'Hotspots of Growth' – Impact of Special Economic Zones in China

INTRODUCTION

In 1980, as part of the 'Open Door Policy', 4 Special Economic Zones (SEZ) were founded in Shenzhen, Shantou, Xiamen and Zhuhai these areas possessed preferential conditions to attract foreign investors to set up enterprise in order to obtain foreign capital and technology for modernisation. These 'experimental grounds' allowed for market-orientated reforms, driving economic growth and becoming catalysts for globalisation allowing China to play 'catch-up' with the Western World and assimilate their practices and technology..

DESIRABLE CHARACTERISTICS OF SEZ's

Firstly, they were decentralised, having autonomy to make decisions and sign direct venture contracts with foreign companies. Corporation tax is only 15% in the SEZ, whereas it is 33.3% outside (Huan, 1986). This incentivizes production to be within the SEZ due to the profit motive; furthermore, industrial and scientific projects were given tax holidays of 2–5 years. The goods used for production (inputs) were not subject to import duties and could lower a firm's costs of production. Shenzhen's proximity to Hong Kong allowed for a decrease in the cost of shipping raw materials and products while having greater supervision and coordination. There is an ample supply of cheap migrant labour; the minimum wage was lower, which drew investors in. Rent of land for factories is 7–20 yuan per square metre (Nishitateno, 1983), much lower than areas outside of the SEZ. All were coastal regions, and the government provided infrastructure to attract DFI.

SUCCESS & IMPACTS

Economic Growth: an increase in the export-to-GDP ratio from 15% in 1990 to 30% in 2001, where direct foreign investment accounts for 10% of total annual revenue. (Xiaodong, 2012). 66% of DFI comes from Hong Kong and 15% from Japan. (Liang, 1999). The SEZ accounts for 59.8% of DFI in China. (Stoltenberg, 1984). In 2006, the initial SEZs accounted for 5% of real GDP, 22% of merchandise exports, and 9% of DFI inflows (Stoltenberg, 1984), showing the long-lasting effects of the SEZ.

Regional and Shenzhen Development: In 1984, the Chinese Government made the decision to open 14 Economic and Technological Development Zones in coastal cities, which hold 60% of China's total industrial capacity, to foreign investors. Following the success of the SEZ, the two largest industrial cities (Shanghai and Tianjin) were able to approve contracts up to 30,000,000 dollars without central approval (Huan, 1986). Since 1980, over 100 laws and regulations regarding trade and DFI have been established. In 16 years, Shenzhen was transformed from a remote town with a population of 30,000 to a modern city with a population of 3.3 million in 1994. Shenzhen's GDP reached 56 billion yuan in 1994 and has grown at an average rate of 15.6% (Liang, 1999). Additionally, from 1978–1980, there were 581 product agreements and 199 cooperative enterprises, which accounted for 88.4% of the total investments. (Nishitateno, 1983).

Compensatory Trade: From foreign contactors, China can get technology on credit and repay them in the provision of services and production, effectively paying for the immobile capital and being able to utilize it. This allows the PRC to learn advanced industrial techniques.

China also developed the 'Torch Programme' initiated by the Ministry of Science and Technology in the late 1980's to use technological capacity and enterprises to aid research and development and become a more productive society.

Improved national employment: in 2006, the employment of the SEZ's was around 15 million, accounting for 2% of the national employment. They also possess a high concentration of skilled workers, including those specializing in research and development, especially in the ETDZs. (Stoltenberg, 1984). SEZs are estimated to have created 30 million jobs.

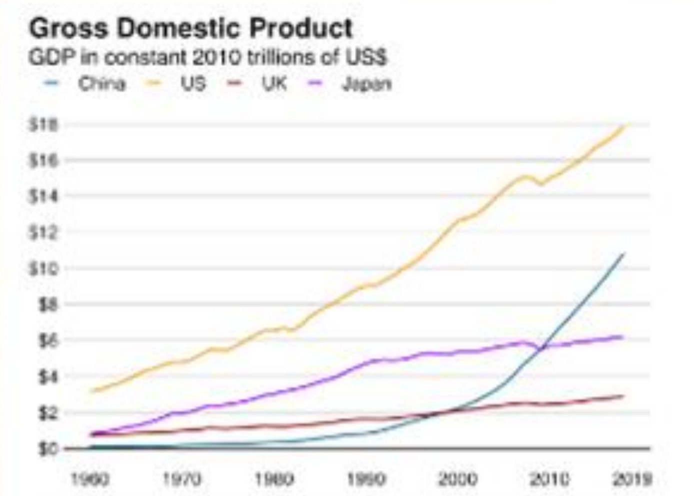
GOVERNMENT OBJECTIVES

Deng Xiaoping stated, 'crossing the river by touching the stones', elaborating on the importance of stability in this phrase. An important mission of the first SEZ's was to test new reforms and policies for a market-oriented economy, deviating from the countries traditional centrally planned. Mainly, however, the SEZs were used as export processing zones to open up international trade and foreign investment. The government mainly wanted an inflow of foreign capital to stimulate exports and national development as advanced economies looked into developing countries for labour-intensive manufacturing. They also wanted to use them as 'classrooms' for training a skilled labour force and employing many young people. Developing coastal regions such as the original 4 SEZs were beneficial for globalization and trade, and the influx of foreign direct investment acted to subsidise

Year	Loan	Direct Invest.	other	Total
1979	5.48	9.89	15.37	
1980	27.55	5.09	32.64	
1981	86.18	26.64	112.82	
1982	57.71	16.08	73.49	
1983	113.16	30.78	143.94	
1984	19.62	186.40	24.11	230.13
1985	135.85	179.89	13.51	329.25
1986	108.60	364.50	16.23	489.33
1987	124.36	273.79	6.34	404.49
1988	144.30	287.16	12.83	444.29
1989	155.63	292.52	9.94	458.09
1990	123.60	389.94	5.03	518.57
1991	171.84	398.75	9.29	579.88
1992	258.08	448.79	8.52	715.39
1993	437.62	989.00	5.55	1432.17
1994	473.67	1250.46	5.46	1729.59

Sources: 1. *Statistical Yearbook of Shenzhen* (1994); 2. *Handbook of Shenzhen Statistics* (1995).

A table stating the increase in FDI in Shenzhen (SEZ) from 1979-1994 (in $ millions). Sources: 1. Statistical Yearbook of Shenzhen (1994); 2. Handbook of Shenzhen Statistics (1995).



A graph by the world bank illustrating the GDP growth of China from 1970.

CRITIQUE

As China began to expand and remove economic restrictions, the SEZ's themselves became less attractive, and investment was 86.5% lower than in 1985; only Shenzhen proved to be a major, with the other regions drawing less FDI over the years due to Shenzhen mainly being driven by Hong Kong, with 88% of new ventures in SEZ's being from Hong Kong. (Gopalakrishnan, 2007).

There was also an inefficient use of land as efforts to create legal foundations for trade regarding property rights and leases were created. This could make the tenure of farmers insecure in areas near and within the SEZ, which reduced the farmers investment in land they could not own in the future. 1.27 million hectares of land were granted to real estate developers, but only 46.5% of the land was actually used. (Gopalakrishnan, 2007).

Most of the skilled workers remained in the SEZs, so they did not spread across China. There was also labour abuse by the majority of workers, who were migrant workers without social security or legal protection and endured lower wages and worse working conditions.

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