

# Preface

## Successful Experience in China's Special Economic Zones

China, once a traditional large country with planned economy, is a developing country. The transformation of Chinese society from a planned one to a market-oriented one is a process of reform and opening up; it also means building a country with an emerging market economy. In particular, amid today's economic globalization, and as a country with an emerging market economy under development, China shares many common problems with other developing countries with emerging market economies. For example, one of these problems is that China and these countries benefit from development, they are also subject to economic globalization; another problem is the risk of "growing old before getting rich"; they also encounter problems with regards to guaranteeing public education, public health, and medical services; there is also the problem of the need to improve their market economy system, their social system, their legal system, and their social regulations, as well as learning from international practices. In my opinion, as China has achieved, under "the whole nation system," varying degrees of success in solving the developmental and social problems it shares with other developing countries and emerging market economy countries, these achievements are a kind of reference point for developing countries and emerging market economy countries. This is like the universal significance of success achieved by the Four Asian Tigers and Taiwan's land reform program. Common law and universal problems in human development often make national or country-specific successes in a country into successes that have a real global objective significance. Of course, such significance definitely does not lie in setting a model for the world, but instead, it consists in offering shareable wisdom and spiritual wealth for the human race. As a successful transformation route, "China's road" provides a vivid case for emerging market economy countries to help them choose a path towards fostering economic development and achieving modernization.

Furthermore, in China, creating special zones has become an effective route and shortcut for proceeding from the general background of trans-regional unbalanced economic development to the drive towards the development and prosperity of larger regions through the development and prosperity of a city or its surrounding regions in, in order to seek modernization. The success of China's special economic zones offers valuable experience and lessons for emerging market economy countries throughout the world to establish special economic zones that will help boost their economic development.

### **I. Choose, introduce and insist on the direction of a reform-focused market economy**

After the *Regulations for Special Economic Zones* was promulgated as early as 1980, Guangdong Province explicitly vowed to focus on the introduction of foreign capital and on the adoption of a market economy in special economic zones. The market economy was considered a “dreadful monster,” and developing it was equal to restoring capitalism in China at that time. Therefore, there were severe and overwhelming criticisms from the traditional ideology, and “combating peaceful evolution” became the main theme in 1982, just two years after the establishment of the special economic zones. Although China had embarked on an irreversible road in the fundamentals of the great cause for reform and the opening up initiated in China in 1978, China was enveloped in doubt. In 1992, Deng Xiaoping made the “South Inspection Speech” and prevailed over all dissenting views with the political wisdom, courage, and resourcefulness of a great man who was able to reverse the situation, and ultimately determine that a market economy as the direction to follow in China's program of reform and opening up. He finally concluded that a market economy was not equal to capitalism and that there were also markets in socialist.

For China, the practice and development of a market economy proved to be successful and the demonstration that special economic zones are absolutely necessary. The market economy gave birth to successful special economic zones in China, which saved China.

### **II. Push ahead with reform through the opening up**

China's opening up started from the establishment of special economic zones. Reform and the opening up accelerated the overall transformation of China from a traditional society to a modern society and also led to fundamental changes in the economic system. Initially, opening up only meant the expansion of foreign trade and the introduction of technologies and equipment, etc. With the deepening of reform and opening up, the meaning of opening up was also further clarified and extended, while the substance of all-round opening up was institutional innovation with the reference of systems of other countries.

As the reform and opening up in the Shenzhen Special Economic Zone originated from the geographic advantages resulting from its proximity to Hong Kong, Shenzhen-Hong Kong cooperation naturally became the important content of Shenzhen's reform and opening up. To a great extent, the “introduction of Hong Kong” not only conformed to the fundamental direction for Chinese reform and

opening up, but it also helped find a shortcut for the creation of a modern city. Hong Kong is the unique regional factor leading to the success of the Shenzhen Special Economic Zone.

Logically and realistically, with respect to the reform and the opening up, Chinese society underwent a transformation from an outward-looking economy to an open economy as well as a transition from policy-based opening up to institutional opening up. Both reflected a logical evolution and were unitary in the course of their development. They were not only two aspects of one course of development, but they were also the inevitable result of that particular course.

### 1. Developing from an outward-looking economy to an open economy

An outward-looking economy is an economic operation mode with both ends of the production process on the world market, and it refers in particular to the operation mode under which raw materials are imported and processed to make products and then those products are exported. The process in which China's closed economy gradually developed into an open economy is a unique process of transformation from inward to outward economic development. At the initial stage of reform and opening up, special economic zones were established, and coastal cities were developed and opened primarily in order to draw on the market management experience of foreign businessmen and focus on utilizing foreign capital, developing foreign trade, and increasing supply to address the shortage economy so as to stimulate economic growth. Subsequently, the development and the opening up of the Pudong New Area was also an important step in implementing China's strategy for developing an outward-looking economy.

However, an opening up strategy to achieve an outward-looking economy also gradually presented some inherent defects: as actions were taken to predominantly open up coastal areas to the outside world, the overall economic openness was not great and the targets of the opening up were excessively concentrated; domestic interregional differences expanded; the linkage effect of the opening up was low; the chain of the opening up cycle was interrupted, etc. Replacement of an outward-looking economic developmental strategy with an open economy that has a greater openness as well as internal and external integration became an objective necessity.

"Open economy" refers to an economic system with a relatively great amount of openness supported by a mature legal system and operation mechanisms. An open economy is formed in such a way that the government carries out its administrative activities basically according to the mechanisms and rules which governs the market economy; an open economy is regulated by a mature economic system and has a wider connotation and a greater openness than an outward-looking economy. The development of an open economy centers on the participation in international competition and international economic cooperation, and absorbs all the civilization achievements created in the human society beneficial to China's process of modernization.

## 2. Shifting from a policy-based opening up to an institutional opening up

For an economic system to have progressively opened up, it necessarily evolved from a policy-based opening up to an institutional opening up in the course of its evolution toward an open economy. Although the special policy system adopted when the opening up process was initiated had no strict “institutional” meaning as it brought differential treatments and preferential measures for special areas and objects, it was a necessary form for manifesting an open economic system in a broad sense during the initial stage. However, after the opening up and development had been rapidly promoted and a series of institutional reforms had been carried forward accordingly with endogenous forces, China gradually moved toward the establishment of a complete open economic system fit to function with the mechanism which governs the modern market economy; the open economic system gradually acquired a genuine “institutional” connotation. Final completion and improvement of the “institutional” open economic system in the strict sense is precisely China’s main task and objective in the future.

The opening up and the corresponding system reform were initiated by a special policy at an early stage, and the establishment and development of special economic zones was a typical example of such a mode. With successes in special zones, the Central Government continued carrying out the thought and mode of “providing a special policy to launch an opening up” and made more areas and fields open up to the outside world, such as open coastal cities, economic and technological development zones, and open coastal economic areas; moreover, there was a strategic shift from coastal opening up to the opening up of border areas. As the opening up was initiated through a special policy, some reforms and changes also took place accordingly in China’s domestic system to gradually establish a relatively complete operation management system for absorbing, utilizing foreign capital, and developing foreign trade.

China’s accession to the WTO in 2001 marked the commencement of a gradual shift from a policy-based opening up to an institutional opening up for the purpose of really starting the establishment of an open economic system with a profound “institutional” connotation.

The key to shifting from a policy-based opening up to an institutional opening up lies in the active and effective building of an institutional environment. Provision of a preferential policy was changed to the building of an appropriate environment and appropriate institutions, while utilization of preferential policies for boosting the opening up shifted to promotion of the development of an outward-looking economy by means of fostering a good soft social environment, such as infrastructure, transport and communication, education, human capital, administrative efficiency, and laws and regulations. Global competition at the current stage mainly consists in a good institutional and legal environment; thus, in order to build new advantages for international competition and cooperation, a good, fair, transparent, legal, and institutional environment must take shape.

### III. Respect and expand human emancipation

China's reform and opening up started from the emancipation of productive forces, while the emancipation of productive forces is essentially the emancipation of people and humanity.

1. Reform and opening up have aroused the enthusiasm of leading players in the market economy—individuals. The final players in the society are people—economic persons in the market economy, rather than the country, cities, and institutes. For example, more than 95 % of the migrants in Shenzhen made up the most basic element of productive forces—the free flow of people, while capital vigorously introduced from Hong Kong and foreign countries made up the most powerful element of productive forces—the free flow of capital. Rural migrant workers who have migrated to the cities since the 1990s have become the leading participants in building and serving China's special economic zones, and they were also the creators of "China's Miracle."
2. Reform and opening up have stimulated the enthusiasm of another leading player in China's market economy—local governments. This aspect is also an important element of the "charm" of Chinese characteristics. Under the planned economic system, local governments were subject to "arrangements" and were spurred to "achieve," while in the market-oriented economic environment, local governments take the initiative to innovate as a consequence of competition. Regional competition (including inter-province, inter-city, and inter-county competition) constitutes the special enormous internal impetus for China's economy, which much explains China's miracle. People have been given a solemn sense of mission and have a burning desire to change their personal destiny, thus making governments of special zones more vibrant.

However, innovations were carried out principally by enterprises rather than by the government. Good entrepreneurial environments in special zones ultimately attracted innovative enterprises including Tencent, Huawei, ZTE, BYD, Giant, and Gree, and the entrepreneurs behind them. Innovative enterprises have become the mainstay in special zones; 90 % of the output value comes from the high and new technology industry—IT industry; as a result, special zones have also been turned into extraordinarily important hi-tech places in China; entrepreneurs are the soul of a market economy, while the entrepreneur stratum serves as the solid cornerstone for the free development of special zones.

Emancipation of people lies not only in politics, but also in the economy; its fundamental content is the confirmation of individual property rights. A clear definition of asset rights is the key condition for market transactions. With the reform and the opening up, China shifted from a class-based definition of rights to the system under which rights are defined on the basis of assets, thus the miracle took place in China. With the redefinition of property rights, the system operation costs under the complete public planning mode were substantially reduced in China; so in this way, productive forces and the creative power of the immense human resources were freed to build competitive advantages based on the

comprehensive costs in a global market. The reform and the opening up significantly lowered the institutional costs in China's economy; so China has become the fastest growing economy, and China's growth has changed the global economic pattern.

#### **IV. Give full play to the advantage of “the whole nation system”**

Successes in China's special economic zones reflect the “charm” of Chinese characteristics, of which an important sign is the unprecedented mobilization power and concentrated force of “the whole nation system.” For example, the China Hi-tech Fair and the China International Cultural Industry Fair are overwhelmingly unmatched in terms of efficiency, scale, and mobilization. Of course, I do not believe that the transition state in the transformation and acquisition of exceptional projects represents a normal and due characteristic. Brilliant achievements made in China's special economic zones during a period of 35 years show that the developmental path with Chinese characteristics is the right path to follow; the path with striking Chinese characteristics is correct because what it essentially embodies still conforms to the universal values in the international community and to the basic principles of a market economy; all this has ultimately led to the discovery and revelation of the universal law which governs the development of human society.

Fundamentally, China pushed ahead with top-down mandatory institutional change, and governments, especially the Central Government, were the starter, the leader, or the most direct advocator of this institutional change as well as becoming the first to “be reformed.” On the one hand, the practice of reform and opening up cannot do without decision and authorization from the Central Government; for example, the special zones were the results and products of a special policy given to local governments by the Central Government; on the other hand, governments also experienced self-reform in which the powers of governments were deprived of by governments. The practice of reform and opening up in China for nearly 35 years proves that for countries in transition, governments certainly play a tremendous role in mandatory institutional change; furthermore, if not driven by powerful top-down political force from governments, the transformation from a planned economy to a market economy cannot be accomplished. It was even impossible for the universal establishment of today's market economy and the prosperity of the social economy. In particular, the Central Government and the powerful “whole nation system” can efficiently concentrate resources to do great things subject to scarce or limited resources and make decisions in an efficient way so as to lead the direction for the development of a social economy. However, the government functions and roles are different under the following two circumstances: a market economic system is established by mandatory institutional change; a market economy is improved under the condition that the market economic system has been basically established; the former may need a relatively stronger government intervention for promoting the formation of a market economy so as to accelerate the transformation from a planned one to a market-oriented one, while the latter requires the government, subject to respecting the market law and mechanism, to correct market failure and serve the market rather than rein and lead the market. From the perspective of

results, a powerful country and a developed market are undoubtedly alluring, but their realization entails efforts at properly handling the relationship between the state and the market or between the government and the market.

**V. Emancipate the mind, be bold in innovations, tolerate failure, and create a loose, inclusive, free, shared cultural environment for reform and opening up**

China's reform and opening up, begun 35 years ago, started out by emancipating the mind. If reform and the opening up are considered to be the path toward institutional change in China, emancipation of the mind is the precondition and a guarantee for achieving such a path. The practice of reform and opening up cannot take place without emancipation of the mind, while reform and opening up have converted emancipation of the mind from a philosophy into a reality; the driving forces for sustainable social and economic development in China have not been available without the spirit of being courageous in innovations, while the reality of sustainable social development in China offers broader and more inclusive institutional space for bold innovations; subjective initiative of the leading players in a social economy—people, cannot be stimulated without a loose, inclusive, free, and shareable social environment; development and demonstration of people's subjective initiative injects vitality and creative power into the loose, inclusive, free, and shareable social environment.

I agree with such a view: our society will not wither due to lack of miracles, but it will lose vitality because there are no thoughts for creating miracles.

**VI. Leverage factor endowment changes to propel the adjustment of the industrial structure and the transformation of the development mode**

Shenzhen Special Economic Zone kicked off its development by processing materials supplied by clients, processing supplied samples, assembling parts supplied by clients and engaging in compensation trade. The choice of this developmental mode was determined by the factor endowment available at that time. Shenzhen was only a little-known small fishing village with a relatively weak planned economy during the early stages of reform and the opening up. Comparatively advantageous production factors in Shenzhen at that time were a cheap labor force and land, while Shenzhen fell short in capital, technologies, and management. This coincided with industrial upgrading and the structural adjustment of Hong Kong's economy; thus, guided by the opening up policy, labor intensive industries opportunely dominated by the processing industry, appropriately settled down in Shenzhen where the manufacturing industry was urgently needed; the industrial transfer was accompanied by a gradual shift of capital, technologies, management, and a modern enterprise system to the growing Shenzhen. With efforts to carry forward the chain of industrial renewal from territories and countries with a developed market economy, Shenzhen not only reduced the costs for jumpstarting its economic development, but it also greatly lowered the costs for learning from the market economy, determining the basic characteristic which defines an outward-looking economy. Meanwhile, the

“importation” of the processing and manufacturing industries also gave rise to a derivative demand, thus stimulating the rise and development of the tertiary industry.

As Shenzhen embarked on the track of rapid economic growth, the constraints from the inherent shortage of natural resources in Shenzhen emerged soon and aroused concern from policymakers. Such a shortage means that, under the law of scarcity, with any choice of growth pattern based on excessive consumption and use of natural resource factors, people have to pay a relatively high price for the creation of wealth and social development so that the price for economic growth will also increase along with the high costs for the creation of wealth.

Shenzhen chose a path for a sustainable development in due time mainly by processing materials supplied by clients, processing with supplied samples, assembling parts supplied by clients and engaging in compensation trade, and then by developing new and high-tech industries as a backbone. The leading force of government decision-making in institutional change (the establishment of special funds the adoption of preferential policies, etc.) addressed the gap in finances that had resulted from high input in the early stage, and mitigated the pressure on new and high-tech enterprises for taking risks alone; with the broad mind peculiar to reformers, actions have been taken to foster the institutional environment for new and high-tech enterprises to settle, grow, develop, and innovate in Shenzhen and attract a large number of well-known domestic and foreign new and high-tech enterprises to Shenzhen; with the foresight and sagacity of innovators, a solid intellectual guarantee has been provided for subsequent development of new and high-tech industries; some famous universities and a variety of scientific research institutions have also taken root in Shenzhen. By 2000, the output of computer magnetic heads in Shenzhen ranked No. 3 in the world, the output of microelectronic computers, stored program control exchanges, and genetic interferon accounted for 25, 50, and 60 % of the national total output, respectively. Shenzhen was also the largest production base for printers, hard disk drives, and cordless telephones nationwide. Moreover, five large new and high-tech pillar industries, including electronic information, biotechnology-new materials, optical, mechanical and electronic integration, and laser, had taken shape.

Imitation was the main way for increasing the output value of new and high technologies in China for a considerably long time. However, the real international competitiveness of a country cannot be derived from shortcuts and instant benefits brought about by imitation for a long time. The Shenzhen Municipal Government quickly realized that the creativity of industries, namely the capabilities for original innovation and integrated innovation as well as the capability for introduction, assimilation, adoption and re-innovation was the fundamental source for the permanent vitality of an enterprise and the lasting competitiveness of a country. Therefore, self-dependent innovation was put forward as a strategic thought giving full expression to the philosophy of sustainable development.

Transformation of the economic development mode requires our society to change its previous practice of the simple use of labor and low-price consumption, and make an institutional arrangement by turning the “catastrophic” use of cheap



labor into goal-directed value-added use, namely, an increase in the economic value of labor and then the added value of products by means of technical training and welfare improvement.

Most of economically underdeveloped developing countries are subject to resource constraints in the sense of factor structure rather than resource shortage in terms of natural endowments. Resource constraints in the sense of factor structure mean that factor endowment structure is low, namely, there is lack of advanced factors such as capital, technology, education, management, and legal system in the economic development of a country or territory, while uneducated or less educated ordinary labor is rich. Therefore, the root cause for low economic structure lies in low “factor endowment structure” rather than structure. Low structure does not constitute the cause for low structure but is the result or realistic manifestation of low “factor endowment structure.”

## **VII. Comprehensive development is the inevitable road for the continuous development and prosperity of a society**

Economic prosperity will bring about social prosperity, but prosperity itself will not automatically lead to social civilization. Economic prosperity, institutional civilization, and social prosperity will certainly make up the ultimate goal for China’s social institutional change.

Theoretically and practically, the relations between “growth” and “development” are not simple relations between one Chinese name of potato (Tudou) and one of its other Chinese names (Malingshu). “Economic growth” means more output, an increase in products and services of a country, or an increase in actual per capita output, which generally is measured by GDP or per capita GDP. “Economic development” is economic growth along with reforms of the economic structure, and of the social and political system. It means not only output growth but also output and income structure changes along with an increase in output, as well as changes in the economic system, the political conditions and cultural conditions. It means not only social affluence, but also disappearance of poverty, hunger, associated illiteracy, diseases, and early death in an affluent society. It means not only the abundance of material wealth, but also equality in people’s spirit, power and opportunity, equal respect for people, and an equal grant of powers for people. It means not only the maximization of personal welfare, but also the improvement in the overall welfare in a society, the sharing of equal opportunities for social surplus. GDP is the material base for social development, but it is definitely not the ultimate goal for social development. The growth of GDP and per capita GDP which is not accompanied by the improvement of social welfare is nothing but mere material growth without a soul or human care.

The Scientific Outlook on Development as put forward by the Chinese Government extends a “development” from the transformation of the growth pattern to social development and from the economic field to every field of social life, and it also truly incorporates people’s development into the connotation of social development. As the main players in human society, people must awaken their self-respect and demand for freedom while creating wealth because people’s

emancipation does not merely mark an affluence (of course, emancipation cannot be achieved without affluence); it necessarily includes an enjoyment of rights and dignity along with affluence. The emancipation of productive forces marks not only the obtaining of power for free flow, but also the realization of a fair exchange under the law of the market and the foresight of a government, the effective protection of legitimate rights and interests, factual equality of opportunities, and an equal grant of the right to choose. Happiness and dignity in development do not come without fairness and freedom in making choices.

China's social reforms were carried out at a relatively low level of per capita income; as a huge middle class has not yet come into being, the systems of distribution and social security are imperfect in transformational societies; poverty amid economic growth and low welfare in economic prosperity have "prematurely" become social problems which must be solved by the government through institutional arrangements. Affirmably, the government must take the social welfare system as the safeguard measure for achieving common affluence rather than obtaining it as the result of common affluence. In any society, poverty occurs during wealth creation and the happiness of part of the people decreases during the realization of prosperity, which is more dreadful than widespread poverty. Under no circumstance can social welfare be considered as a luxury for economic development in our society since it is the important contents of development and an integral part of substantive freedom, and with the most moral force, social welfare tests and testifies the overall objective for social development.

Furthermore, profound social and institutional changes are required to really establish a complete and effective social welfare system, which universally benefits both rural and urban areas, and achieve that wonderful goal of "making it possible for all people to get access to education when they need to learn; payment after they provide services; support and care when they become aged; and housing where they can live" because this is an institutional issue rather than merely a shortage of resources and a policy issue. The conventional system is the institutional cause for the urban-rural dual structure in Chinese society. Under the conventional system, our society is inundated with the magnificent slogan concerning the elimination of the urban-rural gap; it is a society where urban and rural differences are solidified by the household registration system and the ownership system; the urban-rural gap gets wider, and urban and rural differences become a social normalcy which farmers cannot but accept. The primary task in this institutional change is identified as follows: really, thoroughly break the urban-rural dual structure, change the dual structure into a unitary structure with rural-urban integration, make farmers really enjoy their citizenship and the same rights as urban residents rather than treat them as second-class citizens. The urban-rural gap will not disappear if the dual structure is not broken, while social well-being cannot be truly widespread in both rural and urban areas if the urban-rural gap does not disappear. Farmers can truly enjoy dignity, rights and equality as citizens only when farmers historically "disappear" from the urban-rural dual structure.

The pursuit of affluence and prosperity is the common aspiration and goal of all people in the world. Although many goals pursued by the human race are the same ones, there are diverse routes and ways for realizing or achieving those goals and no one-size-fits-all development path and mode are available. Various countries' experiences of development can be used for reference and shared, but there is only one that is suitable for each country's own purpose, and that one is the best, the most useful and the most fruitful one.

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