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Special Economic Zones in the People's Republic of China

By setting up a number of special economic zones, i.e. clearly demarcated regions regulated by special commercial legislation, the Chinese leadership intended, after a period of economic isolation, to integrate China more closely into the international division of labour and to stimulate production by using foreign capital and technology. Have the special economic zones so far been able to live up to expectations? What are the prospects for the future?

The death of Mao Zedong in 1976 marked the end of a period of economic isolation for China, an era of encapsulation particularly from the Western industrialized nations. Policymakers came increasingly to realize that China's economic problems could not be mastered without the aid of Western capital, know-how and technology. In 1978 the new economic open-door policy was introduced, which in 1980 brought about the establishment of the first four special economic zones (SEZs) in the south of the country, the special economic zones Shenzhen, Zhuhai and Shantou in the Province Guangdong and the special economic zone Xiamen in the Province Fujian immediately adjacent to major regional world trading centres, Hong Kong, Macao and Taiwan.

The idea of setting up these first special economic zones as clearly demarcated regions regulated by special commercial legislation was to integrate China more closely into the international division of labour by means of improved cooperation with other countries and to stimulate industrial production by using foreign capital and technology. At the same time the Chinese wanted to limit the scope of access for foreign capital by first establishing small, geographically narrowly defined and hence controllable economic zones.

Essentially, the Chinese leadership pursued five major goals in its open-door policy:

- import of foreign capital;
- import of advanced Western technology;
- import of Western management know-how;
- export promotion and import substitution;
- upgrading the qualification of, and creating jobs for, Chinese manpower.

In addition to this, the special economic zones were allotted two further major tasks. First, they were to serve as a kind of economic laboratory, an experiment to test economic reform policy before introducing it in the rest of China. The impacts of a largely free economy based on free-enterprise principles were first to be monitored in a regionally confined setting. Second, from the standpoint of the Chinese, the special economic zones are windows to the West through which technology, management expertise and better information on the world economy and markets can and should flow as well as enabling a more favourable presentation of their own economy and economic system. 1 A major component of the window function was the understanding that the larger the national economy and the more a country pursues an inward-looking policy the greater the need for special economic zones. For small countries that have outward-looking policies anyway, such as Singapore, SEZs tend to be superfluous.

Since the beginning of the 80s, the Chinese open-door policy has developed rapidly. Except for Shenzhen, the territories of the first four special economic zones have been tangibly enlarged. A large number of additional provinces, areas and urban centres have

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been opened up to foreign direct investments while the dividing lines between the so-called open areas and the rest of China have become less sharply demarcated. A key development is the opening up of the coastal region.

Whereas the special economic zones in the South were more or less stamped out of the ground, the 14 coastal towns opened up in 1984, in particular, already had traditional industries, a better developed infrastructure and organic employment patterns. On 4 May 1988, the island of Hainan, which had to all intents and purposes already been placed on an equal footing with the special economic zones in 1983, received provincial status and was officially declared the fifth special economic zone. At the same time it was decided to open up the entire coastal region from the Province Liaoning in the north up to the Province Guangxi adjoining the Guangdong Province.

**Special Laws for Zones**

Until the advent of its reform and open-door policy, the PR China had no special commercial code. Firms were links in the chain of the hierarchical centralized economic administration. It was not until the reform initiatives aimed at both greater autonomy of local businesses and making China accessible for foreign enterprise that the need for economic legislation, and for special regulations for the special economic zones, arose. Especially in foreign trade much legislation has been passed over the last ten years, which has meant that Chinese commercial law is now very involved, though there are still large areas which are not regulated.

Special arrangements for specific regions in the PR China have been adopted at national as well as at regional level. The legal framework for the three special economic zones in the Province Guangdong was basically devised by the provincial government and had a formative influence on the special economic zone legislation for Xiamen in the Fujian Province. A point to note is that there is no uniform legislation governing special economic zones; rather, each of the five special economic zones has its own commercial law. These do not differ so much as regards the possible activities and the preferential treatment of businesses in the zones as the individual conditions and details (e.g. fees for land usage, approval procedure for investments, etc.).

In all special economic zones the regulations on business activity noticeably reflect the desire to curb government influence and render the economic administration less intricate and more efficient. Apart from the legislative separation of the special economic zones from the mainland, where business, including joint ventures, is more heavily subject to the Chinese bureaucracy and the system of centralized economic planning, the major points of attraction of the zones for

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**PUBLICATIONS OF THE HWWA- INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG**

Christine Borrmann
Jochen Michaelis

**LEBENSMITTEL IM EUROPÄISCHEN BINNENMARKT**

Zwischen Verbraucherschutz und Wettbewerb

The admission of foreign foodstuffs which do not comply to the strict German legislation does not lead to the feared reduction of the quality standard to the lowest common denominator in the European internal foodstuffs market. On the contrary, there is a growing diversity of products and high quality is increasingly demanded. The main beneficiary of this trend will thus be the consumer. This is one of the surprising conclusions of this study, which was conducted by the HWWA-Institute for the Federal Ministry of Economics. (Only available in German).

**VERLAG WELTARCHIV GMBH – HAMBURG**

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