

## **"ESTABLISHING SPECIAL ECONOMIC ZONES IN CHINA"**

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After the transformation from capitalistic to socialistic mode of economy, the People's Republic of China started developing on the socialist pattern of life. The basic socialistic principle of "Each according to work" was adopted, since 1950. After economic readjustments and managerial reforms, the economy was put on the road of rapid socialistic modernization.

Collectivization of all sectors of economy, specially of agriculture and industry was geared in and the launching of First Five Year Plan (1953 - 1957), was the gigantic attempt in that direction. Private ownership of the means of production were changed to socialist ownership. By 1960's the practical achievement of policy "go all out, aim high and achieve greater, faster, better and more economic results<sup>1</sup>, was practically realized.

In 1975, after over-coming the set-backs, obstructions, ups and downs brought by Lin Biao, Gang of Four and Cultural Revolution, it was finally decided to modernize China in agriculture, industry, national defense, science and technology, with the objective to bring it at par with other developed economies of the world.

After the death of Mao Zedong and Zhou Enlai in 1976, Deng Xioping took over the reins of government and above four mentioned modernizations of the economy were emphasized upon, more vigorously. In 1978, it was decided that China may be freed of the "Splendid Isolation" brought by cultural Revolution. Chinese economy may be enhanced with the provision of opening its doors to the scientific knowledge, technological equipment and capital investment from abroad. Since 1979 and onwards rules and regulations were amended and changed to facilitate joint entrepreneurship through Chinese and foreign capital. Such policies of inducement attracted the inflow of foreign funds and investment, enabling China to establish Special Economic Zones at feasible sites and venues in China.

With this the authoritarian controlled welcome of foreign investment (in 1950 a Soviet Loan of 1.9 billion \$ and joint ventures established with Soviet Union, Poland, Czechoslovakia and other socialist countries) were deregulated and decontrolled. Foreign investors were allowed to enjoy special advantages and partial transfer of profits to the countries of their origin. Consequently, Joint Prospecting and exploitation of offshore oil exploration also took place, which promoted the cooperation between China and foreign countries.

From 1979 - 1988,<sup>2</sup> China signed 16377 foreign contracts with 39 countries of the world to gain foreign funding of 78.51 billion \$ and 60.8% of this, amounting to 47.73 billion \$ were actually used and made practicable. In its initial years foreign capital to the tune of \$ 33.04 billion inclusive of 12.1 billion \$ as direct foreign investment, 2.58 billion \$ as compensation trade plus processing and assembly pricing 2.59 billion \$, were invested.

During this period the special economic zones were established at different places in China. The following five<sup>3</sup> zones are prominent and bear special and stressing economic significance:

1. Shenzhen special Economic Zone with an Area of 327.5 sq. kilometers is located in the South of Guangdong Province, bordering with Hong Kong's port of Kowloon.
2. The Shantou special Economic Zone is located in the South East of Guangdong province. It is divided into two parts viz Longhu with an area of 22.6 sq. kilometers in the eastern suburbs and another one in Guangao Peninsula with an area of 30 sq. kilometers, in the south-east.
3. Zhubai special Economic Zone with an area of 121 sq. kilometers is located in the south of Guangdong province in the west of the estuary of the Pearl River, adjoining Macao in the South.
4. Xiamen special Economic Zone, including Xiamen Island and Gulang Islet with an area of 131 sq. kilometers is



located in the Fujian Province.

5. Hainan special Economic zone with an area of 34000 sq. kilometers is located in the province of Hainan to the south of mainland.

In addition to this, a 350 sq. kilometer Pudong Zone on the eastern bank of Huangpu River was established in Shanghai for overseas investment. It serves as a dragon head for foreign investors, since 1990. It has the vacuum to use business and trade facilities of Shanghai. Because of its conducive geographical position, it has skilled labour in abundance and solid economic foundation. It channels the economic activities of more cities and towns situated in the further upstream of Yangtze river. It has also stimulated Shanghai's economic, financial and commercial activities on international level. It may be termed as China's overall economic symbol of developmental strategy, for, it allows preferential treatment in matters of customs duties, industrial and commercial taxes, income tax, import and export licences, permission to foreign businessmen to open their own financial institutions of development and departmental stores, supermarkets and other tertiary enterprises. A stock exchange has also been opened in Shanghai, where shares and issues etc. are bought and sold. Foreign Banks have allowed to engage in RMB business. This zone started contributing more than 9.146 billion Yuan to GNP in 1992, reflecting an increase of 21.2% over the preceding year. There are more than 705 foreign enterprises, surpassing the foreign investment ceiling of 3.42 billion \$. Whereas in 1998 its total industrial value crossed the ceiling of 142.2 billion Yuan and exceeded the total out-put of Shanghai in 1989.

1400 Chinese enterprises other than Shanghai, have also invested more than 9.26 billion Yuan in this zone.

More than 72 foreign funded financial institutions and 18 banks engaged in RMB business, 28 municipalities and autonomous regions, 103 foreign trade subsidiaries, 35 leading conglomerates and enterprises have established their offices over there.

Besides above zones, 14 coastal cities<sup>4</sup>, such as Dalian, Quinhuangdao, Tianjin, Yantai, Qingdao, Liangyungang, Nantong, Shanghai, Ningbo, Weizhou, Fuzhou, Guangzhou, Zhanjiang and Beihai, have also been opened to outside world. Since 1988, this policy has also been extended to land border areas on the banks of Yangze River and inland areas also. By 1992, the State Council allowed the opening to foreign investors of 13 more border cities, counties and towns along with the capital cities of inland provinces and autonomous regions. Additionally by 1998, 15 free trade zones in major coastal port cities and 32 economic and technological and 53 new and high tech industrial development zones were also established in open coastal areas. It may be understood, that China is a country which has formed multi-level, multi-channel and omni-directional pattern of opening and integrating coastal areas with riverine, border and inland economies.

Also in 1992, on the pattern of free port areas like Dubai and other foreign countries of the world, China also opened Yangpu Development zone with an area of 30 kilometers, in the northeast of Hainan Island, on the shores of Yangpu peninsula.

After 1992, ten more cities such as Wuhu, Juijiang, Yueyang, Wuhan, Hangshi and Chongqing and four provincial capitals (Hefei, Nanchang, Changsha and Chengdu) have also established special economic zones. Even more than 27 large and medium sized cities and 1000 towns in the area, have also been permitted to enhance their economic activities as free port area. The area of Yangtze river is very rich in natural resources, thickly populated, substantially equipped with industrial and agricultural foundation, skilled personnel, scientifically and technologically qualified manpower, cheaper land with lowered labour costs. Therefore the Pudong Economic zone has exceeded economically to other such zones. This Shanghai-Pudong New zone, has made tremendous progress in absorbing foreign capital and accelerating economic development of Yangtze River valley. It has attracted local and foreign investment by leaps and bounds. There are excellent investment opportunities for trade, commerce, import - export and financial activities. A large number of projects funded



by businessmen and foreign firms from more than 60 countries and regions have flourished.

Looking at infra - structural achievements and provision, it may be found that construction costing more than 20 billion Yuan including, the mainly required Nanpu Bridge (third largest suspension bridge in the world) had been completed. Such facilities have sprang up the transactions. Pudong gas works and variety of roots of Yangzao road including bridge on Yangpao River have also been constructed. It has stimulated the economic activity of Waigaoqiao port, which has been provided with water plant, power plant, sewage and telecommunication project etc.

Besides, China has established Free Trade Areas to further facilitate and attract foreign investors with the purpose to improve internal and external economic activities. These are known as small special districts with closed access facilities, similarly available to free trade zones in other countries of the world. These areas are supervised by customs department and serve as export and foreign trade processing zones with exclusive tariff policies and special managerial methods. From 1990 to onwards, more than 13 free trade areas, such as Waigaoqiao Bonded Area of 3.28 sq. kilometers length on the mouth of Yangtze river in Shanghai, Tianjin Port Free Trade Area of 5 sq. kilometers based on the shores of Tianjin harbour in north China, Dalian Free Trade Area on the eastern section of Dalian Economic and Technological Development zone with an area of 1.25 sq. kilometers in north China, Futian Free Trade Area of 1.35 sq. kilometers in Huanggang Port in Central and in South Shenzhen, adjoining Hongkong and etc have been established in different special economic zones with the entrance of 1000 enterprises with an investment of more than 2 billion \$, and these free trade areas are mushrooming, excellently.

In addition to this, open coastal cities and open coastal economic zones, have also been established. Such zones have attracted more than 50 billion \$ with added yearly surplus values in millions of dollars. Such arrangement has encouraged old enterprises to renovate themselves and knit the previous productive methods with new ones based an more sound technological lines and enter competitive export markets in various

famous brand production, commonly required in the international market. Tianjin Economic and Technological Development zone, having 800 foreign invested enterprises are invested with more than 100 million \$, with an industrial yearly output value of 3.2 billion Yuan and export earning of \$ 140 million in 1992 and onwards.

Keeping in view the superiority of socialism over capitalism, by creating higher labour productivity, has been achieved through the establishment of special Economic zones with foreign participation. Such policy has made China to be self-reliant and self-sufficiency has been achieved, virtually, in all sectors of the economy. China's foreign trade has been bolstering day by day, both in the quality and quantity of goods exchanged through imports and exports.

### FOREIGN TRADE THROUGH SEZ

Special Economic zones have played a pivotal role in the promotion of Chinese international trade. China's international trade and commerce increased from 1.13 billion \$ in 1950 to 323.9 billion \$ in 1998, reflecting an increase by 287 times. The volume of trade increased by 15.7 times in 1998 as compared to 1978. China was rated as No. 10 in 1997 against 32nd in 1978 and presently it has gained No. 2 position after USA, even partially superseding Japan. Even in the year 2000, China attracted more than 40 billion \$ and gained the position of second largest destination of foreign investment, after USA. Prognosis are hinting China to be globally No.1 commodities producing country by 2025 after attaining 26% of the total world production against 24% by USA, candidly, shining herself in the era of globalization of commerce and trade, in new millennium.

From 1978 and onwards the structure of Chinese import and export commodities is improving constantly, through export processing zones. Its products are equal to the levels and norms prescribed by ISO (International Standard Organization). The export share in volume of primary goods, such as food, agricultural, side line products and crude oil etc reduced from 53.5% in 1978 to 11.2% in 1998, of the total export volume, whereas



the proportion of industrial products increased from 46.5% to 88.8% in the corresponding years. Export of machinery including electrical goods rose from 1.41 billion \$ in 1980 to 66.5 billion \$ in 1998. Foreign invested enterprises rose from zero to 0.1% of China's total export volume and 0.5% import volume in 1981 to 44.1% and 54.7%, respectively, in 1998,<sup>5</sup> significantly through the established special Economic zones. With the diversifying nature of China's international commercial market, the trading terms increased with 180 countries in 1980 to 228 in 1998. China's trade exchanges have expanded and enlarged after crossing the Asian region and entered USA, EU, Latin American, African and other boundaries of the world. Border and small scale trade through centralized management, has also been enhanced with more autonomy and free hand to foreign trade enterprises. Laws have been amalgamated to control foreign trade activities through customs duties, foreign exchange rates, credits and tax refunds and rebates, in similarity to foreign countries.

In 1986, China entered to GATT and conformed its foreign trade activities according to international system and practice. China also awaits its entry in WTO, to adjust itself in the area of international trade based on global rules, regulations and practices. After such accession possibly by the end of 2001, China may incorporate tax reforms. Currently Chinese Companies are levied 33% in taxes against 12% to foreign invested enterprises, under the umbrella of preferential treatment policies, for they have helped steadily inflow of foreign funds for the last two decades. With the gradual tax collection policies of China, in the year 1999-2000 taxes paid by foreigners rose by 41% to and 28 billion and reflecting 18.3% of the China's total tax revenues. In the light of Uruguay round of negotiations, China actively meets the obligations of international trade and actively participates in the activities, sponsored by the Asia - Pacific Economic co-operation (APEC) Organization, presently, consisting of 21 members, viz. China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, Newzealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, the United States of America and Vietnam etc. was established in 1989. Bilateral trade relations have been increased with USA, EU, Russia, Japan and other countries of Asia, Latin America and Africa.

After the entry in WTO, these barriers of trade are to be dismantled with a simultaneous approach to keep intact the local and foreign companies attraction to invest in China, perpetually.

In the year 1999-2000, China has signed bilateral agreements with European countries and USA to secure its entry into WTO.

### UTILIZATION OF FOREIGN CAPITAL

China has been receiving foreign capital through loans, direct foreign investment, international leasing, trade compensations, processing and assembling, joint ventures enterprises etc and has utilized it continuously and seriously for establishing ultra-modern industries in Economic processing zones. Since 1980 and onwards businessmen from more than 200 countries and regions have made investment in China both as joint ventures and individual establishments. Sino-foreign joint - ventures are mostly export oriented and fashioned cosmopolite inclusive of Commerce, finances, information, consultation, real estate etc. Finding the investment environment favourable, not only Chinese, but even the international consortiums and transnational companies have entered Chinese industry and commerce, not only in coastal but inland cities also. By 1998, direct foreign investment totalled to 4.5 billion \$, consisting of 11 billion \$ as foreign loans in more than 20000, projects. China has also approved more than 325000/ sino-foreign enterprises to operate within its limits.

In addition to this, it may be observed that China itself has also entered the field of aid and assistance to developing countries, specially in the spheres of agriculture, forestry, water conservancy, light and heavy industry, textile, food, power, machinery, chemicals, transportation, railways, road and port constructions, public health and public utility projects etc. More than 140 countries of world are Chinese aid receiving areas till 1998 and so far more than 1600 projects have been completed with Chinese aid in foreign lands.



China has also been earning through contracted project and export of manpower services. By 1998 more than 350000 Chinese labourers were working abroad and turnover earnings brought more than 10 billion \$, to Chinese exchequer. China has also been making foreign investment abroad. It amounts to 6.33 billion \$. The overseas investment companies are busy in privately-owned activities of foreign trade, real estate investment information consultancy, tourism, contracted projects and labour services, culture, education, public health and technology development.

### CONCLUSION

While concluding it may be observed that establishment of special Economic zones under open door policy and joint venture system has enabled Chinese economy to be self-reliant, gain favourable balance of payments, stimulate technical and managerial reforms and accelerate economic development by leaps and bounds.

It has bolstered the gross annual value of industrial and agricultural products, per capita income, GNP rate of growth by more than 8% per annum. China has also been able to reduce the rate of population growth to gain the optimum level of 1200 million souls per annum. Its total population of 1.2 billion souls with 56 ethnic groups, is living in harmony and peaceful unity.

According to one estimate China's GDP is growing at an annual average rate of 7.7% since 1949. Surging from 2.5% share of the World economy, China now stands at No.7 position largest economy of the world. It is 9th biggest exporter and in 1999 owned 154675 billion \$, as reserves. Rejuvenation of Hong Kong with China in 1997, has further stimulated the economy of China. It has given further impetus to Chinese GDP growth to attain the per-capita income rise to 5000 \$ in the year 2020 against 4300 \$ in 1999.

By the year 2010, GDP may grow with 7.9% yearly increase, which may solidify its economic growth to increase by

7.5% in the year 2000 against 7.8% in 2001 and 7.6% in 2002 and regularity of the same may be achieved with annual rate of 6.5% by 2010, which may quadruple by 2050 to gain the status of medium balanced developed economy of the world, based on concrete proportionate achievement with coordinated rate of boom and balance.

Bright possibilities of China and other 28 countries including Russia, Yugoslavia, Saudi Arabia, Taiwan accession to WTO (established in 1995 and consisted of 141 members) may enable Her to enhance exports and enter into more further import - export deals, on international commercial forum. Separate working grouping of WTO are negotiating to allow such accession by the end of 2001. It has great trade - related anticipations, on the China's admission, considered an Asian giant of billion person populated market. After such entry, possibilities of Free Trade Area between China and ASEAN (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) with a potential market of 1.7 billion people, may be established.

The emergence of Euro-American Free Trade Zone may stress China and Asian Economies to strengthen regional economic and financial cooperation in Asia. Therefore Chinese imminent accession to WTO may lead to great cooperation of the Chinese economy and financial market as well as closer economic coordination in the region.

It may be observed that establishment of special economic zones have enabled Chinese economy to grow more rapidly. It has facilitated China to gain in trading with USA and so far exporting 20% of its total exports. It has also attracted 8% of US investors, in its total foreign investment achievements.

Economic growth of China is being relied on increasing domestic demand, for China's savings are more than 400 billion \$. It has become one of the Central Capital Market of the world. Globalization may bring stern challenges to Chinese economy, but its steady growth pattern may withstand the challenge in coming years of economic stimulation mushrooming and fruition.



Estimates reflect that China's present GDP of one trillion \$ with its purchasing power capacity of 4 trillion \$, may cross the ceiling of 25 trillion \$ in the year 2021, on the occasion of celebrating party Centenary. With such approach China's Socialist market economy may be completed and institutionalized comprehensively. It will be a modern socialist economy with strong prosperity, inter-woven in to democratic approach in nature and format. By that time under developed and economically lagged Western China will also be brought at par with other regions of the country. It may symbolize the pattern of economy free of economic social, regional, cultural, geographical dualism and may streamline in the reduction of time - lag and cultural - lag differences.

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