Far Eastern Affairs

Shenzhen: A Success Story

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The Shenzhen phenomenon is ranked among the symbols of China's success in its policy of modernization, economic reforms, and its economic openness to the world best known around the world. A small community of a few dozen thousand residents next door to Hong Kong has grown to become a megalopolis of ten million and the fourth biggest generator (after Shanghai, Beijing, and Guangzhou) of gross regional product and the country's second most significant foreign trade operator trailing Shanghai just a little.[1] Over the past three decades, Shenzhen's GDP has shot up a whopping 979 times, and its export has grown a respectable 339 times. Its GDP per capita reached $13,600[2] against the 2009 China-wide average of around $3,700. Shenzhen's remarkable economic growth rates have certainly been its undoubted specific that was captured, already in the mid-1980s, in the phrase "Shenzhen paces" or "Shenzhen stride."

Shenzhen, though, owes its fame not only, and not so much, to its rapid growth rates as, in the first place, to the fact that it has consistently, for more than 30 years now, been the trailblazer and proving ground in a search for, and implementation of, China's development strategy. It is certainly an economic development strategy, both socioeconomic growth and foreign trade. And not only that. Special mention must be made of Shenzhen's role in efforts to find a highroad to socialism with a Chinese face in general, to test the key components of the administrative reform, to make China the "workshop of the world," and, more recently, to breathe life into the "harmonious society conception" in China and make it an "innovation-driven country." Shenzhen was the right place that created, without much fanfare, a favorable environment for Hong Kong to return into China's fold as a Special Administrative Region in the country in 1997.

It is then reasonable to break Shenzhen's modern development history into three major periods according to the national priorities the city took on at different times.

The years between 1980 and 1991 could be called a period when a special economic zone was built in Shenzhen and a large modern city arose almost out of nowhere. Gaining experience in broadly interpreted foreign trade and honing

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free-market principles in economy organization were the chief functions Shenzhen fulfilled in that period. Between 1992 and 2002, it was mostly preoccupied with pushing market reforms ahead in the economy, leading the way toward turning China into the "workshop of the world," and polishing up the model of "running the country on the basis of law." Finally, Shenzhen assumed the functions of innovation and integration in respect of Hong Kong in the years 2003 to 2010. Clearly, this breakdown fits almost exactly into the 1980s, 1990s, and 2000s. Shenzhen's development can, therefore, with a measure of reservation, be broken down into three periods spanning these three decades.

The Years 1980 to 1991

It is common knowledge that the policy of China's modernization, reforms, and economic openness to the world was launched officially at the Third Plenary Session of the CPC's 11th Central Committee in December 1978 that called for "turning the focus of the policy of the party and country as a whole to economic development."[3]

The decisions of the CPC's 11th Central Committee at its Third Plenary Session showed that the Chinese leaders put one of the reasons for the lengthening gap between China and developed countries to the policy of "reliance of its own forces" that had been brought to the point of absurdity. As they proclaimed a turn away from semi-isolationism to a policy of openness, the Chinese leaders switched course to economic ties with the outside world they used to attract investments, learn managerial experience, acquire advanced equipment and technologies, and open up markets for Chinese exports.

China's shift toward diversified forms of economic ties with other countries created essential conditions that were enough to draw on affluent Chinese expatriates, a unique advantage it lost no time exploiting. The expatriates' own interest in adopting new forms and methods of cooperation with China's economy was stirred by, among other causes, the structural reforms in Hong Kong and East Asia in general that required some industries (textiles, garments, foodstuffs, and simple home appliances) that "had outlived themselves" to be dropped by the wayside without delay, and some of them relocated elsewhere, beyond the country's borders. In exchange, China received more employment opportunities as production of many consumer durables (recorders, televisions, washing machines, and so on) that had not been manufactured in the country before was started up almost for free, and, as it found out soon, centers of spontaneous economic growth where free-market principles of running business were learned the natural way.

"First wave" special economic zones destined to become a widely accepted hallmark of China's openness policy held a prominent place in efforts to expand the scope of cooperation between China's economy and the world economy.

The momentous decision to set up special economic zones was passed by the CPC Central Committee in July 1979 at the initiative of Deng Xiaoping who first voiced the idea at a CPC Central Committee's working conference in April 1979. Preparations started in September 1979 to open such zones in Shenzhen and Zhuhai, to be followed shortly by Shantou. August 26, 1980, when the Standing Committee of the National People's Congress approved the Regulations on Special Economic Zones in Guangdong Province, has since become the official SEZ establishment date. In October 1980, China's State Council authorized the establishment of the Xiamen SEZ in Fujian Province.

It was claimed in China that Lenin's ideas of state capitalist being used, wherever possible, to develop the economy of a socialist country and doctrines of internationalization in production and formation of a world market going back to Marx and Engels, still "fully applicable to socialist China in the 1980s," were the "theoretical groundwork" for the creation of special economic zones in China. In practice, though, international experience in "free trade areas," "free seaports," and "exported product processing areas" was studied carefully in China as well.

In July 1981, the CPC Central Committee and the country's State Council voted to begin developing Shenzhen (327.6 sq. km. in area) and Zhuhai (startup area of 6.7 sq. km.) as comprehensive special economic zones, while Xiamen (starting out with 2.5 sq. km.) and Shantou (1.67 sq. km.) mostly as exported product processing areas.

The special economic zones were first conceived as a way to draw on funds for investment in China's economy from abroad, above all from Chinese in Hong Kong and Macau, expand export, boost hard currency revenues, learn advanced technologies and management practices, and add to China's experience in international economic cooperation in general. When, however, the special economic zones became a reality they proved they could soak in fresh knowledge about the world market and pass it on quickly to the country's hinterland and came to be viewed as a "base" or a "bridge for China to enter the world market." In its turn, manufacture of some of the most advanced products in special economic zones gave hopes all across China that they might give rise to new manufacturing industries and even become a "step for technological progress to stride into China's interior areas as well."

Early in 1984, Deng Xiaoping went to Guangdong and Fujian to take a look at the special economic zones in close-up. He praised them highly as a "window for technology, knowledge, and managerial skills to come in and foreign policy pursued."[4] His reference to foreign policy implied the effect special economic zones impressed on the outside world as an example of the policy of reforms and openness followed by China.

Legislative foundations for SEZ operation were enacted in the early half of the 1980s, basic utility and industrial infrastructure was built, and work went on to develop practical aspects of foreign capital involvement, from tax break principles and schemes to land tenure, and simplified procedure to go through to set up partly foreign-owned enterprises.

On the legislative side, SEZ operations were regulated by several Chinese national laws on mixed enterprises financed by Chinese and foreign investors and later the laws on enterprises fully financed by foreign capital, and on contract-filling enterprises having foreign interest in their capital. The legislation enacted from the start, though, included interim regulations passed in Guangdong Province on registration of enterprises within SEZ borders, rules governing travel into and out of the SEZ, work and wage regulations in the SEZ, regulations approved by China's State Council for running mixed and foreign banks in the country's special economic zones, Shenzhen SEZ land tenure rules, regulations on economic contracts with foreign counterparts and on equipment import.

Acting on the idea put forward by Zhao Ziyang, who was premier of the State Council in the early half of the 1980s – "making the tax system attractive … for foreign capital," – the Chinese legislators fixed a 15% income tax on all SEZ-based enterprises partly owned by foreign investors, and they were given exemption from local profit taxes (on most of the country's territory, tax was levied at a rate of 33%). SEZ importers (excepting those bringing in alcoholic beverages and cigarettes) and exporters operated duty-free. Further privileges were allowed enterprises having over $5 million in foreign investments, enterprises using state-of-the-art techniques and technologies, and enterprises using Chinese equipment and primary materials to manufacture export products and plowing back profits there and then. Between 1982 and 1985, land was leased in the Shenzhen SEZ at a 30% to 50% break, with an eye to the going rates in Hong Kong, at 10 to 100 yuan a square meter, depending on the kind of building to be put up on the leasehold. Land tenure rules existing at the time gave an advantage to the Chinese lessor because it turned land tenure into "materialized capital." In particular, the rent due to the Chinese partner in a mixed enterprise from its foreign lessee for the leasehold was counted as part of its money interest, and land (valued in money depending on land location) was the Chinese partner's direct "materialized" capital added to the foreign entrepreneur's money capital or equipment (up to 20% of the share capital) in contract-filling enterprises. Rent was actually payable in pure form by fully foreign-owned enterprises only. Overall, tax and land lease rules gave the Chinese 70% in taxes and profit in a half-and-half joint venture.

Shenzhen's location, Baoan County was a typical example of the backwoods, with farming as its mainstay. In 1979, 257,000 people living in the county were in farming out of the total county population of 310,000, and farming generated 115 million yuan out of the 175 million in output produced by farming and manufacturing combined, which left manufacturing far behind with 60 million yuan. Finding sites for industrial construction to begin and building infrastructure, including construction of a seaport in Shenzhen's district of Shekou, new power transmission lines, water supply pipeline, and highways were the top priorities at the early stage of Shenzhen SEZ development. Concurrently with these projects, foreign funds were sucked in to manufacture products for export in simple forms such as compensation deals, assembly lines, and manufacture of goods from customers' materials to their specifications. Between 1979 and 1982, over 90% of capital enlisted by Shenzhen from Hong Kong was invested in small quantities in undertakings just named. As capital construction got under way, though, and infrastructure was put in place, the weight of investments in industrial projects started to go up gradually, from 8% in the period 1979 to 1982 to 39% in 1983, and 35% in 1984. The total size of foreign funds actually invested was growing steadily from 120 million Hong Kong dollars in 1979 to 250 million in 1980, 590 million in 1981, and 1.7 billion Hong Kong dollars in 1984.[5] In late 1984, $580 million in foreign investments was actually committed in Shenzhen. Also in 1984, partly foreign-owned enterprises produced half of the zone's industrial output valued at 1.6 billion yuan.

The Shenzhen SEZ stood out for its comprehensive development that included travel and tourism, international trade, manufacturing, personnel training, services for oil fields in the South China Sea, transportation, and logistics. This diversity accelerated changes in the structure and high growth rates of the special economic zone's local national income. Manufacturing contributed 70.6 million yuan, or 11.9%, to the local national income in 1979, behind construction with 19.2% and farming with 40.8%, while in 1984, the share of manufacturing shot up to 29.3% (1.25 billion yuan) and construction to 33.7%, with that of farming plunging to 3.3%.[6] Changes were happening in the structure of manufacturing enterprises, more than 600 of them in late 1984, put on stream. Even though half of them were engaged in labor-intensive production, the number of enterprises fitted out with advanced equipment was growing, if only slowly. Soon, a few enterprises manufacturing high-tech products sprang on the scene.

Toward the end of 1985, 7.63 billion yuan in investments had been put to work in Shenzhen and three other special economic zones, construction projects went ahead on an area of 60 sq. km., and plans for building 1,665 partly foreign-owned enterprises had been approved. Overall, $1.17 billion in foreign funds had been absorbed.[7]

Special economic zones were more than an opportunity for China to learn to cooperate with the world market and foreign business communities in a variety of ways within a reasonably short time. They also stimulated large-scale restructuring of the way in which foreign trade as a whole was organized. Their example and experience were followed elsewhere across China to set up open foreign trade areas such as technological and economic development zones, open seacoast cities and open seacoast districts, open cities on the Yangtze River, and, in the years that followed, open border cities and counties and duty-free trade zones. In 1988, the SEZ status was given to Hainan Island that was also reorganized as a province in its own right. The experience of the first-wave special economic zones was used extensively in Shanghai where a comprehensive open economic and foreign trade zone was established in the city's Pudong District.

Through the 1980s, special economic zones, particularly the Shenzhen SEZ, played the role of spearhead and proving ground for economic reforms to follow in China.

The "bold reform of the economic system and management methods" on which the special economic zones were based was from the start an essential condition for the objectives they had been set to be fulfilled. A package of reforms was launched in Shenzhen as early as 1981 in management practices, including separation of administrative, party, and economic functions, with producers accorded broad enough autonomy in foreign trade and output manufacturing and marketing. Free-market regulation was made the key principle of the zones' economy.

Shenzhen's experience in its reform of the employment, wage, price, and pricing system drew special interest. New labor was hired under contract here. Job seekers first entered into trial contracts with the employer for six months, to be followed, with the consent of both sides, by official contracts setting out the reciprocal obligations of the employer and employees. The employer could dismiss employees for failure to meet the terms and conditions of their contracts. Shortly, contracts came to be used broadly in employment policies across China.

From the very start, wages in the zone were lower than in Hong Kong and higher than in the country's interior area. Actually, the wages and salaries were made up of a relatively low basic pay and countless allowances and benefits that added up to a larger amount than the basic pay (such as border region residence allowance, transportation allowance, housing allowance, water and electric power allowance, medical services allowance for family members, and so on). The first step of the wage reform was to integrate allowances into the basic pay so that employees could pay utility bills themselves. This practice survived from 1981 till October 1983, when a wage reform was mounted across the board and wages were divided up into fixed pay and fluctuating pay. Wages at all enterprises now included the basic pay (formerly grade-based); pay accorded for post or position held; fluctuating pay depending on the enterprise's economic performance and the employee's own contribution; and, finally, the border region allowance (15 yuan), and also a monthly 5 yuan cost of living allowance in effect from December 1979 across the country to offset rising retail prices of several categories of foodstuffs. At the end of the first quarter of 1984, the average monthly wage in the Shekou industrial district of the Shenzhen SEZ was 193.76 yuan (compared to the 1984 average 80 yuan countrywide), of which 30.5% was basic pay, 37.2% was post or position pay, 22% was fluctuating pay, and 10.3% was allowances.

The principal elements of the pricing system reform in Shenzhen were, first, transfer of the right to fix prices for a majority of goods to enterprises and companies themselves and, second, significant expansion of the spectrum of consumer goods, above all foodstuffs, and capital goods that could be sold at fluctuating and free prices. By late 1984, standard prices were charged for railroad, sea, and air transportation services, postal and wire services, housing, water, electric power, health care services, urban transportation services, and education. Physical resources allocated to Shenzhen (approximately 25% of the resources it needed) from centralized inventories were sold at fixed prices, while 75% of critical capital goods were procured at fluctuating prices for the zone's needs. Beginning November 1, 1984, free prices for vegetables and ceiling prices for grain and grain products, vegetable oil, and pork were introduced in Shenzhen, and rationing of these products was lifted (for example, the previous listed price of vegetable oil at 1.86 yuan per kilo was replaced with a ceiling price of 3.6 yuan). Provincial subsidies to cover differences in retail prices for grain were provided for another three years, and subsidies to cover price differences of other foodstuffs were removed.

Maintaining cash flows as usual was one of the hardest challenges in the early period of SEZ operation. The inconvertible yuan forced foreign investors to evade putting their hard cash into the SEZ and contribute equipment, primary materials, and semimanufactures instead. Another problem, converting profits received in the national currency, *renminbi*, to hard cash encouraged widespread use of the Hong Kong dollar and hard currency certificates China began printing in 1980 almost exclusively for use by foreigners (*see*: Table 1).

Table 1

Shares of Currencies in the Cash Flow Structure in Shenzhen (1981-1984, in percent)

Year	Renminbi	Hard currency certificates	Hong Kong dollar
1981	75.1	19.6	5.2
1982	63.6	22.2	13.2
1983	53.1	16.2	30.7
1984	45.5	9.5	45.0

Source: Mao Liyan, Chen Yongmin, "Studying Deng Xiaoping's Ideas on Special Economic Zones," Xiamen, 1995, p. 261.

As a result, a trail of negative effects developed in the money supply in Shenzhen: *renminbi* was pushed out of circulation and devalued against hard currency, and a currency black market operated on a wide scale.

A currency regulation center that was set up in Shenzhen in December 1985 helped put the special economic zones on a more or less stable footing regardless of the imbalances in their hard currency earnings and spending, and, no less important, gain experience for a general reform to be undertaken in the country's currency regulation system.

The successful reforms in Shenzhen motivated the country's leaders to give the special economic zones a fresh task – "looking for a way to build a socialist economy and reform the economic mechanism of the country as a whole."[8]

In the second half of the 1980s, the special economic zones staked out their position as the spearhead of economic reform in the rest of China.

A series of relatively radical experiments was staged under the slogan "teaching the SEZ to play ball according to international rules" in Shenzhen in 1986 to 1988. A more flexible interest rate management system than the countrywide practice was introduced to allow bank interest rates payable on deposits to move up or down from the Central Bank's discount rate, and down from it on loans. And more, Shenzhen had the country's first unit commercial bank (Shenzhen Development Bank) in which share units were held by the state, enterprises, and individuals, and the first bank set up by a consortium of enterprises (Zhaoshang). One of China's early investment companies established in Shenzhen set out to find ways of separating administrative functions exercised by the government and public property management carried out by institutions created expressly for this purpose. These initiatives set off wide-ranging experiments to convert state-owned enterprises into joint-stock companies, set up a stock market, and reform the housing system and land tenure system so as to give land in lease to foreign investors for long terms.

Economic reforms helped maintain high growth rates of the special economic zones' manufacturing output and foreign trade. Their economic interchange with the country's interior regions intensified as well through expanding horizontal economic ties.

Between 1986 and 1988, the four special economic zones actually absorbed \$2.73 billion in foreign direct investment, or 2.7 times as much as they did in the five previous years. Their industrial output rose from 11.75 billion yuan in 1986 to nearly 26 billion yuan in 1988 (in constant 1980 prices). Expanding industrial output, much of which was contributed by partly foreign-owned enterprises (over 60% in Shenzhen and Shantou, 41% in Xiamen, and 25% in Zhuhai in 1988) helped raise export from the special economic zones to \$3.48 billion in 1989, or almost fourfold from 1985.[9]

The Shenzhen SEZ showed the fastest growth rates in foreign trade that doubled between 1986 and 1989 to \$3.75 billion (*see*: Table 2).

The policy of "making the economy healthy and orderly" that followed in the wake of the Tiananmen Square events in summer 1989 and continued in 1989 through 1991 affected, to an extent, the special economic zones as well. As in the rest of the country, the numerous companies and associations that sprang up there in 1986 and 1987 to replace the old administrative agencies behind the smoke screen of official policy to separate administrative and economic functions were audited and some of them wound up. The working meeting held by the State Council to discuss SEZ operations in February 1990 called on the special economic zones to marshal the investments they were drawing in into projects to

Table 2

Foreign Trade of the Shenzhen SEZ in 1986 to 1989
(in millions of U.S. dollars)

	1986	1987	1988	1989
Foreign trade	1,847	2,558	3,442	3,752
Export	726	1,414	1,849	2,174
Impor	1,121	1,144	1,593	1,578
Absorption of foreign investments	365	274	444	450
Compiled from data of "China Economic Yearbooks" for 1987 to 1990.				

develop infrastructure, export, and high-tech industries, and also to give more attention to reliance on their own material sources and manufacture of components (for electronic products they turned out). The special economic zones were urged to shift focus from high growth rates to efficiency in the sense that output of high-tech products competitive on world markets was to be stepped up.

Overall, special economic zones in the early 1990s were not just enclaves where all sorts of experiments were put on to change the economic system over to a market course, not just a proving ground to try out innovations in China's openness in economic relations with the rest of the world. Rather, they had become a very important, sizable element of China's foreign trade setup and one of the critical and "regular" bridges from China's economy to the world economy, from its domestic market to the world market.

The results were most amazing in Shenzhen, its 1992 GDP 144 times that in 1979.

The number of manufacturing enterprises in Shenzhen rose from 244 in 1979 to 4,000 in 1992, and the list of products the SEZ manufactured at the time lengthened to 3,500 items, of which over 1,000 items were exported. In 1992, Shenzhen was second only to Shanghai in export revenues in China, bringing in $.6.6 billion. It also absorbed $4.3 billion in foreign investments, or 14% of China's total.

Most significantly, enterprises partly owned by foreign investors produced 60% of Shenzhen's export and 72% of its industrial output. During its lifetime, the Shenzhen SEZ imported 12,000 complete sets of manufacturing equipment priced at more than $50,000 each, 20% of them up to the highest world standards.

Shenzhen's growth to 600,000 people living permanently there early in the 1990s called for its administrative reorganization. The Baoan County was abolished by the State Council's decision, and its area was split into two districts that were incorporated in the city, together with 45,000 farmers who were given the town dweller status.[10]

The Years 1992 to 2002

The special economic zones were given a fresh impetus by Deng Xiaoping who insisted on their faster growth during his visit to Shenzhen and Zhuhai in January 1992. The architect of Chinese reforms laid special emphasis upon the success of the openness policy and its complete match to the country's chief objective – freeing and developing the factors of production. As he spoke about the need to have more partly foreign-owned enterprises and to borrow whatever was useful to China (for example, the stock trading idea) from developed countries, Deng Xiaoping suggested that Guangdong Province could be on a par with the four Asian Dragons (Taiwan, South Korea, Singapore, and Hong Kong) within 20 years. This prospect gave the special economic zones a sort of "political indulgence" and a long-term benchmark.

Shenzhen set itself the task of closing the gap between Singapore and itself in GDP over the next two decades, reaching the standards of Singapore and Hong Kong in infrastructure and management, and surpassing Singapore and South Korea in science and engineering. Ultimately, Shenzhen was to be turned into a multifunctional cosmopolitan city of the Asia-Pacific Region boasting growth in finance, commerce, transportation, information, tourism, high-tech projects, and modern free-market economy. For a start, GDP was to increase to 90 billion yuan until 2000, at an average annual growth of 20%. Between 2001 and 2012, GDP was to shoot up to 280 billion yuan at an average annual growth rate of 12%. At this point, Shenzhen's GDP was to be ahead of GDP per capita in both Taiwan and South Korea and catching up with Singapore and Hong Kong. This strategy was to succeed by more weight being given to science and engineering and a high-tech development pattern adopted, by building up export-oriented industries, and using the broad selection of modern services, including IT, stock markets, and banking services.[11]

It was extremely important for Shenzhen's representative assembly and its standing committee to be accorded the right of legislation. A national decision to this effect was adopted on the proposal of China's State Council by the Standing Committee of the Seventh National People's Congress on July 1, 1992. From that time on, the legal framework on which Shenzhen's development was based has been acquiring an increasingly detailed and comprehensive nature. It helped the city to deal with its own problems quickly and, in fact, served as a nationwide experiment in propaganda and promotion of the principle of "governing the country on the basis of law" that took a prominent place in the political platform of Jiang Zemin, who was China's leader in the 1990s and early 2000s.

In 1992 to 1994, Shenzhen's representative assembly passed 29 laws, intended mostly to fit the basic national laws into the local environment. In particular, they included partnership regulations (including those applying to limited liability partnerships), stock unit companies, cooperative unit companies, regulations to control collective farming produce markets and handicrafts, property auctioning regulations, labor services regulations (to govern employment of people who were not Shenzhen's residents), immovable property transfer and registration regulations, regulations to control illegal production and sale of forged goods, premises renting regulations, and regulations to guide cultural market management in Shenzhen.

Establishment of China's second stock exchange in Shenzhen in 1991 (the first was opened in Shanghai in 1990) came at a time when the country's economy reached a point of no return in its adoption of free-market principles, the ground for which had, incidentally, been laid indisputably by experiments staged in this city in the 1980s. It was natural enough in this context that the rise of the stock market was one of the high points in Shenzhen's economy in the 1990s. In 1991, six kinds of stocks were listed on the Shenzhen stock exchange, and as stock trading gathered strength their number was growing steadily and rapidly from one year to the next from 24 kinds in 1992 to 77 in 1993, 120 in 1994, 135 in 1995, 237 in 1996, 362 in 1997, 413 in 1998, and 465 in 1999.[12] At the outset, the Shenzhen stock exchange was conceived as mostly a share trading exchange. High demand for shares of stock among members of the population led to a rapid rise in share trading in the early half of the 1990s, from 43 billion yuan in 1992 to 128 billion yuan in 1993, and 239 billion yuan in 1994.[13] By 2000, it had grown to nearly 3 trillion yuan.

Shenzhen and Shanghai were first running neck and neck in stock trading, and then Shenzhen started falling behind because some of the Shenzhen exchange's long-term customers were lured to Hong Kong where some of the larger mainland companies started floating their stocks after July 1, 1997, the day when Hong Kong reverted to China's jurisdiction. Still, the Shenzhen exchange had its strong points unaffected, for example, the trading floors it provided in the first decade of the 21st century to stocks offered by small and medium-size enterprises and high-tech companies.

The Shenzhen SEZ as it was in the 1990s gave priority to duty-free trade areas to make its links to the world market as effective as possible.

To illustrate, Shenzhen was only given two years to develop a duty-free area at Futian 1.35 sq. km. large. Intended to facilitate Hong Kong's economic integration into China, Futian was linked to Hong Kong by a highway that was used by trucks shuttling between it and Hong Kong bypassing Shenzhen. Between 70% and 80% per cent of land in Futian was in long-term lease to be developed. A 50-year land lease granted for industrial construction cost 2,350 Hong Kong dollars (between $280 and $300) a square meter, warehousing projects raised the lease price to 3,000 HK dollars, and shopping centers drew 2,800 HK dollars. Upon lease termination, the land and everything built on it are to be dispossessed by China. Futian administration officials claim this prospect does not scare off foreign investors because all inputs they make at the start pay off within seven or eight years.

China established its duty-free areas after it had learned the world experience. They are different from any other areas or zones because no one lives in them permanently and they are excluded from the country's general customs treatment (goods brought into a duty-free area are exempt from customs duties and licenses), have broader tax privileges (in particular, no taxes are levied on manufacturing enterprises in the first two years, then they pay half of the going rate in the next three years, and, finally, their tax is fixed at 15% as it is for the SEZ as a whole), and free currency circulation, including repatriation of hard currency receipts.

Apart from Futian, Shenzhen has another two duty-free areas – Shatoujiao and Yantian that are among the biggest in the country, behind the Waigaoqiao duty-free area in Shanghai only. In 2009, the three duty-free areas did more than $35 billion in trade, or over a quarter of the Shenzhen SEZ's foreign trade, including a third of its import.[14]

In general, the Shenzhen SEZ and Shenzhen city, in particular, developed successfully enough through the 1990s (*see*: Table 3).

Table 3

Shenzhen in the 1990s

Years	Gross Regional Product, billions of yuan	Foreign trade, $ million			Foreign direct investments, $ million
		Total	Export	Import	
1991	13.18	5,967	3,446	2,521	399
1992	28.43	7,977	5,097	2,880	451
1993		10,500			
1994	56.0	34,983	18,309	16,674	
1995	79.6	38,158	20,811	17,947	1,300
1996		38,770	20,540	18,230	
1997		45,017	25,620	19,397	
1998	128.9	45,277	26,398	18,879	1,663
1999	143.65	50,428	28,208	22,219	1,778

Source: Based on data published in China's economic and statistical yearbooks for successive years and the 1997 "China White Book on Foreign Economic Relations and Trade".

In 1999, Shenzhen's Gross Regional Product topped 143 billion yuan, placing it sixth among China's major and medium-sized cities. With 166.5 billion yuan in 2000, Shenzhen moved up to fourth place in GRP across the country.

The city had 12,000 enterprises partly owned by foreign investors from 66 countries, which generated almost 80% of its industrial output (165.2 billion out of 207.9 billion in 1999, and 200.9 billion out of 251.7 billion yuan in 2000).

In 2000, the city manufactured 106.4 billion yuan in high-tech products, more than 42% of the total industrial output. In 1999 and 2000, Shenzhen produced over 9 million photographic cameras, more than 8 million color television sets, and 800,000 personal computers a year. China's first national fair of scientific and engineering products was put on in the city in 1999, and has since become a regular event.

By early this century, Shenzhen's resident population had topped four million, from 3.94 million in 1998 and 4.05 million in 1999 to 4.33 million in 2000.[15]

Shenzhen's foreign trade rose tenfold from $6 billion in 1991 to $64 billion in 2000. The foreign direct investments it absorbed annually swelled from a few hundred million dollars at the start of the decade to just short of two billion.

Still, the Asian financial crisis had a negative impact on Shenzhen directly and indirectly, because of problems Hong Kong had to go through in 1997 to 2002. Another circumstance that worked against it was that Hong Kong's mediatory role in China's economic ties with the rest of the world was severely undercut by China joining the World Trade Organization in 2001. It certainly dealt a blow to Shenzhen linked to Hong Kong by very close bonds. Shenzhen's residents had the feeling that the "spirit of reforms" had vanished from the city. Their moods were captured in condensed form in a story "Shenzhen, Who Abandoned You" published in November 2002, that literally rocked the city. The pessimistic feelings were deepened further by the outbreak of severe atypical respiratory syndrome (SARS) in the early months of 2003 in Guangdong, that swept through Hong Kong and, of course, Shenzhen. After that much battering, Shenzhen was back to make a fresh start with Hu Jintao at China's helm.

The Years 2003 to 2010

The course for Shenzhen's resurgence in the first decade of the 21st century was largely spelled out by Hu Jintao who visited the city on a fact-finding visit on April 11 and 12, 2003. The country's new leader urged for making Shenzhen's development more coordinated and giving priority to innovations as the city's leading edge it could get still sharper.[16] Hu Jintao's ideas were backed and developed by Wen Jiabao, the State Council's premier, who pointed, during his visit to Shenzhen in September 2005, to the need for a comprehensive reform to be mounted in the city to gain experience for major institutional reforms to be launched across all of China. Wen Jiabao also said that Shenzhen's exclusive knack for innovation was its most significant hallmark now.[17]

The local administration responded to the leaders' guidelines by passing two documents it wanted to speed up development of high-tech industries in the city. In January 2004, Shenzhen's CPC Committee and government adopted a resolution to improve the innovation system and stimulate sustainable rapid development of new and high technologies. Just as the year 2006 was in, a decision on a strategy for self-reliant innovations and development of an innovation-driven city of countrywide significance was made public.[18]

Rolling out a wide selection of modern products in the manufacturing industry based on new and high technologies has been the highway of Shenzhen's economic development in the past seven to eight years. Priority has been given in recent years to developing and mass-producing SEZ companies' own brands and registering intellectual property title to them. The change of priorities was reflected in the slogan that set the general tone for development – "Assembled in Shenzhen to Made in Shenzhen to Developed in Shenzhen."

Midway through the decade, in 2005, the share of R&D costs in Shenzhen was three times that of China's average. The city placed third in the number of patent applications filed in the country and first in applications filed for inventions. Innovation priorities now included manufacture of communications devices, digital audio and video equipment, traditional storage batteries and new-generation batteries, biomedicine and medical instruments, software, and integrated circuits.[19] In 2004, Shenzhen manufactured around 49 million cellphones, 18.5 million televisions, and 7.35 million personal computers.

In 2006, the share of high-tech products in the city's gross industrial output reached 52%, 58% of which, or 371 billion yuan out of 629 billion yuan, were products from manufacturers holding intellectual property title to them. The number of enterprises manufacturing new and high-tech products went over fifteen hundred.[20]

Some of them grew to become large companies of national and international fame, like Huawei company named among the world's 500 biggest corporations. In 2009, it did $21.8 billion in sales, more than 20% of the world market for wireless communications equipment. The company filed 46,000 requests for patents.[21] BYD company got its name into the news because 10% of its stock is held by famous American billionaire Warren Buffet, who never misses a chance to make investment a good bargain, and because it is developing environment-friendly high-tech products, such as electric cars, hybrid engine cars, solar panels, and new-generation storage batteries. Following in the central government's footsteps, Shenzhen authorities started subsidizing purchases of electric and hybrid engine vehicles, for the needs of public transportation in the first place.[22]

Apart from a high-tech niche it is carving out, Shenzhen's speedy economic convergence with Hong Kong has become a further major factor for the city's development in the 2000s. Convergence is encouraged by national and provincial projects for China's economic integration with Hong Kong, Macau, and Taiwan, such as the Close Economic Partnership Agreement (CEPA) made between China and Hong Kong in 2003, and various programs for cooperation in the delta of the Zhujiang.[23] Plans are at times going as far as joining Hong Kong and Shenzhen in a giant conurbation. The mega-city (under an invented name of Xiangzhen, from Xianggang and Shenzhen) would add up the stronger sides of both parts and become, at some time in the future, a world-class city on a par with New York and London. The growing close cooperation between Shenzhen and Hong Kong appears to be intended to provide for current domestic and economic benefits and, in the long run, for Hong Kong's smooth docking with the mainland unless its special rights within the "one country, two systems" format are extended upon expiry of the 50-year period of transition, the countdown on which started in 1997. Symptomatically, 98,000 apartments, or 9.5% of their total number in Shenzhen in 2006, belonged to homeowners from Hong Kong, Macau, and Taiwan.[24]

In general, Shenzhen's development in its third decade of existence proved to be a success (*see*: Table 4). Its gross regional product topped 950 billion yuan (in current prices) in 2010 against 195.4 billion yuan in 2001. This is the fourth best showing in China. Shenzhen's economic growth was slightly higher than the country's average. Still deeper changes were made in its economy's structure.

At the end of 2010, the three sectors of social production generated 0.1%, 47.5%, and 52.4% of added value, respectively. More than half the added value in manufacturing industries came from enterprises partly owned by foreign investors (including investors from Hong Kong, Macau, and Taiwan). Shenzhen is also one of China's biggest seaports.[25]

For all that, foreign trade, no matter how fast it was, by both the city itself and its special economic zone, was trailing, if insignificantly, behind the China average. Shenzhen's relative share of foreign investments flowing into China declined as well (by late 2008, Shenzhen had $37.4 billion in cumulative foreign direct investments it had absorbed).

The explanation is that following China's accession to the WTO, actually all the country, rather than a few areas as before, was open to the world. It was natural in this situation that Shenzhen played less of a role as a window on the world for China as a whole.

At the same time, Shenzhen started to play a bigger role in fulfilling national functions such as exploring opportunities for the country's continued modernization and harmonization of its social development. Speaking at a gala meeting held to mark 30 years of the Shenzhen SEZ in September 2010, Hu Jintao urged the special economic zones to "turn to face modernization, the world, and the future," and lead the way for a scientific development conception to take root, and promote social harmony. The new mission entrusted to the special economic zones requires them to make breakthroughs to change the economic growth model by setting up a market-oriented innovation-driven system relying on enterprises and melding manufacturing, research, and development. High priority is also given to stepping up consumption, fine-tuning national income distribution, cultivating a beneficial social environment, and honing political system improvement techniques. The special economic zones are also charged with the mission of supporting the strategy for developing the country's western, central, and northeastern provinces and giving long-term stability and prosperity to Hong

Table 4

Shenzhen's Growth in the First Decade of the 21st Century

Item	Unit of measure	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross l Regional Product	Billions of yuan	166.5	195.4	223.9	286.0	342.3	492.7	581.3	680.1	780.6	820.1	950.0
Foreign trade:	Billions of USD	63.94	68.61	87.22	117.4	147.28	182.82	237.4	287.53	299.95	270.16	346.74
Export		35.56	37.48	46.54	62.96	77.84	101.52	136.1	168.50	179.71	161.98	204.18
Import		29.47	31.13	40.68	54.44	69.44	81.30	101.3	119.03	120.24	108.18	142.56
Including foreign trade of the Shenzhen SEZ:	Billions of USD		35.79	45.38	60.40	73.80	87.59	112.79	135.81	140.89	128.01	346.74
Export			17.81	22.23	30.22	36.36	46.78	63.56	78.63	80.68	72.77	204.18
Import			17.98	23.15	30.18	37.44	40.81	49.23	57.18	60.21	55.24	142.56
Foreign direct investments	Millions of USD	1,961		2,686	2,129	2,350	2,969	3,269		4,031	4,160	

S o u r c e s: *Haiguan tongji (Customs Statistics), Beijing, 2003-2010; Zhongguo dui wai jingji maoyi baipishu 2003 (White Book on China's Economic Ties and Foreign Trade), Beijing, 2003; Zhongguo jingji nianjian (China Economic Yearbook) for 2001, 2002, and 2005; Zhongguo tongji nianjian (China Statistical Yearbook) for 2001 to 2010; Shenzhen Investment Guide, Shenzhen, 2006; Data of the website http://SZ.people.com.cn/GB/; Shenzhen jingji fazhan baogao (2010) (Report on the Development of Shenzhen's Economy – 2010), Beijing, 2010.*

Kong and Macau, and developing successfully relations between the two shores (that is, relations between China and Taiwan).[26]

Shenzhen has already started working along these lines. In May 2009, China's State Council approved a General Plan for a Comprehensive Reform in Shenzhen. Unlike the comprehensive reform going on elsewhere, in particular, in the new Binhai district near Tianjin and Pudong in Shanghai, administrative system reform is given top priority in Shenzhen. Acting on the State Council's decision, Shenzhen's administration meeting on June 29, 2009, endorsed a comprehensive reform plan for the city in 2009 to 2011.[27]

A plan for reforming the government setup in Shenzhen was passed on July 31, making Shenzhen yet again a proving ground for the country at large, this time to reform political and administrative institutions.

The idea of the administrative reform in Shenzhen is to draw clear lines between government departments that have been broken down into "committees" in charge of policies, plans, and standards, "departments" fulfilling executive or supervisory functions, and "offices" burdened by no administrative functions and focused on giving the mayor whatever assistance he needed. The total number of the administration's departments was trimmed from 46 to 31, and around 500 staff were made redundant.[28]

On July 1, 2010, the Shenzhen SEZ was expanded over the city's entire administrative area, with Baoan and Longgan lying across the SEZ boundary now added to the old districts of Luohu, Futian, Nanshan, and Yantian. The Shenzhen SEZ area exploded from its erstwhile 327.5 sq. km. to 1,991 sq. km. (At this time, too, the Xiamen SEZ was spread over the city's outlines, from 150 sq. km. to 1,560 sq. km.)[29]

The Second Session of Shenzhen's 5th Representative Assembly held on January 15 to 19, 2011, discussed the city's development challenges in the next five years – 2011 to 2015. They include increasing Shenzhen's gross regional product to 1.5 trillion yuan by building it up at an average annual rate of 10%, and raising its GDP per capita to $20,000 (from $14,600 in 2010). By the end of this five-year period, scientific and technological breakthroughs are to contribute 60% of the city's economic growth. Modern-age industries such as low-carbon power generation, biotechnologies, and the Internet are to provide up to 20% to GRP, and another 60% of GRP is to come from the services industry.[30]

Over the next five years, Shenzhen is to handle its special problems caused by integration of the old SEZ with the outer city. The unique existing system of "one city, two legislations" is to be replaced with a new one. Next comes the problem of residential, infrastructural, and even psychological barriers that have arisen after 30 years of an administrative boundary 90 kilometers long running between the two parts of Shenzhen that could only be crossed at five checkpoints.

Shenzhen's problems are at their hardest in social services. The current problems are the legacy of planning miscalculations inherited from China's age of reforms when social development was sacrificed to economic growth. The city is jam-packed with buildings, and its population density of 17,150 per square kilometer is significantly higher than Beijing's 11,500 and Shanghai's 12,400. It also suffers from severe shortages of drinking water.[31]

The population records are in a jumble. In 2006, the city had a registered population of 1.82 million, a permanent residency of 8.27 million, and 12.17 million in need of social services.[32] Shenzhen these days is said to have 15 million residents, a source of enormous strain on public security, housing market, and lots of other worries. High housing costs and cost of living make Shenzhen little attractive to high-skilled professionals and squeeze small and medium-size businesses out of the city. Coordinating the demographic policy and urban development needs is turning into a first priority for Shenzhen.

Numerous suicides committed in recent years by employees of Foxconn company (owned by Taiwanese operators) have spotlighted frequent underpaid overwork and high stress typical of life in Shenzhen. All indications are that much is to be done to harmonize social relations in the city.

Shenzhen is still behind Hong Kong and Singapore it benchmarked in the economic sense back in the 1990s. Its 400 million yuan in GDP per square kilometer is far below Hong Kong's 1.43 billion and, even more so, Singapore's 1.84 billion.[33] In this respect, Shenzhen still has much to travel.

* * *

Mao Zedong is commonly believed to have said the now legendary phrase, "The wind from the East overpowers the wind from the West." If we stick to the real geography of "political winds" in China, we have to admit that it was the "southern wind" that has often played a crucial role in the country's destinies.

After the Xinhai Revolution, until the mid-1920s, Sun Yat-sen made Guangzhou (Canton) and Guangdong province the stronghold of his revolutionary forces and government.

The Guangzhou fair of export goods had been an important outlet to the world market for the People's Republic for many years.

Following the same pattern, Guangdong province was selected in 1979 as the best place for three out of China's four special economic zones, including the most successful of them in Shenzhen. The Shenzhen SEZ has become an epitome of success and economic openness to the world, and also a proving ground for countless practical innovations, from reform in the wage system to China's first technopark and early experience in the public property management system. On top of it all, Shenzhen has become China's genuine melting pot for huge numbers of young people from across the country who have gone on to become skilled factory workers and managers.

Deng Xiaoping, the architect of the country's reforms, recognized the fact that Shenzhen had become China's symbol for the spirit of innovation and used it to great effect. Speaking and talking in Shenzhen, of all places, in early 1992, he succeeded in overpowering the Chinese elite's conservatism and isolationism it had been infected with by the "Tiananmen syndrome" and turning the country on to the path of rapid market reforms and large-scale economic openness to the world. All that China has achieved in the last 20 years is traced back directly to the strategic choice Deng Xiaoping made in Shenzhen.

It is hardly a coincidence that Wen Jiabao, Premier of China's State Council, called for political reforms in the country in a speech he made at celebrations marking thirty years of special economic zones in China.

Wind from the south in China is the wind of freedom blowing from nearby Hong Kong in China's recent history. Almost everything has played a role in this – extensive familial ties between the residents of Hong Kong and Guangdong, uncommonly frequent visits Hong Kong residents made to Guangdong on business and just because it was the nearest place to go to in China, and the unique awareness the Hong Kong media had about "what's cooking" in Beijing's political backroom. You can feel the southerly today as well. *Nanfang zhoumo* newspaper and *Nanfang chuanghu* magazine, both extremely popular with the readers and most critical of the authorities, come out in Guangdong.

A saying, "Feudalism in Beijing, socialism in Shanghai, and capitalism in Guangzhou," had considerable currency in China in the late 1980s. Today, though, the social development stages existing in Beijing, Shanghai, and Guangzhou deserve different names. And yet, the cities are just as different today in how they view the world around them and how far freedom may go.

It is probable that the prevailing southerly as a symbol of change and desire of greater personal and social freedom is China's specific trend. Actually, greater openness to external influences some regions or even cities enjoy than others, or their broad understanding of progress is nothing new, if not common. It is natural for areas exposed most to the outer world, such as seaports, trading cities, and so on, to serve frequently today as centers of knowledge, exploration, and propagation of innovative traditions. In this sense, the "Baltic Wind" that was blowing to set political fashion in Russia since the early 18th century is back to do this again today, in the early 21st century.

Studying China's recent history and the political and economic processes unfolding in the country through the thirty years of reforms has an academic dimension, unquestionably dominating over anything else, and a general sociological dimension that is important as well.

NOTES:

1. Shenzhen has been first among China's cities in foreign trade beginning in the early 1990s until very recently, to be outdone lately by Shanghai. To illustrate, Shanghai did $277.75 billion in foreign trade, ahead of Shenzhen with $270.15 billion in 2009. In 2010, Shanghai's foreign trade rose to $368.9 billion, still ahead of Shenzhen's $346.75 billion. *Haiguan tongji* [Customs Statistics], Beijing, 2009, No. 12, pp. 14-15; No. 12, 2010, pp. 14-15.

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3. “Communiqué of the Third Plenary Meeting of the 11th CPC Central Committee,” *News Bulletin of the Xinhua News Agency*, Beijing, December 24, 1978.
4. Mao Liyan, Chen Yongmin, *Deng Xiaoping jingji tequ suxiang yanjiu* [Studying Deng Xiaoping’s Ideas on Special Economic Zones], Xiamen, 1995, p. 144.
5. Figures for 1979 to 1983. *Zhongguo jingji nianjian* [China Economic Yearbook 1984], Beijing, 1984, pp. VI-180-181; for 1984, *Guoji maoyi* [Foreign Trade], Beijing, No. 3, 1985, p. 17.
6. Mao Liyan, Chen Yongmin, “Deng Xiaoping jingji tequ suxiang yanjiu,” p. 240.
7. *Zhongguo duiwai kaifang duiqu touzi huanjing he zhengqie* [Open Regions of China: Investment Environment and Political Line], Kunming, 1993, p. 24.
8. *Renmin ribao*, March 8, 1985.
9. Mao Liyan, Chen Yongmin, op. cit., pp. 268-269; *Zhongguo tongji nianjian 1989* [China Statistical Yearbook], Beijing, 1989, pp. 73-74.
10. *Zhongguo duiwai kaifang diqu touzi huanjing he zhengqie*, pp. 34-41.
11. Ibid., pp. 42-44.
12. *Zhongguo tongji nianjian 2000* [China Statistical Yearbook 2000], Beijing, 2000, p. 643.
13. *Zhongguo zhengquan tongji nianbao 1995* [China Securities Yearbook 1995], Beijing, 1996, pp. 71-72.
14. *Zhongguo haiguan tangji*, No. 12, 2009, p. 19.
15. *Zhongguo jingji nianjian 2000* [China Economic Yearbook 2000], Beijing, 2000, pp. 559-561; *Zhongguo jingji nianjian 2001* [China Economic Yearbook 2001], Beijing, 2001, pp. 634-638.
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17. *Liaowang*, August 23, 2010, p. 21.
18. *2007 nian: Zhongguo Shenzhen fazhan baogao* [Report on the Development of Chinese Shenzhen-2007], Beijing, Shehui kexue wangxian chubanshe, 2007, p. 83.
19. *Shenzhen Investment Guide*, Shenzhen, 2006, pp. 28-34.
20. *2007 nian: Zhongguo Shenzhen fazhan baogao*, pp. 88-89.
21. *Renmin ribao*, September 8, 2010.
22. “BYD: Building a Greener Tomorrow,” *Beijing Review*, November 18, 2010, pp. 22-23.
23. Reference is made, in particular, to integration in the smaller delta of Zhujiang (including Guangzhou, Shenzhen, Zhuhai, Foshan, Donghu, Zhongshan, Huizhou, and Jiangmen), integration of the smaller delta of Zhujiang with Hong Kong and Macau, and so on. *2007 nian: Zhongguo Shenzhen fazhan baogao*, p. 306. In late 2008, China’s State Council approved officially the Zhujiang Delta Development Program for 2008 to 2020.
24. Ibid., p. 268.
25. http://www.szass.com/citizen_news/newscontent.asp?id=5339.
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27. “Shenzhen: Zhonguo shi tequ 30 nian [Shenzhen: 30 Years of the Special Area of Chinese Type],” *Xinhua yuebao*, Tianxia, Beijing, No. 9, 2010, p. 26.
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29. *Beijing Review*, August 19, 2010, p. 31.
30. http://sz.people.com.cn/GB/13746988.html.
31. *Liaowang*, August 23, 2010, p. 23.
32. *2007 nian: Zhongguo Shenzhen fazhan baogao*, pp. 181-182.
33. *Liaowang*, August 23, 2010, pp. 21-22.