which a foreign company may establish a wholly foreign-owned trading company, initially these wholly foreign-owned companies did not possess trading rights (the right to import and export). To sell products in mainland markets, these companies were required to engage agents with trading rights to handle customs procedures for transactions with the non-FTZ enterprise. This changed in June 2003 when the State Council, the Ministry of Commerce and Customs, issued a notice allowing enterprises in Futian-Shatoujiao, Tianjin, Waigaoqiao, and Xiamen Xiangyu FTZs to register for the right to conduct domestic trade without using an intermediary with trading rights, and the notice leaves the drafting of detailed application rules to the zones.
- *Bonded Commodities Exchange Market or exhibition centre:*
  - FTZs offer a Bonded Commodities Exchange Market or exhibition centre through which in-zone enterprises sell their products to Chinese buyers and distributors for sale in mainland markets.
  - Exchange market administrators clear the goods through Customs and issue VAT invoices.

Like other special zones, FTZs in China provide other advantages in addition to the preferential policies:

- simplified and efficient administrative structure
- one-stop service for official procedure settlement
- top-flight infrastructures
- professional service system on a par with international standards
- catering actively to the individual and diversified demands of different investors
- tailor-made service and the readiness to help investors overcome difficulties
- strategic locations.

#### Case Study 4.2 Zhuhai FTZs

Zhuhai Free Trade Zone (FTZ) was founded on November 13, 1996 with the approval of the State Council. It covers an area of 3 square kilometres. It is situated in southern Zhuhai SEZ, China, adjacent to Wanzai Port and facing Macao across the strait. It connects Macao by land through Hengqing Bridge and the Lotus Bridge. Zhuhai FTZ is about 11 kilometres away from the downtown, 44 kilometres away from Zhuhai Port, 18 kilometres away from Jiuzhou Port, 40 kilometres away from Zhuhai Airport, 5 kilometres away from the constructing Zhuhai Railway Station, and only 36 kilometres from Hong Kong.

(Kish Trade Promotion Centre, online)

### Case Study 4.3 Tianjin Port FTZ

Tianjin Port Free Trade Zone (hereinafter referred to the FTZ) was found on the 12<sup>th</sup> May, 1991 after the approval of the State Council. As a comprehensive opening-up oriented special economic area, the zone is under the supervision of Customs, taking the advantage of being a free trade zone and in the port area, enjoying the most preferential policies granted by the State, and conducting its activities in the conformity with international practice.

Tianjin Airport Industrial Park and Tianjin Airport International Logistics Zone are the extensive areas of Tianjin FTZ. The three areas all belongs to Tianjin Binhai New Area, facing the northeast of Asia and connecting with 13 provinces and Municipalities.

Tianjin FTZ, Tianjin Airport Industrial Park and Tianjin Airport International Logistics Zone are three economic areas, with one administrative committee but two titles, as Tianjin Port Free Trade Zone Administration Committee and Tianjin Airport Industrial Park Administration Committee.

The FTZ stands in the centre of the area around Bohai Bay. So far, 3.8 square kilometres of land have been developed, the planned area of the FTZ is 7 square kilometres. The supply of water, electricity and gas, telecommunications service and roads are available in the zone. Together with its unique advantageous conditions for ocean shipping, and transportation, airway and railway transportation, the FTZ has been made into a hub for international multimodal transportation.

After several year's exploration and development, the FTZ has set its trends to be an international materials flow centre and basically has formed 3 functional systems: the international distribution, allocation and delivery system on the basis of bonded warehousing with materials flow as its core; the market trading system on the basis of exhibition and display with import and export trade as its core; the import and export processing system with the advantage of being a harbour as well as the combination of trading and processing.

With the three functional systems, the FTZ supports the economic development of hinterland and accelerate the total regional economical amount. The FTZ has developed into the largest international trading window in North China and the green passage for the international material circulation to come in and out.

(National Free Trade Zone, online; Tianjin Port Free Trade Zone/Tianjin Airport Industrial Park, online)

### Case Study 4.4 Dalian FTZ

Dalian Free Trade Zone (DFTZ) and Dalian Export Processing Zone (DEPZ) are all state-level development zones authorized by the State Council in May of 1992 and April of 2000 respectively. They are the most open economic areas that offer advantages unavailable elsewhere in China. Though located inside China, DFTZ and DEPZ are considered to be outside the Chinese Customs territory. Thus any goods that enter China through the Zones are not assessed Customs duties until after they leave the Zones for domestic market.

Companies inside the Zones benefit from preferential tax policies, simplified customs procedures, liberal foreign exchange privileges and absence of export quotas and other requirements on imports. DFTZ and DEPZ provide an ideal platform for foreign products to enter Chinese market, on the other side, for China-made products to go global as well. Individuals as well as corporations from both home and abroad are eligible to set up joint-ventures or wholly owned firms.

Companies registered with the Zones can do such businesses as trading, processing, warehousing and distribution, commercial services and banking services. Infrastructure in both Zones is complete. Administration of Dalian Free Trade Zone and Export Processing Zone is authorized by the Municipality with administrative power over the Zones. DFTZ and DEPZ, together with the Dalian International Logistics Park will be integrated with the neighbouring ports to become an internationalized free trade area in northeast Asia.

Up to October of 2003, there were altogether 3,848 investment projects registered in DFTZ and DEPZ, among which 1,536 were foreign funded by investors from 41 countries and regions with accumulated contract capital of USD 2.8 billion. There are 14 Fortune 500 companies set up their businesses in the zones. The GDP of DFTZ

and DEPZ was RMB 4.53 billion in 2002 and it is expected to reach RMB 5 billion in 2003. The foreign trade volume of DFTZ and DEPZ in 2002 was USD 1.35 billion with USD 0.6 billion exports and USD 0.75 billion imports. In 2003, the foreign trade volume is expected to reach USD 1.7 billion, 0.8 billion and 0.9 billion for exports and imports respectively.

(Dalian FTZ, online)

#### Case Study 4.5 Qingdao FTZ

Qingdao Free Trade Zone (QFTZ) was approved by the State Council on November 19<sup>th</sup> 1992 and set up according to the International Kyoto Convention. With the total scheduled area of 3.8 square kilometres, Qingdao Free Trade Zone has passed through the examination of National Customs Authority and was put into operation on March 28<sup>th</sup> 1993.

This special area enjoys preferential policies with 'exemption of import and export licences, duty-free, bonded free'. QFTZ functions as a centre for international trade, import and export processing, bonded warehousing, logistics and distribution with the characteristic of 'outside the Customs, within the border'. It is the unique free trade zone in North China and along Yellow River reaches as well as one of the most open areas in China with the most flexible operational modes and the most preferential policies.

QFTZ has attracted investors from more than 40 countries and regions and over 20 provinces inland involving 2,365 investment projects among which 935 are wholly foreign-owned enterprises, joint ventures and cooperative enterprises up to April 2004,. The contracted foreign capital achieves USD 1,481 billion, valuing RMB 10,043 billion in industry output. The sales of logistics and distribution enterprises have reached to RMB 19,14 billion including export of USD 1,324 billion.

Fortune 500 enterprises such as Itochu, Sumitomo, Mitsubishi, Iwai, Marubeni, Panasonic, Fusan from Japan, Lucent, American Aluminium, Chevron Phillips, Eastman from the United States of America etc. have already settled in QFTZ. Some domestic big corporations like Haier, Hisense, Aucma£¬ Sinotrans and Beijing City Construction Company have also set up their companies for processing, warehousing and international trade in QFTZ, all of them compose a new economic increasing point.

(Qingdao FTZ, online)

#### Case Study 4.6 Zhangjiagang FTZ

Jiangsu Province Zhangjiagang Free Trade Zone, approved by the State Council in October 1992, is the only inland river type free trade zone in the country, with the planned area of 4.1 square kilometres. Its establishment is to radiate and accelerate the internationalization of Jiangsu Province and even the whole Yangtze River Valley, and provide service for Chinese enterprises to enter the international market and foreign enterprises to enter Chinese market by taking advantage of the unique bonded conditions of the Customs and relying on the unique location advantages of being connected with the Yangtze River and the sea, excellent harbour conditions, developed transportation net and an integral whole of Zone and Harbour.

The main functions of Zhangjiagang Free Trade Zone are export processing, bonded storage and international trade, and four characteristic industries have been formed – oils & cereals, chemicals, textile and mechanics & electrics. By the end of 2002, 3,225 enterprises of all kinds have registered in Zhangjiagang Free Trade Zone including 312 foreign investment enterprises, with total amount of investment of USD 2,384 billion, contractual foreign investment of USD 1.62 billion and paid-in foreign investment of USD 1.24 billion. Investors are from more than 10 countries and regions like the United States of America, Japan, France, the United Kingdom, Singapore, Australia, Hong Kong, China, Taiwan Province of China etc. Now Zhangjiagang Free Trade Zone has entered a stage of high-speed development in an all-round manner, and become an important investment carrier in the Yangtze River Valley of China.

### **Bonded Logistics Park**

There are two planned individual areas of the Bonded Logistics Park – the west part and the east part, and each will be supplied with complete infrastructure (water, electricity, steam, drainage, sewage pipeline, communication, transportation and leveled land, etc.) The west part is in the area of approved Free Trade Zone, enjoying the same preferential policies as Free Trade Zone. The east part with an area of 1 square kilometre is under application to support Yangtze River International Chemical Industrial Park as a part of the complete set.

These two parts will integrate ports and zones, which will not only greatly decrease the cost of international logistics, but also help the development of storage logistics, international trade, transit trade, distribution, processing of bonded goods, etc. Introduction of large multinational corporations and logistics firms will be the key of the Bonded Logistics Park.

(Jiangsu Province Zhangjiagang Free Trade Zone, online)

### **Case Study 4.7 Guangzhou FTZ**

On May 13, 1992, the Guangzhou Free Trade Zone (GFTZ) was officially approved by the State Council. In May 1993 it was inspected by Customs and put into operation. Based on the prevailing international practice of free trade zones, GFTZ implements a supervisory policy of 'Within Territory but Out of Customs' by Customs to comprehensively open up a special zone to enable free in and out privileges from the bonded zone and abroad, for foreign currencies and for personnel as well. Thus it provides the export processing plants all over the Pearl River Delta with multifunctional services and a business space for trade, bonded storage, material logistics and bonded demonstration.

GFTZ consists of four main functional parks: the Computer Industry Park, South Auto Import Park, Export Processing Park and International Logistics Park. GFTZ is equipped with facilities such as Customs clearance building, chartered wharf, bonded warehouse, all-purpose facilities, open-air storage yard, showrooms, cargo inspection yard etc. GFTZ encourages the development of industries such as international trade, bonded logistics, processing & manufacturing.

GFTZ covers an area of 2 square kilometres. There are presently two stages of development, with Baoying Bridge connecting the first-stage and the second-stage. The first stage will concentrate on the development of commercial trade, storage, showrooms, elementary commercial processing, wharf and public services. The second stage is designed to set up a Computer industrial Park to facilitate the development of IT industry and other hi-tech industries.

(Guangzhou Development District, China, online)

### **Case Study 4.8 Shenzhen FTZ**

The Shenzhen FTZ consists of the three free trade zones, such as Futian FTZ, Shatoujiao FTZ, and Yantian Port FTZ. The three free trade zones with a total area of 2.47 square kilometres have been developing together with the growth of Shenzhen Special Economic Zone.

Futian Free Trade Zone was established on May 28, 1991 upon approval by the State Council. On February 18, 1993, its insulating facilities were qualified by Customs General Administration. The free trade zone occupies 1.35 square kilometres, with 0.33 square kilometre allocated residential quarter.

Shatoujiao Free Trade Zone was established on December 25, 1987 upon approval by Shenzhen Municipal Government, and was formally set up on May 28, 1991 upon approval by the State Council. It is the earliest free trade zone occupies on industrial land area of 0.27 square kilometre, with a residential land area of 0.15 square kilometre. Shatoujiao Free Trade Zone is located in Yantian district in the east of Shenzhen, it is 1 kilometre from the largest international container port in South China-Yantian Port in the east, 2 kilometres from Shatoujiao Port

to Hong Kong in the south. Financial institutions such as the Bank of China, the Agricultural Bank of China, the Industrial & Commercial Bank have their branches in the zone. With a total building area of 200,000 square metres, the residential quarters can accommodate 30,000 employees.

Yantian Port Free Trade Zone was established on September 27, 1996 upon approval of the State Council. Its first phase of development area covers 0.85 square kilometre.

(Shenzhen Administrative Bureau of Free Trade Zones, online)

### 4.3.3 The difference between FTZ and EPZ

EPZs and FTZs are the same in that those zones are considered as outside of customs supervision territory. However, there are also differences between two zones mainly due to the EPZ's exclusive focus on export processing.

- First, EPZs permit fewer types of business activities such as only export processing, warehousing for providing services for processing activities of in-zone enterprises, and transportation service suppliers who are authorized by the customs authorities to do the transportation business for enterprises in the zone.
- Unlike in FTZs, there are no VAT charges on public utilities.
- Only companies with exports of more than 70 per cent of their outputs are eligible for the income tax benefits available to all companies in FTZs.
- There is a difference in the export rebate policy. If a company within an EPZ purchases goods from an enterprise within China, the selling enterprise will receive an export rebate, and the in-zone buying enterprise will not have to pay VAT. In contrast, companies in FTZs, or bonded facilities outside of zones, must pay VAT up front on any goods sourced in China and apply for an export rebate only after the good has been exported.
- Enterprises in EPZs also benefit from priority Customs clearance over those located outside the zone and more streamlined clearance than those in FTZs. All companies in an EPZ must have a computerized database connected with Customs to clear goods electronically. EPZs enjoy 24-hour Customs support (Walton, 2003; Guangzhou Development District, online).

Case Study 4.9 shows clearly the differences between investing in Songjiang EPZ and in Waigaoqiao FTZ. Although these differences are coming from consideration between specific zones, most other cases will fall into this category.

## 4.4 Introduction to bonded logistics zones

All of China's 15 free trade zones have ports, but almost all the free trade zones are isolated from the ports. One direct impact from this situation is the FTZs working independently from nearby seaports. As a result, the roles of the free trade zones, such as export processing, entrepot trade and bonded warehouses, are not supported by the ports and vice versa, which has resulted in China's own seaports remaining small in transport capacity because of insufficient demand.

In addition, under these situations the cargo cannot directly access the free trade zones from the ports. Import, export and distribution of the cargo have to undergo Customs check procedures of both the ports and the free trade zones. It is difficult for Customs to supervise the process due to the complicated procedure during cargo distribution within the zones. At the same time, it is difficult for the ports to make use of the open advantages of the free trade zones.

### Case Study 4.9 The differences between investing in Songjiang EPZ and in Waigaoqiao FTZ

#### *Business Scope*

##### EPZ

Only the processing trade of self-produced goods is permitted.

Over 70 per cent of the Products should be sold to other countries.

##### FTZ

Enterprises can be engaged in international trade, domestic trade and manufacturing and processing.

All products can be sold out domestically.

#### *Taxation*

##### EPZ

The entrance of spare parts and raw materials from enterprises outside the zone to the zone is regarded as export and VAT can be refunded.

Customs duty will be levied according to ready-made products sold domestically and manufactured by enterprises in the zone with spare parts and raw materials from abroad.

##### FTZ

VAT on spare parts and raw materials entering the zone from enterprises outside will not be refunded.

Customs duty will be levied according to the standard of spare parts and raw materials from abroad on those ready-made products sold domestically and manufactured by enterprises in the zone with spare parts and raw materials from abroad.

#### *Customs inspection*

##### EPZ

Cancellation of verification is carried out every half year or whole year.

##### FTZ

Cancellation of verification is carried out upon each contract.

(Shanghai Foreign Economic Relations & Trade Commission, online)

#### 4.4.1 Addressing the distorted concept of FTZs

Except for a few FTZs, most FTZs in China are dominated by export processing or manufacturing to make FTZs in China similar to export processing zones in China and in other countries. Local governments in China often fail to find the differences between FTZs and the currently introduced export processing zones in China. In other words, FTZ in China meant at first a bonded zone (area)<sup>13</sup>, but the real meaning of this bonded zone has been changed to the concept of an export processing zone, rather than a logistics oriented zone.

<sup>13</sup> In this study, bonded area or zone means a logistics-oriented zone where international trading and value-added logistics services such as storage, testing, packing, labeling, assembling etc. take place rather than manufacturing.

To address this distorted concept of FTZ (bonded area) and various problems, the State Council approved a new Shanghai Waigaoqiao Bonded Logistics Zone (Park) as a first pilot zone-port interaction area in December 2003 in order to develop international logistics industry and to promote China as an international logistics and maritime centre.

In 2004 the State Council has approved seven other bonded logistics zones, a total of 15 FTZs (bonded zones) to fully utilize FTZs (bonded zones) and ports (see Table 4.9).

**Table 4.9 Bonded logistics zones<sup>14</sup>**

Shanghai Waigaoqiao	Dalian	Xiamen Xiangyu	Tianjin
Qingdao	Zhangjiagang	Shenzhen	Ningbo

According to Shanghai Customs, by joining the bonded logistics parks of the free trade zones with those of the ports, the policy advantages of the free trade zones and the geographical advantages of the ports will be given to full play, thus further simplifying the procedures, speeding up cargos circulation, advancing the harbour navigation industry, warehousing industry and logistics industry, and promoting the interactive development of harbour navigation industries.

The bonded logistics zones are expected to satisfy the needs of multinationals and their headquarters in China for the transshipment and supply of products, materials and parts in a global sense.

#### 4.4.2 Activities permitted within bonded logistics zones

The intended functions of the Bonded Logistics Park will cover the following activities: bonded warehousing, allotment and distribution, information processing, import and export trade, check and maintenance, commodities exhibition, and centralized Customs declaration. At the same time, preferential taxation policies and port functions will be in place. Cargo handling inside the park will include inter-Customs transfer, Customs declaration and claim between special regions within Customs supervision, such as in the Bonded Logistics Park, the Bonded Logistics Centre, free trade zones, export trade processing areas, bonded warehouses, and export supervision warehouses (The Hong Kong Shippers' Council, online).

For example, the Shanghai government encourages multinational companies to use the Bonded Logistics Park as a regional procurement and distribution centre, supplying goods to overseas markets, regional markets and the PRC. The Bonded Logistics Park may serve as a hub for international transportation and international sourcing (i.e. the sorting and simple processing of goods sourced domestically and abroad for sale to domestic and overseas destinations), as well as entrepot trade. In terms of trade, domestic companies registered in the Bonded Logistics Park are granted import and export rights. They may also provide support services such as transportation.

It has been reported that the Chinese Government has intentions of developing the bonded logistics zones as free ports or free trade areas in the future, like Hong Kong, although it will take a lot of time before really adopting free port or free trade areas.

<sup>14</sup> On August 18, 2004, the State Council approved the construction of the Customs Bonded Logistics Centre (Type B) of Suzhou Industrial Park, with the first phase of 0.32 square kilometre. Suzhou Bonded Logistics Centres are subdivided into two types, namely, Type A and Type B. Pivoted by a logistics company, Type A is intended to develop bonded warehousing, simple processing and distribution to meet multinationals' internal logistics demands. Type B is a public place to be used by multiple logistics enterprises, and the customs will implement regional and networked management according to export processing area's supervision model.

## 4.5 The Republic of Korea

### 4.5.1 Introduction of FTZs

In 1960s the Republic of Korea developed industrial parks/complexes according to its First National Economic Development Plan in which industrialization policy was selected for national economic development. Before the 1960s, the enterprises developed their factory lands by themselves according to their own needs.

In the 1970s, the Republic of Korea developed heavy and chemical industrial parks/complexes according to its economic development policy which emphasized heavy and chemical industry development as the way of growing its economy. During this period, large heavy and chemical industrial parks/complexes were developed in industrial belts, such as those of the Ulsan, Changwon and Yeochun areas. In this period, the Republic of Korea's economic development policies were export-driven.

As non-tariff zones, Masan and Iksan Export Processing Zones<sup>15</sup> were established as the first special zones with incentives such as preferential tariffs and taxes to attract foreign direct investment for promoting export, employment and technology transfer in 1970 and 1973 respectively. Export processing zones are different from industrial parks/complexes in that is the zones are considered as lying outside of the customs boundary, unlike other industrial parks/complexes. In 2000, the name of export processing zone was changed to free trade zone (FTZ).

In January 2002 Busan and Gwangyang ports were introduced as customs free zones, and then Incheon Port and Incheon International Airport were designated as customs free zones in January 2003 to promote the international logistics industry.

There were differences between free trade zones (former export processing zones) and customs free zones at first. Free trade zones were manufacturing-oriented special zones while customs free zones were logistics-related zones where manufacturing was not allowed. However, in 2003 the two concepts of special zones, free trade zone and customs free zone, were integrated into free trade zones by the *FTZ Act*. This has resulted in both manufacturing and logistics activities being allowed within these FTZs.

According to the *FTZ Act*, the areas able to be designated as FTZs may be industrial complexes, adjacent hinterlands of airports and seaports, distribution complexes or freight terminal<sup>16</sup>. In general, seaport and airport FTZs aim to promote international logistics business even though manufacturing activities are allowed within these zones, while the other zones, such as the FTZs designated in/around industrial complexes, aim mainly at promoting manufacturing businesses.

Currently the Republic of Korea has put its greatest amount of effort into developing successful FTZs, especially by continuously exploring various successful policies such as simple regulations, strengthening marketing strategies and improving administrative efficiencies and by developing huge logistics land areas around ports (Table 4.10).

<sup>15</sup> It is sometimes called free export zone or export free zone or free zone for export.

<sup>16</sup> In Korea freight terminal means the facilities designated by relevant regulation, which has necessary functions for collection, loading, sorting, packing, storage, customs clearance for freight except those facilities within specific areas such as ports, airports etc.

**Table 4.10 FTZs in the Republic of Korea**

Zones	Designating Date	Size (1,000 m <sup>2</sup> )	Planning (1,000 m <sup>2</sup> )	Remarks
Masan	1970	793 <sup>1</sup>	–	
Iksan	1973	309	–	
Daebul <sup>2</sup>	2002	1 158	–	Completed in 2007 Within Daebul National Industrial Complex
Gunsan	2000	1 254	1 029	Completed in 2004 Within Gusan National Industrial Complex
Gunsan Port*	–	–	1 019	2000-2007 Within Gun-Jang National Industrial Complex
Busan Port	2002	5 451	868	Including the zone in the Busan New Port Within free economic zone
Gwangyang Port	2002	6 755	–	Within free economy zone
Incheon Port	2003	2 167	117	
Incheon Airport	2005	2 080	2 050	Being operated from 2006

<sup>1</sup> Masan FTZ has been expanded to total 1,095 thousand square metres in 2002.

<sup>2</sup> Opened in 2003.

<sup>3</sup> It consists of Gunsan Port area (1,019 thousand square metres) and Gun-Jang New Port area (1,725 thousand square metres).

The zones with bold font are dedicated to logistics industry, and the other zones are dedicated to manufacturing even though both activities are possible in any zones.

**Table 4.11 Performance of Masan FTZ (Masan FTZ Administration)**

Year	Investment (million)*	Foreign investment rate (%)	Export value (million)	Foreign exchange earnings (million) (rate)**	Employment	Number of enterprises
1971	5.3	93	0.86	N/A	1 248	22
1973	82.8	95	70.4	25.9 (36.8%)	21 240	115
1980	112.9	83	628.1	333.0 (53.0%)	28 532	88
1985	125.9	77	809.3	412.6 (51.0%)	28 983	79
1990	215.8	84	1 405.4	758.1 (53.9%)	19 616	72
1995	235.3	77	2 400.9	1 081.1 (45.0%)	14 736	73
2000	251.4	77	4 442.1	1 302.6 (29.3%)	14 415	78
2004	263.9	78	4 617.8	1 342.5 (29.1%)	9 424	76

\* All currency used in table is USD, and the amount of investment is accumulated.

\*\* Foreign exchange earnings rate is calculated by dividing export value by foreign exchange earnings.

#### 4.5.2 Attracting business to FTZs: Incentives in FTZs

Domestic and foreign companies that set up operations in FTZs will benefit from various advantages provided by the *Free Trade Zones Act*. Foreign companies in particular will be provided with preferential treatment in terms of taxes and leasing fees. Major advantages for the tenants in the free trade zones are as follows (International Logistics Consulting Centre, Ministry of Maritime Affairs & Fisheries of Korea, online):

- Exemption of direct tax

Corporate/income taxes and acquisition/registration/property/land taxes will be exempted for the first three years and discounted 50 per cent for the following two years if more than USD 10 million in the case of foreign manufacturing company or more than USD 5 million in the case of foreign logistics company is invested<sup>17</sup>.

- Exemption of indirect tax

Customs tax on foreign goods brought into the FTZ by companies operating in the zones will be exempted. No value added tax on local goods brought into the FTZ by companies operating in the zone, or on business transactions between companies operating in the zone will be imposed. Enterprises within the FTZ will benefit the exemption from the temporary import surtax, liquor tax, special excise tax, transportation tax, special tax on agriculture and fishery products, and education tax.

Other benefits for the in-zone enterprises include low leasing fee for land, long leasing period of a maximum 50 years and simplifying customs procedures, quality infrastructures, strong administrative support for business activities and so on.

- Free economic zone

The Republic of Korea introduced the *Free Economic Zone (FEZ) Act* in December 2002, and then designated Incheon FEZ, Busan-Jinhae FEZ and Gwangyang FEZ in October 2003. These three FEZs are currently under construction, and will be in operation step-by-step from 2006. Table 4.12 shows FEZs in the Republic of Korea. The FEZs in the Republic of Korea are special areas designated for promoting a business-friendly environment by:

- applying different regulations from domestic regulations
- providing preferential incentives for foreign investments
- providing sophisticated infrastructures such as manufacturing related facilities, seaports and airports, international logistics facilities, international business complexes, international schools for education and hospitals, hotels, residential areas for foreigners
- allowing establishing hospitals, medical and education institutions, broadcasting stations by foreigners which are not allowed outside of FEZs in the Republic of Korea
- promoting better environments for international business such as simple customs procedures and administrative regulations, foreign language services, one stop services and so on.

**Table 4.12 FEZs in the Republic of Korea**

FEZs	Designating Date	Size (1,000 m <sup>2</sup> )
Incheon FEZ	August 2003	209 455
Busan-Jinhae FEZ	October 2003	104 265
Gwangyang FEZ	October 2003	88 960

<sup>17</sup> Foreign company is defined as the one a foreign entity owns more than 10 per cent of total shares of the company according to the relevant law.

For example, the Incheon Free Economic Zone (IFEZ) includes the Songdo Intelligent City, Yeongjong area (including Incheon International Airport) and Cheogna Area, which covers a total area of 209 thousand square metres, with a projected population of 475,000. The Republic of Korea is aiming at developing self-sufficient cities with international logistics and business centres, hi-tech, knowledge-based industries and leisure and tourism complexes.

Songdo Intelligent City, near Incheon International Airport, will be developed as a centre for multinational business and a high value-added knowledge-based complex. The British construction firm AMEC has signed a memorandum of understanding with the city of Incheon to build a Second Airport Bridge that will link Songdo Intelligent City and Incheon International Airport. The Second Airport Bridge will be completed by 2008.

The American-based Gale Company (master developer and marketing agent) reached a real estate joint venture agreement with POSCO Engineering & Construction (construction manager), the second largest steel manufacturer in the world, in March 2003, to develop Songdo Intelligent City as one of the world's largest urban centres to be built from the ground up. The new partnership, called NSC, will be responsible for developing 1,364 acres of reclaimed land on the waterfront at a cost of more than USD 12.7 billion.

Songdo Intelligent City will be developed over an eight year period. In the first phase, an international convention centre and 60 story world trade centre, 60 other office buildings, deluxe hotels, shopping malls, and golf courses will be built by 2008. A Knowledge and Information Industrial Complex and Bio Complex will also be built by 2008 (Planning Office of Free Economic Zone, the Ministry of Finance and Economy of Korea).

The FEZs in the Republic of Korea have some special characteristics compared to other free trade zones in the Republic of Korea:

- The FEZs occupy much larger areas.
- The FEZs provide not only facilities for economic activities such as manufacturing facilities, but also supporting facilities not directly involved in economic activities, such as education, residential and recreational facilities, hotels and a tourism district.
- The FEZs may include other special zones such as FTZs.
- The FEZs include international transportation facilities such as seaports and/or airports.
- The FEZs require more investment to qualify for preferential taxation and other incentives compared to the FTZs.

According to the Planning Office of Free Economic Zone, the Ministry of Finance and Economy of Korea the preferential policies of FEZs are as shown in Table 4.13:

**Table 4.13 Preferential policies of the Republic of Korea FEZs**

Sector	Benefits
Tax breaks	<ul style="list-style-type: none"> <li>• Corporate tax exemptions for the first 3 years and a 50 per cent reduction the following 2 years (for investments of more than US\$ 50 million, a 100 per cent exemption for the first 7 years and a 50 per cent reduction the following 3 years)</li> <li>• A flat 17 per cent income tax for foreign CEOs and executives at foreign companies</li> <li>• Capital goods import tariff exemption for 3 years</li> <li>• Acquisition, registration, property, and aggregate land tax exemptions for the first 3 years and a 50 per cent reduction for the following 2 years.</li> </ul>
Financial support	<ul style="list-style-type: none"> <li>• Companies that locate in FEZs will either be exempt from or subject to reduced land fees</li> <li>• Financial assistance for the construction of such facilities as hospitals and schools to make life more convenient for foreigners.</li> </ul>
Deregulation	<ul style="list-style-type: none"> <li>• Minimal land-use regulations governing factory construction and enlargement. (currently applicable to Seoul metropolitan area)</li> <li>• Lift restrictions on entering businesses reserved for SMEs (small and medium enterprises)</li> <li>• Direct foreign currency payments for ordinary transactions of less than US\$ 10,000 allowed.</li> </ul>
Employment and labour-management	<ul style="list-style-type: none"> <li>• Unpaid weekly holidays allowed (currently paid)</li> <li>• Exemption from obligatory employment of veterans, the disabled, the elderly.</li> </ul>
Educational improvements	<ul style="list-style-type: none"> <li>• Schools can be established by foreign investors.</li> <li>• Domestic residents can attend foreign schools.</li> </ul>
Foreign hospitals and pharmacies	<ul style="list-style-type: none"> <li>• Foreign-financed hospitals and pharmacies for foreigners allowed.</li> </ul>
Foreign broadcasting	<ul style="list-style-type: none"> <li>• The ratio of cable network foreign broadcasting retransmission channels expanded from the current 10 to 20 per cent.</li> </ul>
Administrative support	<ul style="list-style-type: none"> <li>• English allowed for processing of public documents.</li> <li>• Foreign Investment Ombudsman's office will be established.</li> </ul>

## 4.6 Europe in general<sup>18</sup>

In this section, we will be looking at the state of affairs of free trade zones in Europe.

As was discussed in Chapter 2, incentives are an important component of the FTZ-concept. In the European Union, a number of industrial zones are labelled as free trade zones. Zones like de Zona Franca de Barcelona or the Shannon Free Zone were established many years ago and have been very successful in attracting investment. Their impact on local economic development has been – and still is – significant. However, in a recent review by the authors of the key selling points of these zones reveal that tax incentives are no longer a main characteristic. The emphasis has moved towards a concept that is more oriented to providing value added services rather than from tax and other financial incentives.

The reasons for this can be said to be attributable to the following, firstly is that a better service has to be offered in order to remain competitive in a global economy. Essentially, the 'FTZ-product' requires continual upgrading like any product produced therein. Secondly, the policy of the European Commission has been one that creates a level playing field towards state aid to private enterprises. In this chapter we will explain what the current legislation of the EC is towards incentives.

<sup>18</sup> NB. This section is condensed from the following (Source: <http://europa.eu.int>)

Also we will examine how member states creatively try to go around the EC-regulations by developing alternative tax-based incentives. In this section we will look at alternative tax schemes proposed by the Belgian and Dutch governments – both very successful in attracting distribution activities.

Lastly, a brief overview will be given of operations at the Ports of Antwerp and Rotterdam.

#### 4.6.1 The European Union's policies on incentives<sup>19</sup>

**General principles.** With the development of the common market the European Union has sought to removal legal and technical barriers to trade. The tax differences between the countries of the European Union have also come to be an important concept for consideration since companies operating out of different countries should be subject to the same level playing field. The issue of tax competition between member states has thus been a concern to the Commission for almost 30 years. The harmonisation of direct taxes among European Union countries has not followed largely due to political reasons.

In 1997 the European Commission published a Code of Conduct entitled 'A package to tackle harmful tax competition in the European Union' to deal with the problem of harmful tax competition.

The EC has adopted a number of resolutions dealing with the areas of business taxation, taxation of savings income and the issue of withholding taxes on cross-border interest and royalty payments between companies. A Code of Conduct Group was established in 1998 and has become known as the 'Primarolo Group' named after the first Chairperson, Mrs. Primarolo. It's aim is to assess the tax measures that may fall within the Code. The location of a business activity in the Community in relation to tax is governed by the Code of Conduct The Code covers laws or regulations and administrative practices of member states, who by becoming members, commit themselves not to introduce new tax measures which are harmful within the meaning of the code.

A list of potentially harmful tax provisions was compiled by member states and sent to the Commission for review by the 'Primarolo' Group. Amongst those countries examined, the Group look at the tax treatment of special tax regulations for coordination, distribution and service centres in the Netherlands and Belgium. These will be discussed further in this chapter.

The European Commission states that any aid granted by a member state or through state resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods is incompatible with the principles of the common market. Aid granted to promote the economic development of areas where the standard of living is abnormally low or where there is serious under-employment is a notable exception.

The Commission has also the power to review all systems of aid existing in the member states and can order the state concerned to abolish or alter such aid. If the state does not comply a refer may be made to the Court of Justice and the beneficiary of the subsidy can also be forced to refund the subsidy.

EC competition rules prevent state aid in the following cases:

- Where an advantage relieves a company of charges that are normally born from their budget.
- Where the advantage is made by the state or with state resources.
- Where competition and trade between member states is affected.
- Specific or selective either for companies, industries or the manufacture of certain goods.

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<sup>19</sup> *ibid.*

State aid constitutes any measure intended partially or wholly to exempt firms in a particular sector from the charges arising from the normal application of the general system 'without there being any justification for this exemption on the basis of the nature or general scheme of this system'.

The mere fact that the aid strengthens the firm's position compared with that of other firms which are competitors in intra-Community trade is enough to allow the conclusion to be drawn that intra-Community trade is affected. The size or amount of the aid is irrelevant, as too the size of the company receiving it nor whether the company exports. The receipt of aid itself is sufficient to warrant a breach of EC rules.

NB. If tax measures are the same to all economic agents operating within a member state then it is not considered to be state aid.

Every year member states are required to report to the commission their existing state aid systems.

#### 4.6.2 State aid within the sale of land and buildings by public authorities<sup>20</sup>

Besides direct grants and tax allowances, governments have another powerful instrument at their disposal to attract foreign direct investment to a region: to sell land and buildings at below-market rates. However, the Commission has developed a set of guidelines for handling sales of land and buildings in a way that automatically precludes the existence of state aid. This guidance concerns only sales of publicly owned land and buildings. The basic principle is that public property cannot, in principle, be sold below its value.

**Sale through an unconditional bidding procedure.** A sale of land and buildings following a sufficiently well-publicized open and unconditional bidding procedure, comparable to an auction, which later results in the acceptance of the best or only bid is by definition at market value and consequently does not constitute state aid.

- An offer which is repeatedly advertised over a reasonably long period (two months or more) is deemed 'sufficiently well-publicized'.
- An offer is 'unconditional' when anybody is generally free to acquire the land and buildings and to use for his own purposes.

**Sale without an unconditional bidding procedure.** If public authorities do not use the above method they should obtain an independent market valuation from several competent valuers. The market price thus established is the minimum purchase price that can be agreed without granting state aid.

#### 4.6.3 Special status for distribution activities in the European Union

**Free zones<sup>21</sup>.** The section above gives an explanation as to why FTZs in Europe are what they are today. The conclusion is that FTZs as originally conceived do not exist any more in the European Union. The Commission does allow the establishment of free zones within its territory but its definition of free zone is a very narrow one. Free zones are special areas within the customs territory of the Community where goods are free of import duties, VAT and other import charges.

Free zone treatment applies to both non-Community and Community goods. Non-Community goods stored in the zone are considered as not yet imported whereas Community goods can be considered as already exported. On importation, free zones are mainly for storage of non-Community goods until they are released for free circulation. Import and export declarations have only to be lodged when the goods leave the free zone. In addition, there may be special relief available in free zones from other taxes, excises or local duties. These will differ from one zone to another.

<sup>20</sup> *ibid.*

<sup>21</sup> *ibid.*

The free zones are mainly a service for traders providing fewer customs formalities.

- Control Type I free zones have a perimeter fence so that goods are tightly supervised by Customs.
- Control Type II free zones are essentially the same as customs warehouses. Unlike with traditional-style free zones, the goods are subject to a declaration in order to be able to benefit from the arrangement.

**Customs warehouses.** See Council Regulation (EEC) No. 2913/92 (the Customs Code) and its implementing Commission Regulation (EEC) No. 2454/93. The main features of the regulations are set out below.

The customs warehousing procedure provides for storage of:

- Non-Community goods without such goods being subject to import duties or commercial policy measures
- Community goods (principally CAP goods entitled to payment of export refunds) which are subject to particular export arrangements by virtue of being warehoused.

Normal import or export prohibitions or restrictions on the goods are not precluded from the customs warehousing procedure .

*Types of customs warehouses.* A customs warehouse means any place approved by and under the supervision of the Customs authorities where goods may be stored under the prescribed conditions. A customs warehouse may be either a public or a private warehouse. A public warehouse is a customs warehouse available for use by any person for the warehousing of goods, whereas a private warehouse is reserved by the warehouse keeper. Customs will accept applications for approval of different types of warehouses as follows:

- *Type A:* A public warehouse available to any person for the warehousing of goods under the responsibility of the warehouse keeper.
- *Type B:* A public warehouse that has one warehouse keeper who may in principle allow anyone to use the space. Type B warehouses are intended primarily for transit storage suppliers. The person whose name is on the declaration placing the goods in the warehouse is liable to Customs for them and must provide a guarantee for them. Customs will supervise the entry, storage and removal of the goods in Type B warehouse by means of both storage documents that it retains and physical supervision. Type B warehouses must be located near a Customs office.
- *Type C:* A private warehouse reserved for the warehousing of goods by the warehouse keeper. The warehouse keeper is synonymous with the depositor, although does not have to be the owner of the goods. Only the warehouse keeper is allowed to store goods and is liable to Customs for the goods in storage by way of a guarantee. Customs supervises the goods mainly on the basis of records but also carries out physical controls. The types of goods and the level of detail in the records determine the frequency of these controls. The more specific the data, the less the need for physical controls. Because of the controls required, type C warehouses must generally be located near a Customs office.
- *Type D:* This warehouse is similar to a type 'C' warehouse, but the declarant has the option of having the goods assessed for duty either on the basis of their value on being placed in warehousing or at the time of release for free circulation. Type D warehouses, like type C, are private warehouses. They are intended solely for goods stored by the warehouse keeper and are mainly used for commercial storage or for building up stocks. The warehouse keeper is liable to Customs for the goods in storage. The difference

between Type D warehouses and other types is that for all other types of customs warehouses, the customs value and quantity of the goods are determined when they are removed from the warehouse. In Type D warehouses the status of the goods on placement in the warehouse is decisive. However, deviations from this principle are possible if warehousekeepers so request. Customs supervises the goods on the basis of the stock records and financial records. These records must therefore meet high standards. Random physical controls also take place. Type D warehouses may be located anywhere in the country.

- *Type E:* A private warehouse, similar to Type C. However, the Type E authorization allows goods to be stored in a number of different locations. Type E warehouses are intended solely for goods storage by the warehouse keeper. Like Type D they are mainly intended for commercial storage and for building up stocks. Again the warehouse keeper is liable to Customs for the goods in storage. Customs supervises the goods in Type E warehouses primarily on the basis of the financial and stock records, with limited supplementary physical controls. The warehousekeeper's records must therefore meet high standards. His organization must also have separation of duties and internal control measures. The warehouse keeper may store goods in multiple locations. His records must show what goods are located in which location. As a rule, Type E warehouses may be located anywhere.

*Operating procedures.* A declaration is required for all goods intended to be placed under the customs warehousing procedure. The warehouse keeper must keep stock records of all goods deposited in the warehouse. These records must contain all the information necessary for the proper application and control of the warehousing procedure. The stock record system must be approved in advance of authorization and must ensure control of stock movements and provide sufficient detail to facilitate assessment of customs duty and enable checks to be carried out.

Goods placed under the customs warehousing procedure may undergo the usual forms of handling necessary to ensure preservation, marketable quality, or to prepare them for distribution or resale.

Goods under customs warehousing control may be temporarily removed from the warehouse. A written application must be made by the warehouse keeper for authorization to remove the goods. Alternatively, where a warehouse keeper intends to remove goods regularly on a temporary basis, the warehouse authorization may indicate approval for temporary removal of the goods. The normal provisions will apply where 'usual forms of handling' are carried out while the goods are temporarily absent from the warehouse.

Transfer of goods between warehouses is allowed subject to prior approval. Community and non-Community goods may be stored in the same storage areas provided that specific ways of distinguishing between both categories are available and again subject to prior approval.

The customs warehousing procedure is discharged by:

- release for free circulation or placing under another customs procedure
- placing in a free zone
- re-exportation
- abandonment to the state
- destruction under official supervision.

## 4.7 Case Study: Belgium<sup>22</sup>

Investment incentives and subsidies have been the responsibility of Belgium's three regions: Brussels, Flanders, and Wallonia since 1980. However most tax measures still remain under the control of the federal government and are inline with the EC.

In Belgium the promotion of foreign investment is the responsibility of the above Belgian regions through their regional investment agencies viz. the Brussels Enterprise Agency, Flanders Foreign Investment Office (FFIO) and the Office for Foreign Investment (OFI) in Wallonia.

Performance measurements in Belgium usually relate to job creation. The government reserves the right to reclaim incentives if the investor fails to meet this objective although actual enforcement is rare.

### 4.7.1 Free trade zones<sup>23</sup>

In Belgium the concept of customs warehouses is prevalent rather than actual Free Trade Zones. A customs warehouse is a warehouse approved by the customs authorities, where non-European Union imported goods may be stored without payment of customs duties and VAT. In principle, non-European Union goods of any kind may be admitted, regardless of their nature, quantity or country of origin or destination. Individuals and companies wishing to operate a customs warehouse must be established in the European Union and obtain authorization from the customs authorities by filing a written request and by demonstrating an economic need for the warehouse.

### 4.7.2 Tax treatment of distribution activities<sup>24</sup>

Belgian distribution centres of foreign multinational enterprises that meet certain conditions can operate in a special tax regime. These recognized distribution centres pay taxes on a fixed percentage (5 per cent) of their operating costs. The newly established distribution centre may operate as a branch of a foreign company or as a Belgian subsidiary. There are no specific rules on employment levels or turnover. Qualifying distribution centres can thus realize significant tax savings over coordination centres.

The distribution centre has to limit its activities to the following:

- the purchase, in its own name or on behalf of companies within the group, of raw materials, additives, finished products or merchandise
- the storing, administration and packaging of the items mentioned above
- the receipt and handling of orders from customers outside the group, the drawing up and dispatch of order confirmations but not the acceptance of the orders
- the sale to the companies of the group only, as well as the transport and delivery of the items mentioned above
- the transport and delivery of the items mentioned under a) to customers outside the group, on behalf of the group's companies, with the exception of the sales themselves
- the preparation and dispatch of invoices, it being understood that sales to customers outside the group have to be invoiced in the name and for the account of the group company. The centre cannot accept payment of invoices sent to customers outside the group

<sup>22</sup> NB. This section has been condensed from the following (source: <http://www.buyusainfo.net>)

<sup>23</sup> *ibid.*

<sup>24</sup> *ibid.*

- the carrying out of financial and bank formalities in relation to the above-mentioned activities
- the carrying out of vat and customs formalities in relation to the above-mentioned activities.

#### 4.7.3 Non-authorized activities<sup>25</sup>

Non-authorized activities include:

- carrying out operations which amend or change the original nature of the finished products and merchandise
- the packaging of finished products or merchandise supplied loose
- activities that result in an increase of the value of the merchandise or involve the sale of this merchandise to third parties.

The tax authorities will accept a low taxable amount with a minimum comprising a flat-rate profit calculated on a 'cost-plus' basis, known as the flat-rate minimum profit. The flat-rate minimum profit is calculated by taking 5 per cent of all operating costs except:

- the purchase price of the goods purchased (and sold during the tax period)
- the cost price of services provided by third parties to the distribution centre (if these are normal market prices)
- disallowed expenses
- taxable reserves and provisions
- non-deductible Belgium taxes.

The status of the distribution centre is granted for a (renewable) period of five years.

#### 4.7.4 The Port of Antwerp<sup>26</sup>

The Port of Antwerp is divided by the river Scheldt occupies an area of 13,348 ha, 7,539 ha of which are in use on the Right Bank of the Scheldt and a further 5,809 ha are in the course of phased development on the Left Bank. Of the total area occupied by the port on both banks of the Scheldt, about 2,109 ha is water surface. When both dockside and river berths are included, the overall useful berth length is roughly 130 kilometres. Half of this is suitable for deep-draught ships. 280 kilometres of roads and about 960 kilometres of railway track enable multimodal transport. Every berth is equipped with 2 to 5 rail spurs and most warehouses and sheds close to the docks have direct rail connections.

The Port of Antwerp and its hinterland besides providing the basic service of loading and discharging vessels also provides warehousing, packing and repacking, distribution and forwarding of cargo. This cluster of activities has enabled Antwerp to become an important element of the European Union's import and export trade. Antwerp is far more than a national port since about half of the cargo it handles is either destined for or comes from other European countries.

Presently around 72 per cent of all general cargo is packed in containers. However, Antwerp specialises in the niche area of non-containerised general cargo and is renowned for its considerable warehousing space. Currently the port operators offer a total of more than 4.8 million square metres of covered space.

<sup>25</sup> *ibid.*

<sup>26</sup> NB. This section has been condensed from the following (Source: <http://www.portofantwerp.be>)

The combination of a cluster of services, warehousing facilities and good land transports links make Antwerp a favourable location for distribution operations.

The bulk of Antwerp's cluster community is either chemical or petrochemical placing it second only to Houston, Texas. Industrial activities in the port generate roughly 23 per cent of maritime goods traffic. In return the port ensures that supplies of the required raw materials are cheap and uninterrupted.

**Port traffic.** Port traffic is up from 100 million tons in 1990 to around 130 million tons today. This volume of trade makes Antwerp the second largest port in Europe and the fourth largest in the world. The share of cargo is approximately 56 per cent general cargo and 44 per cent bulk. Viewed in terms of imports and exports, 55 per cent relates to imports and 45 per cent exports.

In addition to the petrochemical industry Antwerp plays an important part in the shipment of iron and steel products, wood cellulose and paper, fruit and bagged goods (sugar, flour, grains and fertilisers). The eight million tons of iron and steel Antwerp handles every year are roughly the same as the volume of this product handled by all other North Seaports together.

In 2002 the nine principal ports of the Hamburg – Le Havre range jointly handled 22.6 million TEU, or a total tonnage of 237 million tons. In terms of market share, Antwerp handled approximately 22 per cent making it the third largest container port in the range, after Rotterdam and Hamburg. With a total of 53 million tons, the total container trade by geographical region can be seen in Table 4.14.

**Table 4.14 The container trade by geographical region**

Destination	%
Europe	20
Near East	17.1
Middle and Far East	18.3
North and Central America	25.9
South America	5.6
Africa	12.4
Other regions	0.7

**Fore and hinterland.** The Port of Antwerp's immediate hinterland includes the Belgo-Luxembourg Economic Union or BLEU. Roughly half, 65 million tons, of the maritime traffic of the Port of Antwerp is accounted for by the imports and exports of Belgian and Luxembourg companies.

Antwerp's maritime foreland comprises of some 200 countries, lead by the United States of America, the world's largest importer and exporter. Other important trading partners include the United Kingdom, Canada, Brazil, Norway and Finland. Every year roughly 32

different countries route more than 1 million tons of goods via Antwerp. The most important transit countries are Germany, France, the Netherlands, Switzerland, Austria and Italy.

Comparing transit traffic for bulk and general cargo shows that 25 per cent of bulk goods is transit, most of the bulk being intended for the domestic markets whilst about 70 per cent of the general cargo is transit traffic.

**Logistics activities.** Antwerp offers a large choice of logistic services. With 4.8 million square metres of warehouse space Antwerp has far more covered storage than any other port in Europe (Rotterdam is 1.9 million square metres). Many warehouses have been specially equipped for a specific trade and for storage of cargoes with special temperature and ventilation requirements. Warehouse complexes have been built to meet national and European standards for the warehousing of dangerous products.

Some multinational companies have built warehouses in the port area and launched their own distribution operations. However the majority prefer to find a local partner specialised in contract distribution, offering their customers services like pre-assembly, labelling, quality control and inventory management to after-sales and maintenance services.

**Customs arrangements.** For customs purposes, the Port of Antwerp is considered as a single large customs zone. Antwerp is equipped with installations for receiving goods in transit and administrative arrangements have been adapted to meet the needs of commerce and the tax authorities. When goods are stored under these arrangements, indirect taxes such as import duties, excise, VAT and so on do not have to be paid. For the completion of customs formalities prior to the discharge of cargoes from ships, the GCA computer system is used, which is an automated system for the general customs declaration by the shipping agent.

Customs formalities following the discharge of cargoes from ships can be made using the SADBEL system. This is a network that connects the declarer with the customs office in the port and the Customs and Excise Administration. Both systems rely on the central customs computer in Brussels.

**Port infrastructure.** The largest lock in the world was opened in Antwerp in 1989, the Berendrecht Lock. It is with a length of 500 metres between the lock gates, a width of 68 metres and a depth of 13.50 metres, making the sill depth at mean high water 17.75 metres. The opening of this lock has more than doubled the accessibility of the Right Bank docks. Since 1989, the Right Bank has been further developed on the banks of the Scheldt outside the dock complex. Two large new container terminals have been opened there. The first was the Europe Terminal, which started operations in 1990, while the second, the North Sea Terminal, welcomed its first ship in early 1997. More tidal container handling capacity is currently in development on the Left Bank.

The Left Bank has the Vrasene Dock which offers 4.5 kilometres of berths specialising in forest products, fruit juice concentrates, cars and plastic granulates. The annual handling capacity of the Vrasene Dock is of the order of 10 million tons. Other docks include the Verrebroek Dock, which lies parallel to the Vrasene Dock, and the Deurganck Dock (see Figure 4.8).



Figure 4.8 Antwerp's main docks on the left bank<sup>27</sup>

<sup>27</sup> Source: <http://www.skyscrapercity.com>

## 4.8 Case Study: The Netherlands

Limited, targeted investment incentives have long been a well-publicized tool of Dutch economic policy to facilitate economic restructuring and to promote energy conservation, regional development, environmental protection, R&D, and other national socio-economic goals. Subsidies and incentives are available to foreign and domestic firms alike and are spelled out in detailed regulations. Subsidies are in the form of tax credits that are usually disbursed through corporate tax rebates or direct cash payments in the event of no tax liability.

### 4.8.1 Foreign trade zones/free ports

As in Belgium, the Netherlands has no free trade zones or free ports in the sense of territorial enclaves where commodities can be processed or reprocessed tax-free. There are, however, a large number of customs warehouses and free warehouses at designated places and international airports where goods in transit may be temporarily stored under Customs supervision. Goods may be repacked, sorted or relabelled.

### 4.8.2 Tax treatment of distribution activities

The Netherlands is particularly attractive for the establishment of European distribution centres with an estimated 60 per cent of American companies in Europe having located their European Distribution Centres (EDCs) there.

The Netherlands is known for its favourable fiscal climate in which advanced tax rulings (ATR), in combination with advanced pricing agreements (APA), are guarantees given by local tax inspectors with regard to long-term tax commitments for a particular acquisition or green field operation.

Special tax regulations allow distribution centres to define tax obligations in advance using the 'cost-plus' model. In this case the company's profit is calculated as a percentage (5-25 per cent) of operating costs. The exact percentage point is calculated individually on the basis of similar business relationships between independent parties. This fictitious profit is then taxed at the usual tax rate of 35 per cent. Advanced 'bargaining' can be made for four years and in some case longer.

### 4.8.3 The Port of Rotterdam<sup>28</sup>

Rotterdam is the largest port in Europe and until recently the world. However Asian ports like Singapore and Hong Kong have taken over its world leading position and in 2005 Rotterdam ranked as the seventh largest port in the world. In 2004, the port of Rotterdam handled more than 350 million tons barrier of cargo, 7 per cent more than in 2003. Container throughput rose by 16 per cent from 7.1 million TEU in 2003, to 8.2 million TEU. Both total bulk cargo (+6 per cent) and total general cargo (+14 per cent) increased. Total imports rose by 6 per cent, 16 million tons, to 271 million tons. Exports increased by 12 per cent to 81 million tons.

Most important for the harbour of Rotterdam are the petrochemical industry and general cargo transshipment handling. The harbour functions as an important transit point for transport of bulk and other goods between the European continent and other parts of the world. From Rotterdam goods are transported by ship, river barge, train or road. In 2006 the Betuweroute, a 160 kilometres long express railway linking Rotterdam to Germany, is expected to be completed. Large oil refineries are located west of the city. The rivers Meuse and Rhine also provide excellent access to the hinterland.

<sup>28</sup> NB. This section has been condensed from the following (Sources: <http://en.wikipedia.org> and <http://www.portofrotterdam.com>)

In the first half of the twentieth century the harbour activities moved from the centre of the city along the river towards the North Sea. In 1872 the *Nieuwe Waterweg* canal was dug from Rotterdam to the North Sea to increase the flow of the shallow Rhine and Meuse.

Rotterdam's harbour territory has since been enlarged by the construction of the *Europoort* (gate to Europe) complex along the mouth of the *Nieuwe Waterweg*, and by the *Maasvlakte phase I and II* in the North Sea near Hoek van Holland.

From the beginnings of containerization in the early 1960s, the Port of Rotterdam invested heavily in handling facilities and equipment for efficient transshipment of containers to inland modes of transport. The key strategic advantage for the Port of Rotterdam is its ability to accommodate the world's largest bulk ships. This has enabled it also to accommodate modern post panamax container vessels and even the theoretical Malacca Max vessels without difficulties. Its maritime infrastructure thus enabled not only the establishment of transshipment points and storage facilities but also the emergence of a chemical cluster around the Port of Rotterdam.

**Port traffic.** Table 4.15 gives an overview of incoming and outgoing cargo grouped by segment and expressed in gross weight x 1,000 metric tons.

**Table 4.15 Port traffic**

	Incoming	Outgoing	Total
Agribulk	8 406	2 155	10 561
Ores and scrap	39 496	2 699	42 195
Coal	24 767	560	25 328
Other dry bulk goods	8 760	2 501	11 171
Subtotal dry bulk goods	81 339	7 915	89 254
Crude oil	101 739	343	102 083
Mineral oil products	22 376	10 843	33 219
Other liquid bulk products	15 878	9 741	25 619
Subtotal liquid bulk goods	139 994	20 927	160 920
<b>Total bulk goods</b>	<b>221 333</b>	<b>28 842</b>	<b>250 175</b>
Containers	39 099	43 322	82 421
Roll on/Roll off	4 926	6 027	10 953
Other general cargo	5 654	3 156	8 811
<b>General cargo</b>	<b>49 679</b>	<b>52 506</b>	<b>102 185</b>
<b>Total throughput</b>	<b>271 011</b>	<b>81 348</b>	<b>352 360</b>

**Dry bulk.** Consists of not only ores, coal, cereals and cattle feeds, but also scrap metal from sizeable loads. The largest bulk ship to put in at Rotterdam is the 500 k DWT *Berg Stahl*, which brings, per visit, enough iron ore to build 300,000 cars. Many power stations in North-West Europe are powered by coal from Rotterdam. The food industry also imports its raw materials and exports its end products through the Rhine estuary ports.

**Wet bulk.** Around 140 million tons of crude oil is brought into the harbour every year. Approximately half of this is conveyed by pipeline to Antwerp and the German Ruhrgebiet. The other half is processed in Rotterdam in the manufacture of oil products. The chemical industry in turn uses these to make chemical intermediates. Most oil and oil products leave the port either by ship or by pipeline whereas chemicals are generally transported by ship.

**Containers.** Rotterdam was the first European port to pass the limit of 7 million TEU in the container sector. The growth of container transshipment and the construction of new container terminals means that this figure is set to increase sharply over the coming years.

**Other mixed cargoes.** Rotterdam is the largest European centre for the trading and distribution of vegetables, fruit and fruit juices. These activities are concentrated on the north bank of the Maas, right next to the city. The port also handles large volumes of metals, steels and forestry products. The roll-on/roll-off traffic between Rotterdam and the United Kingdom is growing as too is the dispatch of motor cars and heavy rolling stock.

**Petrochemicals industry.** The Port of Rotterdam accommodates one of the largest petrochemicals clusters in the world. Five refineries process the crude oil into furnace oil, motor spirit, kerosene, LPG, naphtha, etc. Many chemicals firms purchase their starting materials from the refineries for the production of their semi-finished products, such as synthetic fibres and plastics.

**Recycling.** Rotterdam is Europe's largest scrap iron harbour. For reasons of efficiency, both infrastructurally and operationally, the scrap iron companies are clustered in the Botlek area. For the 'return flow' of other goods, such as car tires and household and industrial waste, the harbour is becoming increasingly attractive as a place where they can be reprocessed to form reusable materials and new products.

**Maritime industry.** Due to the busy shipping traffic, the harbour and industrial zone are home to a large number of ship repair yards and maritime suppliers. The offshore industry is also well represented because Rotterdam is one of the few harbours that is deep enough for offshore platforms.

The Table 4.16 gives an overview of incoming and outgoing cargo grouped by continent expressed in gross weight x 1,000 metric tons.

**Table 4.16 Global cargo flows by continent (Port of Rotterdam, online)**

	Incoming	Outgoing	Total	%
Europe	111 610	39 840	151 450	46.3
Africa	45 448	2 876	48 324	14.8
America	54 666	11 337	66 003	20.2
Asia	31 427	18 049	49 476	15.1
Oceania	9 951	733	10 684	3.3
Other	996	25	1 021	0.3
	<b>254 098</b>	<b>72 860</b>	<b>326 958</b>	<b>100</b>

**Logistics activities: The Distripark concept.** The Port of Rotterdam has established the Distripark concept in order to consolidate cargo flows to the port and create port-related employment. Cargo destined for the Rotterdam Distriparks comes in mainly by container. Therefore, the proximity of a container terminal is an advantage for a distribution centre in Rotterdam. The concept of the Rotterdam Distriparks is just-in-time delivery at lower cost.

To fulfil this mission, the parks:

- have facilities for distribution operations
- are located close to cargo terminals so that the empty container, after stripping, can be taken back into the system

- cheap transport from terminal to warehouse
- are located close to various hinterland transport facilities
- provide value added services
- have the latest in communication technology
- have a highly skilled workforce
- have Customs on site.

A Distripark is a large-scale, advanced, value-added logistics complex with comprehensive facilities for distribution operations at a single location, which is connected directly to container terminals and multimodal transport facilities for transit shipment, employing the latest in information and telecommunication technology. Distriparks provide space for warehousing and forwarding facilities, including the storage and transshipment of cargo and the stuffing and stripping of containers. They also provide a comprehensive range of value-added services, including assembly, labelling, testing/examination, packaging and repackaging, sorting and invoicing. The Port of Rotterdam and the Europe Combined Terminals (ECT) jointly have developed the Delta 2000-2008 Plan: eight Distriparks in the Delta terminal at the Port of Rotterdam (Table 4.17).

**Table 4.17 Distriparks in Rotterdam**

Distriparks	Starting date of Operations	Land (square metres)
Eemhaven Distripark	1989	237 000
Botlek Distripark	1990	165 000
Maasvalkte Distripark	1 <sup>st</sup> phase: 1998 2 <sup>nd</sup> phase: under construction	848 000 1 017 000
<b>Total</b>		<b>2 267 000</b>

At the Distriparks, the land is leased out to private companies, which, in turn, must invest in their own buildings and employ their own people.

**Customs arrangements.** The European Logistics Centres (ELCs) is a major trend in European logistics, not only for multinationals but also for medium-sized enterprises, many of which are setting up their logistics centres in the European market. They are located throughout the Netherlands, but a lot of them go for sites located near a port.

The core of the concept is a consolidation of pan-European distribution resulting in the reduction of logistics costs, increased sales, improved control, better product availability, enhanced competitive position, faster market response, as well as savings on workforce and infrastructure investment.

A very specific characteristic related to the ELC is that the goods stored in these ELCs are seen as transit goods from the perspective of Customs authorities. Since transit goods are those that have not yet been imported to the Netherlands or Europe, neither imports tariffs nor Customs' procedures are needed. The possibility of easy re-export of these transit goods by container is an important reason for the spatial nearness of ELCs to ports.

Distriparks are not free zones, but each company located in such a park can be considered as such, or a **'free point'**, in and of itself. In the Netherlands there are approximately 1,500 of these free points. The Distriparks can offer freer facilities than a free port. When a company fulfils certain conditions with respect to security, and when it has established an online computer connection meeting certain standards with Customs, it may obtain a license from Customs permitting it to carry out certain basic Customs formalities on itself. Such a system makes the goods flow faster and more efficiently.

**Port infrastructure.** The total surface area of business premises in the port and industrial area is around 5,036 hectares.

In 1992, due to the continuous growth of container traffic, a new strategic development plan for the Port was drafted: **Havenplan 2010**. The goal of this plan was to stimulate employment and create added value. It also stated that the port should be developed as a main port, because of the large indirect effects related to the port. This new growth was to be achieved through the following:

- new space for large scale container-terminals: further development of the Maasvlakte and its extension further into the North Sea, a project known as Second Maasvlakte.
- new infrastructure, in the port and to and from the port.
- new dedicated distriparks in the port aimed at adding value to the cargo transhipped through the port by value-adding logistic activities.  
The goal is to open the containers in the Port of Rotterdam-region, instead of merely transhipping them as fast as possible towards the hinterland.
- strengthening industrial functions in the port, since the massive port industry ties good-flows to the port.
- Rotterdam Mainport Development Project (PMR)  
PMR comprises three constituent projects for strengthening the mainport of Rotterdam and improving the quality of the living environment in Rijnmond:
  - land reclamation and compensatory measures: expansion of the Rotterdam port with a new section of land at sea and compensation for damage to the natural environment
  - a 750-hectare wildlife and recreational area: development of new wildlife and recreational areas at Central IJsselmonde and to the north of Rotterdam
  - existing Rotterdam Area: a series of projects designed to make better use of the existing port area and to improve the quality of the living environment.

These constituent projects are currently being implemented or under preparation. Progress reports are available from the following project development authorities:

- the national government and the municipality of Rotterdam for the constituent project, land reclamation and compensatory measures
- the province of South Holland for the constituent project, a 750-hectare wildlife and recreational area.

**Maasvlakte 2.** Is a 100-hectares land reclamation project which commenced in 2005 and is expected to be by and running by 2012. Situated at the mouth of the entrance to Rotterdam it is closer to the main shipping routes than other terminal.

**Table 4.18 A Comparison of Traffic data – Antwerp versus Rotterdam Top three of European ports based on seaborne container traffic measured in 1,000 TEU (Port of Rotterdam)**

	2002	2003	%
Rotterdam	6 506	7 107	9.2
Hamburg	5 374	6 138	14.2
Antwerp	4 777	5 445	14.0

**Table 4.19 Top three of European ports based on seaborne cargo traffic measured in gross weight times 1 million tons**

	2002	2003	%
Rotterdam	321.8	327.8	1.9
Hamburg	131.6	142.9	8.6
Antwerp	97.6	106.3	8.9