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China's Vanguard of Reform: A Narrative Review Approach

Lee Peng- Foo[1], Mui Yin- Chin[1], Swee Chin- Ng[1], Xinjun- Lei[2], Xiaodi-Zhang[2], Jia-Wang[2]

[1] Tunku Abdul Rahman University of Management and Technology (TAR UMT), Jalan Genting Kelang, 53300, Wilayah Persekutuan Kuala Lumpur, [2]Shanghai Academy of Social Sciences (SASS), No.7, Lane 622, Huaihai Middle Road, 200020, China
Corresponding Author's Email: foolp@tarc.edu.my

Abstract

The current review aims to examine the growth trajectory, most influential documents, and intellectual and conceptual structure of the literature regarding information in Shanghai free trade zone (SFTZ). A narrative review approach was performed using 83 documents from July 2022 to October 2022 extracted from Google Scholar and ProQuest platform to provide an updated information regarding the SFTZ and discuss its features and potential challenges as it grows. Several significant reforms have been introduced via SFTZ such as liberalisation of investment sectors and facilitation business registration with 100% ownership, financial advantages, and the talent policy advantage. These have become significant drivers of economic expansion in Shanghai and across the country. As such, foreign investors could benefit from measures explicitly designed to offer a non-discriminatory business environment and, more importantly, create a more level playing field for them and their Chinese counterparts. Although the Chinese government has undertaken many efforts, SFTZ has received negative feedback. The Chinese government continues improving and revising its existing policies to fit Shanghai's complex and fast-changing business environment.

Keywords: Shanghai Free Trade Zone, China, Business, Investment, 14th Five Years' Plan

Introduction

In recent years, the Chinese government has made an aggressive move to encourage systemic reforms in the business environment. According to the latest 14th five years' plan (2021-2025), China focused on removing all systematic obstacles that restrict circulation for business. In view in this, Shanghai has set out its vision for advanced manufacturing during the 14th Five-Year Plan to promote the high-quality development of the sector and enhance its role in economic development. FTZs also serves as a helpful platform to drive the Chinese government's long-term goal of establishing the Chinese Renminbi (RMB) as a reserve currency. In 2013, the inaugural FTZ, namely the SFTZ, was established in Mainland China under the nation's opening-up reforms. Apart from its role as an FTZ, the SFTZ also functions as a test-bed for various transformations, focusing on establishing a favourable environment for foreign investors and facilitating international trade. During China's 13th Five-Year Plan implementation period (2016-2020), all FTZs, especially the SFTZ, reported significant progress.

Table 1
Shanghai's leading industries, % of the GDP from 2014-2018

	2014	2015	2016	2017	2018
Industrial and manufacturing	31	29	27	27	27
Financial industry	14	16	17	17	18
Wholesale and retail	15	15	15	14	14
Real estate	6	7	8	6	6
Transportation, storage and post	4	4	4	4	5
Construction	4	3	3	3	3
Other sectors	26	26	26	29	25
Total	100	100	100	100	100

(Department of Statistics, Shanghai discontinued to publish this statistic after year 2019)

Shanghai was the leading Chinese city with a total GDP of 3.27 trillion RMB (USD 86 billion) in 2018, growing to 3.87 trillion RMB (USD97 billion) in 2020. Its services sector made a sizeable contribution (approximately 70 % of the city's GDP), consistent with the pattern of a *rapidly growing sector in most developing countries.* Two of the country's top universities, Shanghai Jiaotong University and Fudan University, ranking 59th and 77th, respectively, in the Academic Ranking of World Universities 2021, are located in Shanghai province (ShanghaiRanking Consultancy, 2021).
Shanghai's leading industries included; industrial and manufacturing, the financial industry, wholesale and retail, real estate, transportation, storage and post, and construction. Shanghai is mainland China's financial and commercial hub and, hence, a popular destination for private and foreign investment. Since the implementation of the SFTZ, the financial industry has increased from 14 % of the economy in 2014 to 18% in 2018. At the end of 2019, the Shanghai Stock Exchange was the fourth largest worldwide by market capitalisation. Meanwhile, the Shanghai Gold Exchange is now listed as one of the world's major gold trading centres along with London and New York (Qian, 2020).
Over the past eight years, despite its *small size (4% of* China's total landmass), Shanghai has accounted for 17.6% of China's foreign investment and 14.7% of international trade (Xinhua, 2021). During China's "Thirteenth Five-Year Plan" period (2016-2020), the government implemented a total of 173 innovation projects in the pilot FTZ (SFTZ). These effectively improved the openness, administrative efficiency, development momentum, and economic vitality within the SFTZ. In 2020, 292 foreign-funded enterprises were established in Shanghai's Lingang New Area, with a total amount of 1.75 billion RMB. Likewise, Yangshan Special Comprehensive Bonded Zone, the only special comprehensive bonded zone in the country, welcomed its inaugural 5G+L4 IHDT (Intelligent Heavy Duty Truck). Operation globally with a collaboration between SAIC Motor, Shanghai International Port Group (SIPG) and China Mobile (SAIC Motor, 2019).

SFTZ at a Glance
On September 18, 2013, China's central government has approved the China (Shanghai) Pilot FTZ Overall Plan. The inaugural SFTZ is mandated to speed up the transformation of government role in the new era, actively exploring new models, promoting trade and

investment facilitation under the new plan. In order to achieve the long term objective, the special customs supervision will cover 4 areas under the pilot FTZ, namely the Shanghai Waigaoqiao Free Trade Zone, Shanghai Waigaoqiao Bonded Logistics Park, Yangshan Free Trade Port Area and Shanghai Pudong Airport Comprehensive Free Trade Zone. After a year of establishment of SFTZ, the State Council incorporated Lujiazui Financial and Trade Zone, Jinqiao Economic and Technological Development Zone, and Zhangjiang Hi-Tech Park into the SFTZ, thus enlarging the SFTZ's land area from 28.78 square kilometers to 120.72 square kilometres (SFTZ Administration, 2020). In August 2019, the Lingang New Area has formally become part of SFTZ by focusing on seven key industries. All these new changes have prepared Lingang in a strategic position compared to other economic zones apart from strong global market influence and competitiveness by 2035. The expansion is crucial as financial leasing is one of the leading industries (by revenue) in the Shanghai FTZ.

Methods

The impacts of SFTZ will evolve over time. Recognising this, the authors has applied narrative review approach to exploring the prospects and challenges of SFTZ. In comparison to systematic reviews, narrative reviews adopt a less formal methodology because it does not require to includes the stricter elements of a systematic review (Jahan et. al., 2016). The duration was limiting to the 3-months period from July 2022 to October 2022. Narrative review approach intents to provide the reader with a comprehensive background of SFTZ and an in depth understanding of the existing challenges and features faced by the businesses.

Step 1: Search terms

Thesaurus *related* terms with particular reference to international trade were applied for selecting the appropriate keywords directly related to the topic of interest. The keywords such as SFTZ, Malaysia, Investment in China and International trade were entering into a search engine such as Google Scholar and ProQuest platform. ProQuest was chosen as a reputable source of research in social science that would provide articles from a wide range of scholarly journals. Apart from English, articles published in other languages were translated using the freely available web-based Google Translator before the full papers were reviewed. The narrative review sources included journal publications, government official published documents and various media sources. A total of 102 articles were retrieved from the keywords mentioned above.

Step 2: Selection criteria

As the SFTZ is relatively new (less than ten years), most of the articles available are mainly available in Chinese version. In addition, majority of the updated news/ policies available in the newspapers and government published official documents instead of journals articles. The duplicated articles were removed from the samples, which resulting the sample size reduced to the 83. Apart from this, the forward citation searches and backward citation searches was also applied. The authors will identify articles that were cited in an original article via forward citation searches. It can be done by inspecting the reference list of the source study via Google and ProQuest platform. Citation searching begins with a key paper that is well-known and then locates more potential publications by compiling references that have cited the core paper. It is predicated on the idea that if the first paper is relevant, then any subsequent papers that quote the original work may also be pertinent (Bakkalbasi et. Al., 2006).

Step 3: Critical assessment

The authors have carefully evaluating the fitness of the selection articles, media sources as well as the government published documents. The findings are the result of an extensive literature review focusing on the features and challenges encountered throughout the evolution of the SFTZ.

Result and Discussion

Features of the SFTZ

Liberalisation of investment sectors and facilitation business registration with 100% ownership

To improve its business environment and be proactive against the coronavirus epidemic, China's government unveiled new, shortened negative lists for foreign investment, effective from July 23, 2020 (National Development and Reform Commission and the Ministry of Commerce, 2020). The Foreign Investment Negative List applicable to FTZs is one of the lists in the 'Negative Lists' system governing industries in China in which private and foreign entities are not allowed to invest. This list supersedes the 2019 version, shortening the number of items for the pilot free trade zones (FTZs) from 37 to 30.

The Foreign Investment Law was introduced concurrently to liberalise and promote foreign investment and build a national legal framework (Ministry of Commerce, 2019). As long as the investment does not fall within the categories in the list, foreign investors are entitled to the same treatment as domestic enterprises. Several reforms, such as a simplified record-filing process, registered capital subscription system, "Three-in-One" Business License, and the separation of business licenses and operating permits, have driven growth by enhancing the ecosystem through new regulations and high standards of practice and disclosure.

Before the "Three-in-One Business License" was implemented, enterprises seeking to be registered needed to visit several departments to obtain their business license, tax registration certificate, and code certificate, respectively. Registration was only deemed successful after combining all three documents. The entire process may have involved multiple trips to the respective government agencies and, more importantly, the turnaround time often spanned several weeks. Under the new policy, companies only need to submit one set of completed documents to the Administration of Industry and Commerce Office (AIC). They can then expect to collect their license and pay the administrative fees in one go.

Apart from that, the separation of business licenses and permits nationwide has streamlined administration, further reducing the implicit costs associated with obtaining approvals from respective government agencies. For example, the fresh food supply chain- Hema Fresh, which had previously been classified into different categories based on its traditional business approach, needed to obtain three types of licences and permits. However, based on the new approach, which is "enterprise-centred", Hema Fresh now only needs to obtain one license.

As one of the most popular investment destinations for foreign investors, the SFTZ has simplified registration and customs procedures, benefiting foreign-investor enterprises. New regulatory models, such as; the independent declaration of duties and taxes, self-service customs clearance, automated examination and release and priority review, have been implemented to cover the entire process of port customs clearance and the main links of trade supervision (Shanghai Customs of the People's Republic of China, 2019).

Shanghai has shortened the business registration approval process to 3-5 working days, while import and export license approval takes about 20 working days, as it involves various verifications, certificates, and inspections across departments. The essential steps for

business registration have been streamlined and fully computerised, resulting in huge cost and time savings. The single window concept in the SFTZ will progressively cover more than 20 government departments, such as; customs, taxation, goods declaration, cross-border e-commerce and other fields. While realising effective supervision, the burden on enterprises has been gradually reduced to facilitate a high volume of business administrative tasks. Therefore, the SFTZ has achieved one of the World Trade Organization's Trade Facilitation Agreement requirements to simplify government regulation coordination and efficiency (Ministry of Commerce, 2015).
In addition, customs declarations can be made through the "first entering, then declaring" policy after goods are sent for storage and cargo handling. This system has reduced issues, such as wrong classifications and shipping variances effectively (Yao & Whalley 2016). As such, the cost of customs clearance has decreased, and most importantly, customs clearance has become faster and smoother. Currently, the processing time for overseas cargo at Shanghai's Pudong Airport only requires 0.5 hours. Similarly, the estimated processing time for sea freight has been reduced from 2 days to 2 hours.
On the other hand, the new negative list has abolished foreign *shareholding limitations* in the financial sector within the SFTZ. In other words, obtaining a business license has become more accessible via the Wholly Foreign Owned Enterprises (WFOE) status. For instance, shareholding ratio restrictions for foreign investors have been relaxed in the capital market (securities, futures, and life insurance). Foreign investors can fully capitalise WFOEs without local partners being involved at the shareholding level (Chen et al., 2020). To date, this has been one of the most favoured investment vehicles, as it offers full autonomy and control to foreign parent companies. Investors are granted more significant control over the business's daily operations and revenue targets.
China's insurance market is currently ranked the 2nd largest globally and has been viewed as one of the critical drivers of global insurance growth in the next decade. The changes in the new regulations will attract more foreign industry players to explore business opportunities in China and help China's existing market develop toward the next stage with product differentiation as a competitive advantage.

Financial Advantages
The China Securities Capital Market Legal Service Centre was officially established in Shanghai, serving as the only national professional mediation organisation for securities and futures disputes. With registered capital of RMB 500 million the total accumulated registered and contracted funds exceeded RMB 261.4 billion at the end of 2020.

One of the Shanghai FTZ's prominent features is the free trade account, first introduced in 2013. This independent account system was designed for enterprises and individuals abroad or within the SFTZ The People's Bank of China (PBOC) closely monitors the split accounting management system. Effectively, it has opened up overseas financing channels for enterprises and reduced financing costs. The Guangdong, Tianjin, and Hainan FTZs now employ similar practices, following the successful implementation of free trade accounts in the SFTZ.

Under the free trade account, there is no restriction on transactions between free trade accounts and overseas accounts (first line liberalisation). The second line liberalisation refers to the flow of funds between free trade accounts and non-free trade accounts, which are considered as cross-border business processes - these must comply with relevant regulations (China's State Administration of Foreign Exchange, 2019). On April 3, 2020, the regulations were further relaxed, allowing small, medium and micro high-tech enterprises meeting certain conditions to obtain foreign debt, capped at USD 5 million (China's State Administration of Foreign Exchange, 2020). In addition, parent companies and subsidiaries registered within the SFTZ may share the foreign debt quota to meet financial leasing companies' growing overseas financing needs.

Free trade accounts have attracted global companies to conduct their treasury functions in the SFTZ. This facility aims to reduce transaction costs. Transaction costs are one of the most significant problems foreign businesses face in China and are usually incurred when companies convert foreign currencies to RMB. Free trade accounts have prepared Shanghai to become an international financial centre (Citibank, 2017). These practices align with China's national policy to internationalise the RMB by expanding the currency's international use (Long, 2017).

At the same time, China has eased restrictions for foreign and Chinese individuals, allowing both groups to practice inbound and outbound investments in the capital market. Foreign investors can transfer funds between their Chinese domestic and overseas entities via two-way cash pooling without foreign exchange controls (Huang et. al., 2017). This facility especially helps companies reduce banking costs by critical liquidity management resulting from effective financial management, planning and reductions in interest paid. Banks in Shanghai are the most experienced and professional within China, and the city has become the preferred overseas direct investment (ODI) base for foreign companies in China.

The RMB is freely convertible under this capital account (limited to trade purposes). On the other hand, RMB settlements for cross-border e-commerce could be carried out in Shanghai or branches registered within the SFTZ This facility is another game-changer for China's import industry, as there is a growing demand for quality products from Chinese consumers. The new rules offer greater flexibility for the investment portfolios of foreign investors. As of 2020, a total of 61 financial institutions have been involved in the free trade account monitoring and management information systems, opening up 132,000 free trade accounts and receiving a total of RMB 2.1 trillion in overseas financing in domestic and foreign currencies (People's Daily Online, 2020).

Talent Policy Advantage

Due to its abundant educational resources and economic status, Shanghai has become a preferred destination for high-quality talent and global elites. In a perfectly competitive market for labour and talent at national and global levels, geographical distance and transportation expenses are deemed costless. Given this, there will be no barriers to restrict individuals from working in another city within China or overseas. As such, the talent gap between Shanghai and other cities in China or abroad is likely to be wider (Hu et. al., 2020).
New expatriates with special skills currently receive a variety of incentives, including; housing subsidies, food allowances, relocation fees, laundry fees, travel subsidies, family visit fees, language training fees, children's education fees, etc.) in the form of non-cash or reimbursement, as well as tax exemptions to increase their willingness to work in China. These incentives commenced on January 1 2019, and ended on December 31 2021. *The subsidies*

are meant to offset the differences in the individual income tax (IIT) burden between mainland China and other regions – this is the key reason behind the widening talent gap between the SFTZ, the rest of China and the rest of the world (SCMP, 2019). The new guideline has been released on July 15 2021 to added in the earlier version, the regulation on the foreign talent will be relaxed and in professional fields and equal treatment for them to participate in market-oriented competitive industries (China Briefing, 2019).

In addition, the SFTZ has fully utilised local universities' resources and works hand-in-hand with them to nurture talent. For instance, foreigners with postgraduate degrees in specific disciplines, such as; science, engineering, and agriculture, are eligible to apply for an R visa (multiple-entry talent visa) with five or ten years of validity. Previously, foreigners could only apply for a Z visa in their home countries. It was often inconvenient for them to travel back to China after returning to their home countries as their visa (Z visa) was a single entry visa.

On the other hand, individuals with a doctorate who have worked in a "Two Zones" and "Two Innovations" demonstration zone for four years and resided in China for no less than six months per year will qualify to apply for permanent residence under the Card B category. Their spouses and under-18 dependents will also be similarly eligible (Shanghai Municipal People's Government, 2020). With permanent residency status in China, foreign individuals have more convenient access to; employment, children's education, home buying and investment. Previously, these activities were not easy to access as a foreigner in China. These initiatives have aimed to overcome the shortage of skilled talent in China, especially while China's economy keeps expanding. The demand for foreign talent remains huge during this *nation*-building process.

Challenges Faced by the SFTZ and some reforms

Uncertainty in the new global environment

Based on Meng and Zeng (2019), the United States (US) trade protectionism policies coupled with the prolonged trade war between the US and China will result in China competing with other developing countries in exporting manufactured goods. This situation is expected to impact China's trade performance adversely. Although the US, China and European Union has reconciliation from the tensions over accusations of human rights abuses in Xinjiang (China's largest natural gas-producing region), the EU and US 's relationships with China are multifaceted and complex. The high uncertainty is weighting China, Shanghai's export in particular.

Although China zero approach has reduced the transmission to the lowest, given the global economic recession, it will be challenging for the SFTZ and other Chinese FTZs to continue their export-led growth strategies and reformation processes. As for now, the daily transmission cases has reached peak with the Delta and Omicron virus. The rest of the countries are battling with Covid 19 and the fight did not seem to be end soon.

Deepening Services Sector Reform

Besides, China has faced tremendous pressure to open up its services sector i.e. transport services and financial sector, to well-developed countries. According to Meng and Zeng (2019), Shanghai should deepen its services sector, particularly the financial sector, to international investors via the SFTZ. This outcome is crucial for the SFTZ to obtain the management know-how to handle negative lists and free trade efficiently. In addition, embarking on financial sector liberalisation would help realise the goal of transforming

Shanghai into a globally recognised; trade, shipping, financial and economic centre. Implementing economic and institutional reforms is very challenging for China.

One of the key features of the SFTZ is to internationalise of the RMB. However, the inflow and outflow of the RMB was strictly controlled by the monetary authority in Shanghai, namely State Administration of Foreign Exchange (SAFE). SAFE is an administrative agency under the People's *Bank* of China (PBOC) which responsible for managing foreign exchange activities, setting relevant regulations, and administrate China's foreign exchange reserves. When China joined World Trade Organization (WTO) in year 2001, China made promises to liberalise its foreign exchange market. However, the progress has been remains stagnant for several years. Hence, China's government is using SFTZ to test the possibility of fully RMB convertibility and further liberalisations for foreign investors. If the moves are success, regulators will likely expand liberalisations nationally.

In addition, under the 14th five years' plan, China has emphasis on promote its own digital currency. China began exploring its own digital currency (e-yuan) in 2014 in order to reduce systemic risk and increase competition in the payments space as the existing e-payment system is owned by private companies. Shanghai has been chosen as one of the pilot cities in the project (Yeung and Mullen, 2021). At the moment, China is actively gathering feedback from the public as they plan to roll out the usage of e-yuan to foreigners at Beijing 2022 Winter Olympic Games. While the widespread adoption of a central bank digital currency in the world's most populous nation would not happen overnight, the eventual emergence of a digital RMB could have significant benefits for China's rapidly digitising economy and make cross-border RMB payments and internationalisation easier.

Limited spillover effects

In the past, it is noticeable that relatively few highly innovative Chinese firms have emerged from Shanghai. Most of the high-tech sector remains dominated by foreign companies. Concerning innovation capacity and capability in the emerging digital economy, Shanghai still lags behind some of China's other provinces, such as; Beijing, Hangzhou and Shenzhen, even though Shanghai has comparative advantages in human capital, finance and location. This situation raises a question concerning the effectiveness of the SFTZ in its ability to generate spillovers and help strengthen local innovation capacity, especially in other China's FTZs. Besides the SFTZ, many China's FTZs likely face similar challenges (Meng & Zeng, 2019).

Likewise, Klimek (2015) agreed with Meng and Zeng (2019) and found the absence of the automatic transfer of good practices among FTZs in China. In addition, Teifenbrun (2015) noted that many people, including influential figures at the Central Bank of China, were not optimistic regarding the SFTZ project. Their lack of optimism surrounded even the principles of the SFTZ, as they have opined that experimenting with aggressive financial reformation solely in one area without practising similar reformation in other areas might be unworkable. The authors of this study further found that businesses generally perceived the SFTZ as a disappointment. Meanwhile, it was notable that foreign firms in China faced difficulties managing subsidiaries outside and inside the SFTZ. In particular, the different sets of policies caused difficulties in managing enterprises within various areas of China.

However, after the reforms took place in year 2019, there are some changes that could be observe especially in term of foreign direct investment. Many researchers found the SFTZ policy has a positive spillover effect on attracting foreign investment in the region (Huang, 2019). This is in line with the Shanghai's government policy on stringent standards and began building eco-industrial parks (Zhen et al., 2019). Whereas, Tan et al. suggest that there is a significant and positive effect on the growth rate of sale and purchase of products and services within Shanghai. Nevertheless, all these improvements does not happen overnight, all these changes are heavily support by the government policy, eg: Made in China 2025. As such, government intervention is crucial for Shanghai reforms.

Lack of Explicit incentives for foreign companies

According to Klimek (2015), investors expecting generous tax breaks may be disappointed. The standard *Corporate Income* Tax rate (CIT) is about 25 % nationwide, however, the tax rate could be reduced to 15% or even 10% in the first 5 years for qualified enterprises who are engaging in the key industries encouraged by the Shanghai government (e.g. integrated circuits (IC), artificial intelligence (AI) biomedicine, and civil aviation) to create an international competitive tax system and facilitate capital flows and foreign investment (O'Meara, 2015). In order to enjoy the mentioned incentive, the enterprise must have a legal entity registered in the Lingang New Area from 1 January 2020.

During July 2021, China's and Shanghai's local government have continued to develop preferential policies to upgrading the industrial structure and boost its economic development through newly release guideline. There are a lot of questions on the policy implementation especially lag of strategic actions in support the policy.

Bureaucratic procedures

The main idea behind the SFTZ was to simplify procedures when setting up a new company. However, the bureaucratic barriers associated with entering SFTZ may discourage many foreign businesses, especially for small and medium-sized foreign organisation. Foreign firms often struggle with the different set of laws and regulations in Shanghai and their home country. The most common issues revolve around obtaining the required licenses and permits, with many of the firms complaining about the tedious process (The Office of the United States Trade Representative, 2021). Transparency of the government procedure and consistent in the implementation are the key success of the Shanghai FTZ. Nevertheless, in the recent past few years, Shanghai FTZ have seen significant improvements in China WFOE registration and setup as compared with other provinces. Nevertheless, the corporate registration process still taking longer times compared to other country (Froese et. al., 2019).

Revising International Trade Law and Political Influence in China

Revising international trade laws to maintain stability and high standards is one of the most pressing issues for China, and the SFTZ as a pilot project will help the government proceed with such legal reforms. According to the China's 14th five years' plan, the new *development paradigm* of "*dual circulation*" which encourages expansion in domestic demand, focusing on the domestic market, improving the country's capacity for innovation and reducing dependence on imported good. On the same time, the overseas market will be regarded as its important partner and the pair reinforce each other (The state council of the people's republic of China, 2021).

Aside from *external* factors arising from the marketplace, *businesses* are also impacted by *political* decisions. In order to get the first hand information, most of the foreign business tends to maintain close relationship with the government. As such, if the incentives for foreign investors only apply in the SFTZ, then their influence on China's politics is minimal and foreign investors located in other FTZs will not benefit. However, suppose other FTZs imposed a similar model in promoting trade. In that case, foreign businesses and corresponding governments might participate in domestic politics; this may be beneficial for foreigners but potentially detrimental for domestic businesses and politics (Kossof, 2014).

China has been widely known in using BRI as one of the tools to expands its influence in the global market. Duanmu and Urdinez (2018) has found the Chinese government uses foreign direct investment (FDI) as a way of economic diplomacy. Whereas, Whitten et al found that the tension relationship between China and western countries gives rise to widespread concern over the possibility of reducing *China's* influence.

Besides, Shen and Matthias Vanhullebusch (2015) pointed out that the relationship between policy experimentation and law reformation in China remained uncertain. The authors suggested that the transformation from a socialist economy to a market-driven one should combine economics and the law. They argued that the policy reforms of the FTZs would be in an unbalanced configuration until a new model that best suits China became established. The SFTZ serves as a testing ground for the Chinese government to test policies, which are expected to be gradually implemented. However, a different group of scholars have commented that the SFTZ is considered an export-processing zone and is classified not geographically but by the businesses' juridical status. They have argued that foreign enterprises could benefit from preferential treatment irrelevant of the location of the business and place of incorporation in China. Overall, the export promotion areas in China are more sector-biased than geographically biased.

Lack of Transparency

In order to integrating China into the global economy, there is a need to increase market openness, gradually removal of bureaucratic barriers, and the loosening of limitations on China inbound investments. As such, China must relax administrative controls over foreign investments, encourage more desirable investment flows, and regulate and monitor them effectively (Zheng, 2021). Nevertheless, although there are some guidelines releases from the Shanghai's government from time to time, many has commented on the transmission as well as the inaccuracy in the information.

Shen and Vanhullebusch (2015) found a misalignment between the high expectations held by the foreign investment community and the relatively low regulatory transparency found in Shanghai. For example, when a foreign investor registers a company, the owner is required to suggest a corporate name consisting of three Chinese characters. The company registry has the authority to reject an application if any two of the three characters of the suggested corporate name appear in an existing company registered in Shanghai. The Shanghai government has reported that the licensing office processed 36,314 applications in January 2013, of which 3172 suggested corporate names were checked. However, only 218 companies were successfully registered. Apart from the above, company registration also requires a business address. However, foreign investors can use a 'virtual' address for US$3,380.87. Thus, the registration process seems similar to companies that register in a non-free trade zone, and this serves as evidence of low regulatory transparency. In essence, Teifenbrun (2015) stated that the SFTZ entailed a high level of legal support and required transparent regulations based on international trade practices and standards.

Conclusion and Policy Implications

In line with the BRI, the SFTZ was established in 2013. It has contributed significantly to China's economic growth and transformation, which is in line with the objectives of the BRI and support by various five years plans. As the pilot FTZ, the SFTZ's industrial projects have accounted for 17.6% of China's foreign investment and 14.7% of the trade volume despite Shanghai covering less than 4 per cent of China's landmass. The SFTZ has effectively improved openness, administration, development momentum, and economic vitality within its boundaries.

A narrative review approach was applied to provide the reader with a comprehensive background of SFTZ and an in depth understanding of the existing challenges and features faced by the businesses by using an outcome of a total 83 studies. The information obtained enabled the authors to learn about the development of knowledge on the SFTZ. The authors were also able to study the origins and / or the development of a theory, construct or model of interest.

Numerous advantages have been created by the SFTZ, including; liberalisation of investment sectors, simplifying business registration with 100% foreign ownership and financial motivation, and talent retention. The main external challenges currently faced by the SFTZ surround uncertainty in the new global environment, particularly the US-China trade war and the global COVID-19 pandemic. These challenges may hinder and delay the development and success of the SFTZ due to the general uncertainty and restrictions of international trade and investment. In addition, internal issues, such as; the lack of explicit incentives for foreign companies, transparency and the limited positive spillover effects among China's provinces, will hinder the SFTZ from achieving its objectives according to the stipulated schedule, China's 2035 vision.

Overall, given the vast pool of human and physical capital under the SFTZ, the SFTZ has been an essential contributor to the Chinese economy and the nation's economic transformation. By refining its policies in line with global developments, the SFTZ will leverage its existing advantages and overcome the mentioned challenges.

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Disclosure Statement

The authors report there are no competing interests to declare.

Data Availability Statement

We confirm that the statistics supporting the findings of this study are available within the manuscript. All the sources and links for the statistics are correctly recorded at the references.

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