



Story of success and importance of the Shenzhen Special Economic Zone (regional cooperation in Central Asia)

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I. The prerequisites and history of special economic zones in China





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■ First provision

For the Chinese society, the special economical zone is not a synonym of the city, it is not simply the place where special measures and strategies are implemented, but this is a new stage in China's social and economic development. Special economic zones for China are not only catalyzers of the Chinese reform and opening-up policy, but also they open new ways to learn and explore the social change path and processes in the Chinese social system. The special economic zone is not only a mandatory institutional instrument, mechanism of the system, but even, if such comparison may be drawn, disruption of the equilibrium in the traditional system, the engine of unbalanced development, being the best way to transform the social system in China.





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Shenzhen has deserved its status of the city with brilliant achievements and the image of Special Economic Zones, using non-traditional, for "Chinese style ", mechanisms and theory that have become canonical for the regional economy - "effect of a reverse flow," "effect of distribution, "top-down spillover effect" (statement that the benefits for large businesses resonate with the interests of population) support the unique path to changes the Chinese social system. The evolution from classical experimental special economic zones to universal special economic zones, and also expansion of the forms and possibilities of free trade zones to the special economic zones, formation and creation of the spillover effect which result in the natural combination of "gradual development" and "reversible gradual development" as well as achievement of institutional changes. At the same time, a similar approach to institutional changes not only reflects the internal logic of economic and institutional changes, but also presents the theoretical mechanism.





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■ Second provision

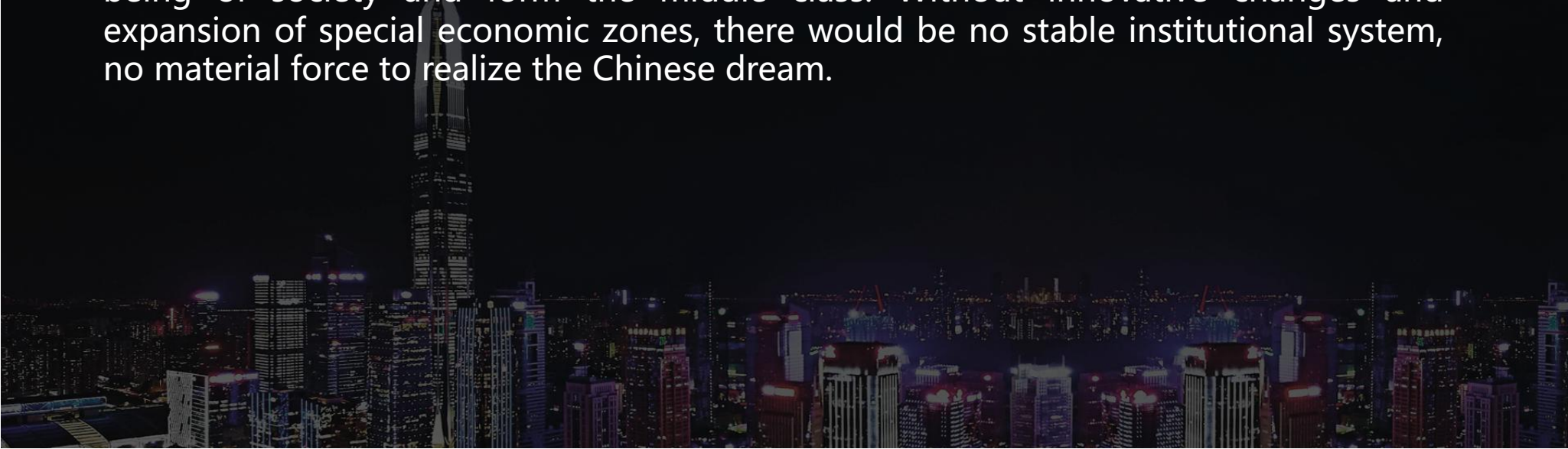
If the search of the right path, course towards modernization in the national context of China is a historical mission and responsibility of the CPC, for 40 years since the introduction of the reform and opening-up policy, then creation of special economic zones can be considered as the biggest achievement on the way of implementation of this great initiative. From the historical perspective, we can not underestimate the influence of special economic zones on changes in the processes of the Chinese social system and formation of unique "Chinese path". For the modern China, special economic zones are simply a result of a particular policy or temporary measure, but they represent the logical starting point of the Chinese social system, the unique Chinese path for which they are most crucial.





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It is fair to say that if special economic zones have not been created, that neither the reform and opening-up policy, nor the first attempt of special economic zones would be implemented, there would be no path for changes in the social system of China. Without special economic zones, as an example and benchmark, the Chinese path would not be possible. Without special economic zones, as an example and benchmark, there would be no opportunities to significantly improve the well-being of society and form the middle class. Without innovative changes and expansion of special economic zones, there would be no stable institutional system, no material force to realize the Chinese dream.





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■ Third provision

In the entire history of reform and opening-up policy, no other city could repeat success of Shenzhen, that was a symbol of one era' s end and another era' s beginning. There is no other city like Shenzhen that can serve as an example of institutional changes and path to development of the whole country. There is no city like Shenzhen that, via its continuous changes, would symbolize the Miracle of social transformation, create wealth, and at the same time new ideas and perspectives. Therefore Shenzhen' s history is not only the history of city' s development, but also a history of shaping the institutional changes and setting the development course of the country in transition, fostering its future prosperity.





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II, Success story and importance of the Shenzhen special economic zone





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■ First provision

To give preference and to follow a course towards market transformations, encourage development of private enterprises at legislative level and through preferential policy.

Creation of socialistic market economic system with Chinese specifics is a fundamental direction of social reform in China. Reforming and opening-up policy of China started in 1978 and the first special economic zone was created on the 26th of August 1980. In 1992 Shenzhen was the city where small and medium-size enterprises and private sector take a leading position. Shenzhen' s preferential policy of encouraging private enterprises and relevant legislation are mainly focusing on two aspects: tax benefits and soft loans.





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Currently in Shenzhen SEZ private enterprises account for 99,3% from a total number of enterprises which is 84,7% from total number of enterprises in the city. They generate more than 60% of GDP and total amount of taxes paid by enterprises in the city. Among private enterprises in Shenzhen there are 4 enterprises that are among 500 largest global companies and 60 enterprises having more than a billion income from core activities. There are a lot of prominent private enterprises such as Huawei, Tencent, Vanke, BYD, ZTE and others that are a strong driving force for development of Shenzhen economy.

Summary. Shenzhen' s experience proves that only market economy can create the bright future of China.



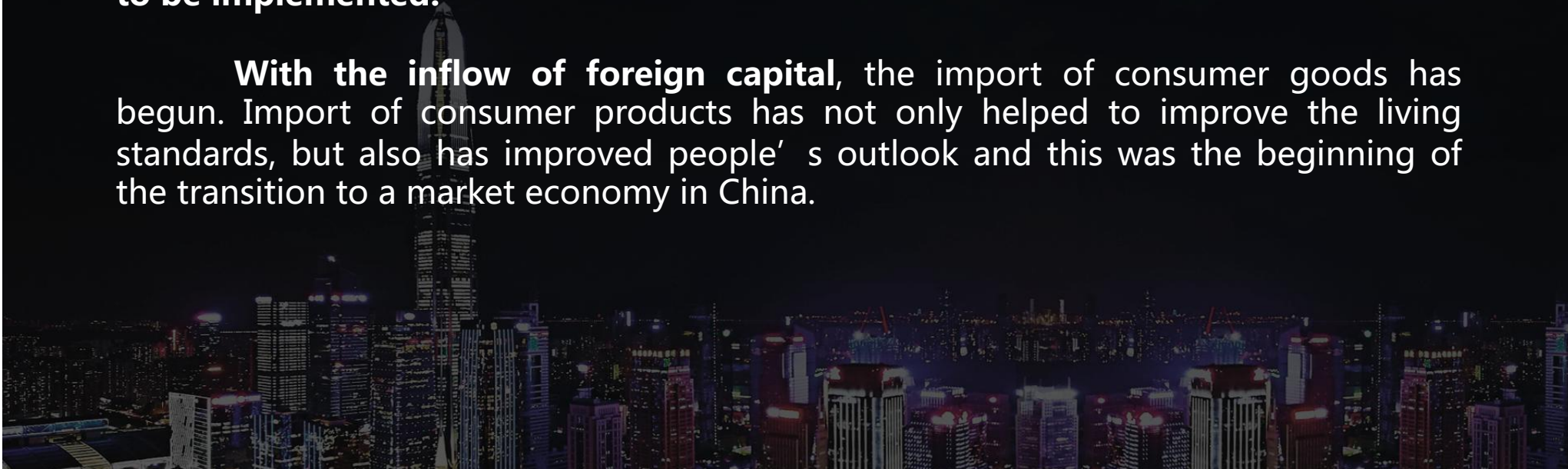


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■ Second provision

Continuing support of reforms, liberalization and economic development, streamlining a process of perception and improvement of people' s knowledge in the field of market economy will allow to reduce the time needed for a reform to be implemented.

With the inflow of foreign capital, the import of consumer goods has begun. Import of consumer products has not only helped to improve the living standards, but also has improved people' s outlook and this was the beginning of the transition to a market economy in China.





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From the perspective of logic and implementation of reforms, China has evolved and survived the transition from policy transparency to system transparency, and from export-oriented economy to open economy. The key to transition from policy-oriented transparency to removal of institutional barriers is the creation of an institutional framework that meets the needs of functional mechanisms of the modern market economy. For example, transition from simple drafting of beneficial policies to provision of more attractive, free, convenient and predetermined system as cultural environment, reducing the operational costs for Chinese and foreign investors.

Summary. The competitiveness of the political and legal system is the foundation for the competitiveness in general. Nowadays China is gradually deepening down its reforms, moves from addressing the market openness through liberalization of the political and legal system to issues of social transparency. Going forwards on the "Chinese Path", we must do our best to avoid refusal and neglect of the international practice.



■ Third provision

Respect people and expand their freedom by giving each citizen the right and freedom of choice.

The reforms and openness policy in China began with liberation of productive forces, with the objective being to ensure emancipation, equality of people and liberalization of society. A main subject of social economy is a reasonable economic person, acting as the main subject of the market economy, but not a state, city or organization (A. Smith). For example, the army of migrant workers, who abandoned their lands, began to move freely and grew up in early 1990-ies, is an important creator of “Chinese miracle”. For instance, more than 20 million people live in Shenzhen, however just around 5 million are officially registered as residents. Meanwhile, the huge “army of urban developers” account for three fourth of the population.

Summary. Liberalization of people and provision of the right of choice are the important elements of production, making China world’s the most rapidly growing economy (total growth rate of Shenzhen is 8%+ per annum, over the last 28 consecutive years) and along with domestic manufacturing, changing the global economy landscape concurrently.



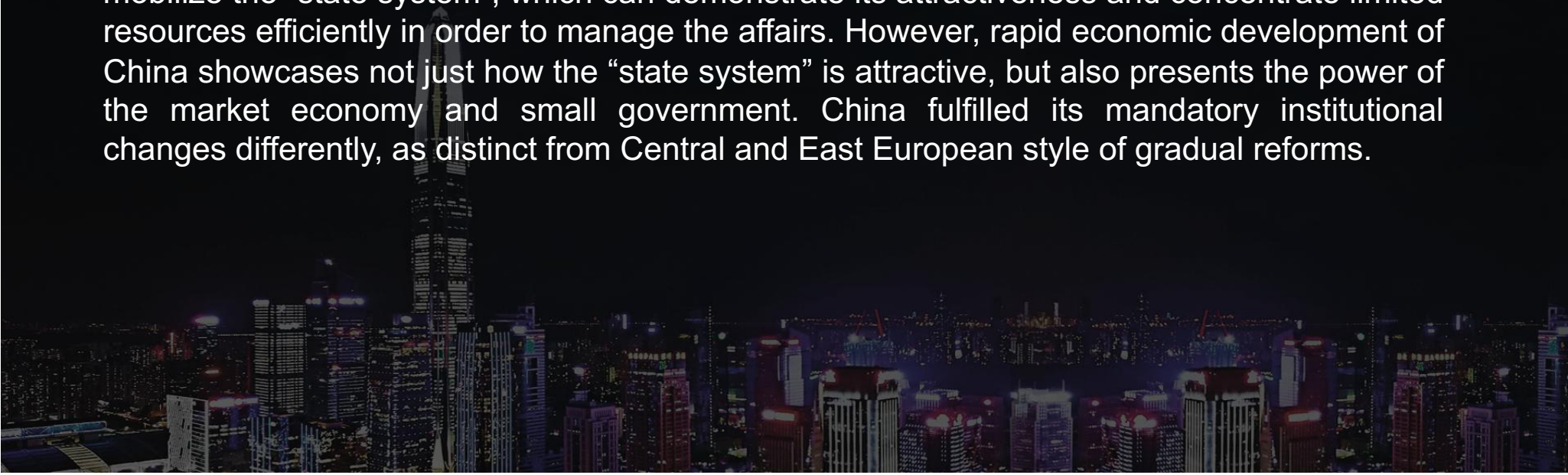


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■ Fourth provision

Create a social system model “big market and small government”, by employing the advantages of the “state system”.

The success of China’s special economic zones reflects an unprecedented capability to mobilize the “state system”, which can demonstrate its attractiveness and concentrate limited resources efficiently in order to manage the affairs. However, rapid economic development of China showcases not just how the “state system” is attractive, but also presents the power of the market economy and small government. China fulfilled its mandatory institutional changes differently, as distinct from Central and East European style of gradual reforms.





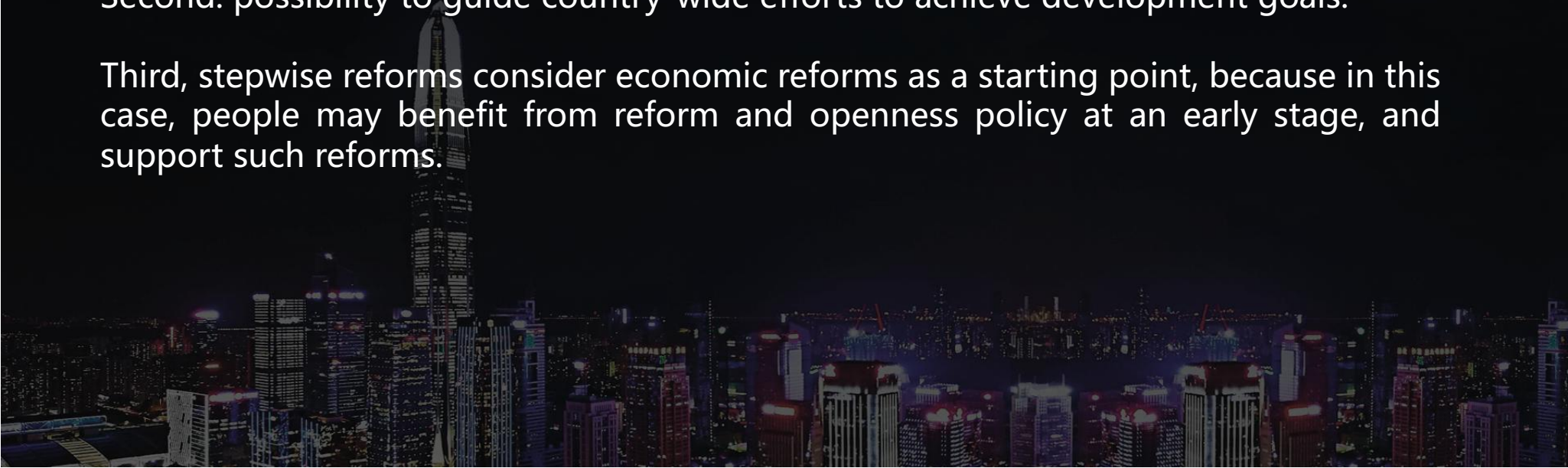
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Government, especially the Central Government, is both the founder and direct initiator of social reform, and its implementer. This social reform has the following features:

First: sufficient authorities to ensure flawless reforms.

Second: possibility to guide country-wide efforts to achieve development goals.

Third, stepwise reforms consider economic reforms as a starting point, because in this case, people may benefit from reform and openness policy at an early stage, and support such reforms.

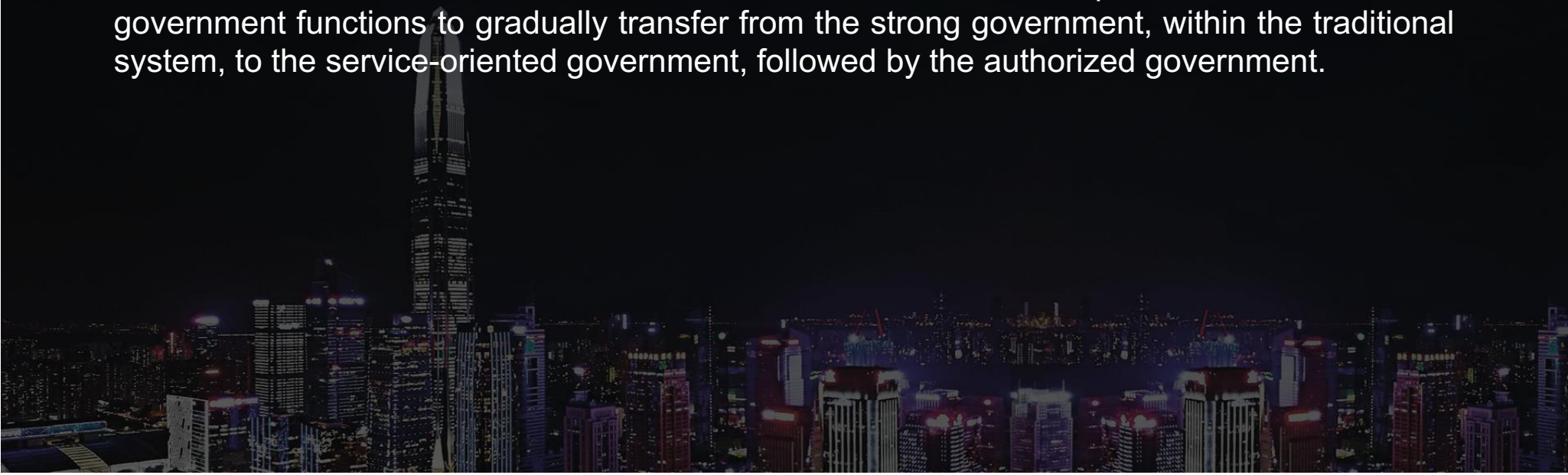




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Fourth: gradual reforms leave space for the old system to exist for some time. This helps avoid excessive risks of reforms and fundamental social shocks, thus making reforms recognized and growing strong;

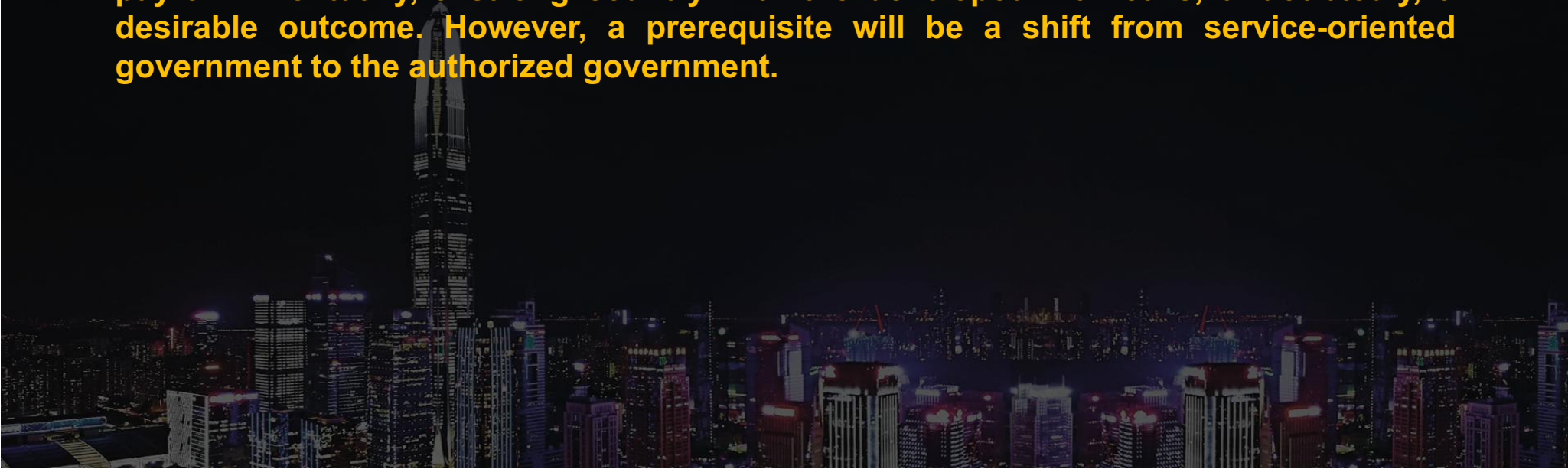
Fifth: any reform is a process of dethronement, or divesting of authority, of the government. Therefore, the courage of the government for revolutionary self-transformation and learning-focus served to ensure China's success in social reform and openness. Reforms want government functions to gradually transfer from the strong government, within the traditional system, to the service-oriented government, followed by the authorized government.





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■ **Summary.** The government's function is to provide public goods and services, including laws and political system. Legal, liberal social system and cultural environment created by the government is an institutional capital with reasonable pay-off. Eventually, a strong country with the developed market is, undoubtedly, a desirable outcome. However, a prerequisite will be a shift from service-oriented government to the authorized government.





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■ Fifth provision

Changes in inputs result in adjustment and regulation of industrial mix and transformation of development model, thus enabling innovations to become in-house engine for growth.

Shenzhen Special Economic Zone (SEZ) started as “three imports and one substitution” (processing of inputs of foreign customers, manufacturing of items based on their samples, assembly), because labor force was the cheapest input in China at that point of time. However, when Shenzhen’s economy embarked on the expedited development road, the cost of labor force has started growing with the economic development on the one hand, followed by the growing lack of natural resources on the other, causing policy-makers concerns. Starting with “three imports and one substitution”, which served as a foundation for high tech industry in the future, it was a timely and determinant decision by the Shenzhen Government, setting the trajectory for further sustainable development in the course of institutional changes.





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In 1999 Shenzhen has finalized its high tech operating structure as the main engine, thus for a good reason becoming one of the most technologically advanced cities in the world. The eloquent evidence is the annual High Tech Fair hosted in Shenzhen annually for over 20 years. Currently, Shenzhen has formed four development models, 90% complete in terms of:

- ownership structure, more than 95% of enterprises are privately owned.;
- Industrial distribution, more than 95% of high tech sectors are privately owned;
- R&D investment, more than 95% account for private companies; and
- Enjoyment of patents per capita, more than 95% account for private enterprises.

According to Global Innovation Index 2017, Shenzhen-Hong Kong region is ranked 2nd globally, by having 41 000 international patents, and developing strategic industries of Shenzhen account for almost 60% of urban GDP.





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■ **Summary.** Innovations may not only improve society's well-being, but also improve the trade pattern in the country by value added products. This, in turn, not only creates value by decreasing resource consumption, but changes perception of people and society by the power of their ideas, which can improve people's lives and create amazing future for them. In the long term, the value of cultural and conceptual achievements created by innovations is much higher than their material value.





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■ Sixth provision

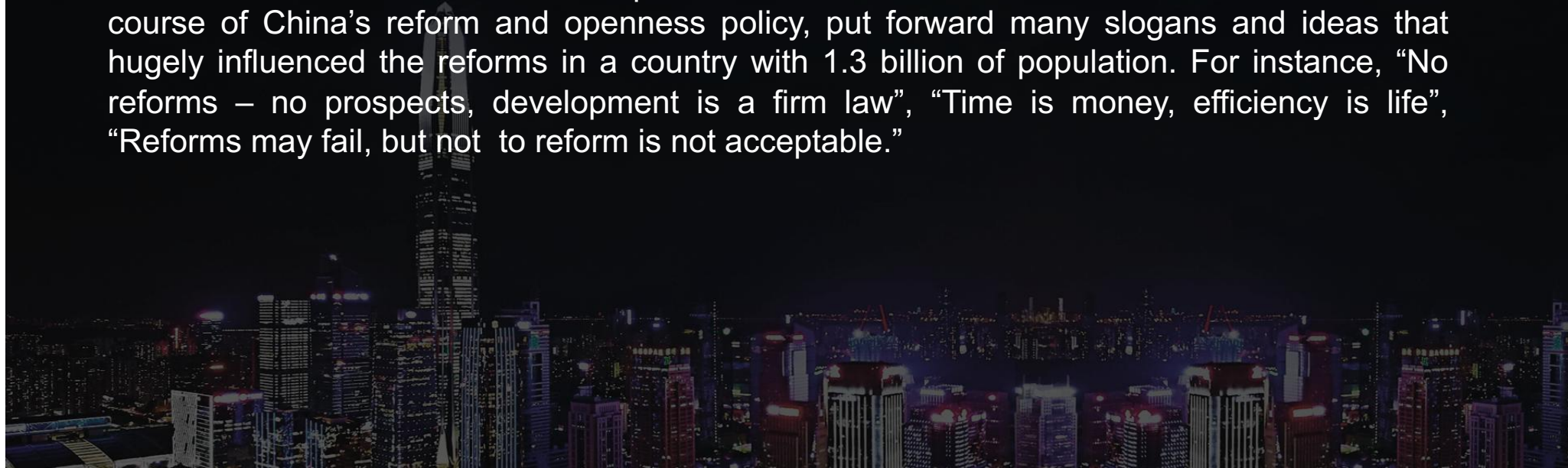
Get free from narrow-mindedness, try to create, take your failures easier, and create relaxed, free, open and tolerant cultural environment to pursue reforms and openness.

40 years ago, China's reform and openness policy started from liberalization. If reform and openness is the pathway of institutional changes in China, then emancipation of consciousness is a prerequisite and guarantor of going the pathway to the end. Without this, the reform and openness policy may not be implemented in practice, which from its very idea up to the implementation, is neither more nor less than liberation from prejudice. Without a desire to create, without a passion to innovate, there would be no driving force for the sustainable development of China's social economy, manifestation of innovative approach. There would be no driving force for improvement and implementation of innovations;



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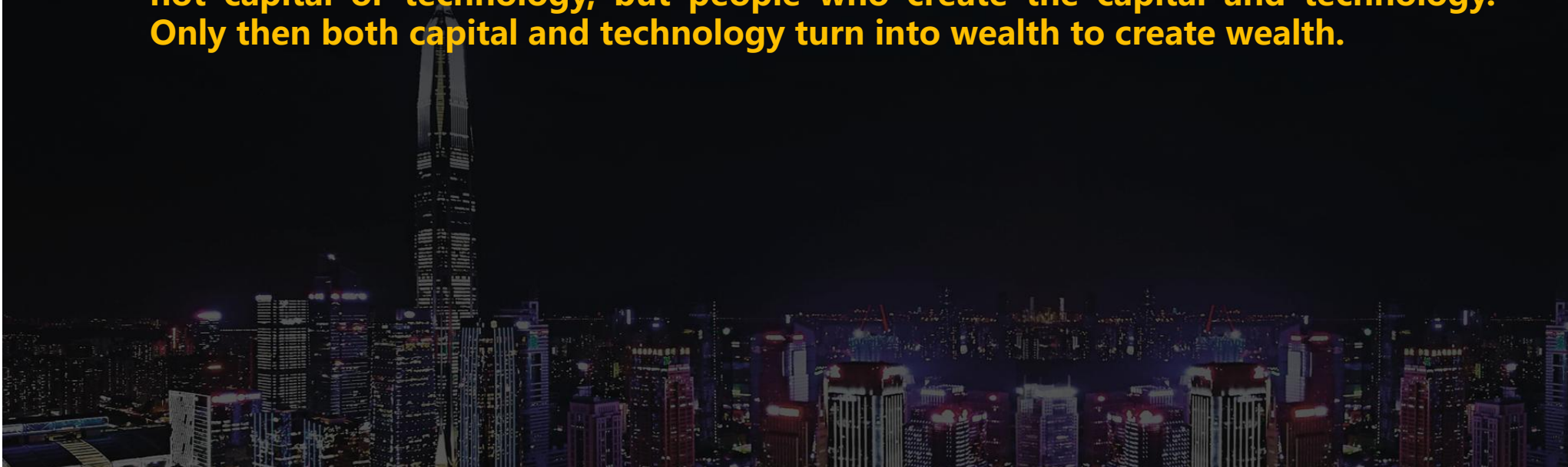
In the absence of relaxed, free, open and tolerant cultural environment, the existence of an individual, as the main socioeconomic entity, is impossible; the one who exhibits subjective initiative, whereas the development and manifestation of human subjective initiative brings a new stamina and innovation, free, open and tolerant cultural environment. Shenzhen, in the course of China's reform and openness policy, put forward many slogans and ideas that hugely influenced the reforms in a country with 1.3 billion of population. For instance, "No reforms – no prospects, development is a firm law", "Time is money, efficiency is life", "Reforms may fail, but not to reform is not acceptable."





**Успешный опыт и значимость специальной экономической зоны Шэньчжэнь
(Региональное сотрудничество в Центральной Азии)**

- **Summary. Ideas can not change the society directly. They can change people, who may change the society. What truly represents the real wealth and value is not capital or technology, but people who create the capital and technology. Only then both capital and technology turn into wealth to create wealth.**

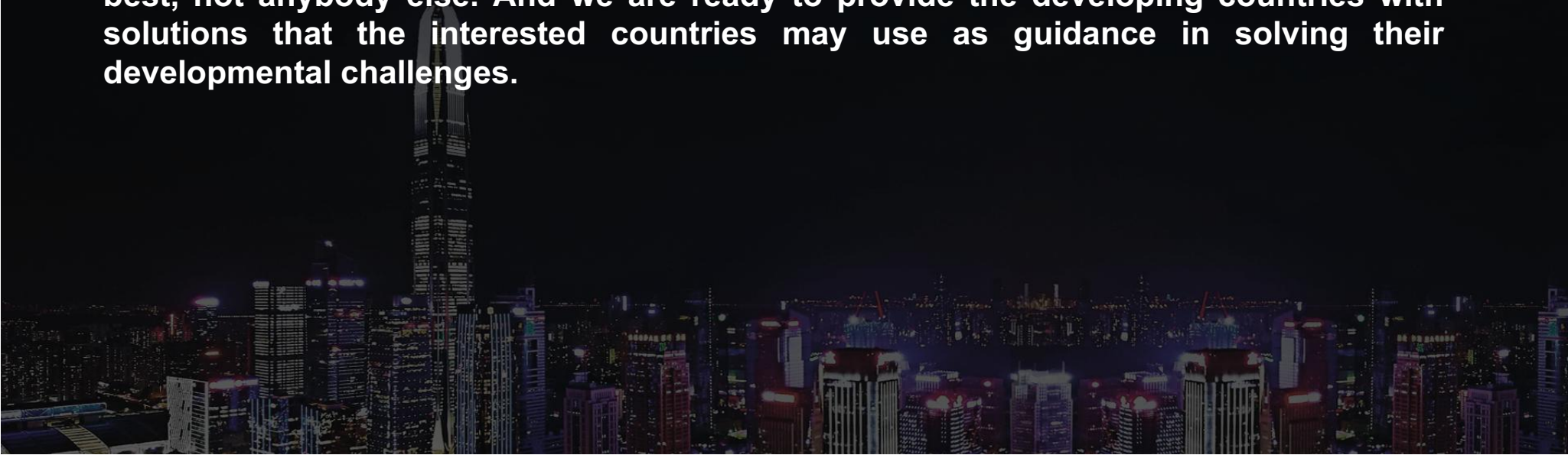




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Concluding statement:

In the course of human development, the society invariably faces similar or sometimes identical problems, which people need to address together. Therefore while developing, countries often exchange ideas and learn each other's experience, which is natural. However, you have to remember that only you know what suits you best, not anybody else. And we are ready to provide the developing countries with solutions that the interested countries may use as guidance in solving their developmental challenges.





Успешный опыт и значимость специальной экономической зоны Шэньчжэнь
(Региональное сотрудничество в Центральной Азии)



THANK YOU FOR YOUR ATTENTION!

