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Shenzhen Special Economic Zone

Shēnzhèn Tèqū 深圳特区

8.62 million est. 2007 pop.

Created as an economic experiment in 1979, the Shenzhen Special Economic Zone (SEZ) was originally intended as a means to promote growth and export for China. This zone quickly became one of China's most important centers of export, technology, and economic reform.

Shenzhen is a city in the south of China's Guangdong Province, on China's south coast. It borders Hong Kong and the Pearl River, with an area of 2,020 square kilometers (slightly less than the size of Rhode Island), 327.5 square kilometers of which have been designated as a special economic zone (SEZ) since 1979. Shenzhen was only one of four SEZs established to carry out experiments with greater economic freedom. But the transformation of the former rural community into a major export center is the showcase of economic reforms in post-Mao China and has attracted worldwide attention, especially from other developing countries.

Historical Background and Foundation of Shenzhen SEZ

Since the 1960s, so-called export processing zones (EPZs) have been established in various parts of the world with the goal of attracting foreign direct investment (FDI) and promoting industrialization. While Latin America's experience with EPZs has been mixed, East Asian countries such as South Korea and Taiwan have made their EPZs centers of export-driven growth.

Until the end of the Maoist era in 1976, the People's Republic of China followed a strategy of development that was diametrically opposed to that of EPZs. The open-treaty ports of the nineteenth century, which had to accept free trade as a result of unequal treaties with the Western powers and Japan, were symbols of national decay. Therefore, Communist China followed a policy of self-sufficiency and isolation. However, China's Great Leap Forward (1958–1961) and its Cultural Revolution (1966–1976) resulted in economic and political catastrophe.

After the death of Mao Zedong (1893–1976) and the arrest of the Gang of Four, his hard-line supporters, new leadership under Deng Xiaoping (1904–1997) changed China's economic-development strategy. In July 1979, Guangdong and Fujian provinces were granted the right to carry out economic experiments, and four SEZs were set up: Shenzhen, Zhuhai, and Shantou of Guangdong Province, and Xiamen of Fujian Province. Later, in 1988, the island of Hainan (formerly a part of Guangdong Province) became the fifth SEZ, as well as its own province. All of these were coastal regions, rich in labor, and located close to the successful market economies of Hong Kong and Taiwan. The economic opening of these regions was intended to promote growth and exports, but the possibility of growing economic ties with Hong Kong and Taiwan was also seen as facilitating eventual reunification.

Development of Shenzhen SEZ

The newly established town of Shenzhen had originally been a county called Baoan, whose residents earned their living mainly from fishing. When Shenzhen city was established in 1979, it had 314,000 inhabitants. In 2000, it was a town of around 4 million inhabitants; by 2007 the population had doubled.

The development of Shenzhen SEZ can be divided into four phases. The first phase, lasting from 1979 to 1984, saw the establishment of some legal preconditions for the existence of a special economic regime in the SEZ, but only slow changes in economic activity. In 1984, Deng Xiaoping set up an economic framework for the SEZs as "windows to technology, management, knowledge, and foreign policies," opening a second phase in the institution of preconditions for growth. The inflow of foreign capital, mainly from Hong Kong, slowly accelerated from the mid-1980s, but production processes, contrary to expectations, were mostly characterized by low-technology intensity and were based on the comparative advantage of Shenzhen's low labor costs. Twice, in 1985 and after the events in Tiananmen Square in 1989, the SEZs were criticized by conservative Communist Party leaders.

In the early 1990s, the third phase of development began. During this takeoff period, foreign companies from all over the world rushed in, and by 1997, fifty-one of the world's top five hundred enterprises had taken root in Shenzhen. The export volume of Shenzhen increased to around one-seventh of China's total ($26 billion in 1998). Deng's much-publicized trip to Shenzhen in 1992 (as part of his "Southern Tour") helped gain the trust of domestic and foreign investors. The technology intensity of production also increased, and in 1998 more than 35 percent of Shenzhen's production was in the high- and new-technology sectors.

The fourth phase of development began with the challenge of the Asian financial crisis in 1997 and China's preparation for entry in the World Trade Organization (WTO). While competition in the domestic market is tougher due to market entry of new competitors and more domestic competition, the WTO accession in 2001 has opened the world market even wider for Chinese exports.

Characteristics and Economic Effects of SEZs

When the EPZs were first established in various parts of the world, they were delineated as areas to provide procedural and operational ease for producers and to offer tax holidays, tax reductions, and duty-free import of capital goods and raw materials for export manufacture. This policy was designed to attract foreign direct investment (FDI), generate employment, earn foreign exchange, and eventually link the less-developed hinterland and facilitate technology transfer and transfer of modern-management practice. Infrastructure in the EPZs was limited to industrial estate development.

The Chinese SEZs, by contrast, additionally focused on the provision of supportive infrastructure such as housing, airports, roads, ports, telecommunications, electricity, and transportation. Also, the reform activities expanded to include agriculture, commerce, development of the financial sector, including the opening of a stock exchange, tourism and the service sector, and increasingly since the mid-1990s, privatization of state-owned enterprises and housing. This expansion enabled

Shenzhen SEZ to escape from the fate of many EPZs, which attracted only labor-intensive, low-technology production processes with few possibilities for economic development of the hinterland. Since a general liberalization of the Chinese economy was not possible because of political considerations, the SEZs served as a model for the reform of the rest of the economy in a politically closely controlled area. This indirect effect of the SEZs as models for the economy is as important as the direct effect of the attraction of FDI and the transfer of technology and modern management practices.

Future of Shenzhen SEZ

Shenzhen SEZ not only became one of the centers of export, technology, and economic reform in China, but it gradually was able to cope with such early problems as growing inequality, the fate of migrant workers, and environmental degradation.

As China moves through the early years of the twenty-first century, however, the economic position of Shenzhen SEZ must be redirected. Labor costs are increasing, and firms are migrating to cheaper locations. The mushrooming of SEZs and the introduction of open ports and special zones for technological development as well as general economic reforms in China make competition for FDI harder. In the future, the upgrading of production and infrastructure, especially in areas such as education, will be crucial for Shenzhen SEZ.

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