

Development Zones

Kāifāqū 开发区

Development zones—special areas for international trade and investment, export processing, and technology evolution—are thriving and driving China's economy. Administered locally, development zones are the pride and, in many cases, the future of a growing number of Chinese townships, small cities, and counties as they jump on the economic bandwagon.

 China created its first development zones in 1984. Their formation intensified the country's open-door policy and engagement with the outside world. By 1988 China had designated fourteen development zones: Dalian, Qinhuangdao, Ningbo, Qingdao, Yantai, Zhanjiang, Guangzhou, Tianjin, Nantong, Lianyungang, Fuzhou, Minxing, Hongqiao, and Caohejing. All fourteen zones were near coastal cities and placed major emphasis on export processing, technology development, and foreign investment. Operating with tax incentives and entitlements, such as modern infrastructure and high-standard business services, development zones are growing and helping drive the economy.

Concept and Characteristics

The Chinese did not invent the development zone, but they have made better use of the concept than most countries have. Development zones were operating in South

America in the early twentieth century. They became more common after World War II in such forms as free ports, free-trade zone, export-processing zones, science and industry parks, and border trade zones. One purpose of these zones was to help rebuild national economies destroyed by war. China modeled its development zones on other countries' experiences, treating the zones as new means to open to the outside world. China's goal was to create an attractive business environment to encourage foreign investment, joint ventures, and technology development and transfer, and to learn advanced management skills.

China's development zones are similar to its special economic zones (SEZs) but have distinct features. SEZs are relatively independent; their administrative status is equivalent to that of a province's. Development zones, by contrast, are administered by local governments through a special committee. While SEZs are encouraged to develop into diversified economic structures, development zones focus on exporting, technology, or other special sectors. In SEZs all types of businesses enjoy tax incentives; in development zones tax incentives are offered only for investment in industry and technology or in other designated sectors.

Development zones are usually in or close to areas with well-developed industrial foundations, an advanced economy, and easy access to transport networks. Economic and technological development zones and tax-free zones are normally established in coastal cities and ports, which are advantageous locations for these sectors. Border cooperative zones operate in inland border trade areas. High-tech-development zones are in large or medium-sized cities throughout the country.

Creation and Growth

In 1983 China opened up fourteen coastal cities. In late 1984 and early 1985, the government designated eleven development zones in eleven coastal cities. Two development zones were established in Shanghai in 1986 and another in 1988. During this start-up stage, from 1984 to 1988, the main tasks were to establish an administrative committee to oversee the development zones, as well as the establishment of the Economic and Technological Development Corporation; plan the development zones; prepare and create regulations and policies relating to the development zones; and construct the physical infrastructure.

Different types of development zones have been established since the original type. The first high-tech-development zone was established in Beijing in 1988. Tax-free zones were created in 1990. Development zones have undergone rapid growth, boosted by Deng Xiaoping's (1904–1997) call in 1992 for further opening up of China's economy. Since then even small cities, counties, and townships have set up their own development zones.

Achievements and Problems

Although development zones occupy only 0.004 percent of land in China, they account for about 10 percent of the total national foreign investment. More than two hundred international corporations have invested in China's development zones, effectively advancing technology development and facilitating national economic restructuring. In most development zones, more than 60 percent of the industrial projects are high-tech or new technology projects.

Development zones have helped create rapid growth and high productivity. The gross industrial product in the first thirteen development zones increased about 450 times within their first ten years and had grown to 135 billion yuan (about \$20 billion) in 1996.

Some of the early problems associated with development zones included a lack of strategic coordination and effective control in their development. For example, 1992 saw the sudden creation of more than two thousand new development zones, more than twenty times the number created before 1992. Among these, only 1.1 percent were approved by state, province, or city governments. A number of counties, small cities, and townships also

established development zones, resulting in uncontrolled expansion and the occupation of some 33 billion square meters (about 13,000 square miles) of land, of which 80 percent was arable.

Change and Challenge

Development zones have played a leading role in China's economic growth since the 1980s. All types of development zones have generated the highest output in their areas and have become the economic engines for various cities and entire regions. In 2006, 68 percent of the gross domestic produce and 87 percent of the exports in China came from development zones at different levels. But as the global economy began to change in 2008, so did China's development zones.

Tax standardization for both domestic and foreign enterprises, the strength of the yuan, a tight monetary policy, and stricter land-use policies have all had a direct impact on the big and small enterprises within the zones. Land use, in particular, is a major issue, as more land is needed to grow food for China's rapidly increasing population and as many development zones have been hard on the land. Some economists believe that the first development zones, although having lived up to their promise, have run their course and a new model is needed to meet the new challenges. The new development zones will have to focus on industrial upgrades and technology, with an eye to environmental concerns.

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Further Reading

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