China’s Open-Door Policy and its Significance for Transformation of the Economic System

The open-door policy of the People’s Republic of China is entering its 14th year in 1993. Petra Pissula and Dieter Lösch presented a report in 1990 in which they took stock of the successes and failures of this policy by taking the special economic zones as an example, and they tended to assess China’s future foreign trade activities pessimistically. Further progress has occurred in the open-door policy since that time, so that a revised evaluation is necessary. The aim of the present article is to show the more recent developments and problems and to examine the relationships between reforms and the open-door policy, particularly from the point of view of system transformation.

The policy of opening up China economically to the rest of the world constitutes an essential part of Chinese economic reform. Since this policy was initiated in 1979, the Chinese leadership has attached to it the dual aims of strengthening the country’s economic potential by importing foreign capital and know-how and lifting Chinese foreign trade towards a level and structure comparable to that of modern industrialized countries. It was for this reason that efforts were made to create a favourable institutional basis for importing capital. Initially, however, it was feared that an open-door policy of this kind could have disruptive effects on the socialist economic system, and that great damage could be done to domestic economic development if the policy were to fail. Various restrictions, both geographical and with regard to the content, were therefore placed on the open-door policy by taking a variety of measures to avoid these risks.

The regional demarcation of the open-door policy was manifested in the establishment of special economic zones with relatively small areas, which were strongly oriented towards trading with the outside world. In August 1980, the four special economic zones of Shenzhen, Zhuhai and Shantou in the Province of Guangdong and Xiamen in the Province of Fujian were established. The largest of these is Shenzhen with an area of 327.5 sq. km. All of these zones were situated in economically underdeveloped areas in order that any damage to the economy caused by a possible failure of the open-door policy, initially conceived as an experiment, would be kept within limits.

The special economic zones exhibit the following characteristics:

- economic development is determined primarily by foreign capital;
- economic activities are mainly carried out according to the principles of a market economy;
- foreign companies are allowed more leeway and their operating environment is more favourable than in other parts of China;
- governments in the special economic zones have the same administrative powers in matters of foreign trade as do the provincial governments.

In order to prevent any unfavourable spillover effects on the rest of China, the special economic zones were strictly isolated from the rest of the economy, also as far as the types of economic activity were concerned. In product markets, this meant that the field of activity of the Chinese-foreign companies established in these areas was limited to export-oriented manufacturing and services. At the
same time, the compulsory export of products manufactured in the special economic zones was decreed. In the foreign exchange market, separation was maintained by an obligation on the part of the special economic zones to generate the foreign currency they needed by themselves. Various measures intended to restrict migratory movements of the population also led to a separation of the special economic zones from the domestic Chinese labour markets.

In spite of these restrictions, Chinese special economic zones made a substantial contribution to attracting foreign capital. These encouraging results also meant that the initial fear of failure of the open-door policy gradually became less significant. The Chinese leadership made the decision to expand both the scope and the geographical range of its open-door policy.

This commenced, from a geographical point of view, in 1984 as Shanghai, Tianjin and twelve other Chinese ports were officially declared “open cities”. In these open cities, favourable environmental conditions were created for foreign investors and city governments received extensive decision-making powers in respect of foreign trade activities. After 1985, the open-door economic policy towards the rest of the world was extended in gradual stages to China’s interior. The last step to date was the opening up of eleven provincial capital cities in the interior of China. Consequently, the geographical separation of special economic zones and open cities on the one hand, and the domestic economy on the other, has now largely become a thing of the past. Table 1 outlines the development of the Chinese open-door policy in the period since 1980.

As geographical separation became less strictly enforced, there was also a constant watering down of the restrictions of freedom of action of Chinese-foreign companies in the special economic zones and in the open territories. This was expressed on the selling side by an ever greater opening up of the Chinese domestic market to the products of these companies and by a gradual relaxation of the compulsion to export. This also brought with it a gradual liberalization of foreign currency controls, which means that companies involved in foreign trade are now able to use as they see fit a considerable part of the foreign currencies which they earn. The continuing regional expansion of the open-door policy also facilitated access by Chinese-foreign companies to the Chinese labour market.

Table 1

| Time Chart of China’s Open-Door Policy |
|-----------------------|-----------------------------------|
| Period               | Stage of reform                   | Geographical location               |
| 1980                 | Establishment of the special      | Provinces of Guangdong and Fujian   |
|                      | economic zones of Shenzhen,       | in the South East                   |
|                      | Zhuhai, Shantou and Xiamen        |                                   |
| 1984                 | 14 ports, including Shanghai and  | Along the length of the coast from  |
|                      | Tianjin, are declared “open cities”| North to South                     |
| 1985                 | Various towns in the Pearl River  | Near the coast in the East and South |
|                      | delta, the South Fujian delta and  | East                              |
|                      | the Yangtze delta, the peninsulas  |                                   |
|                      | of Liaodong and Jiaodong, and the |                                   |
|                      | Bohaiwan district are opened up.   |                                   |
| 1988                 | The island of Hainan is elevated  | South China Sea                    |
|                      | to the status of an independent   |                                   |
|                      | province and declared a special   |                                   |
|                      | economic zone.                    |                                   |
| April 1990           | The Shanghai district of Pudong    | East coast                         |
|                      | is declared a special zone         |                                   |
| 1992                 | 5 ports along the Yangtze River    | Central China                      |
|                      | are declared “open cities”         |                                   |
| June 1992            | 13 cities along the Chinese       | North East,                        |
|                      | national borders become “open     | North West and South West          |
|                      | cities”                           |                                   |
| August 1992          | 11 provincial cities are declared | In the interior                    |
|                      | “open cities”                      |                                   |


Figure 1

Development of Foreign Trade and of Foreign Trade Dependence in China (PRC), 1979-1992

US$ billion

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports in US$ billion</th>
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Note: Foreign trade dependence is expressed as the percentage of exports as a proportion of gross national product.


192

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