

## **A Comparative Analysis of Free Trade Zone Policies in Taiwan and Korea based on a Port Hinterland Perspective**

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### **Abstract**

The goal of this paper is to discuss the functions of a port hinterland, perform comparative analysis of existing port-type FTZ regulations and systems in Taiwan and Korea based on a port hinterland perspective, and provide recommendations concerning relevant policies and measures to government.

This paper's findings can be summarized as follows: (1) Existing container terminals in Taiwan confronted with serious land shortage problems need to revise terminal layout and construction from a port hinterland perspective as well as Korea's modal. (2) The functions of port-type FTZs should be coordinated with local industrial development models based on a port cluster perspective. (3) The Taiwan custom authority should ease existing inspection regulations and mechanisms to ensure the freedom of operating activities and management systems in the FTZ.

**Key Words:** Free Trade Zone, Port Hinterland, Shipping, Logistics

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## I. Introduction

Ports handle ships and cargo within a framework of economic efficiency.<sup>1</sup> Ports range in size from small wharfs to very large centers with many terminals and clusters of industries and services. Ports should be seen as key elements in value chain systems; they contribute to supply chains through the creation of competitive advantages and value-added distribution.<sup>2</sup> Ports play important roles in the integration of three types of channels, namely trade, logistics, and supply channels.<sup>3</sup> The movement of cargo and ships through ports attracts related economic activities such as shipping, forwarding, and other transport activities. Cargo-handling activities, transport activities, logistics activities, specific production activities, and specific trading activities may be referred to as “port cluster activities.” Ports are elements embedded in value chain systems.<sup>4</sup>

Port systems not only serve as integral components of transport systems, but are also major sub-systems of broader production, trade, and logistics systems. Ports have always contained clusters of economic activity. A seaport's success depends heavily on hinterland access, and the quality of hinterland access depends on the investments of firms in the port cluster.

Establishment of free trade zones in Taiwan was listed as an important project by the “*Challenge 2008—Six-Year National Development Plan*,” and the government promulgated the “Act for the Establishment and Management of Free Trade Zones” (hereafter referred to as Taiwan’s FTZ Act) in July 2003. This Act is intended to foster the development of new operating models for international logistics and management schemes, accelerate trade liberalization, enhance national competitiveness, and facilitate national economic development.

A free trade zone refers to an area which is situated within a controlled district of an international airport or international seaport approved by the Executive Yuan, or of an

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1 ESCAP(2002), <http://www.unescap.org>

2 Robinson(2002), pp.241-255.

3 Bichou and Gray(2005), pp.75-92.

4 Langen(2004), pp.141-156.

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