Article

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Lessons from China’s Special Economic Zones

In a big speech in Shenzhen on 14 October 2020, Chinese premier Xi Xinping commemorated the 40th anniversary of China’s first-ever special economic zone (SEZ) which was a key aspect of China’s open and reform strategy. *“We’re experiencing a transformation the likes of which hasn’t happened for a century,”* Xi said in the Southern city of Shenzhen, which in 1980 was established as China’s first special economic zone.

When Deng Xiaoping became paramount leader of China in 1978, he took over an economy that suffered from numerous problems. The country was effectively stuck in the 1950s, lacked technological development and relied upon capital intensive industries. Production of consumer goods was low and basic goods such as bicycles, clothing and electric fans were rationed. China was a poor country, with little capital but a huge labour force. All industry was in government hands and State-Owned Enterprises (SOEs) had no incentive to improve efficiency. Prior efforts to develop China under communism was a disaster and with the passing of Mao Zedong in 1976, the Communist party realised it needed to change track.

In 1980, Beijing created the first Special Economic Zone (SEZ) in the coastal Guangdong and Fujian provinces, designed to attract foreign investment in low-end manufacturing by offering cheap land, labour and a variety of tax and other incentives. Success in the southern cities allowed Beijing to expand economic reforms, first to the Yangtze River Delta area and later to cities along the Yellow and Bohai Seas. For most of the last 30 years, these coastal clusters acted as Beijing's experimental (and carefully monitored) interface with the outside world. The coastal zones would ultimately generate the wealth necessary to make development of China's vast, poor interior possible. In doing so, they ensured social stability and by extension, the Communist Party's grip on power.

The SEZs were so successful that in 1993, 2000 more were introduced. These SEZ’s allowed foreign investment and technology into the country and became a new source of wealth for China. It resulted in China becoming an export-oriented economy and the world’s workshop. China’s trade and investment reforms and incentives led to a surge in Foreign Direct Investment (FDI) beginning in the early 1990s. Today Foreign Direct Investment (FDI) has greatly aided economic activity and job creation, it also allowed for foreign technical and managerial knowledge into China. This is why to this day all foreign companies in China are forced to transfer technical knowledge. The 2010 US-China Economic and Security Review Commission, which advises the US Congress on China related policy issues, confirmed this, regarding China’s strategies for developing its aviation industrial base it said: *‘Beijing’s strategies include the government’s heavy political and fiscal support for China’s aviation manufacturing industry and the requirement for foreign aviation firms to provide technology and know-how offsets in return for market access.’*

China has been able to develop its economy by opening up sections of the country to foreign companies, who could make use of China's cheap labour to produce goods cheaper than any place in the world. Today the IPhone, the world's laptops, as well as most consumer electronics are all made in China.

Whilst this economic model has brought success it's also brought many problems with it. China is dependent on foreign nations importing its cheap goods and when there is an economic crisis in the West as was the case in 2008, this effects China. It's made China dependent on the worlds energy and commodities to make these goods. China has polluted its waterways and air to keep its industry running. China is more dependent on the global economy then the US, who relies mainly on domestic consumption. This is why China has been affected so much by the trade war with the US as its so integrated into the global economy.

China's biggest failure however is that it has no alternative to the global economy when many are losing confidence in it. Global inequality, the loss of faith in democracy etc, China has nothing to offer as its country and economy was never built upon any ideology. China embraced the global economy, not for ideological purposes, but because it needed to develop otherwise its one billion population would revolt against the Communist party. This is why China suffers from the same economic problems the west has and cannot offer anything new to replace it.

Mao realised after WW2 that without becoming independent and ejecting the foreign nations that occupied China during its century of humilation it would never be able to succeed. But what Mao and his disciples failed to realise is they have embraced western culture and despite the fact they now control China if they embraced an alternative ideology they would not just succeed but would really have something to offer the world apart from commercial deals.

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