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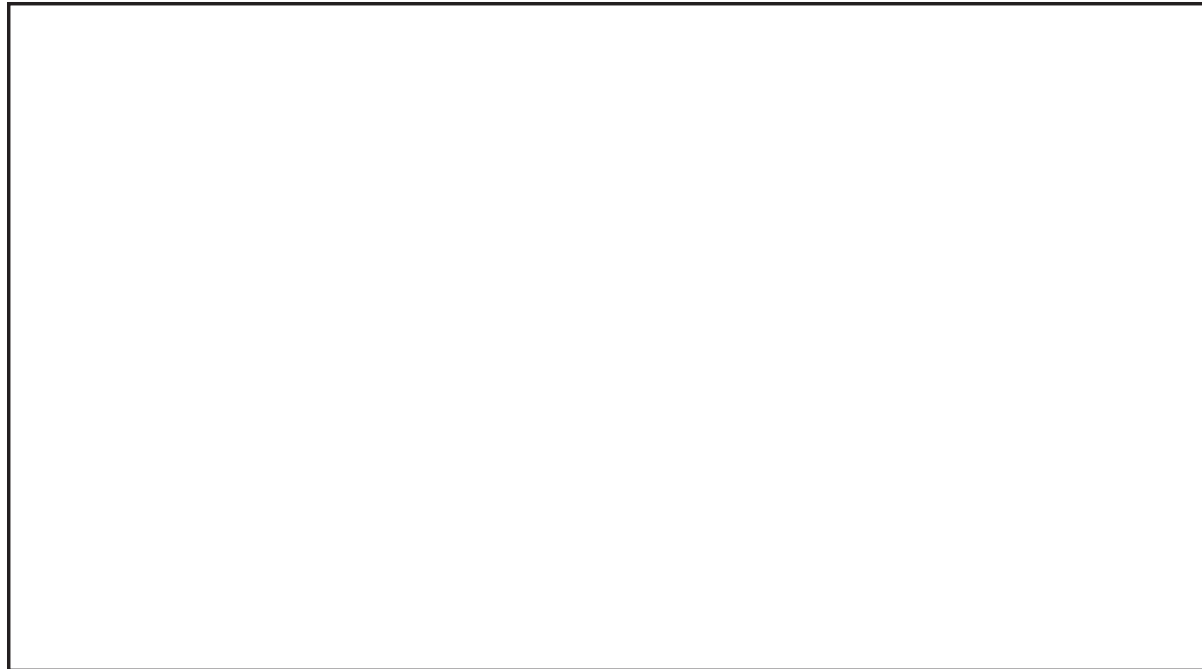
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**CHINESE ECONOMIC DEVELOPMENT ZONES**

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# INTRODUCCIÓN

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by Prof. Carolina Palma, LLM

*“The rise of China and the decline of the United States is becoming more tangible by the year”,*

*Martin JACQUES<sup>1</sup>*

*“After 50 years I must say that I still don’t understand China”,*

*Henry KISSINGER<sup>2</sup>*

## A. About China

Chinese’s history is fascinating because of the enormous changes that the country has witnessed in a considerably short period of time. China is a country that went from being one of the poorest countries in the world to having the biggest growth in a period of less than 40 years. Everyone still remembers the 1990’s when people used to speak of the greatness of Japan and how modern it became, but no one would have thought back then how developed China was going to be today. None of them would have thought of China as the first country to achieve the goals of poverty reduction at the United Nations, going from having 85 million people in poverty in 1990 to having 14.8 million in 2007<sup>3</sup>. None of them would have thought of China becoming the second largest economy in the world in 2010 surpassing Japan<sup>4</sup>.

Probably the world underestimated China.

Now in 2012, China is a growing power. According to the World Bank, China is now ranked as an upper middle-income country, having a gigantic population of 1,344,1 million people with a GDP of \$7,298,096 million<sup>5</sup> and maintaining a GDP growth of more than 9% in average over the last 10 years.

In terms of projections, it is overwhelming: according to estimates by Goldman Sachs mentioned by Martin Jacques, the three largest economies in the world by 2050 will be

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1 In: The National Interest, July 7<sup>th</sup>, 2011

2 Such statement was pronounced by Mr. KISSINGER himself at the closing ceremony “China Symposium” by JP Morgan on June 12<sup>th</sup>, 2012

3 Source: UN report compiled by the Chinese Ministry of Foreign Relations, 2008

4 World Bank: <http://www.worldbank.org/en/country/china/overview>

5 [http://data.worldbank.org/country/china#cp\\_wdi](http://data.worldbank.org/country/china#cp_wdi)

China, followed by the United States and India; then Brazil, Mexico, Russia and Indonesia<sup>6</sup>. Only the European countries of the UK and Germany feature in the top ten. Similar results are found by PricewaterhouseCoopers and China's leap gets even bigger on projections for the next 50 years if it continues growing at a rate of 9% like today or even if it slows down to 8% or 7.5%<sup>7</sup>. Some economists like Fogel estimate that in 2040 the Chinese economy will reach \$123 trillion, three times the economic output of the entire globe in 2000 and *per capita* income will be of \$85,000 more than double of the European Union, much higher than that of India and Japan. Fogel goes even further than Jacques saying that this super rich new country will come sooner than expected because of a series of economic calculations<sup>8</sup>.

We would like to stress that these numbers do not mean that China will become a developed country; on the contrary, it will be the first time in history that a *developing* country will dominate the world's economy. Naturally, it means that the dominant power will also have the problems that a developing country encounters, such as: overcoming social inequality, resolving the income gap between higher and lower classes, inflation, balancing the city *versus* rural areas, creating better labor conditions, improving the population's education, creating a more harmonious society and of course facing environment obstacles. China will become an "imperfect" ruling power, which we have not experienced before in world's history.

Now, in our view, there are many reasons why China has been able to achieve such growth, and we really like the description made by Wang Huiyao, in the sense that:

- 1.China has a powerful, effective and efficient government. This is very different from western development models. In China, the government has a strong intervention in the country's activity, and it controls its economy and resources. Moreover, the People's Republic of China (PRC) was founded in 1949 with the idea of putting together a civilization<sup>9</sup> of many ethnical groups into one political system, representing a hard task that could only be done with strong government.
- 2.Opening-Up and learning from other models. We will be referring to this in our research regarding Development Zones. China has been carefully observing how other countries have grown and learned from them, which translated into a slow and planned opening up. Many countries in Latin America have tried to skip phases and privatize all at once.

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6 Quoted in JACQUES, found in: WILSON and STUPNYTSKA, The N1-II: More Than an Acronym, Goldman Sachs Global Economic Papers, March 2007. Also: HAWSWORTH and COOKSON, The World in 2050 – Beyond the BRICs: a broader look at emerging market growth prospects, PricewaterhouseCoopers, March 2008

7 Quoted in: JACQUES Martin, When China Rules the World, New York, 2009, p. 1 and following. To clarify, Chinese's economy has decelerated in 2012 to 7.5% as a result of the world's economic crisis, but it is still much higher than in many developed countries

8 FOGEL, China's Estimated Economy by the Year 2040: Be warned. In: China in the Next 30 Years. Central Compliance & Translation Press, Beijing, 2011

9 I strongly believe in Martin Jacques' idea of Civilization as opposed to Nation. For more information see: JACQUES Martin, op cit, p. 1 and following. Also mentioned in the book: KISSINGER Henry, On China. The Penguin Press, London 2011, p. 19 and following

3. Continuous improvement. There is not a fixed pattern for developing zones, but there is a continuous examination and adaptation of different models .
4. Pragmatic action. The government is capable of taking quick pragmatic measures (for example during the recent world's financial crisis).
5. Gradual development and stability. The Chinese system is driven by one value: economic development. This has been a stable objective throughout the last years.
6. Globalization opportunities. China attracted large-scale foreign companies. We will also talk about this in our research of how Development Zones attract a huge amount of global companies .
7. Population dividend and export oriented economy. It is possible in China to get cheap labor. But cheap labor should not be seen as negative; rather an opportunity for the population who had no income before and now has the possibility to work. This is an advantage but also a challenge for Chinese government to improve the life quality of its people. In our summary, we will stress that a more educated population will be the only way towards the modernization of Chinese Development Zones.

I would also add an 8th reason:

8. Political focus. Latin American countries have spent decades on changing ideologies and political questioning, while China never loses focus on its main goal: the country's development. When you have to feed 4 billion people then other political questions may seem irrelevant.

Certainly, these characteristics may seem a bit simplistic when one thinks about the time and history towards these achievements, but these characteristics are also crucial in understanding the strength of the Development Zones of China representing a growth model rather than a separate initiative. Development Zones have been carefully planned since the fifties with the establishment of the first special economic zones like we will see in our research and they are an example of a strong, goal driven economy and a process of hard work<sup>12</sup>.

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10 Chinese scholars are very critic about various models and we can find enough literature in this sense

11 There are some opinions stating the companies are actually moving to other countries in Asia because labor in China is getting more expensive. However, the Chinese already have the expertise in those industries and the process of closing a company and moving is difficult, so I don't share those views

12 Certainly it is important to note that Development Zones alone are not the only reason why China has been so successful in growing. In this sense, we agree with HÖLKEMEYER who states that the Chinese model cannot be seen independently or in abstract but that it is part of a whole system. HÖLKEMEYER also mentions some important notes about LUHMANN's system theory and its analogy to Chinese's economic model that we think are of great consideration. HÖLKEMEYER Patricia, *El Proceso de Transición con Alto Crecimiento Económico en China*. Serie de Divulgación Económica, IIICE 01, 2011

## **B. The study on Chinese Development Zones**

In this joint research, we will study Chinese Development Zones precisely for their key role in Chinese's economy.

In our research we will give an overview on Chinese economic history and we will divide it in periods, starting by the idea of a planned economy with its subsequent reforms: giving resources to the individuals in rural and urban areas, following a series of state driven measures such as fiscal, financial, legal, corporate and in currency. Then on a second period, we will study some deep reforms in circulation, labor, real estate and financial markets, and the achievement of a trade surplus resulting in huge foreign exchange and state monetary reserves. Afterwards we find a third period representing improvement in markets and scientific knowledge.

In a second chapter we would like to address the establishment of Chinese Economic Development Zones from its start with the idea of economic special zones as a strategic move. Then, we come up with a proposed Classification of Chinese Development Zones, by level of approval and by function. By level of approval, they can be classified in state-level development zones and provincial-level development zones. By function, the name "development zone" in China is a general term for: "economic special zone", "economic and technological development zone", "high-tech development zone", "bonded zone", "border economic cooperation zone", "tourist holiday resort" and "State-level export-processing zones".

And then when we get to know how Development zones work and how they can be classified, we will analyze some of their major achievements in: infrastructure, output value, industrial-agglomeration effect, international influence, institutional innovation, and promotion of coordinated urban-rural development and harmonious economic and social development.

Finally, as analyzed by the Chinese "12<sup>th</sup> Five-Year Plan for National Economic and Social Development" we study some of the future objectives of the zones, such as: to promote restructuring of key manufacturing industries, to develop modern industrial clusters, and to take the lead in establishing industrial technology innovation and service platforms, to develop strategic emerging industries, to develop productive service industry, to develop high-tech service enterprises and famous brands, to coordinate urban-rural development, to develop in a scientific and sustainable way, and to develop a "Go Global" strategy.

As part of the Second Unit, we will study two Development Zones with the purpose of understanding better their mechanisms: The Chongqing Liangjiang New Area, which moved from being a state-level to a municipal Development Zone; we will view its objectives and challenges as well. Then we will analyze the Hainan Yangpu Economic Development Zone, which we believe could have similar characteristics to the zones proposed in Costa Rica. Hainan has a similar climate, it has been promoted as a tourism hub and it is still a

developing zone that has similar challenges in terms of infrastructure, improving the ports, industry, labor, and the need for innovation and environment protection.

Also, in those two examples, we will take a look at the main administrative models of development zones and we will give our input for a better transformation and integration of an inclusive, more pragmatic model with less or better intervention.

Regarding the challenges, we will cite some of the difficulties, such as how to keep evolving to a better model in administrative terms, how to upgrade the industries within a development zone, how to expand better, and of course we will stress how important it is to integrate a better harmonious and environment friendly policy.

We strongly believe that the only way in which China will continue rising towards becoming a ruling power is to be a greener economy, which is already been made at a certain level since 2005 with the national plans for renewable energy, and the measures adopted at administrative legal and economic levels to achieve a 20% cut of carbon emission in the Five Year Plans in China. In this sense, some authors have expressed that the “Green Vision is the Third Generation of Chinese’s Modernization”<sup>13</sup> and that more and better steps towards such goal should be met and there are many concrete ideas and measures, such beliefs agree that clean energy should be 100% of Chinese’s energy supply and not only a part of it.

### **C. Importance of Chinese Development Zones for Latin America and especially for Costa Rica**

Like Sir Francis Bacon (1597) said “knowledge is power”, and the path towards a better knowledge of Chinese’s history, economics and economic strategy will help us understand why it is on the rise. In our view, this represents a special interest for Latin America because like China, Latin America is also on the rise accounting for some of the biggest growth in decades. And together China and Latin America are regions that complement each other, China having a very strong, decided and well oriented state power, and on the other hand, Latin America possessing the creative drive and natural resources to move forward but facing many state<sup>14</sup> problems.

Chinese Development Zones have been a result of time, and this is exactly what we need to understand in Latin American countries. We have been putting our efforts in finding the “ultimate plan” or “the ultimate strategy” to achieve development and shortening the income gap; however, there is not such fast cure, but there is a process that should be carefully planned and should not be an object of party’s ideologies or social movements. It should represent a clear path that any government should stick to in order to achieve the desired development.

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13 HU An-gang, Green Vision: China’s Third Generation of modernization. In: China in the Next 30 Years. Central Compliance & Translation Press, Beijing, 2011

14 Failed state is not meant in the international legal term, but in the idea of states with political crisis deriving in difficult governability

#### **D. About the research team**

Lastly, I would like to express some words to the research team who participated on this project. You will note that most of the bibliography is in Mandarin Chinese, and the research was possible only with the help and close cooperation of Chinese origin researchers, translators and a lot of close work. I believe that this represents the originality of this work: never before have our English-speaking researchers have had access to such a big *gama* of Chinese bibliography and now they are able to read with Chinese eyes. It is also why our work may be seen as partial and lacking some of the western critics to the Chinese model, it is because our objective is to UNDERSTAND better how Chinese Developing Zones work, from an insider's perspective and getting the information from the primary sources, which are the Chinese Government documents on the establishment of the zones.

Moreover, the approval of this research has also been a process, starting from the signature of the Agreement between the Institute of Research in Economic Sciences of the University of Costa Rica and the Institute of Latin American Studies at the Chinese Academy of Social Sciences. Then, according to this agreement, both sides had to prioritize research themes and at the end, the decision was taken regarding Chinese Developing Zones. However, it is the first step in a better understanding of each side's economy and we expect to be continuing the research on the other partner: Costa Rica, where Costa Rican development zones will be studied by the Chinese counterpart. This will be an example of a true exchange between researchers and professors that we hope results in much more academic exchange and much more literature to be available on economic topics.

# FIRST UNIT

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## PROCESS FOR ESTABLISHMENT OF ECONOMIC DEVELOPMENT ZONES

*“The task of the leader is to get his people from where they are to where they have not been”.*

*Henry KISSINGER<sup>15</sup>*

### CHAPTER I: Background Economic Policies

#### Section I: Introduction and Periods

The fall of the “Gang of Four” symbolized the end of the “Cultural Revolution” decade and the beginning of a new period in Chinese History. The model of highly centralized planned economy with the former Soviet model as a blueprint came to a critical point for urgent innovation but due to the restriction of ideology, the Chinese Communist Party had not resumed a realistic-ideological line until the Third Plenary Session of the Eleventh Central Committee in 1978<sup>16</sup>. This practical attitude provided an ideological basis for China’s economic reform and opening-up. An industrial system focusing on heavy industries and infrastructure construction (mainly irrigation and water conservancy constructions) developed since the founding of the People’s Republic of China and later became the basis of China’s reform and opening-up.

In the 1960s, relations between China and the Soviet Union deteriorated. In the 1970s, China normalized relations with the United States, France and other Western countries, providing a broader and friendlier international environment for China’s reform and opening-up.

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<sup>15</sup> Henry KISSINGER, *On China*. The Penguin Press, London 2011

<sup>16</sup> The Third Plenary Session of the 11<sup>th</sup> CPC Central Committee (Chinese: 十一届三中全会) was a meeting of the Central Committee of the Communist Party of China held in Beijing, China, from December 18<sup>th</sup> to December 22<sup>nd</sup>, 1978. It marked the beginning of the "Reform and Opening Up" policy, and is widely seen as the moment when Deng Xiaoping became paramount leader of China replacing Hua Guofeng, who remained nominal Chairman of the Communist Party of China until 1981

<sup>17</sup> Also named The Four Asian Tigers, is a term used in reference to the highly developed economies of Hong Kong, Singapore, South Korea and Taiwan. These nations and areas were notable for maintaining exceptionally high growth rates (in excess of 7 percent a year) and rapid industrialization between the early 1960s and 1990s. By the 21st century, all four have developed into advanced and high-income economies, specializing in areas of competitive advantage



Moreover, the takeoff of “Asia’s Four Little Dragons”<sup>17</sup> and the frequent visits of Chinese leaders to foreign countries confirmed China’s determination in reform and opening-up. This materialized when the Seventeenth Party Congress of the CPC Central Committee summarized the goal of reform and opening-up into “China’s historic transformation from a highly centralized planned economy to a robust socialist market economy, and from a closed or semi-closed state to all-round opening-up”<sup>18</sup>.

In the past 30 years, this goal has been embodied in all economic policies in every period of China and it became a cardinal line of the history of contemporary Chinese economy.

Since then, China has set many economic measures, meaning, operative norms formulated by Chinese government or Chinese Communist Party in order to achieve political and economic goals, or guide and adjust economic activities. Such economic policies include: economic and social development strategies and guidelines, fiscal and tax policies, monetary policies, trade policies and income distribution policies. Among them, economic and social development strategies and guidelines are long-term and strategic, and mainly manifested as “Five-Year Plans”<sup>19</sup>, while fiscal, tax, monetary, financial, trade and income distribution policies are pertinent and short-term and are reflected in laws, regulations, resolutions, decisions, opinions and other Party and government documents. As we will see below, the grounds of Chinese Development Zones is reflected in the Five Year Plans.

Since 1978, focusing on achieving the goal of a socialist market economy and all-round

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18 Before 1978, China followed the ex- Soviet Union’s economic style by conducting a highly centralized planned economy whereas the government’s (led by the Party) plans played a fundamental role in allocating resources to all the economic sectors instead of the market forces. At the same time, China was forced by the Cold War to maintain its doors closed to the outside world, mainly western developed countries. As early as in the late 1960s, the Planned Economy’s weaknesses started to emerge. And in fact, this highly centralized planning system became exhausted (generalized poverty and low productivity for instance) in the 1970s, but no reform could be done until 1978 when the political change took place (when Deng Xiaoping became leader). Inspired by experiences of developed countries, especially by the Asia’s Four Little Dragons, China decided to gradually liberalize its economy both internally and externally in order to let the market forces play the fundamental role of allocating resources and to integrate China into the globalized world economy. On October 15<sup>th</sup>, 2007, on eve of the 30<sup>th</sup> Anniversary of the reform and opening-up, the Seventeenth Party Congress of the CPC Central Committee was celebrated in Beijing to review the experience of 30 years of the reform and opening-up so as to clarify the goals and tasks for the new historic era

19 The five-year plans of People’s Republic of China (PRC) (simplified Chinese: 中国五年计划traditional Chinese:中國五年計劃 pinyin: Zhōngguó Wūnián Jìhuà) are a series of social and economic development initiatives. The Communist Party of China (CPC) through the plenary sessions of the Central Committee and national congresses shape the economy through such plans. The party plays a leading role in establishing the foundations and principles of Chinese communism, mapping strategies for economic development, setting growth targets, and launching reforms. Planning is a key characteristic of centralized, communist economies, and one plan established for the entire country normally contains detailed economic development guidelines for all its regions. In order to more accurately reflect China’s transition from a soviet-style planned economy to a socialist market economy (or socialism with Chinese characteristics), the name of the 11th five-year program (approved by the Fifth Plenary Session of the Sixteenth CPC Central Committee on October 11<sup>th</sup>, 2005 for 2006 to 2010) was changed to “guideline” (Chinese: 规划 pinyin: guīhuà) instead of “plan” (Chinese: 计划 ; pinyin: jìhuà)



opening-up, and in response to the concrete needs in different periods during the advancement of reform and opening-up, the Chinese government formulated and implemented corresponding economic policies.

For this article's purposes, we will divide the 33 years' reform and opening-up from 1978 to 2011 into different periods, introducing briefly the reform progress in each period.

At the present, Chinese academic circles have not reached a consensus on how to properly divide the Chinese contemporary history 1978 into periods<sup>20</sup> because as people adopt different standards, its division in periods is different, too. Therefore, we will adopt the concept of studying and dividing historical periods from the perspective of economic and social development goals and models as follows:

Period one: From 1978 to 1992, it is a period in which China attempted to adopt economic plans and market adjustment within the framework of a planned economy.

Period two: From 1992 to 2003, it is a period in which China sets the establishment of a preliminary socialist market economic system.

Phase three: From 2003 until now, it is a period in which China begins to pay attention to the coordinated and balanced development of economy and society, the scientific development of economy, and the harmonious development of the society on the precondition that a socialist market economy had been preliminarily established.

## **I.1 Period 1978-1992: dominance of a planned economy and market adjustment<sup>21</sup>**

This period was a budding stage of the Chinese economic reform and opening up, and it was also a process in which both the Chinese Communist Party and the Chinese government

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20 China's contemporary history starts from 1949 with the founding of the Peoples' Republic of China. To facilitate studies and academic research, Chinese historians, like their colleagues of many other countries, divide the time span since 1949 to the present into certain historical periods according to various criteria. Up to now there is an agreement on the division of the years since 1949 to 1978 but no consensus has been reached on how to divide the time since 1978 to the present

21 This section will merely describe those periods in order to come to the historic time of founding of Chinese Development Zones, which is our study object. It won't analyze or criticize the opening – up process. However, on this subject an in- depth research can be found in HÖLKEMEYER, p. 18 and following

22 The National Congress of the Communist Party of China (simplified Chinese: 中国共产党全国代表大会; traditional Chinese: 中國共產黨全國代表大會, pinyin: Zhōngguó Gòngchǎndǎng Quánguó Dàibiǎo Dàhui; literally: Chinese Communist Party National Representatives Congress) is a party congress that is held about once every five years. The National Congress is theoretically the highest body within the Communist Party of China, but in practice, important decisions are made before the meeting. Since 1987 the National Congress has always been held in the months of October or November. The venue for the

explored reform possibilities. From the establishment of a “planned market economy on the basis of public ownership” proposed at the Third Plenary Session of the Eleventh Central Committee of the CPC in 1984 to the goal of “establishing a socialist market economic system” determined at the Fourteenth Party Congress in 1992<sup>22</sup>, the Chinese Communist Party did a major qualitative change in the understanding of its economic system. This change of ideology unfolded the process of Chinese economic reform, which focused on the following aspects:

**1. Decentralization of power and transfer of profits in rural and urban areas:** The reform of the Chinese economic system started with “decentralization of power and transfer of profits”. This change was first reflected by “contract system” with “remuneration linked to productivity” in the rural areas. Under this system, the farmer would sign a contract with their corresponding collective organization and such contract established rights and obligations. Within this framework, farmers were able to arrange their own productivity and the production quota agreed in the contract would give the farmer an incentive to do his best and to produce as much as possible because once they paid the agricultural tax (abolished in 2006), the production belong to the farmer who could sell his production at market prices. By early 1983, 93% of the production teams in China had adopted such “contract system”. On this basis, China revived rural industry and commerce through a series of policies for decentralization of power and invigoration, and farmers were entitled to the rights to independently choose occupations and freely dispose farm products in the market. These policies not only established and cultivated farming markets and market players but

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event, beginning in 1956, has always been the Great Hall of the People in Beijing. In the past two decades the National Congress of the CPC has been pivotal at least as a symbolic part of leadership changes in the People's Republic of China, and therefore has gained international media attention. The Fourteenth Party Congress was held in 1992 when China's reform and opening-up and modernization drive stepped into a new era. In the meeting, Jiang Zemin, on behalf of the 13th CPC Central Committee, delivered a report titled “Accelerating the Reform, the opening to the Outside World and the Drive for Modernization, in order to Achieve Greater Successes in Building Socialism with Chinese Characteristics”. The meeting acknowledged the substantial achievements made in reforming and opening-up as well as in the modernization drive since the end of 1978, and it systematically summarized the practices and experiences over the previous 14 years, made a brilliant exposition of Deng Xiaoping Theory of building socialism with Chinese characteristics, and outlined the major tasks in the reform and economic and social development in the 1990s. It declared that the goal of China's economic restructuring was to establish a socialist market economic system.

23 The Document No. 1 of the Central Committee originally referred to the first document issued by the Central Committee at the beginning of every year. It has become the specific term for the documents on rural and agricultural issues, demonstrating the great importance attached by the government to the issues concerning agriculture, countryside and farmers (三农问题 in simplified Chinese or 三農問題 in traditional Chinese, sān nōng wè tí in Pinyin). During the period from 1982 to 1986, in five consecutive years, the Central Committee made agriculture, countryside and farmers themes of every year's opening document and therefore mapping concrete layouts for rural reform and agricultural development. Throughout 2004 to 2009, these issues again topped the six yearly No. 1 documents, emphasizing that they are the priority of the priorities for China's modernization. The latest No.1 document (or the ninth) was issued on February 1<sup>st</sup>, 2012. It is, however, the first No. 1 document focusing on agricultural science and technology

also created conditions for the development of labor factor markets. Chinese policies for rural economic reform are mainly reflected by the five No. 1 documents issued by the Central Government in the period 1982 to 1986<sup>23</sup>. In urban areas, state-owned enterprises (or SOEs) mainly experienced a reform process from “decentralization of power and transfer of profits” to “responsibility system”. To tackle the problems of “egalitarian practice” and “excessive centralization of power” of state-owned enterprises, in 1978 the government granted state-owned enterprises with the right of production and operation, the property right, the right of materials, the right of foreign trade, the right of recruitment, the right of reward and punishment and the right to set up organizations and appoint and remove cadres and other rights through a series of “regulations”, “measures” and “opinions”. Meanwhile, through increasing the portion of profit retained by enterprises and substituting of tax payment for profit delivery, the government enlarged the transfer of profits to state-owned enterprises. Following the generalization of “decentralization of power and transfer of profits” reform among state-owned enterprises, a responsibility system of management under contract was proposed by some enterprises and became a state-owned enterprise reform model with Chinese characteristics in that period<sup>24</sup>.

**2. Initiation of fiscal reform:** In order to coordinate with rural and urban reform and release the vitality of countryside and state-owned enterprises, the enthusiasm of local governments needed to be mobilized, too. For this reason, in 1980 the fiscal system underwent the reform of “division of revenue and expenditure between the central and local government and contracts at different levels”. This reform stimulated the enthusiasm of local governments for wealth management and increased the right of local governments in fiscal revenue and expenditures.

**3. Emerging of macro-control:** In this period, the economic operation mechanism underwent a transformation, first from “dominance of a planned economy and supplement of market adjustment”, then to “the government adjusts the market and the market guides the corporations” and finally to a “socialist market-economic operating mechanism”. Whereas, the market mechanism played an increasing role in resource allocation and then a macro-control mechanism of indirect government intervention in economic activities emerged.

**4. Start of the financial reform:** Finance is the blood vessel of economic operation. Without financial reform, economic reform would have become impossible. During this period, when financial reform initiated, banks were no longer the accountants and cashiers of the government but they gradually became major players of the financial market. The People’s Bank of China no longer engaged in commercial operation and became a central bank in a real sense. It was specifically responsible for national macro-financial policies, and maintained currency stability. Non-bank financial institutions were established one after another. Stock, bond and other capital markets started from scratch, and became important components of the Chinese financial market.

**5. The reform of circulation system achieved initial success:** Much change had taken place in the circulation system. First, in the aspect of resource allocation, the mandatory plans

under the system of a planned economy gradually gave way to a market mechanism based on demand-supply relation; unitary pricing by the government began to be replaced with guiding price and free market price, and price signals that steer the market supply-demand mechanism began to form. Meanwhile, the varieties of producer goods under unified control and the varieties of price control under the planned economy were both reduced, including agricultural products and industrial products.

Second, the markets of labor, land and other factors took shape. Paid land use by private enterprises and joint venture enterprises and “the first auction in Shenzhen”<sup>25</sup> challenged the existing land system. In need of reform, the First Session of the Seventh National People’s Congress officially deliberated and adopted the Amendments to the Constitution in 1988 to allow transfer of land use right according to the law and later on, a series of laws and regulations were introduced. Finally, in 1991, a land market was established. In 1992, under the influence of “booming development zones” and “booming real estate”<sup>26</sup>, land and real estate markets showed unprecedented prosperity.

**6. Opening-up of the coastal areas in eastern and southern China:** Economic reform and opening-up were synchronous. The government began to encourage and support the earning of foreign exchange through export in multiple ways, initiatively by introducing advanced technologies, by using foreign capital in multiple channels and multiple forms, and these measures quickly enlarged the scale of capital introduction. The concept of “no internal debts and no foreign debts” was changed and China began to actively use foreign capital and the dominance of indirect utilization changed to the dominance of direct utilization<sup>27</sup>. The biggest symbol of opening-up was the establishment of economic special zones. The particularity was that enterprises in the zones were given greater autonomy and were created under different legal schemes. For example, in economic special zones, there are many Sino-

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25 China applies a system of public ownership to the land. As a general rule, land in urban areas is owned by the State and land in rural areas is owned by ‘collectives’ (rural collective economic organizations) and can only be used for agricultural purposes. The State retains ownership of state-owned land at all times. An investor in such land only acquires the “use” of that land for a certain period - known as “Land Use Rights” (LURs). It is important to note that LURs are only given to state-owned land, not collectively-owned land. Before the reform, LURs were “allocated” by land authorities on a quasi-free basis. In November 1981, the Shen Zhen Special Economic Zone took the lead in charging some LURs. Later in July 1987, the land ownership and LURs could be separated, and the city’s government decided to commercialize the LURs by charging land use compensation either through transferring, leasing or selling them. On September 8th of that year, the government granted the first LUR to a lot of state owned land on the basis of relevant compensation. Three days later, the second LUR was granted through bidding. And on December 1st of the same year, the third LUR was granted through auction, the first land use right auction in new China’s history.

26 In 1992, Deng Xiaoping’s Southern Tour Speech ignited euphoric expectations for the national economy. From 1992 to 1993, China experienced its first real estate boom (in other words, its first real estate bubble). Development zones including many zones that were sub-qualified sprang up in large numbers

27 Direct utilization refers to the foreign direct investment (or FDI), while indirect utilization means various types of credit from channels such as foreign banks, international financial organizations and foreign governments etc. and financing resources through the international capital market

foreign equity joint ventures, Sino-foreign contractual joint ventures and wholly foreign funded enterprises. The economic special zones not only played a role in attracting foreign capital and introducing technologies but also drew China closer to the world economy and became testing grounds and daring vanguards of market-based reform.

**7. Rise of non-public economic entities:** The above reform changed China's economic and social structures. With the deepening of the reform, various markets and market players grew up. The relationship of state-owned enterprises with the State improved continuously in the course of exploration. Non-public economic entities kept emerging. For example, rural enterprises rose out of expectation, individual economy and private economy kept growing and expanding under the drive of brisk demands and the vigorous support of government policies, and foreign investment enterprises kept developing.

## **I.2 Period 1992-2002: clearness on the goal of the reform and establishment of a market economy**

After the exploration in the first period, the Fourteenth Party Congress held in 1992 stated that "the goal of the reform of Chinese economic system is to establish a socialist market economic system"<sup>28</sup>, and pointed out the direction for the Chinese economic reform. In November 1993, the Third Plenary Session of the Fourteenth Party Congress adopted the Decision on Some Issues concerning the Improvement of the Socialist Market Economy, pointing out a road for the reform in the future. As a result, a series of institutional reforms in tax, finance, foreign exchange, foreign trade, plan and investment were deepened continuously from 1992. Meanwhile, the relation among government, market and enterprises improved and the macro-control system adaptable to the establishment of a socialist market economic system gradually improved.

1997 is a symbolic year: after the reform in the previous stage, Chinese economy became a big buyer market having a seller market with insufficient supply, the results of reform were getting more obvious, and China became more determined to establish a market economy. However, the Asian financial crisis breaking out in 1997 and 1998 generated a negative impact on the Chinese economy and the macro-control ability of the government was challenged. For this reason, the period may be divided into two stages with 1997 as a boundary. The focus of the reform in the first stage is the establishment of labor and real

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28 Meaning liberalizing the economy but with socialist characteristics

29 To counteract the negative impacts in terms of exports, FDI and employment of the financial crisis in south-eastern Asia at the turn of 1997 and 1998, the Chinese government adopted various measures such as restructuring the exports, diversifying export markets, recovering favorable policies towards foreign investment and lowering interest rates etc. In face of the financial crisis, the government realized the importance of improving the macro-control ability

estate markets and the deepening of financial reform. The focus of the reform in the second stage is the transformation of state-owned enterprises, the implementation of regional development strategies and the enhancement of government's macro-control ability as measures to fight the Asian crisis<sup>29</sup>.

### (1) The reform of the circulation system deepened

- Land and real estate markets grew rapidly:** In the period from 1992 to 1998, with the improvement of a land-related legal system, the land market grew swiftly. In July 1994, the Law of the People's Republic of China on Urban Real Estate Administration<sup>30</sup> was promulgated and enforced. Hence Chinese real estate industry got on the track of "there are laws to abide by". In 1995, the adjustment to real estate market was initiated, and the development focus was shifted from "booming development zones" to the construction of ordinary residences for urban residents. In order to regulate the land market, the Land Administration Law of the People's Republic of China was revised in 1997. In 1998, the Land Administration Law of the People's Republic of China came into effect. In the second half of 1998, the era of welfare-oriented public housing distribution came to an end and the *ratio* of commodity houses bought by residents was on the rise. By 2002, real estate became a main force pushing up China's GDP.

**The labor market was officially formed:** The institutional reform in urban and rural areas resulted in a change in the employment mechanism: The concept of allocating resources through market interpreted the meaning of labor force as a factor. From 1986, the State Council promulgated a series of regulatory documents, providing a legal basis for the development of the labor market and therefore the status of laborers and employers as the players of the labor market was established. In 1999, the promulgation of the Regulations on Unemployment Insurance by the State Council<sup>31</sup> marked the formal formation of diversified employees and market-based employment.

**2. The financial market took shape:** After the initiation of financial reform in the first period, stock, bond and other capital markets had developed by leaps and bounds since 1992. The monetary market was regulated in the course of continuous expansion. While state-owned specialized banks went through the commercial reform in 1994, three policy banks including the Export-Import Bank of China, China Development Bank and Agricultural Development Bank of China were established. In the meanwhile, comprehensive, specialized, national or local banks were established. In the foreign exchange market, the unification of exchange rates was made in 1994, i.e.: nationwide uniform flexible exchange rates were formed. In 1996, free exchange of Renminbi under recurrent items was achieved and therefore a market-based financial system was preliminarily established.

30 It was adopted by the 8th meeting of the Standing Committee of the 8<sup>th</sup> National People's Congress on July 5<sup>th</sup>, 1994, promulgated on the same day. It came into force on January the 1<sup>st</sup>, 1995. It bears no number

31 Executive Decree No. 258 of 1999, announced on January 22<sup>nd</sup>

32 Executive Decree No. 259, promulgated on January 22<sup>nd</sup>, 1999 by the State Council. It entered into force on the same day



**3. Macro-control met initial challenges:** In 1997, the age of a seller market ended, the supply-constrained shortage economy became a history, and China achieved the goal of doubling the *per capita* income of Chinese people and entered a moderately prosperous society<sup>33</sup>. Chinese economy was becoming increasingly international and the imperfect macro-control mechanism experienced some challenges. The Chinese government adopted an economic policy of “expanding domestic demand” and “guarding against financial risk”, including a proactive fiscal policy and a robust monetary policy as well as other relevant measures. In 2001, the success of the Olympics bid fueled investment and made positive contribution to the expansion of domestic demand.

**4. Inter-regional balance was under the spotlight:** In 1999, in order to achieve balanced development among regions, narrow the gap between the coastal areas and inland areas, particularly between the east and the west, and expand domestic demand, China introduced the Strategy for Large-scale Development of the Western Region and formulated related policies.

**5. A tide of opening-up came:** In the second period, China further increased its efforts in opening-up. In 2001, China officially became a member of WTO<sup>34</sup>, symbolizing the close connection of the Chinese economy with the globalized world economy.

**6. Modern companies were ready to come out:** Establishing a modern corporate system and comprehensively implementing the reform of the enterprise property-right system was the focus of the institutional reform in the second phase. With the launch of a “Company Law” of the People’s Republic of China promulgated in 1993<sup>35</sup>, the reform of state-owned enterprises entered a critical stage. According to the Company Law, if a state-owned enterprise is to be reorganized into a company, with all of its assets owned by it as a legal person shall operate autonomously and be responsible for its profit and loss in accordance with the law. It must, in accordance with the conditions and requirements prescribed by national statutes and administrative regulations, change its operating mechanism, and orderly identify and verify its assets, determine the respective owners of the property rights therein, settle its creditor’s rights and liabilities, conduct assets appraisal, and set up standard internal management organs. The way of transformation of large and eligible medium state owned enterprises had to do with shareholding: The medium and small enterprises without the conditions for the shareholding reform could adopt a management under contract or management under lease. They could also be reorganized into a joint stock cooperative system, or could be sold to collectives or individuals. By 2002, many state-owned enterprises completed such institutional reform.

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33 Source

34 Protocol of Accession for the People’s Republic of China

In: [http://www.wto.org/english/thewto\\_e/acc\\_e/protocols\\_acc\\_membership\\_e.htm#china](http://www.wto.org/english/thewto_e/acc_e/protocols_acc_membership_e.htm#china)

35 Company Law of the People’s Republic of China promulgated in 1993. Adopted at the Fifth Session of the Standing Committee of the Eighth National People’s Congress on December 29<sup>th</sup>, 1993, it is the first company law of the People’s Republic of China. It has been revised in 3 occasions, in 1999, 2004 and 2005. The 2005 version is currently valid. It bears no number

### I.3 2002 to now: the market economy improved gradually and scientific development enjoyed popular support

Following the continuous deepening of the reform, industrialization and urbanization moved fast, and the Chinese Communist Party and Chinese government achieved the coordinated and balanced development between economy and society, man and nature, and rural and urban areas, which was a necessary condition for the achievement of sustainable development. The development concepts were renewed and on this basis, scientific development strategies were established.

Some reform highlights in this period were: rural reform was further deepened and the issues of “agriculture, the countryside and farmers” drew great attention; macro-control became more mature, indicating that the market economic system was getting better. Also, the Chinese government shifted from the pursuit to fast and good economic growth to stress on the good and fast, sought for mutual coordination between economic development and many non-economic factors, and achieved the fundamental change of the development outlook. It should be noted that rural reform and the change of development outlook are mutually linked, but they are at different stages, one is seen as policy adjustment, but the other is strategic transformation.

#### (I) Reform focus

**1. Rural reform was further deepened:** After the contracted responsibility system based on the household, with income linked to output<sup>36</sup>, China tried out tax reform in the countryside in 2003. It was another major adjustment to the relation between the government and farmers since the founding of the People’s Republic of China, particularly after China adopted reform and opening-up, making 2003 a “year of Chinese farmers”<sup>37</sup>.

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36 Responsibility system (contract responsibility system or household responsibility system) (simplified

Chinese: 家庭联产承包责任制; traditional Chinese: 家庭聯產承包責任制; pinyin: Jiāting liánchǎn chéngbāo zérènzhi) was a practice in the People's Republic of China, which was first adopted in agriculture in 1981 and later extended to other sectors of the economy, by which household or local managers are held responsible for the profits and losses of their contracted land or enterprise. This system partially supplanted the egalitarian distribution method, whereby the state assumed all profits and losses

In traditional Maoist organization of the rural economy, and that of other collectivized programs, farmers were given a *quota* of goods to produce. They were compensated for meeting the *quota*. Going beyond the *quota* rarely produced a sizeable economic reward. In the early 1980s peasants were given drastically reduced *quotas*. What food they grew beyond the *quota* was sold in free market at unregulated prices. This was an instant success, quickly causing one of the largest increases in standard of living for such a large number of people in such a short time. This system maintained *quotas*, and thus, the element of socialist societies termed in China, the Iron rice bowl (in which food and employment was ensured by the state)

37 It means the wellbeing of farmers topped the agenda of the government in 2003



2004 was another “year of Chinese farmers”. After 18 years, the Central Government again showed its concern over the issues of “agriculture, countryside and farmers” in form of “No. 1 Document”. Under the basic statement “back to the countryside and back to agriculture”<sup>38</sup>, the Central Government introduced a policy of “two reductions/exemptions and three subsidies” for the countryside. In 2005, the Central Government again chose to support “agriculture, countryside and farmers” as the theme of “No. 1 Document”. Grain sowing area and yield, and farmers’ income were increased on a large margin. To materialize the “back to the countryside and back to agriculture”, China completely eliminated agricultural tax in 2006. The agricultural tax had lasted for more than 2000 years, and its elimination relieved 126.5 billion Yuan of burden for Chinese farmers. Hence farmers entered a new epoch. The relation between workers and peasants also entered a new era when the Fifth Plenary Session of the Sixteenth Standing Committee of the CPC held in the same year expressed: “building a new socialist countryside is a major historical task of China’s modernization drive”<sup>39</sup>. The Seventeenth Party Congress again stressed balancing urban and rural development and building a new socialist countryside. Agriculture, countryside and farmers became focal points of Chinese economic policies.

**2. Macro-control became more mature:** As described above, the outbreak of SARS in 2003<sup>40</sup>, the global financial crisis and economic downturn from 2007 until now and the earthquake, frost, flood and other natural disasters in 2008 imposed heavy pressure on the continuous growth of the Chinese economy. However, the Chinese government applied fiscal and monetary policies and instruments on time, and therefore maintained economic growth rate. Despite that, in 2003 and 2004, the Chinese economy was locally overheated and inflation gained ground. In order to solve this problem, the State Council made it clear that the blind expansion of overheated industries shall be suppressed through tightening and improving macro-control and by practicing a policy of “encouraging growth in some sectors and discouraging it in others”<sup>41</sup>, and economic overheat and investment overheat shall be suppressed through controlling land and credit, “these two sluices”<sup>42</sup>.

In July, the People’s Bank of China raised the trading price of the US dollar against the RMB by 2%: 8.11 Yuan for 1 dollar, and introduced a series of reforms and policies and measures for perfecting RMB exchange rate formation mechanism. In 2007, through a comprehensive application of exchange rate, interest rate, deposit reserve ratio, open market operation, directional bills and other means, China strengthened the coordination between home currency policy and foreign currency policy and the management of bank system liquidity

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38 HU Jintao, Speech addressing the 4th plenary session of the 16th Central Committee of the CPC, September 2004.

39 Suggestions for compiling the 11<sup>th</sup> Five-Year Plan, adopted by the 5<sup>th</sup> Plenary Session of the 16<sup>th</sup> Central Committee of the CPC in October 2005

40 Severe acute respiratory syndrome (SARS) is a respiratory disease in humans, which is caused by the SARS coronavirus (SARS-CoV). Between November 2002 and July 2003, an outbreak of SARS in Guangdong nearly became a pandemic mainly in South-eastern Asia, with 8,422 cases and 916 deaths worldwide (10.9% fatality) according to the World Health Organization

41 Jiabao, Report on the Work of the Government, 5<sup>th</sup> Session of the 10<sup>th</sup> National Congress, March 5<sup>th</sup>, 2006

42 *Idem* 26

to make the monetary policy prudent and slightly tight<sup>43</sup>. This macro-control policy has an important feature: the monetary policy, particularly the open market operation got more important.

Following the implementation of a series of policies and measures, macro-control gradually achieved an apparent effect, credit and investment were slowed down and the hike of commodity price fell back from a high level. This “double prudent” macro-control was introduced in time, had clear targets and emphasis and was stopped where it should stop. It was considered the most successful macro-control since reform and accumulated valuable experience for further perfection of the macro-control mechanism of the market economy.

At that time, the global economic downturn resulting from the financial crisis still didn't touch the bottom, and the negative impact on Chinese economy was getting more remarkable. The Chinese government was making an active effort to ensure continuous and steady economic growth through restructuring, industrial upgrading and expansion of domestic demand.

## **(II) Scientific Outlook on Development**

The growth of manufacturing industries, the upgrading of industrial structure, the industrialization of new and high technologies and the greater scale of opening-up fueled the powerful growth of Chinese economy and brought industrialization into a new stage. However, the restriction from resources, population and environment also indicates China must adopt a new industrial road and must coordinate it with the solution to the issues of “agriculture, countryside and farmers”, the issue of finance and the issue of state-owned enterprises. For this reason, the Third Plenary Session of the Sixteenth Standing Committee of the CPC held in 2003 put forth a new thought guiding economic development<sup>44</sup>: a “human-oriented” Scientific Outlook on Development, and required “five balanced aspects” (balancing urban and rural development, balancing development among regions, balancing economic and social development, balancing development of man and nature, and balancing domestic development and opening wider to the outside world) shall be adopted to balance the social and economic development of China. The idea of the Scientific Outlook on Development is of course development but with “human orientation”, its basic requirement is all-round coordination and sustainability, and the fundamental method is overall planning and all-round consideration<sup>45</sup>. These five aspects are mutually linked and united. The essence is to achieve good and fast development of national economy in harmony with society.

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43 The Central Bank of China tightened the monetary policy slightly in 2007 by raising the deposit reserve rate and the benchmark interest rate on several occasions in order to absorb the extra liquidity. Source: Quarter 1-4, 2007, China Monetary Policy Report, People's Bank of China

44 Decision of the Central Committee of the Communist Party of China (CPC) on Some Issues concerning the Improvement of the Socialist Market Economy, 3<sup>rd</sup> Plenary Session of the 16<sup>th</sup> CPC Central Committee, October 14<sup>th</sup> 2003

45 All-round consideration means to take into account the interests of all sectors of society

2004 is the “Year of Scientific Outlook on Development”. The concepts of “scientific development” and “all-round, balanced and sustainable” began to gain popularity. It changed the criteria of sheer GDP growth rate and became the ultimate standard measuring development level and quality.

In order to implement the Scientific Outlook on Development, the Fourth Plenary Session of the Sixteenth Central Committee of the CPC held in 2004 set forth the idea of building a socialist harmonious society, highlighting the significance of a harmonious society to the Chinese economic development<sup>46</sup>.

This means, the Scientific Outlook on Development reflects a qualitative leap. In 2005, the Central Government proposed “achievement of fast and good development of economy and society”. In 2006, the Central Government further clarified that China “shall try to achieve good and fast development of national economy”. In 2007, the Seventeenth Party Congress changed the “economic growth mode” into “economic development mode”. In 2006, the 11<sup>th</sup> Five-Year Plan for National Economic and Social Development of China was deliberated and adopted. Compared to the previous five-year plans, revolutionary changes have taken place to the formulation approach of the “11<sup>th</sup> Five-Year” Plan and the thoughts of economic reform. The “Theory of Getting Rich First”<sup>47</sup> adopted in the early period of reform was changed into the “Theory of Common Prosperity”<sup>48</sup>. Narrowing income gap and reversing the trend of social polarization became a new theme of economic development. Also, the idea of a “Plan” was changed into the idea of a “Guidance”, which implied that the government intervened in the economy much less than before, and this symbolizes that the socialist market economy entered a new stage.

## **Section II: Comments on Background**

China’s reform and opening up is always the result of the joint action of “a visible hand” and “an invisible hand”. While comprehensively carrying out a market-based reform, the government raised its ability in economic macro-control, thus ensuring controllable economic reform and avoiding the turbulences and even crises resulting from premature marketization.

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46 Decision of the CPC Central Committee on Strengthening the Party's Governing Capacity Building, 4<sup>th</sup> Plenary Session of the 16<sup>th</sup> CPC Central Committee, September 2004

47 After the "Cultural Revolution", developing the country's economy and improving people's living standards became an imminent task. In such a context, in 1978, Deng Xiaoping proposed the "get rich fist theory" by which some people and some regions could get rich first. However the theory's aim was to achieve common prosperity. Since then, Deng Xiaoping improved this view on several occasions. It is considered to be the theoretical fundament for the initiative of development zones

48 According to Deng Xiaoping's speeches during his famous southern tour of China, “some areas (for example, coastal areas where economic conditions are better) must get rich before others” but the wealth from coastal regions will eventually be transferred to aid economic construction inland and make the whole nation rich. The goal of socialism is achieve common prosperity. The common prosperity theory can be regarded as the deepening and development of the “get rich first theory”. Source: Selected works of Deng Xiaoping, III Volume, People's Publishing House, 1993, Pages 277-278

China's reform and opening up is always progressive and orderly institutional evolution. In both urban and rural institutional reform and opening-up, changes always took place where the conditions were given. Taking the opening-up of trade and finance for example, "WTO entry" symbolized the all-round opening of China's foreign trade. However, financial reform remained prudent. As early as 1996, China completely opened the recurrent items, but it still took some time to open capital items, claiming that the world economy is uncertain. The most important reason is that the Chinese financial regulatory authority still needs to raise its ability in supervising and controlling the risk from entry and exit of mass capital and has therefore strict rules concerning capital movement. For example, the report of the International Monetary Fund states that the main reason for the frequent outbreaks of financial crisis in the Latin American countries is premature opening of capital items and the Chinese are very prudent and they do not want to see their progress get out of their hands.

In theory, China's reform and opening up pursues the humanistic value of internal and external harmony. The rise of a large country no doubt has a close relation with its economic strength, but in a long run, Chinese think that the role of cultural influence is more important. Even in the period of fast and continuous economic growth, the Chinese government still maintained a cool head, clearly knew the deep seated problems such as: resources, environment, income disparity, transformation of government functions, financial supervision, economic structure, and regional development, corrected development concept in time, and launched the "five balanced aspects" scientific outlook on development in the right time, and introduced the idea of a harmonious world.

This Chinese history can help us understand why and how China has been achieving development and moreover explains that it has been a long and planned process, a result of careful planning from thinkers, scholars and Chinese leaders. Now, with this background on the Chinese Economy and economic changes in China, we will study the particularity of Chinese Economic Development Zones, from its start, evolution and until nowadays.

## **CHAPTER II: Evolution and Features of Chinese Economic Development Zones**

### **Section I: Establishment of Chinese Economic Development Zones**

In human history, the earliest forms of development zones are free port and free trade zone, originated from the ancient Greece. By the end of World War II, there were nearly 100 free ports and free trade zones in the world, mostly in developed capitalist countries and just a few in Asian countries.

Chinese economic special zones were first established around the Third Plenary Session of the Eleventh Central Committee of the CPC in 1978<sup>49</sup>. The establishment of Shenzhen Economic Special Zone and Zhuhai Economic Special Zone is a symbol for China's entry into the epoch of reform and opening-up since the Economic Special Zone is the earliest form of Chinese development zone. The process of its establishment and development can be considered a miniature of the process of China's reform and opening-up.

#### **I.1 Decision-making process of China's establishment of economic special zones**

The economic special zone is a window for the opening-up policy. Therefore, its formation is closely related to the steps of China's exploration to the thinking and practice of opening-up and may be roughly divided into three steps:

The first step is to set up foreign processing zones, the second step is to introduce special preferential policies, and the third step is to directly introduce foreign capital to set up plants.

Premier Zhou Enlai is one of the Chinese leaders who paid earlier attention to the establishment of economic special zones in a modern sense. In 1965, Zhou Enlai noticed Taiwan set up the world's first economic special zone with characteristics of foreign processing in the Kaohsiung Port Area. On June 29<sup>th</sup>, 1973, Zhou Enlai said when meeting American banker Rockefeller: "Yen Chiakan from Taiwan is good at business and trade: he introduces foreign capital from the United States, Japan and other countries, imports raw materials, then processes them and exports products after the processing. He has also set up a free port in Kaohsiung, which is duty free, just like Hong Kong and as a result, the trade amount of Taiwan rises"<sup>50</sup>. From October 31<sup>st</sup> to November 3<sup>rd</sup>, when meeting the visiting Australian Prime Minister Gough Whitlam, Zhou Enlai said: "Chiang Kai-shek set up a free port in Kaohsiung Port, Taiwan Province. The free port is duty free and attracts foreign

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49 CHEN Donglin, Establishment, Development of China's Special Economic Zones and the Crescent Cooperation under the World Financial Crisis, in: <http://www.iccs.cn/contents/301/8267.html>

50 ZHOU Enlai, Selected Economic Works of Zhou Enlai, Central Party Literature Press, 1993, p.645-646 Original in mandarin Chinese

capital to set up plants and provide raw materials. The plants take advantage of the cheap labor in Taiwan and sell products to foreign countries. In this way, many foreign investors are attracted to make investments in Taiwan”.<sup>51</sup>

In 1975, Deng Xiaoping founded the “great policy” of compensation trade in which foreign processing is adopted and foreign investment is repaid with products. He said: “we may sign long-term contracts with foreign countries, introduce their technologies and equipment to run coal mines and make payment with coal. This practice has many advantages: first, it may increase export; second, it may drive the technical upgrading of the coal industry; third, it may create job opportunities. It is a major policy and should be implemented after it is approved by the Central Government. In one word, we should try to increase export, get some high-grade, precision and advanced technologies and equipment in return, accelerate technical upgrading of the industry and raise labor productivity.”<sup>52</sup>

After the “Cultural Revolution”, the Chinese people hoped to quicken the introduction of foreign advanced technologies and equipment, but China lacked capital. Earning foreign exchange through export was a main solution deliberated by the Central Government back then. In March 1978, the State Planning Commission, the Ministry of Foreign Trade and Guangdong jointly investigated Baoan County (Baoan District of Shenzhen City today) and Zhuhai County and worked out a plan with the Working Committee of Hong Kong and Macao. According to the plan, in 3 to 5 years, Baoan and Zhuhai would be developed into industrial and agricultural production bases and foreign processing bases at a certain level, and become tourism attracting areas for Hong Kong and Macao tourists.

In early April 1978, the State Planning Commission and the Ministry of Foreign Trade sent a Hong Kong and Macao economic and trade mission led by Duan Yun, the vice chairman of the State Planning Commission to Hong Kong and Macao for field investigation. After returning to Beijing, the mission submitted the Hong Kong and Macao Economic Investigation Report (Outline) to the Central Government on May 31st and reported the work to the Politburo in June 3<sup>rd</sup>.<sup>53</sup> The report indicates Shenzhen and Zhuhai are close to Hong Kong and Macao and enjoy favorable conditions for the production of export-oriented commodities, which are unparalleled by any other country and region. It is “necessary to adopt some special administrative measures” for these two counties. The report gives five suggestions: 1) Baoan County and Zhuhai County shall be upgraded into two provincially administered municipalities (equivalent to prefecture level); 2) the import and export of the commodities in the two counties shall be directly put in contact with China’s trade agencies in Hong Kong and Macao and no approval by upper-level authorities is needed; 3) the raw materials, materials, fuels and equipment needed by the two counties shall be imported from Hong Kong and Macao by bank loans and shall exempted from customs duties; 4)

51 ZHOU Enlai, *Chronicle of Zhou Enlai – Volume 3*, Central Party Literature Press, 1997, p.630. Original in mandarin Chinese.

52 DENG Xiaoping, *Selected Works of Deng Xiaoping – Volume 2*, People’s Press, 1995, p.29. Original in mandarin Chinese

53 CHEN Donglin, *Idem*



compatriots from Hong Kong and Macao and foreign guests shall visit the two places by showing their Hong Kong or Macao residence permits and passports. The inspection is relaxed and the procedure is simplified; 5) petty trade in border areas shall resume to share some foreign exchange to local fishermen. For the first time, the report put forth the idea of adopting special economic policies in Shenzhen and Zhuhai. It became a prelude of the establishment of economic special zones in China.

The five suggestions had independent import and export, independent use of foreign exchange, self-retention of profit, special entry-exit treatment and other policies for special economic zones adopted by Shenzhen and Zhuhai economic special zones later. However, they did not mention directly introducing foreign capital to run factories yet.

After listening to the report, Hua Guofeng made a speech on behalf of the Politburo and agreed with the establishment of export bases in the two counties, but the wages and factory layout should be discussed further. With regards to the introduction of foreign capital and enlargement of foreign processing, Deng Xiaoping said there shouldn't be any debts and therefore no risk. "As long as we have products, we don't have to worry about repayment of the debts".

When meeting foreign guests during the Central Working Conference in November 1978, Li Xianning expressed that foreign merchants may set up factories in China by providing capital and equipment, while China shall pay back with products and they may also set up factories in form of joint venture. On December 15th, Foreign Trade Minister Li Qiang announced lifting the ban of investment of foreign merchants in China. Thus the idea of setting up foreign processing zones with special policies was gradually formed.<sup>54</sup>

On the morning of January 17<sup>th</sup>, 1979, Deng Xiaoping said when dining with five famous senior businessmen (Hu Juewen, Hu Ziang, Rong Yiren, Gu Gengyu and Zhou Shutao): "To develop China today, we need more resources. We may use foreign capital and technologies. Overseas Chinese and foreign citizens of Chinese origin may run factories in China. We may attract foreign capital by the method of compensation trade or joint operation. We should start with the sectors with fast capital turnover." In the Abstract of Internal Information, Deng Xiaoping gave instructions to request Hong Kong manufacturers to set up plants in Guangzhou: "I think Guangdong may give a free hand to it." His instruction gave a green light to the establishment of economic special zones in Guangdong.

On April 5<sup>th</sup> to 28<sup>th</sup>, 1979, the Central Working Conference was held in Beijing. On April 8<sup>th</sup>, Xi Zhongxun, the Party Secretary of Guangdong Province said in his speech in Central South Group: Guangdong is adjacent to Hong Kong and Macao and has numerous overseas Chinese. It should use this favorable condition and actively carry out foreign economic and technical exchange. In this aspect, we hope the Central Government gives more rights so that Guangdong may make a move first and try out. At the meeting, Fujian Province also

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54 LI Zhenghua, *Genesis of China's Reform and Opening-up*, Contemporary China Publishing House, 2002, p273-274.

requested for establishment of an export-processing zone in Xiamen. On the afternoon of the same day, leaders of Guangdong Provincial Party Committee Xi Zhongxun, Yang Shangkun and Wang Quanguo made reports to Deng Xiaoping. Deng Xiaoping with keen insight realized it was a rare opportunity for the use of foreign capital and agreed with them. He said: “The report you made in the morning is not bad. How about finding a place in Guangdong and setting up a special zone?” “It is good to call it a special zone, for Shaanxi-Gansu-Ningxia Border Region was called a special zone in the beginning. If the Central Government doesn’t have money, it may grant some policies. You may do it by yourselves and carve out a road”.<sup>55</sup>

On June 6<sup>th</sup> and June 9<sup>th</sup>, Guangdong and Fujian provincial governments submitted reports for instructions to the Central Government. The Report for Giving Scope to the Superior Conditions of Guangdong, Enlarging Foreign Trade and Accelerating Economic Development submitted by Guangdong Provincial Government had a special topic “Run export special zones on trial” and explicitly proposes that “Shenzhen, Zhuhai and Shantou cities run special zones on trial. In the special zones, overseas Chinese and the merchants from Hong Kong and Macao are allowed to make investments and run factories directly, and foreign manufacturers from some countries are allowed to make investments and run factories, or set up joint ventures and do tourism business with them”. Fujian Provincial Government also suggested the establishment of Xiamen export special zone in its Report for Instructions on Using Overseas Chinese’s Capital and Foreign Capital, Developing Foreign Trade and Accelerating Socialist Construction of Fujian.

After extensive consultation and intensive study, the CPC Central Committee approved and transmitted the reports of the two provinces on July 15<sup>th</sup> and formed the Approval and Transmission of the CPC Central Committee and the State Council on the Two Reports of Guangdong Provincial Government and Fujian Provincial Government for Adopting Special Policies and Flexible Measures for Foreign Economic Activities. The document indicates: “Export special zones may be tried out in Shenzhen and Zhuhai at first. After experience is obtained, whether to set up them in Shantou and Xiamen or not will be considered”.<sup>56</sup>

On December 11<sup>th</sup>, 1979, the first meeting regarding the preparation of special zones was held in the State Council. At the meeting, the term “special economic zone” was officially proposed for the first time. In March 1980, the CPC Central Committee held a meeting about Guangdong and Fujian provinces in Guangzhou, and changed the term of “export special zone” into “economic special zone”. In May, the CPC Central Committee and the State Council issued the No. 41 Document. The document officially changed the term of “special export zone” into “special economic zone” and explicitly required that effort should be made to ensure the positive and steady development of special zones and Shenzhen Special

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55 DENG Xiaoping, *Chronicle of Deng Xiaoping (1975 to 1997) (Part 1)*, Central Party Literature Press, 2004, p510. Original in mandarin Chinese

56 SU Dongbin, Chief Editor, *A Brief History of Chinese Economic Special Zones*, Guangdong Economic Press, 2001, p51



Zone should be developed into a comprehensive special economic zone integrating industry, commerce, agriculture, animal husbandry, residence, tourism and other undertakings<sup>57</sup>. On August 21<sup>st</sup>, the 15<sup>th</sup> Session of the 5<sup>th</sup> Standing Committee of the National People's Congress approved the proposal of the State Council for establishing special economic zones in Guangdong's Shenzhen, Zhuhai and Shantou, and Fujian's Xiamen. The meeting also approved the Regulation of the People's Republic of China on Special Economic Zones in Guangdong Province, completed the legislative procedure for establishment of special zones and symbolized the official emergence of special economic zones. The Regulation announces: in order to develop foreign economic cooperation, now three places of 327.5, 6.7 and 1.67 square kilometers are found in Shenzhen, Zhuhai and Shantou of Guangdong Province to establish special economic zones.

Hence, with these measures the People's Republic of China truly opened the windows of opening-up and made a historic step forward to the world.

## **I.2 Establishing various kinds of development zones as a strategic move for deepening reform and developing Chinese's economy**

The purpose of China's strategic choice for establishment of economic special zones and development zones is to attract international capital, participate in the international division of labor, attract advanced technologies and management experience and develop its own economy.

Firstly, development zones are places that attract and concentrate foreign capital. Investment is the basic force for economic growth. In the 1980s, the contention for international capital was the theme of "economic competition", while capital shortage was one of the obstacles in China during that period and it was also the first obstacle against its development. Since at that time, China was a closed country the accumulation of capital, technologies and management skills was an extremely long process. It is almost impossible to complete effective allocation of capital, labor, advanced technologies, management and other production elements in a short time, particularly in developing countries. In a world with advanced transport and information and ever-increasing degree of economic internationalization, China was unable to achieve the fast development in a closed state. Therefore, it became a development strategy of China to open various kinds of development zones, formulate preferential policies, improve investment environment and attract foreign capital.

Secondly, development zones built bridges, which made the huge Chinese market and the backward investment environment compatible. Furthermore, China's huge market is an important resource and advantage for China's opening-up because on one hand, in order to pursue profit and expand market, international investors were eager to invest in China. But on the other hand, Chinese backward investment environment made foreign investors flinch.

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57 CPC Central Committee issued (1980) No. 41, May 16<sup>th</sup>, 1980

This was a contradiction. It is unrealistic and impossible to quickly improve the investment environment on a land of 9.60 million square kilometers, but by relying on the strategy of development zones, China quickly improved the investment environment in some areas.

Thirdly, economic development zones are unities between overall development of the Chinese economy and local advancement. China is a vast country. Inter-regional difference in economic environment is remarkable. It is impossible to achieve overall economic development in a short time because the economy is usually developed in an unbalanced way. Without the drive of those who become prosperous first, there wouldn't be common prosperity. So it was necessary to establish some development zones and letting them start off before the others and achieve greater development in a short time in order to make up for the shortage of domestic resources and drive economic development of the whole country.

Fourthly, economic development zones are the bridgeheads for China's connection to international economic circulation. Traditional planned economy can hardly form a connection to the circulation of international economy, international capital in particular in such a short time. So in order to do business in line with international practice, China needed to form a series of mechanisms and concepts adaptable to it. To establish and develop development zones and create a few international environments on Chinese land was a move with an eye to future development.

Nowadays, development zones have become the areas with the most concentrated domestic and foreign investment, the fastest economic growth, the most vibrant market, the most perfect environment for investment, the latest operating system and the best economic benefit in China like we will analyze below. They have formed a good general investment environment, a good institutional advantage, a large development potential, and dominance of capital-intensive industries. They are new growth poles of the national economy. They have played an irradiative, demonstrative and driving role, and greatly promoted the development of regional economy. Of course, we should know clearly that some problems of development zones have been gradually exposed during their operation over the years and therefore we need to take a new look at the orientation and advantages of development zones.

## **Section II: Classification of Chinese Development Zones**

### **II.1 Classification standard and preferential policies of Chinese development zones**

Chinese development zones are classified in two ways: One is by level of approval, such as: state-level development zones and provincial-level development zones; the other is by function. In this case, the name "development zone in China" is a general term for: "economic special zone", "economic and technological development zone", "high-tech development zone", "bonded zone", "border economic cooperation zone", "tourist holiday resort" and other zones.

The State grants the following preferential policies to development zones<sup>58</sup>:

1. The income tax on the income derived from production, operation and other sources of manufacturing enterprises with Sino-foreign equity joint ventures or Sino-foreign contractual joint ventures and manufacturing enterprises operated exclusively with foreign capital in a development zone (hereinafter collectively referred to as “development zone enterprises”) shall be levied at a reduced rate of fifteen percent (15%). For an enterprise with an operation period of above ten (10) years, upon application of the enterprise and approval of the municipal tax authority, its income tax shall be exempted in the first two years starting from the profit-making year and halved in next three years.
2. The local people’s government determines whether to reduce or exempt local income tax of development zone enterprises or not.
3. When the foreign investors of Sino-foreign equity joint ventures in a development zone remit the profit distributed to them by the companies, shall be exempted from remittance tax<sup>59</sup>.
4. Foreign investors who have no organizations in China and obtain dividends, interests, rents, royalties and other incomes from a development zone, shall be entitled to the preferential treatment of reduction or exemption of business income tax according to law. If they provide capital and equipment in a favorable condition or transfer advanced technologies, they shall be granted more preferential treatment of tax reduction or exemption. Such special treatment shall be decided by the local government, which is administering the development zone.
5. The import of building materials, manufacturing equipment, raw materials, parts, accessories, components, vehicles and office supplies by companies in a development zone for their own use shall be exempted from customs duties and import tax.
6. When an enterprise in a development zone domestically sells the products processed with imported duty-free raw materials, parts, accessories and components, it shall make up the tax according to the regulations. The export-oriented products produced by a development zone enterprise except petroleum, product oil and the products otherwise specified by the State shall be exempted from the industrial and commercial tax in the link of production, while the products sold in domestic market shall be levied according to the regulations.

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58 Baidu baike: economic and technological development zone. In: <http://baike.baidu.com/view/556543.htm>

59 The foreign profit remittance tax is a tax levied on profits when foreign-funded enterprises remit their profits from one host country to another one

7. When foreigners working in a development zone enterprise or living in a development zone carry a reasonable quantity of basic household articles and vehicles for self-use into the territory of the People's Republic of China, they shall be exempted from customs duties and import tax upon presenting a certificate issued by the administrative committee of the development zone.

In addition to preferential policies, development zones feature advanced traffic and communication networks, sufficient water and power supply, and complete living and production facilities, and provide favorable external conditions for the development of export-oriented economy.

## **II.2 Classification of Chinese development zones<sup>60</sup>**

1. Economic special zones mainly refer to the areas a country or region sets aside, and grants with special economic policies to promote foreign trade and economic development of the country. Generally, they have the following features: 1) They enjoy geographic advantage and are mostly on the coast or border, 2) They enjoy special policies, for example: the preference of reduction and exemption of customs duties, 3) They have clear boundary from other domestic areas. 4) They bear the experimental nature of constant innovation. Economic special zones are further classified into trade oriented, foreign processing oriented, technology oriented, and comprehensive economic special zones. At the present, China has five economic special zones: Shenzhen, Zhuhai, Shantou, Xiamen and Hainan.
2. Economic and technological development zones are specific areas that China set up in coastal cities to mainly develop knowledge-intensive and technology-intensive industries. Later on, they were set up all over the country. They adopt some special preferential policies and measures, similar to the economic special zones. In view of development pattern, their immediate goal is to increase regional economic development. They mainly rely on the drive of foreign investment and the dominant industry is processing industry. In 1981, under the approval of the State Council, economic and technological development zones were established in open coastal cities.

In May 1984, China officially decided to open fourteen coastal port cities including Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai and set up seventeen economic and technological development zones in these cities subsequently. From the 1990s, economic and technological development zones were set up nationwide. By the end of 2010, the number of state-level economic and technological development zones rose to 116.

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<sup>60</sup> This is a classification for our own research purposes

The emphasis of economic and technological development zones is technology-intensive industries. The preferential conditions to which they are entitled are fewer than those to which economic special zones are entitled (only industrial enterprises may be entitled to some preferential conditions). They lay stress on their pivot role. In other words, they play the role of external radiation, link Chinese and foreign economies, promote economic development and foreign trade of inland through introducing foreign capital and technologies and establishing domestic connection, and make contribution to the economic prosperity of China.<sup>61</sup>

3. High-tech industrial development zones refer to the industrial development zones China established in some knowledge intensive and technology intensive large and medium cities and coastal areas for the purpose of developing new and high-tech technologies. In August 1988, the National Torch Program<sup>62</sup> – a national high-tech industrial development plan was initiated, and the establishment of high-tech industrial development zones and business incubators (or innovation centers) was explicitly defined as important content of National Torch Program. Since 1991, the State Council has approved the establishment of 53 national high-tech industrial development zones. Chinese high-tech industrial development zones have achieved extraordinary development and found a road to develop high-tech industries with Chinese characteristics.

Nowadays, new and high technologies include microelectronic science and electronic information technology, space science and aeronautic and astronautic technology, material science and new material technology, optoelectronic science and optical, mechanical and electronic integration technology, life science and bioengineering technology, energy science and new energy and energy-efficient technology, ecological science and environmental protection technology, geoscience and ocean engineering technology, basic substance science and radiation technology, medical science and biomedical engineering, and other new processes and new technologies applied on the basis of traditional industries. The range of new and high technologies will be supplemented and revised along with the continuous development of domestic and foreign new and high technologies.

For example, we have Zhongguancun Science and Technology Park (Beijing), Ningbo high-tech industrial development zone (Zhejiang), etc. Tsinghua is a University, but its industry belongs to Zhongguancun Science and Technology Park.

By 2010, the number of state-level high-tech development zones reached 69; including 13 upgraded from provincial-level high-tech development zones in 2010.

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61 Mainly trade in goods, but now some services are provided

62 The Torch Plan is a guiding plan for the development of Chinese high-tech industries, which was approved, implemented, and organized by the Ministry of Science and Technology (formerly the State Science and Technology Commission) in 1988

4. Bonded zones are operated according to international practice and adopt more flexible and preferential policies compared to other open zones. They have become “bridgeheads” linking China with international market. Therefore, since the very beginning, bonded zones have become the focus of domestic and foreign merchants. Bonded zones are oriented to have three major functions: “bonded warehousing, export processing and entrepot trade”. Bonded zones have functions such as import and export processing, international trade, bonded warehousing and commodity exhibition, are entitled to a “certificate free, duty free and bonded” policy, and adopt an operating mode called “within national territory but outside customs territory”. They are the economic zones with the highest degree of openness, the most convenient operating mechanism and the most preferential policies in China.

Bonded zones can facilitate entrepot trade and increase income from related charges. The goods from a bonded zone may undergo storage, modification, classification, mixing, exhibition and processing, but must be under customs supervision. Foreign goods stored in a bonded zone are exempted from import tariff and only need pay storage fees and a small amount of charges, but if they enter a customs area, customs duties must be paid. The bonded zones in different countries set different time limits and if they trespass such limit then the customs has the right to auction them, deduct related charges after the auction and return the remaining money to the owners of the goods.

According to the prevailing policies, customs adopts closed management over bonded zones. Overseas goods from a bonded zone are subject to bonded management. The entry of goods into a bonded zone from a domestic area is deemed as exit from national territory. In addition, foreign trade and economic cooperation authority, foreign exchange authority and other related authorities grant bonded zones with more preferential policies compared to the areas outside bonded zones.

For example, we have Qingdao Bonded zone (Shandong), Guangzhou Bonded zone (Guangdong), etc.

5. National tourist holiday resorts refer to the comprehensive tourist areas that meet international requirements on holiday and tourism and mainly cater for reception of overseas tourists. They have a boundary and are suitable to build concentrated tourist facilities. The areas where national tourist holiday resorts are located have rich tourism and holiday resources, a convenient traffic condition and a good basis for marketing and opening overseas. Different from state-level scenic spots and other natural reserves, national tourist holiday resorts are state-level development zones.

In 1992, in order to further enlarge opening-up, develop and use the rich tourism resources of China, promote the transformation from sightseeing to holidaying and accelerate the development of tourism, the State Council decided to try out national tourist holiday resorts in the areas with mature conditions, and therefore encouraged



the enterprises and individuals from foreign countries and Taiwan, Hong Kong and Macao to invest and develop tourism facilities and operate tourism projects, and grant them with preferential policies<sup>63</sup>.

In the same year, the State Council approved the establishment of 11 national tourist holiday resorts including Jiangsu Taihu Lake and Shanghai Hengsha Island. In 1995, the State Council approved the establishment of Shanghai Sheshan National Tourist Resort. A national pattern of 12 national tourist holiday resorts was basically formed by then and lasts till the present.

6. Border economic cooperation zones are areas where the Chinese open border cities, develop border trade and process export products. The opening of border areas is an important way to open up in Chinese central and western regions. Since 1992, the State Council has approved 14 border economic cooperation zones. They have played a positive role in developing the economic trade and good neighbor relationship between China and neighboring countries (regions) and thriving the economy in the areas inhabited by the minority nationalities.

For example, we have Dandong economic cooperation zone (Liaoning), Pingxiang economic cooperation zone (Guangxi), etc.

7. State-level export-processing zones are areas which turn scattered processing trade into centralized processing trade, provide enterprises with a more relaxing operating environment and encourage enlargement of foreign trade and export in order to promote the development of processing trade and regulate the management of processing trade. On April 27<sup>th</sup>, 2000, the State Council officially approved the establishment of export processing zones under the supervision of customs<sup>64</sup>. China arranged export-processing zones inside built development zones, and chose a number of areas to try it out. In the first batch, 60 export processing zones were selected to try it out.

For example, we have Tianzhu export-processing zone (Beijing), Dalian export-processing zone (Dalian), etc.

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63 Listed in the preferential policies in II.1

64 Because the preferential policies of this kind of development zone are about tariffs, its establishing is under the supervision of customs

### **II.3 Other Features**

1. By level of approval, development zones are classified into development zones established with the direct approval by the State Council and those established with the approval of a provincial government. Of course, provincial-level development zones may be upgraded into state-level development zones if they have passed the review of the national authorities. For example, in December 2009, Langfang Development Zone and Yangzhou Development Zone were upgraded into state-level development zones. In March 2010, the State Council approved the upgrading of 34 provincial-level economic development zones into state-level economic and technological development zones<sup>65</sup>. In December 2010, again the State Council upgraded nine provincial-level development zones into state-level development zones, which are Linyi Economic and Technological Development Zone, Yangcheng Economic and Technological Development Zone, Xiqing Economic and Technological Development Zone, Wuqing Economic and Technological Development Zone, Xuchang Economic and Technological Development Zone, Datong Economic and Technological Development Zone, Changchun Xixin Economic and Technological Development Zone, Pingxiang Economic and Technological Development Zone and Ningbo Petrochemical Economic and Technological Development Zone.

In the establishment and administration of development zones, there is the jurisdiction of state-level and provincial-level authorities. For example, if the establishment of an economic special zone is approved by the State Council then the zone is directly under the jurisdiction of the province where the zone is located; economic and technological development zones are ruled by the Ministry of Commerce along with the provincial department of commerce, and their establishment shall be approved by the State Council and the provincial government; high-tech industrial development zones are ruled by the Ministry of Science and Technology and the provincial department of science and technology, and their establishment is approved by the State Council and the provincial government; bonded zones are ruled by the General Administration of Customs, and their establishment is approved by the State Council and the provincial government, and foreign exchange and foreign trade and economic cooperation authorities participate in their administration; national tourist holiday resorts are under the jurisdiction of National Tourism Administration and their establishment is approved by the State Council.

2. In the aspect of administration:

Each economic special zone has a special zone government, which is a level-1 administrative organization directly under the jurisdiction of the province. Other types of development zones have administrative committees under which there are industrial and commercial, taxation, investment and other necessary departments only. The administrative committees are equivalent to the agencies of provincial or municipal governments.

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<sup>65</sup> State-level economic and technological development zones have more advantages than provincial ones, but special economic zones are another kind of development zone. Special Economic Zones can have government-level legislation



In the aspect of funds:

Each development zone has an investment management company. Funds are raised mainly through land mortgage. Other fund sources are fiscal allotment, share participation of enterprises and issuance of bonds.

**Chart 2.1**  
**National development zones' approval, supervision and sources of funding**

Classification of National development zones	Approval & supervision	Sources of funding
Economic special zones	State Council	Each development zone has an investment management company. Funds are raised mainly through land mortgage. Other fund sources are fiscal allotment, share participation of enterprises and issuance of bonds.
Economic and technological development zones	State Council, Ministry of Commerce	
High-tech industrial development zones	State Council, Ministry of Science and Technology	
Bonded zones	State Council, General Administration of Customs	
National tourist holiday resorts	State Council, National Tourism Administration	
Border economic cooperation zones	State Council	
State-level export-processing zones	State Council, General administration of Customs	

Source: the author established.



## SECOND UNIT

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### Achievements of Chinese Economic Development Zones

#### Chapter I: Achievements of Chinese Economic Development Zones

As seen above, the Chinese development zones mainly include: economic and technological development zones, high-tech industrial development zones, bonded zones, border economic cooperation zones and export processing zones.

We have conducted a survey of conditions focusing on the state-level economic and technological development zones in Chongqing, Zhejiang and Hainan, we explore its positioning in the Chinese economic reform and opening-up and the role they play.

Economic and technological development zones form a part of the open areas of China. In an open city, a small area is set aside to build and improve infrastructure with concentrated effort and create an investment environment at an international level. Through absorbing and utilizing foreign capital, it forms a modern industrial structure dominated by high-tech industries, and becomes a key area where the city and the neighboring areas develop foreign economic cooperation and trade. By now, China has 128 economic and technological development zones approved by the State Council (including Suzhou Industrial Park, Shanghai Jinqiao Export Processing Zone, Ningbo Daxie Development Zone, Xiamen Haicang Investment Zone, and Hainan Yangpu Economic Development Zone, which adopt the policies of economic and technological development zones).

In 1984, on the basis of the successful experience in economic special zones, the CPC Central Committee and the State Council made a major decision on further opening 14 coastal port cities and establishing “economic and technological development zones”<sup>66</sup>. Fourteen state-level economic and technological development zones in the first batch emerged subsequently. Later on, with the enlargement and deepening of China’s opening-up, the state-level economic and technological development zones were extended from eastern coast to riverfront inland and central and western regions. With the boldness, innovation and pioneering gut, Chinese people turned the mud flats and barren lands into prosperous modern new-type industrial parks. China not only found an effective way to drive urbanization with industrialization but also created miracles of development one after another.

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66 Document No.13 [1984], Summary of the seminar about the coastal cities, May 4<sup>th</sup>, 1984

This year 2012 marks the 28<sup>th</sup> anniversary of the emergence of state-level economic and technological development zones. In the past 28 years, state-level economic and technological development zones had complied with national development strategies and stuck to the development guideline of “focusing on improvement of the quality of foreign capital, development of modern manufacturing industries and optimization of export structure, being devoted to the development of high-tech industries and service industry with high added value, and promoting the transformation of state-level economic and technological development zones to multi-functional industrial zones”<sup>67</sup>. In the aspects of park construction, industrial development, institutional innovation, technology innovation, foreign cooperation and intensive land utilization, they achieved fruitful results, accumulated important experience, and played a role of a showcase and a demonstrative, irradiative and driving role. Now they have become bases of emerging industries where modern manufacturing industries are concentrated, foreign investment is intensive, investment environment is optimized, and new technologies are developed; they have also become important carriers promoting industrial restructuring of the cities where the development zones are located, and the coordinated and balanced development of regional economy.

### **Section I: Improvement in infrastructure**

In 30 years, the infrastructure construction of development zones is mature. Ordinary state-level development zones have “seven accesses and one leveling” (roads, water supply and drainage, electricity, gas, heating, communication, and land leveling), and provincial-level development zones reach the level of “five accesses and one leveling” (roads, water supply and drainage, electricity, communication, and land leveling) and basically meet the requirements of investors on public facilities. In the aspect of management and service, development zones have:

- Offices in various places for completing official procedures.
- Built a “one-station” examination and approval halls, where all the necessary governmental agencies have their own offices and can fulfill the needed examination and approval.
- Adopted a “one window” service. Inside the zone’s hall the companies only need to submit their documents and papers in one window.
- Adopted the system of approval within a specific timeframe. It means that the government has a deadline for the approval of all documentation presented, such as 48 hours or 10 days for example, giving the companies an insurance that the timeframes will be faster and more efficient.

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67 Premier WEN Jiabao dictated these instructions in 2004, at the twentieth anniversary of creation of the national development zones

Development zones adopt an around-the-clock service mechanism and a first-person responsibility system, and provide all-directional services for the investors in the development zones. Furthermore, many development zones have obtained the certification of international quality management systems. Taking Ningbo Economic & Technological Development Zone as example, the development zone was established with the approval of the State Council in October 1984 and covers 29.6 square kilometers of area. It is one of the earliest and largest state-level development zones in China. Its development has experienced three stages: commencement of development and construction (1984-1992), large-scale development (1993-2001) and all-round development and construction (2002 to now).

At present, the infrastructure of the development zone is almost perfect. In the aspect of power supply, there are nine power plants that have been built or are being built within the area of the development zone. The total capacity is 10,405.5 MW. In the aspect of water supply, the daily water supply capacity is 410,000 tons. Water supply in a looped network is available. In the aspect of heat supply, six thermal power plants have been built. Sufficient steam supply may be guaranteed. In the aspect of sewage discharge, there are two sewage treatment plants and a number of sewage treatment stations and sewage pumping stations in the zone. A good sewage discharge system has been formed. The daily sewage treatment capacity may reach 180,000 tons. In the aspect of communication, the zone has 180,000 controlled telephones, a digital broadband network, frame relay, ATM, DDN and other data services. China Mobile Communications Corporation currently has opened international auto roaming service with nearly 200 operators in more than 110 countries and regions. Linde Gas, Messer Sunshine and other professional industrial gas companies in the zone may supply high-quality industrial gas. In the aspect of fuel gas, the Chunxiao Gas Field from the East China Sea is in the zone. Clean energy LPG is available. Within 20km from the zone, SINOPEC Zhenhai Refining & Chemical Company and BP LPG project may supply enough LPG. Also, the zone has built 600,000 square meters of various kinds of standard workshops for the renting of investors. Moreover, the development zone may customize workshops.

## **Section II: Rapid growth of total output value**

The total output value of development zones has maintained fast growth, usually much higher than national level and local level in the same period, thanks to the infrastructure, good industrial basis and complete and integrated functions. The economic growth rate of Ningbo Economic & Technological Development Zone in 2010 was 24.73%, close to the average level (25%) of 47 state-level economic and technological development zones in East China. The growth rate of Hainan Yangpu Economic Development Zone was 73.82%, much higher than the average level. In the first quarter of 2011, the total output value of Ningbo Economic & Technological Development Zone was 11.06 billion Yuan, a YoY increase of 18.79%, while the total output value of Hainan Yangpu Economic Development Zone was 5.34 billion Yuan, a YoY increase of 98.7%<sup>68</sup>. The above information indicates that development zones have become powerful “engines” of national and local economic growth.

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68 Data from: <http://www.co-opchina.com/plus/view.php?aid=1727>

### **Section III: Increase of industrial agglomeration effect**

Scale agglomeration of industries in space is a trend of the industrialization era because it has many advantages. It not only brings an economy of scale but also promotes technical progress and economic growth. However, the scale agglomeration of industries in space is not achieved by mainly relying on the government's investment in industries, but also on the force of market and a series of strategic policies and measures under a national industrial development strategy and a locational strategy. Taking Liangjiang New Area, Chongqing for example, established on June 18th, 2010, it is China's only state-level inland new open and development area after Shanghai Pudong New Area and Tianjin Binhai New Area. It is the third state-level new open and development area directly approved by the State Council.

Liangjiang New Area<sup>69</sup> has a long-term development plan and it considers the locational traffic condition, resource, environment, strategic orientation and development basis. It is harmonious with urban functional zoning, mainly develops modern service industry in the south, highlights integrated urban functions in the central and western parts, mainly develops advanced manufacturing industries in the northeast, and gradually promotes the formation of a general strategic spatial pattern featuring the policy: "one center and four belts".

"One center" refers to a financial and business center. It highlights the function of CBD, and the function of a state-level R&D and innovation base, mainly develops three core sectors including innovative finance, information R&D, and business and trade, vigorously develops design, creativity, headquarters economy and industrial buildings, mainly builds Jiangbeizui financial core area, Guanyinqiao business and trade core area, Renhe headquarters base and Wulidian R&D design center, and accelerates the aggregation of scientific R&D institutions, S&T service platforms and high-level S&T talents. Its goal is to become a main carrier of inland modern service industrial bases, a first-rate headquarters industrial base in the western region of China and an R&D and innovation center and financial center in the upper reaches of the Yangtze River.

"Four belts" refers to an urban function industrial belt, a high-tech industrial belt, a logistic and processing industrial belt and an advanced manufacturing industrial belt.

Urban function industrial belt: Cultivate and develop international business functions and emerging urban functions, mainly develop five core sectors including business conference and exhibition, automobile, electronic information, instrumentation, and biomedicine, mainly build Yuelai Conference and Exhibition Center, Shuanglonghu New International Business Center, Jinshan Business Center, and Dazhulin high-class residential area, and develop a harmonious and livable city and a modern new urban area.

High-tech industrial belt: Highlight the functions of R&D and innovation, green and low carbon and clean manufacturing, mainly develop five core sectors including new materials,

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69 Data from Liangjiang New Area: [www.liangjiang.gov.cn](http://www.liangjiang.gov.cn)

biomedicine, electronic information, instrumentation, and R&D design, mainly develop Tongxing Industrial Park and Shitu High-Tech Industrial Park, and moderately develop high-quality ecological residence and leisure industry.

Logistic and processing industrial belt has the following objectives: To improve the functions of bonded logistics, export processing and port and airport-based industries, to develop three core sectors including electronic information, warehousing and logistics, and bonded processing; to develop electrical machine and other export processing industries, international procurement, entrepot trade and other service sectors, to accelerate the construction of Jiangbei Airport, Cuntan Port, Guoyuan Port, North Chongqing Station and logistic infrastructure, to mainly build Cuntan Bonded Logistics Park, Shipping Light Industrial Products Processing Export Base, Jiangbei Airport Logistic Park and Airport Electromechanical Export Base, and to form the largest and influential bonded logistics and export processing industrial cluster in inland.

The advanced manufacturing industrial belt has the objectives of: To highlight the platform function of strategic emerging industries and state-level advanced manufacturing industries, to develop five core sectors including automobile, high-end equipment, new materials, energy conservation, environmental protection, and new-generation information products: to choose Yufu modern logistics functional zone and Longshi advanced manufacturing functional zone as carriers and to build an industrial base of a trillion Yuan. This is considered to be one of the most influential clusters of advanced manufacturing industries in China and an important base of strategic emerging industries in China.

#### **Section IV: Rise of international influence**

China's opening-up has been done in a multilevel system. From the perspective of opening degree, development zones are the second development forms after economic special zones and they are in the front position of China's opening-up. The ratio of foreign direct investment (FDI) attracted by development zones to China increases every year. They have become investment hot spots for multinational corporations. According to the data of the Ministry of Commerce, the 90 state-level development zones in China utilized 30.6 billion dollars of foreign capital in 2010, accounting for 28.94% of national total, a YoY increase of 19.6%, 2.2 percentage points higher than national level (17.4%). In the first quarter of 2011, Ningbo Economic & Technological Development Zone utilized 170 million dollars of foreign capital, a YoY increase of 14.26%<sup>70</sup>.

Through the attraction of foreign capital, the international influence of development zones is on steady increase. Taking Liangjiang New Area, Chongqing for example, it contains unlimited business opportunities and attracts the attention of global 500 enterprises. From

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70 Data from: [http://www.fdi.gov.cn/pub/FDI/gjjjkkfq/szkgjjkkfq/main economic indicators statistics/t20110722\\_135411.htm](http://www.fdi.gov.cn/pub/FDI/gjjjkkfq/szkgjjkkfq/main%20economic%20indicators%20statistics/t20110722_135411.htm)



November 7<sup>th</sup> to 9<sup>th</sup>, 2010, the Ministry of Commerce and municipal government jointly hosted the “Tour of Global 500 to Liangjiang”. 32 of the Global 500, enterprises including Hewlett-Packard, Samsung, Siemens and Bosch came to Liangjiang New Area to seek business opportunities. Nowadays, 54 of Global 500 have made an investment in the Liangjiang New Area, accounting for 34% of the city’s total (161). The number of projects invested by them is 63, accounting for 30% of the city’s total (216). By country, there are 15 from the United States, 8 from Japan, 4 from France, 2 from the United Kingdom, 2 from Sweden, 2 from Switzerland, one from South Korea, one from Italy, one from Germany, one from the Philippines, 14 from China, 2 from Chinese Hong Kong and one from Chinese Taiwan<sup>71</sup>.

### Section V: Sustainable development under the drive of institutional innovation

We can conclude that flexible systems and flexible mechanisms are the driving forces and cornerstones for the development of development zones. Development zones have made bold explorations and tests in institutional reform, they have broken the limitation of traditional systems and policies and they have achieved important results. They follow the principle of simplification and efficiency, they keep improving its administration, its operating mechanisms, and its labor and personnel systems, and moreover they have preliminarily established an administrative and service system of “small body and large service”.

Right now, the Chinese development zones mainly adopt two administrative models:

- a) the system of administrative committee (or function zone), which is simple and flexible, but it can hardly match the development scale of development zones; and
- b) the administrative system, which integrates a development zone with an administrative area coordinating together and which is liable to high operating cost and financial strain.

Liangjiang New Area adopts “1 plus 3” and “3 supports 1” development model. It is the model that takes longer to start but it has the smallest frictional factor, which can combine the requirements of the Central Government with the local demand in order to form a resultant force in the shortest time, and we can say that it has achieved initial success in two years. Under the “1 plus 3” and “3 supports 1” uniform development model, the Liangjiang New Area uses capital as a linkage in the following way: The New Area and the districts contribute to a capital at a ratio of 55: 45<sup>72</sup>. The New Area and the three districts set up a joint development company and established a driving mechanism with shared interest and clear rights and liabilities. Therefore, an efficient and harmonious large development pattern formed in the three parks of the industrial development zone.

71 Data from: <http://www.liangjiang.gov.cn/ljxqtzlj/ljxqtqy/2011221/2011221215120.htm>

72 Data from: [http://www.chinadaily.com.cn/micro-reading/dzh/2011-12-27/content\\_4793059.html](http://www.chinadaily.com.cn/micro-reading/dzh/2011-12-27/content_4793059.html)



In order to mobilize the enthusiasm and the initiative of the districts, Liangjiang New Area adopted the above model under which:

- the administrative system is not changed,
- the capital is used as a linkage,
- the Administrative Committee of Liangjiang New Area is the controlling shareholder and the districts are shareholders,
- hence a developer model is formed.

Liangjiang New Area set up Liangjiang New Area Development and Investment Group Co., Ltd. to develop a new plot, and Liangjiang New Area Development and Investment Group Co., Ltd. set up a holding company in form of joint venture with the district where the plot is located. Liangjiang New Area Development and Investment Group Co., Ltd. will hold 55% of the stake and the district will hold 45% of the stake. Liangjiang New Area appoints the board chairman of the holding company. A member of the standing committee of the party committee of the district acts as the general manager of the holding company. This creates a pattern in which Liangjiang New Area and the district jointly carry forward the development. This model can ensure the districts' participation in in-depth development and both can share the achievements of the development and opening of the new area. This is what the Chinese call a development pattern of "one leader and many followers".

## **Section VI: Promotion of coordinated urban-rural development and harmonious economic and social development**

State-level economic and technological development zones aim to pay attention to the coordinated and balanced economic and social development, and they are encouraged to increase efforts regarding public service and the support of social causes. Moreover development zones are encouraged to have social responsibility, and the establishment of harmonious labor relations. They are leaders in implementing coordinated urban and rural employment, basic endowment insurance in rural society, and new-type rural cooperative medical service and integrated urban-rural medical assistance system in China. The social security system is getting better and the public service system is getting more reasonable. The *per capita* disposable income of urban residents and *per capita* net income of farmers in the development zones are both higher than national average levels. According to the data of the Ministry of Commerce, state-level development zones provided employment for 8.98 million people in 2010, a YoY increase of 9.7% and generated 797,500 new employment positions .

Taking Chongqing for example, Chongqing is a large city with a large rural area, a large reservoir area, a large mountainous area and areas inhabited by the minorities. In the city, there are many kinds of social problems that China encounter as stated in the implementation of the Scientific Outlook on Development; for example, industrialization is unable to adapt to the requirements of coordinated urban-rural development and scientific development.

However, in respect to the reform in coordinated urban-rural development, Chongqing carries out experiments focusing on three main streams: promoting coordinated urban-rural economic development, promoting the healthy operation of labor service economy and promoting reasonable circulation and intensive utilization of land. Through Liangjiang New Area, the city introduces open economic concepts and systems, promotes the reasonable flow of production factors, receives the industrial transfer from foreign countries and coastal areas and it helps find a new industrialization and urbanization road for the inland areas.

To summarize, after hard pioneering work, state-level economic and technological development zones have stepped into a brand new development stage. On the basis of the existing achievements, development zones will strive to become the bodies that promote domestic development and enlarge opening-up; important bases receiving the manufacturing links with high technology and high added value (known as MNCs)<sup>74</sup>, Research and Development (hereinafter R&D) centers and other service outsourcing businesses transferred by MNCs; agglomerative areas of high-tech industries, modern service industry and high-caliber talents; important supporting points that promote economic restructuring and coordinated regional economic development; important forces that promote the urbanization and new-type industrialization of the areas; institutional reform, technology innovation and circular economy.

Summarizing, we have studied the achievements of development zones with concrete examples and we come to the conclusions that: first, the path followed by the Chinese Government in establishing development zones has been visionary and a hard and long process in the policy of opening up. Second, the models of Development Zones are in constant change and have been adapted to better suit its objectives. And third, such zones have nowadays become the engine of Chinese development, accounting for the areas of most progress.

Now below we will analyze what the future holds for Development Zones in terms of rules and regulations, given a Five Year Plan in 2011 that ends in 2016.

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74 MNCs are: the manufacturing linkages of high technology and high value-added built and transferred by multi-national companies

## **Chapter II: The “12<sup>th</sup> Five-Year” Plan and Development Zones**

According to the brief introduction and statistical data published by development zones, as shown in Table II.1, China had 1,576 development zones by 2010, including 326 state-level development zones and 1,250 provincial-level development zones. The development zones had 91,408 enterprises, achieved nearly 6.3 trillion Yuan of GDP and provided employment for more than 20.86 million people<sup>75</sup>. According to the “12th Five-Year” period, development zones will still undertake the major task of achieving the goal of national economic and social development. On the one hand, the “12th Five-Year” Plan points out a direction for the development of development zones, sets clear goals for development zones and provides opportunities for the further development and improvement of development zones. On the other hand, it also sets higher and stricter requirements on development zones and gives development zones a broader space for innovation and reform.

### **Section I: The Outline of the “12th Five-Year” Plan points out a direction for development zones**

The “12<sup>th</sup> Five-Year” Plan points out a direction for development zones, i.e.: shifting economic growth mode, planning an integrated urban-rural development, and adopting a road for sustainable development. The “guiding ideology” of the “12<sup>th</sup> Five-Year” Plan explicitly indicates that scientific development should be the theme and therefore priority should be given to accelerating the change of the economic growth mode. It states: “In changing the pattern of economic development, we should continue to focus on restructuring the strategy. We should coordinate development of urban and rural communities and actively and steadily carry out urbanization. The shifting of economic growth mode should focus on the building of a resource-conservative and environment-friendly society. We should thoroughly implement the basic national policy of resource conservation and environmental protection, save energy, look for lower emission intensity of greenhouse gas, develop circular economy, popularize low-carbon technology, promote harmony of economic and social development with population, resources and environment, and adopt a road for sustainable development”<sup>76</sup>.

Development zones assume the important duty of achieving the development goals in the “12<sup>th</sup> Five-Year” period. The main quantitative goals for economic and social development in the “12<sup>th</sup> Five-Year” period include: an annual average growth rate of GDP of 7%, and 45 million

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75 Data about the state-level development zones in: <http://www.cdz.cn> The data about the provincial-level development zones is calculated according to the official statistics of each province, city and autonomous area. All data was upgraded in the second half of 2011s

76 The People’s Republic of China, 12<sup>th</sup> Five- Year Plan for National Economic and Social Development (2011-2015), Chapter IV, “Policy Orientation”, March of 2011

job opportunities that should be increased; industrial structure should be further optimized, breakthroughs should be made in the development of strategic emerging industries, and the added value of the service industry should account for 4% of GDP; the urbanization should increase by 4%, and the development of urban and rural communities shall become more harmonious; the result in resource conservation and environmental protection shall be remarkable: the water consumption of unit industrial added value should decrease by 30%, the energy consumption of unit GDP should decrease by 16%, CO<sub>2</sub> emission of unit GDP should decrease by 17%, COD and SO<sub>2</sub> emission both should decrease by 8%, and NH<sub>3</sub>-N emission and NO<sub>x</sub> emission both should decrease by 10% <sup>77</sup>.

**Table II.1**  
**Main statistical data of various kinds of development zones in China in 2010**

No. of development zones 1576		
	State level development zone	Provincial- level development zone
	Quantity 326	1250
	Economic and technological development zone 128	
	High-tech industrial development zone 67	
	Bonded zone 15	
	Border economic cooperation zone 14	
	Export processing zone 60	
	Others 42	
No. of enterprises in the zones 91408	67808	23600
	41728	21240
GDP of the zones (100 million Yuan) 62968	1336.6	750
No. of employees in the zones (10,000 persons) 2086.6		

<sup>77</sup> The People's Republic of China, 12<sup>th</sup> Five- Year Plan for National Economic and Social Development (2011-2015), Chapter III, "Main Targets", March of 2011

The “12<sup>th</sup> Five-Year” Plan indicates: China should stick to a new industrial road with Chinese characteristics<sup>78</sup>, adapt to the changes of market demand, give scope to the comparative advantage of Chinese industry in global economy according to the new trend of the advancement of science and technology, and develop a clean and safe modern industrial system with optimized structure, advanced technologies, high added value and strong employment absorption capacity<sup>79</sup>.

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78 The new industrial road with Chinese characteristics should have 5 basic elements. The first one is the scientific development. The traditional model of industrialization is large-scale consumption of resources and the expense of environment and is unsustainable. New Chinese industrialization takes the intensive growth and sustainable development as the goal. It is one civilized road of production development, affluent life and sound eco-environment, whose main targets are to build the resource-saving and environment-friendly society, to achieve the balances between growth speed and industrial structure, quality and efficiency, economic development and population, resources and environment, to achieve the scientific, harmonious and sustainable development

The second one is the integration of industrialization and information technology. In his report to the Seventeenth Party Congress, General Secretary Hu Jintao said, “ we must vigorously promote the integration of information technology and industrialization and promote the industries to grow stronger”. The integration of information technology and industrialization is to promote information technology to be used in the industrialization process, to transform and upgrade traditional industries, for improving the level of industrialization and exploiting its advantage, productivity leaps and bounds

The third one is the independent innovation. In his report to the Seventeenth Party Congress, General Secretary Hu Jintao stressed that to improve the capability of independent innovation and build an innovative country is the core of the national development strategy and the key to improve comprehensive national strength. With Chinese characteristics, the new road of industrialization is to improve the capability of independent innovation as the strategic basis of industrialization and industrial structure optimization. Only by strengthening independent innovation and constantly improving the overall technological level and core competitiveness, Chinese industry can grow stronger.

The fourth one is to expand domestic demand. China's dependence on foreign trade has been as high as 65 percent, far higher than the level of other big countries in the world. Therefore, the new road of industrialization must promote the expansion of domestic demand. This requires China to correctly handle the accumulation and consumption, the production of capital goods and consumer goods production, to actively promote and expand employment, and to do everything possible to improve the income distribution, and to give full play of the driving force behind consumer-driven national economic and industrial growth.

Fifthly is the coordinated industrial development. Chinese industrialization got launched under the premise that the traditional agricultural sector had not been fundamentally modified. At the same time, in the industrialization process, heavy industry has been the priority, agriculture, light industry and service sector have not been developed in a balance way. The Seventeenth Party Congress pointed out that economic growth should rely on first, second and third industries jointly. The new road of industrialization is to correctly handle the relations between industrialization and optimization of industrial structure, to promote the integration of information technology and industrialization, to enhance the high-tech industries and the development of modern service industries, to strengthen the basic industries, to establish a sound modern industrial system.

79 The People's Republic of China, 12<sup>th</sup> Five- Year Plan for National Economic and Social Development (2011-2015), Chapter IV, “Policy Orientation”, March of 2011

**I.1 To promote the restructuring of key manufacturing industries, to develop modern industrial clusters, and to establish industrial technologic innovation and service platforms**

In respect to key industries, development zones should vigorously carry out the restructuring of seven key industries including:

- Equipment manufacturing industry,
- Ship industry,
- Auto industry,
- Metallurgical and building material industry,
- Petrochemical industry,
- Light textile industry,
- Packing industry and electronic information industry,

Further goals include increasing efforts to eliminate backward capacities, and to compress and divert surplus capacities.

Regarding industrial layout there are many improvements ahead. To cite a few:

- Modern industrial clusters should be developed.
- China should give priority to arranging major domestic energy and mineral resource projects in the resource areas of the central and western regions, and arranging the major projects of imported resources in coastal and border areas.
- The relocation of iron & steel, nonferrous metal and chemical enterprises in urban areas for the sake of environmental protection should be carried out in an orderly manner.
- The processing of crude oil should be optimized to promote integrated upstream and downstream development.
- Also, the agglomeration of production factors should be guided.
- A batch of advanced manufacturing industry bases with international competitiveness should be developed and the key to this is to rely on national key projects. With industrial chains as links and industrial parks as carriers, a batch of modern industrial

clusters with clear professional characteristics, outstanding brand image and sound service platforms should be developed.

Furthermore, development zones should be leaders in setting up some industrial technology innovation and service platforms to promote technical upgrading of enterprises. By relying on the policy advantage, development zones should formulate policies supporting technical upgrading of enterprises, and they should encourage the application of new technologies, new materials, new processes and new equipment to upgrade and improve traditional industries and enhance market competitiveness.

Moreover, development zones should support enterprises to raise their equipment level, optimize production flows, accelerate elimination of backward processes, technologies and equipment, and raise the level of comprehensive utilization of energy and resources. Development zones should encourage enterprises to raise their ability in the development of new products, raise technology content and added value of products, and accelerate product upgrading and renewal. Development zones should promote IT-based upgrading of R&D and design, production and circulation, business management and other related links, practice advanced quality management and promote innovation of business management.

## **I.2 To develop strategic - emerging industries**

Development zones should vigorously promote the development of strategic emerging industries, such as: energy conservation and environmental protection, new-generation information technology, biology, manufacturing of high-end equipment, new energies, new materials and new-energy automobiles. The “12<sup>th</sup> Five-Year” Plan specifies the added value of strategic emerging industries shall reach about 8% of GDP of China. It’s the reason why development zones should take the lead in cultivating a batch of backbone enterprises and demonstration bases for strategic emerging industries.

## **I.3 To develop productive service industry**

Regarding modern logistics, development zones should use the regional layout for optimizing the development of logistic industry, and support the orderly development of logistic parks and other logistic clusters. They should popularize the management of modern logistics and raise the intelligent and standard level of logistics.

## **I.4 To cultivate and to develop high-tech service enterprises and famous brands**

Development zones should focus on the extended services of high technology and the specialized services that supports technology innovation, they should develop high-tech service sectors, particularly the R&D design sector and information sectors, such as: software development services, information integrated service, Internet value-added services, information security services, and digital information services (such as: geo-information industry).



## **Section II: To coordinate urban-rural development**

Development zones should regulate an order in urban and rural areas, should control development intensity and form an efficient, coordinated and sustainable spatial development pattern of land. Development zones should plan as a whole population distribution, economic layout, land utilization and urbanization pattern, steer population and economy to the areas suitable for development, protect agricultural and ecological development space and promote the harmony between population and economy, and resources and environment. The development of some urbanized areas with dense population, high development intensity and excessive burden of resources and environment should be optimized.

In summary, development zones are not only industrial clusters but also assume the duty of coordinating development in urban and rural communities.

### **II.1 To promote the harmonious development of urban and rural areas**

China should comply with the objective rules of urban development, rely on large cities, focus on small and medium cities, gradually form influential city agglomerations and promote the harmonious development of large, medium and small cities and small towns. While underlining the industrial clustering function of development zones, the public service and residential functions of development zones should be strengthened to drive the integrated infrastructure construction and networked development of large, medium and small cities.

### **II.2 To promote the transfer of rural population**

An important task of development zones should be the promotion of transfer of rural population. The development zones should gradually convert eligible transferred rural residents into urban residents. In this process, development zones should fully respect farmers' rights to independently choose whether to move to cities or stay in the countryside, and earnestly protect contracted land, house sites and other legitimate rights and interests of farmers. Development zones should furthermore adjust measures to local conditions, carry out the work step by step and gradually convert the rural migrant workers who have stable labor relations and have lived in urban areas for specific years and other family members into urban residents.

## **Section III: To seek scientific development and sustainable development**

Moreover development zones should develop themselves in a scientific way, adopt a road of sustainable development and make greater contribution to the building of a resource-conservative and environment-friendly society.

### **III.1 To control greenhouse gas emission**

Development zones should use multiple means, such as: adjustment of industrial structure and energy structure, energy conservation, increase of energy efficiency and increase of forest carbon sink in order to significantly reduce energy consumption intensity and CO<sub>2</sub> emission intensity and effectively control emission of greenhouse gas. Pilot and demonstration projects for low carbon should be carried out.

### **III.2 To strengthen resource conservation and management**

Development zones should prohibit or restrict industries with high-energy consumption, and popularize advanced energy-saving technologies and products. Further efforts should be made in promoting energy conservation. Development zones should save water resources and use land in a thrifty and intensive manner. The “12<sup>th</sup> Five-Year” Plan explicitly specifies the land use of unit GDP shall be decreased by 30%<sup>80</sup>.

### **III.3 To develop a circular economy**

Development zones should plan, build and upgrade industrial parks as per the requirements of circular economy. They should achieve intensive land use, waste exchange and utilization, cascaded energy use, wastewater recycling and they should have a centralized pollutant treatment. They should promote the circular combination of industries and establish a circular industrial system. The yield of resources should be raised by 15%.

Development zones should develop and apply the techniques of source reduction, recycling, remanufacturing, zero emission and industrial link, they should promote typical models of circular economy, carry out national demonstration of circular economy and organize the implementation of “10, 100, 1000 project”<sup>81</sup> activities for circular economy. The construction of circular economy demonstration zones in Gansu, Qinghai Qaidam and other areas, and Shanxi comprehensive reform pilot area for transformation of resource-based economy should be carried out<sup>82</sup>.

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80 The People’s Republic of China, 12th Five- Year Plan for National Economic and Social Development (2011-2015), Chapter III, “Main Targets”, March of 2011

81 In August of 2011, XIE Zhenhua, deputy director of the National Development and Reform Commission announced that, 2011-2015 in the field of recycling economy, China will implement “ten, hundred, thousand plan” which is composed by 10 big circular economy projects, 100 circular economy demonstration cities and towns, 1000 Circular Economy Demonstration enterprise

82 In October 2005, 6 departments such as National Development and Reform Commission, the State Environmental Protection Administration etc., jointly selected 42 enterprises, 17 units of renewable resources, 13 industrial parks from 10 provinces, to carry out the first batch of circular economy pilot. The goal is to explore the cycle model of economic development and to promote the establishment of resource recycling mechanisms

### **III.4 To strengthen environmental protection**

Development zones should intensify the reduction of pollutant emissions and control the total amount of main pollutants.

## **Section IV: To optimize the “external connection” and to explore a “Go Global” strategy**

Development zones should adapt to the new situation, under which China’s opening-up is shifted from focus on export and absorption of foreign capital to equal stress on import and export. Moreover they should focus on the absorption of foreign capital and overseas investment should implement a more proactive open strategy and continuously develop new open fields and spaces.

### **IV.1 To perfect regional patterns of opening-up**

The development zones in coastal areas should transform themselves from global processing and assembling bases to R&D, advanced manufacturing and service bases. They should take the lead in establishing the management systems and operating mechanisms adaptable to internationalization and boost regional soft strength in international competition. They should open the services industry, develop international trade services and attract the agglomeration of the factors of international services industry.

The inland areas should rely on central cities and city agglomerations, choose development zones as platforms and quicken the development of inland open economy. They should take comparative advantage in resources and labor, optimize investment environment, enlarge the opportunities in foreign investment, actively receive industrial transfer from foreign countries and coastal areas, and cultivate and form a number of international processing and manufacturing bases, and service outsourcing bases.

The development zones in border areas should take advantage of the geographic advantage of borders, formulate and adopt special open policies, accelerate the development of key ports, border cities, border (cross-border) economic cooperation zones and prioritized open-pilot areas, strengthen the interconnection of infrastructure with neighboring countries, and develop characteristic export-oriented industrial clusters and industrial bases for neighboring countries. For example, areas such as Heilongjiang, Jilin, Liaoning and Inner Mongolia (least developed areas in the northern region of China) should be developed into important hubs opening to Northeast Asia, Xinjiang should be developed into important bases, Guangxi should be developed into a new highland for cooperation with ASEAN, and Yunnan should be developed into an important gateway for the opening to the southwest. In summary, the level of opening-up in border areas should be raised continuously.

## **IV.2 To optimize the structure of foreign trade**

In this sense, the Five - Year Plan states that “We should continue to stabilize and expand the overseas market demand, accelerate the transformation of foreign trade growth mode, and we should push the transformation of foreign trade development from enlargement of scale to improvement of quality and benefit and from advantage in cost to advantage in overall competition. We should maintain the current advantage in export competition, and quicken the cultivation of new advantages with technology, brand, quality and service as core competences. We should raise the quality and grade of labor intensive export products, increase export of electromechanical products and high-tech products, and strictly control the export of resource-based products with high energy consumption and high pollution. We should perfect policies and measures, promote the extension of processing trade from assembly and processing to R&D, design, manufacturing of core components, and logistics, and lengthen the domestic value increment chain. We should improve the policies and functions of special customs supervision zones, and encourage processing trade enterprises to converge to special customs supervision zones. We should encourage enterprises to establish an international marketing network and raise the ability to develop an international market. We should promote services export, enlarge opening-up of services industry, and raise the *ratio* of trade in services trade. We should vigorously develop services outsourcing and set up a number of services outsourcing bases”.

## **IV.3 To explore a “Go Global” strategy**

The success of Chinese development zones has attracted extensive attention in foreign countries. China has accumulated rich experience in the construction and management of development zones and also more Chinese enterprises go out of China. Under such circumstances, the eligible and capable Chinese development zones should take the lead in exploring a “Go Global” strategy and setting up development zones abroad. On one hand, it may give full scope to the comparative advantage of Chinese development zones; on the other hand, it will serve as a great push on enterprises to “Go Global”.

## **Section V: Domestic development zones moved at an opportune time: strategic adjustment of two state-level development zones**

Chongqing Liangjiang New Area and Hainan Yangpu Economic Development Zone are two state-level development zones. The two development zones have adjusted their development strategies to embody the requirements of the “12<sup>th</sup> Five-Year” Plan according to the Outline of the “12<sup>th</sup> Five-Year” Plan for National Economic and Social Development.

### **V.1 Chongqing Liangjiang New Area**

Liangjiang New Area was founded in February 2009 and included into the Outline of the “12<sup>th</sup> Five-Year” Plan for National Economic and Social Development in March 2011.

Liangjiang New Area consists of Jiangbei District, Yubei District and Beipei District, as well as Chongqing New North Zone, Lianglu/Cuntan Free Trade Port Area, Liangjiang Industrial Park and other functional economic zones. The planned total control range is 1200 square kilometers, including 550 square kilometers of developable area and 650 square kilometers of water space, undevelopable and unusable mountainous areas, and natural ecological areas.

### **1. Statistical data and main features of its industrial structure in 2010**

Liangjiang New Area was opened in 2010 and in that year, it achieved 105.5 billion Yuan of total output value, a YoY increase of 23% and accounting for about 13.5% of the GDP of Chongqing (about 780 billion Yuan). By the end of December, there were 334 projects under negotiation, with an estimated contract investment of 317.5 billion Yuan. In that year, the industries' designated size achieved 198.5 billion Yuan of output value, accounting for 21.8% of the city's total, a YoY increase of 34.2%; fixed assets investment was 105.4 billion Yuan, accounting for 15.2% of the city's total; the total retail sales of consumer goods amounted to 49.4 billion Yuan, accounting for 17.2% of the city's total, a YoY increase of 35%; the fiscal revenue was 48.4 billion Yuan, a YoY increase of 83.8%; and the total import and export amount was about 4.1 billion dollars, accounting for 32.7% of the city's total<sup>83</sup>.

In view of the economic operation of the Liangjiang New Area in the founding year, its industrial structure has two outstanding features:

#### **(1) Coordinated development of secondary and tertiary industries**

The added value of the secondary industry was about 57.4 billion Yuan, accounting for 54.4% of GDP (of the Chongqing area). The added value of the tertiary industry was about 46.5 billion Yuan, accounting for 44% of GDP. The contribution of the secondary industry to economic growth was 59.7% and drove economic growth by 13.7 percentage points. The contribution of industrial economy was 49.6% and drove growth by 11.4 percentage points. The contribution of the tertiary industry to economic growth of the new area was 38.9% and drove growth by 8.9 percentage points.

#### **(2) The transport equipment - manufacturing industry as a pillar industry**

The transport equipment manufacturing industry (automobile, motorcycle and their accessories) achieved 125.4 billion Yuan of output value, accounting for 63.2% of the industries above their original size. The electric equipment and machinery manufacturing industry achieved 18.5 billion Yuan of output value, accounting for 9.3%. The biomedicine and equipment manufacturing industry achieved 9.9 billion Yuan of output value, accounting for 5.0%. Other industries achieved 44.7 billion Yuan of output value, accounting for 22.5%. Therefore the clustering of automobile, motorcycle and their accessories industry is obvious and it's a pillar of the New Area.

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83 Administrative Committee of Chongqing Liang New Area, *Overview of Liangjiang New Area*, 2011

### **(3) The “12<sup>th</sup> Five-Year” Plan of the Chongqing Liangjiang New Area**

In September 2011, Chongqing’s Liangjiang New Area announced its “12th Five-Year” plan for economic and social development. Its development goal is that by 2015, the economic aggregate will reach 320 billion Yuan, the area of the built area will reach 350 square kilometers, and the permanent population will reach about 3.5 million people.

In the “12<sup>th</sup> Five-Year” period, Liangjiang New Area will give priority to implementing five major strategic initiatives:

#### **a. To develop “great industries” and to build a core cluster of inland high-end industries**

Liangjiang New Area will focus on the strategic orientation of building an inland base for advanced manufacturing industries and modern service industry, integrate factor resources, optimize spatial layout, promote industrial development towards high - end industry, high quality, clustering and green, and create a “862”<sup>84</sup> core industrial system. By 2015, its total industrial output value will exceed 600 billion Yuan, its income from cloud computation service will reach 50 billion Yuan, the added value of its financial sector will be above 30 billion Yuan, the operating income of its logistics industry will exceed 300 billion Yuan, and the <sup>ratio</sup> of R&D expenditure to GDP will exceed 3%<sup>85</sup>.

#### **b. To develop a “great city” and to build a core functional zone assembling a national central city**

Liangjiang New Area will build some landmark buildings and form a new international business center parallel with the Central Business District of Chongqing Jiefangbei. It will mainly carry out the old town upgrading in Guanyinqiao, Longxi and Lianglu, accelerate the development of Jiangbeizui, Lijia, Ruilai and other new urban business centers, improve the supporting urban facilities in Longsheng, Caijia-Shuitu, New North Zone and other industrial clusters and build a first rate international city in western China.

#### **c. To converge “a great group of people” and to build a happy and livable new area**

Liangjiang New Area will stick to the development road oriented by people’s livelihood, plan and build the public service facilities of the new area in a high standard according to the

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84 “8” means 8 manufacturing industries, such as automobile, electric information, railway transportation, space and aviation, hi-tech equipment, energy saving and environment protection, new energy and new material, biological medicine. “6” means that 6 service industries, such as the “cloud” computer system, the comprehensive commerce and trade, the international exhibition, the cargos transportation and logistic, corporations’ headquarters center, service outsourcing service. “2” means 2 centers, such as financial center and innovation center

85 Administrative Committee of Chongqing Liang New Area, *the 12<sup>th</sup> Five-Year Development Plan of Chongqing Liang New Area* (2011-2015), 2012



principle of “advance planning, synchronous construction, high-end introduction, complete range, balanced layout, convenience and benefit to the people”, raise the supply capacity of employment, social insurance, education, health, culture, sports and other public services, and establish a public service system “advanced in the west and first rate in China”<sup>86</sup>.

**d. To adopt “greater opening” and to build an inland open hub gateway**

It is expected that Liangjiang New Area strengthens domestic opening and regional cooperation, raises its capacity in allocation of global resources, builds a hub gateway for the opening-up of inland, develops Lianglu/Cuntan Free Trade Port Area into an important national bonded logistics base, a processing trade base and a service trade cluster, and cultivates and develops specialized trade markets, international expo, “Liangjiang Forum” and other international exchange brands. Liangjiang New Area shall target the Global 500 enterprises and industrial leading enterprises, introduce world-class projects, and converge regional headquarters, R&D, settlement and service institutions of MNCs. By 2015, Liangjiang New Area should achieve 40 billion dollars of import and export amount, cumulatively utilize 20 billion dollars of foreign capital and 550 billion Yuan of domestic capital, it should attract more than 120 Global 500 enterprises, it should gather more than 100 foreign financial institutions, and it should achieve above 100 billion dollars of offshore settlement.

**e. To set up a “pilot zone” for comprehensive urban-rural reform**

Liangjiang New Area shall take the advantage of being a pilot zone, and therefore it should plan as a whole and carry out the reform and innovation of key fields and critical links. Furthermore it should take the lead in breaking institutional obstacles against coordinated urban-rural development, it should actively explore the “deep water zone” of reform and opening-up, and it should establish the systems and mechanisms adaptable to the development and opening-up of the new area.

In summary, Liangjiang New Area has achieved great success but nevertheless, the Chinese government sees that there is much room for improvement and therefore sets these high goals and clear directions in order to become a model development zone for the rest of China.

## **V.II Hainan Yangpu Economic Development Zone**

The Hainan Yangpu Economic Development Zone is a state-level economic development zone established with the approval of the State Council in March 1992. It is in Yangpu Peninsula at the northwestern corner of Hainan Island. The land in the zone is assigned to foreign investors in a lump. Foreign investors may operate the land for 70 years and it is the first Chinese development zone where foreign investors can develop tracts of land. Hainan

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86 Administrative Committee of Chongqing Liang New Area, *Overview of Liangjiang New Area*, 2011



Yangpu Economic Development Zone now has 31 square kilometers of area (the planned controlling area is 69 square kilometers) and it has 50,000 people<sup>87</sup>.

### **1. Statistical data and main features of its industrial structure in 2010**

In 2010, the zone achieved 17.82 billion of output value, 57.28 billion Yuan of total output value of the industries above its designated size, 12.41 billion Yuan of industrial added value, 14.71 billion Yuan of tax revenue and 1.13 billion Yuan of local general budgetary fiscal revenue. The port throughput was 28.167 million tons. 210,000 TEU were handled. The total import and export value was 6.17 billion dollars, a YoY increase of 27.7%, 6.5 times as much as that in 2005. The zone fulfilled the task for energy conservation and emission reduction in the “11<sup>th</sup> Five-Year” period issued by the Hainan Provincial Government<sup>88</sup>.

The industrial structure of the development zone has the following outstanding features:

#### **a. Fast development of the port and shipping industry**

The 50km long coastline in Yangpu Peninsula may accommodate more than 100 10,000 to 300,000-tonnage berths. By now, 22 berths have been built, including 14 berths of above 10,000 tons. Among them, a 300,000-tonnage crude oil terminal has preliminarily formed a port group with multiple functions, such as: bulk cargo, container and oil and gas transport. It is planned to develop Yangpu into a large port of 100 million tons and to establish a basic framework of a regional shipping hub and logistics center within 3 to 5 years.

#### **b. Steady growth of the petrochemical industrial base**

An 8MTA oil refining project, a 230KTA base oil project and a 100KTA styrene project have been put into operation. A 600KTA polyester material (PX) project is under construction and is scheduled to start operation in April 2012. A 2.1MTA PTA project and a 1MTA PET project have started construction and are scheduled to start operation in June 2012.

#### **c. Integrated pulp-paper base**

A 1MTA wood pulp project and a 300KTA toilet paper project have started operation. A 1.6MTA papermaking (900KTA in the first phase) project has completed about 7.5 billion Yuan of investment and it is scheduled to produce 272,000 tons of paper for cultural use and it is supposed to achieve 1.22 billion Yuan of output value in 2011.

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87 Administrative Committee of Yangpu Economic Development Zone, *Overview of Yangpu Economic Development Zone*, 2011

88 Administrative Committee of Yangpu Economic Development Zone, *Overview of Yangpu Economic Development Zone*, 2011

**d. The construction of a petroleum reserve base**

A bonded warehouse for 2.05 million cubic meters of oil as a project of SINOPEC will be completed and put into service by 2012. The preparatory works of the SDIC Forboth 300,000t crude oil terminal and the storage and transport facilities' project have started construction. The project is scheduled to start operation by the end of 2012.

**2. Master Plan of Hainan Yangpu Economic Development Zone (2011 to 2030)**

In September 2011, the Hainan Yangpu Economic Development Zone formulated the Master Plan of Hainan Yangpu Economic Development Zone (2011 to 2030). According to the plan, the development zone shall achieve above 200 billion Yuan of total industrial output value by 2015 and it shall have 250,000 urban residents by 2030<sup>89</sup>.

**a. Industrial layout**

According to the plan, the industrial layout may be summarized as “one port, three bases and four industrial belts”. “One port” refers to a hub port possessing the carrying capacity of an international shipping and logistics center. “Three bases” refer to an oil & gas reserve and transfer base, a petrochemical industrial base and an industrial base integrating pulp and paper-making and processing of paper products. “Four industrial belts” refer to a port and shipping industrial belt, a petrochemical, pulp and paper industrial belt, an industrial belt for general processing industry and bonded warehousing and logistic industry, and a supporting service belt.

**b. Institutional innovation**

In order to perform the functions of the Hainan Yangpu Economic Development Zone in a better way, and in order to innovate and deepen the institutional mechanisms for the development of Yangpu, the Yangpu Administrative Bureau was renamed into Yangpu Administrative Committee. Yangpu Development and Construction Holding Ltd. as the developer of Yangpu merged into Yangpu Administrative Committee. The special policy of Yangpu supporting Danzhou is adopted and 10% of the net income of Yangpu is used to support the finances of Danzhou. In 2010, Yangpu gave 120 million Yuan of support to the finance of Danzhou.

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89 Administrative Committee of Yangpu Economic Development Zone, **Master Plan of Hainan Yangpu Economic Development Zone (2011 - 2030)**, 2011

## **Section VI: Innovation in administrative systems as a “bottleneck” for the implementation of the “12<sup>th</sup> Five-Year” Plan**

At the present, China does not have definite provisions on the administrative systems of development zones. The development zones have formed diverse and characteristic administrative models in the light of the local conditions. Following the continuous enlargement of the scale of development zones and continuous improvement of urban functions and social service functions, the current administrative models become inadaptable to the further development of development zones, the same in adapting to the requirements of the “12<sup>th</sup> Five-Year” Plan on development zones. Therefore, it is urgent to make innovation in the administrative models of development zones. Below we will describe such models and some considerations about them.

### **(I) Main administrative models of development zones**

As shown in Table VI.2.1, the administration of development zones has three basic systems and seven basic models. The three basic systems are government dominance, mixture of government and enterprises, and corporate dominance.

#### **1. Government dominance**

Government dominance includes three basic models, i.e.: the model of administration by a *quasi*-government administrative committee, the model of administration by an administrative area, and the model of merged administration by the administrative committee and the administrative area.

##### **a. Model of administration by a quasi-government administrative committee**

It is the most popular administrative model. The administrative body is the administrative committee of the development zone. It is an agency of the local government.

The standing committee of the people’s congress of the province, autonomous area, municipality directly under the Central Government or large city where the development zone is located, can make their own regulations on development zones. Generally, according to these regulations, the administrative committee is the administrative authority of administering the development zone in a unified way on behalf of the local government where the development zone is located.

The administrative committee of the development zone may also set up a few working organizations responsible for concrete administrative matters. This model is suitable for small or medium development zones in general. After a development zone grows to certain scale and its urban functions are perfected, this administrative model will become unsuitable. The main defect is the absence of a clear legislative definition on the nature of administrative committee, so it does not have a clear legal status and the qualification of an administrative

organization. This may lead to confusion in the administration and it goes against the long-term development of development zones.

#### **b. Model of administration by an administrative area**

In this model, the government of the development zone administers the development zone in a unified way. This model is mainly suitable for development zones, which are whole districts, for example in Shanghai Pudong New Area. Pudong New Area has its own complete administrative system, like that of a government, and it includes leaders from five groups including the party committee, people's congress, government, Chinese people's political consultative committee and discipline inspection commission of the new area. Its outstanding advantage is that it may perfectly solve the problem about the qualification of an administrative organization, making the coordination and cooperation pretty easy. In June 2005, Pudong New Area became one of the first comprehensive reform pilot areas approved by the State Council<sup>90</sup>. The reform of its administrative system underwent "secondary innovation". Firstly, it increased six functional zones and set up party working groups and administrative committees of the functional zones to plan in a unified way and manage as a whole the development of the areas. Secondly, it practices a "1+23" urban administration pattern, i.e.: The government of Pudong Administrative Area corresponds to 23 communities and the functions of original town/township governments in the new area fade<sup>91</sup>. This means that the government of Pudong Administrative Area has many prerogatives and much more legitimation.

#### **c. Model of merged administration by the administrative committee of the development zone and the administrative area**

This is basically a mix of the models a and b. There are two plates and one team and they administer the development zone in a unified way. Examples of this model are the Qingdao Economic & Technical Development Area and the Fuzhou Economic & Technological Development Zone. At present, there is a trend of increasing this type of development zones. In comparison, these development zones are similar to economic special zones in China. As an advantage, it is the same model as the model of administration by an administrative area and may solve the problem about the qualification of an administrative organization with satisfactory coordination. As a disadvantage, its authorities are separate and its targets might conflict with each other.

### **VI.2 Mixture of government and enterprises and corporate dominance**

A small number of development zones have created characteristic administrative models according to their actual conditions. These models may be summarized into an administrative

90 In April of 2009 with the approval of State Council, Nanhui District of Shanghai was included in Pudong New Area. So, Pudong New Area has 1210 square kilometers of land, near 5.2 million of population and 25% of Shanghai's GDP

91 The People's Government of Pudong New Area, <http://www.pudong.gov.cn/>

model with a “mixture of government and enterprises” and an administrative model with “corporate dominance”. For example, Sichuan Mianyang Development Zone entrusted the management and development to Chengdu Brilliant High-Tech Industrial Park.

There is also another administrative model called Sino-foreign cooperation. It mainly refers to the model of the Administrative Committee of Suzhou Industrial Park. It is a special model for development zones. Its administrative body -administrative committee of the development zone- is also an agency of Suzhou Municipal People’s Government, but there is strict separation of administration and enterprises; the administrative committee is only responsible for its administrative affairs, while China-Singapore Suzhou Industrial Park Development Co., Ltd. is responsible for its functioning.

**Table II.1**  
**Main statistical data of various kinds of development zones in China in 2010**

System type	Model	Administrator	Administrative authority
Government dominance	Administration by a quasi-government administrative committee	Government	Largest
	Administration by an administrative area		State-level development zones: with the authority of provincial-level economic management
	Merged administration of the administrative committee of the development zone and the administrative area		Provincial-level development zones: with the authority of municipal (county) level economic management
Mixture of government and enterprises	Mixed administration or cooperative management	Administrative committee and development corporation	Medium Partial authority of administration and partial authority of economic management
Corporate dominance	Management by developers	Enterprise	Weak, without the authorities of administration and economic management

### **VI.3 Two major problems with management bodies**

#### **1. Ambiguous administrator *status* of the management bodies of development zones**

Article 1 of the Organic Law of the Local People's Congress and Local People's Governments of the PRC specifies: "People's congresses and people's governments shall be established in provinces, autonomous regions, municipalities directly under the Central Government, autonomous prefectures, counties, autonomous counties, cities, municipal districts, townships, nationality townships, and towns." It does not mention the administrative committees of development zones. The establishment of local governments is specified in the Organic Law. Therefore, the government form of the administrative committee of a development zone does not have a legal basis.

The administrative committees of development zones are not agencies of the people's governments. An agency of a local people's government refers to the administrative organ the local people's government sets up within a specific administrative area. Although it is not a level-1 people's government (meaning that it does not belong to the Central Government), it exercises the right to organize and administer the administrative affairs in the specific area and can carry out administrative tasks in its own name and assume legal responsibility for its consequences. Article 68 of the Organic Law of the Local People's Congress and Local People's Governments of the PRC specifies: "When necessary and with the approval of the State Council, the people's government of a province or autonomous region may establish certain agencies. When necessary and with the approval of the people's government of a province, autonomous region, or municipality directly under the Central Government, the people's government of a county or autonomous county may establish district offices as its agencies. With the approval of the people's government at the next higher level, the people's government of a municipal district or city not divided into districts may establish neighborhood offices as its agencies." Although administrative committees of development zones and the agencies of local governments bear many resemblances, the legal meanings of "body" and "agency" are different. The administrative committees of development zones neither have been recognized by the Organic Law nor meet the procedural requirements prescribed in the Organic Law, so they are not agencies of local people's governments.

#### **2. Ambiguous functions and authorities of the management bodies**

At the present, the administrative systems of Chinese development zones mostly are a top-to-bottom multi-level administrative system. Generally, there are three management levels: Central Government, local government and development zone. However, as these three management levels and management bodies lack effective coordination, there are not clear management authorities, holding back the effective play of the macro-control function of the central management level.

### **Chapter III: Final Considerations**

The development of Chinese development zones has been a process that started in the 1980s with the exploratory stage in the 1970s. Then we find the fast development stage in the 1990s and the leapfrog development stage after the entry of the new century. Generally speaking, we can consider that throughout nearly 30 years, the strategy of development zones has achieved a remarkable result. Various kinds of development zones at different levels are distributed all over the country and they have become engines of local economies and even national economy. A research on many state-level economic and technological development zones in East China indicates that the economic aggregate of development zones accounts for 13% of the GDP of the cities where they are located on average and the *ratio* of service industry in the zone is 23%<sup>92</sup>. Their contribution to urbanization is obvious and so it is importance to local economy.

The Chinese development zones are bridgeheads for attracting foreign direct investment and introducing advanced technologies and management experience. They are also important experimental fields of the Chinese reform and opening-up policies. They are a matter of significance for China in order to adjust its industrial structure, to carry out reform in traditional industries, to raise labor productivity, and for commercializing and industrializing high-tech findings and enhancing international competitiveness.

However, despite the achievements, we should also be aware of the problems and challenges that they face. Through the survey carried by our group and summarized above in the development zones in Chongqing, Zhejiang and Hainan, we pondered over some of the problems discovered.

#### **1. The general idea of keeping pace with the times**

Development zones play an important role as showcases and they are a driving force for development. Their contribution to the Chinese economy is obvious. However, while the national policies within development zones and those outside development zones are getting closer, the ideas about how to better develop such zones becomes vitally important. As development zones overlap with urban and rural areas, they are the areas where the achievement of urban-rural integration is easier but in other areas is a more difficult task.

We believe that in the future, development zones should play a bigger role in the national development strategy, particularly in the development of city agglomerations and there should be a role given to such zones in shifting the economic growth mode. This means that the current closed model should be replaced by a more open and inclusive model.

Development Zones shouldn't be a land of a few square kilometers as it was in the beginning.

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92 <http://www.htsc.com.cn/htnews/news.jsp?docId=15344588>



Instead, they should be a large platform, which can promote traditional primary, secondary and tertiary industries, coordinate urban-rural development and harmonize the development of human and society and adopt an inclusive development model. Now comes “an era of post development zones”, when the focus of the industry should shift to focus on modern service sector. And then afterwards will come “an era of pan development zones”, when we think that the Chinese economy will get much more open.

How to extend the “spillover” effect of state-level development zones to other places is very important. Without preferential policies (including tax) and land expansion, the attraction of the current development zones would not be so big, because development zones have standard services, laws and regulations, almost same as those in developed countries. Therefore in the future, development zones need functional overlapping and functional reengineering. This is also true for other developing countries, which should attract more enterprises and should also have a growth model with various incentives that developed countries are lacking.

## **2. Development zones face dual transformation and upgrading of the industries in the zones and its functions**

There are many Chinese scholars who believe that the “12<sup>th</sup> Five-Year” period is a “sharp turn period” of domestic development zones. Chinese development zones have gradually formed a model under which the coastal areas receive orders, and the inland areas are responsible for processing and serve Pearl River Delta and Yangtze River Delta, but the next step is to prioritize strategic emerging industries, resource-conservative industries and technology innovation industries. From the perspective of industrial chains, they should carefully select midstream industries, but try to extend towards upstream and downstream industries, and try to develop what they call “coordinated economy” and “headquarters economy”<sup>93</sup>.

Parks are the platforms of industrial development. Their functions also face transformation and upgrading. It is understood that the development of industrial parks in the world has experienced five stages: labor-intensive park, capital-intensive park, technology-intensive park, innovation-oriented park and trust network. At the present, most of the domestic development zones are still at the level of the first or second generation. Only some parks in the coastal areas of East China have entered the third generation and become the clusters of capital-intensive industries, which under the macro-background of China’s vigorous promotion of independent innovation, they should also be the forerunners executing an innovation strategy. Multidisciplinary and interdisciplinary industries shall become the dominant choice within this type of parks.

However, the development zones even in the same areas of the coastal developed provinces are also different in terms of development level. Taking Zhejiang Province for example, the group found that development zones in the province encounter the following problems:

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93 <http://finance.stockstar.com/MS2011101400001753.shtml>

firstly, the development level needs to be raised. At present, traditional industries are to be moved out, while high-end industries are in the process of introduction. Secondly, the spatial layout is unbalanced. State-level development zones are mainly distributed in the coastal areas, and few are in the relatively backward western and southern parts of the province. Thirdly, they are behind on the construction of service platforms. In general, we believe that there is still much room in the SERVICES area of Chinese Development Zones and it is probably true of the whole services sector in Chinese economy.

Meanwhile, all development zones regardless of types and levels mention the development of “strategic emerging industries”. The problem is that many zones don’t understand the real meaning of strategic emerging industries. Under this circumstance, it is impossible to “accurately” introduce investors and find cooperative partners. As a matter of facts, the unclear definition is the very reason for the serious homogeneous competition among development zones in different provinces and cities.

### **3. The need for constant innovation in administrative systems and mechanisms of development zones**

Chinese development zones mainly adopt two administrative models: the system of administrative committee, which is simple and flexible, but it can hardly match the development scale of development zones; and on the other hand the administrative system integrating a development zone with an administrative area, which has very good coordination, but it is liable to high operating cost and financial strain. Following the enlargement of development zones, the diversification of their functions and the cease of some special policies, many development zones have gone from being industrial ones to being multifunctional new urban areas. Their administrative system is also shifted from an agency acting as a *quasi*-government to a new-type administrative system.

At the present, such trend has appeared in some areas. For example, Qingdao Economic & Technical Development Area was merged with Huangdao District, Ningbo Economic & Technological Development Zone was merged with Beilun District, and Guangzhou established Nansha District and Luogang District. This change of administrative system could be seen as a simple regression from a new system to an old system but it could also be seen as an innovation on the basis of institutional unification. The administrative model could reflect the principle of “small government, large society, small organ and great service”. However, there are some opinions against the above model because they claim that excessive administrative bodies add on operating costs and also, the model is less flexible than the unitary system of administrative committee.

In any way, the related ministries and commissions under the State Council have assigned working groups to different places to carry out a general survey on the administrative systems of development zones and come up with new solutions.

Besides this, attention is also drawn to the setting of the level of development zones and

its administrative authority. For example, we found that Ningbo sets an administrative-higher level for development zones, i.e.: gives development zones the treatment at a deputy department level and some people think that this approach has played a positive role for some time.

#### **4. Facing the resources' challenge**

Some of the challenges of development zones are: labor shortage, land *quota*, energy restriction, and environment discharge capacity. Land quota is believed to be a critical problem restricting the development of all kinds of development zones, since a development zone includes processes of urbanization and industrialization, which without land would become an empty talk.

In addition, there is a financing difficulty. For example in development zones such as Ningbo, a major way of financing is through a loan, but maybe it would be more effective to use a BT or BOT.

#### **5. The need to support the “Go Global” strategy**

Today, when Chinese enterprises carry out the “Go Global” strategy, the external environment is getting more complex and there is a bigger investment risk. For example in Chongqing, companies adopt a foreign investment strategy dominated by domestic demand, rather than blind “Go Global”. In other words, “Go Global” is a goal-directed “Go Global” based on a population’s own needs to make up a demand shortage with external resources. The enterprises adopting a “Go Global” strategy in Chongqing think that given the external risk, “bundled” “Go Global” is more effective to enterprises and the best way is to set up their own “parks” in foreign countries. They think that it is necessary for Chinese development zones to Go Global and not only for companies to do so. However, when the Chinese development zones go global, they are restricted by the shortage of personnel with knowledge of the foreign country<sup>94</sup>.

#### **6. A major restraint against the development of Chongqing “Liangjiang New Area”**

“Liangjiang New Area” as the third state-level new area set up by the Central Government after Pudong New Area and Binhai New Area is strategically significant to the coordinated development of regions in China and the acceleration of the Strategy for Large-scale Development of the Chinese Western Region. Chongqing has a unique locational advantage and can integrate ports, railways, airports and expressways. Since its establishment, it has achieved breakthrough in systems, mechanisms, and economic development. Nevertheless,

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<sup>94</sup> In this sense, we believe that the phase “Go Global” should be done with a different model than the one carried out exclusively in China, but it should be a result of a careful plan between the two roads (Chinese and foreign country). In Costa Rica, it is also a goal to merge local needs and forms with the Chinese experience in Development Zones when trying to establish one

it still has a large gap from the other two areas, particularly; it lags behind in project development. Pudong New Area has the Shanghai Stock Exchange, Pudong Development Bank, a large aircraft and other projects. Binhai New Area has “Large Aircraft”, “Large Rocket”, Bohai Bank and other projects. But Liangjiang New Area has few large-scale projects, so the State should give more support to it in the form of large projects.

## **7. Restraints and future direction of the development of Hainan Economic Special Zone**

Generally speaking, the ranking of Hainan’s economy in China remains unchanged since the founding of the province 22 years ago. We can say the development of Hainan is very original, but it still faces many restraints. First, people’s overall life quality is low. The quality of life of the farmers is poor, the innovation capacity is inadequate, the efficiency is low and people’s ethical standard is low<sup>95</sup>. Secondly, the strategic position of Hainan is awkward because it is very far away from the mainland and the issue of the South China Sea concerns Chinese national core interest, but it is also an international issue. This has generated great impact on the development of Hainan. Thirdly, due to its geographic position, the industrial chains of Hainan are short and their drive to economy is limited. For these reasons, the economy of Hainan faces transformation. The strategy for developing Hainan as an “International Ecological Tourism Island” proposed by the Central Government in 2009 integrates various kinds of preferential policies. It is foreseeable that through developing tourism and modern service industry, the economy of Hainan will play a demonstrative role for the nationwide transformation of economic growth mode, but it has not achieved such level yet.

## **8. The ecological challenges**

Today China is the biggest polluter in the world, followed by other countries in Asia<sup>96</sup>. This means that the ecological challenge is a big one for Chinese economy in general and in the introduction we spoke about China’s rise. Well, we believe that the only way that China can actually keep on raising is if China commits to: lower carbon emissions by implementing effective policies on energy consumption, energy production and vehicle usage. Also, those policies should contemplate a clear direction in Development Zones that they should include: electricity plans using clean energy, less use of gas vehicles (such as the efforts made in Shanghai World Expo by using electrical vehicles), and promoting the establishment of greener companies in the zones in general. We believe that even though the Chinese government is making some efforts; such efforts are not enough in reducing the carbon footprint.

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95 This is an opinion of our survey group, including Chinese nationals who can note this better than a foreign in China

96 There is a lot of information on this topic, China being the biggest polluter but also making big steps towards a carbon – low country. For example, in some newspapers: <http://www.reuters.com/news/pictures/slideshow?articleId=USRTXRKSI#a=1>

In this sense, looking for strategic partners worldwide from whom the Chinese can also learn and cooperate for the greener development is crucial. In this sense, we believe that partners like Costa Rica could be very valuable to improving in the ecological field: on one side, Costa Rica can benefit from the Chinese experience in infrastructure and development of the zones, on the other hand the Chinese can benefit from the current plans that the country has carried out in developing green technologies and a greener country.

At the beginning of this work, we spoke about how China is on the rise in becoming a superpower and how development zones have played an important role on this.

However, there are still many challenges to overcome and we believe that some of the biggest are:

1. Education. In general not only in development zones, but the Chinese government should make an effort in raising the education level. This can also contribute in attracting better quality and innovating industries to development zones.
2. Government reforms in terms of fiscal, pensions, and a better, more inclusive democratic participation and protection of human rights. This is the reason why maybe some companies are also hesitating in establishing in Chinese Development Zones, but that should be addressed at some point in a planned way like it has always been done in China.
3. Labor quality should improve in Development Zones, and this can lead to a greater range and more innovative and technological zones.
4. Environment. Like we stated before, there are some urgent environmental policies needed such as: energy savings, certification systems, and renewable energy in development zones.

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