

**From fishing village to metropolis:  
An interdisciplinary research into the key factors of Shenzhen's success**



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## Summary

This paper examines the key factors in the economic success of Shenzhen's 'Special Economic Zone' (SEZ), examined firstly from three separate disciplinary perspectives - economics, political history, and social geography. The economic view will assess the zone's limitations and successes. Political history examines the link between China's authoritarian central government and Shenzhen's development. Finally, social geography examines Shenzhen's demographic growth and the ways this benefited the SEZ.

The disciplinary insights are subsequently integrated to form a deeper understanding of the processes that have enabled Shenzhen's development. This process describes how legislative authority granted to Shenzhen, along with political and economic incentives, enabled innovative and revolutionary reform measures to be implemented. These created a favorable environment for foreign investment and drew migrants to Shenzhen, both from the countryside and internationally. This combination of investment and migration contributed to Shenzhen's (inter)national competition through increased skills, knowledge, and cheap labor, resulting in a strong comparative advantage.

## **Introduction**

Over the past forty years, China has transformed into an economic superpower. Whereas in the 1980s China was looked down on as a country with a high poverty rate and a low GDP, staggering economic growth has completely shifted its place on the world stage. Today, China surpasses developed countries like the United States in their poverty rate (Poverty, 2019). Since the 1980s, hundreds of thousands of Chinese have been pulled over the poverty line (Ravallion, 2007).

China's reform has been characterized, remarkably, by a decidedly experimental approach. Multiple economic, political and social experiments focusing on social reform have influenced China's development. In 1979, China started to implement Special Economic Zones (hereafter: SEZs), in what would turn out to be a determining factor in the country's economic take-off. The goal of these SEZs was to open up the economy, in an assessment of whether the transition from a planned economy to a market economy was an advisable move (Wang & Bradbury, 1986).

The first of these zones, and to this day the most successful, is the Shenzhen SEZ. In the span of thirty years, the development of that SEZ transformed a small fishing village into one of China's most successful and developed cities. Its success has inspired international emulation: according to World Bank estimates, by 2007 there were more than 3000 SEZs implemented in 120 countries worldwide, most explicitly modelled after the Chinese example (Leonard, 2011). Not only the country's economic success, but also its retaining of an authoritarian political system hold great allure to many developing countries.

China's SEZs, and especially Shenzhen, have been the motor behind China's economic development and key in its opening up. As evidenced by the interest and emulation shown by a multitude of countries in the implementation of their own SEZs, they offer an intriguing insight into how such unprecedented economic growth has been able to take place in such an unexpected place. Shenzhen, as China's first and most successful SEZ, is the ideal case study for this success.

That same rash of SEZs throughout the world implemented in the wake of China's success implies that a "blanket" replication of a Chinese model is not likely to offer the same amount of success that the model experienced in China. The ironic aspect of this conclusion is that it is exactly what Chinese policymakers themselves have made a key policy tool in the course of China's reform and opening-up: in a country as vast and diverse as China, they recognized, a "one-size-fits-all" policy is highly unlikely to be successful, which renders the studying of local conditions of pivotal importance. It is for this reason that we won't be forming a model for economic success, as the chance is high that the success of this model was influenced by conditions unique to Shenzhen: instead, we will be drawing from the development of Shenzhen's SEZ the factors for success most likely to be applicable elsewhere.

We have for this reason focused on the areas of study from which countries are most likely to be able to apply general conclusions: economics, in which economic factors leading to the prosperity of Shenzhen's SEZ are discussed; political history, detailing the political reform and thinking behind Shenzhen and the consequences Shenzhen's success has had for this institutionalization; and social geography, which elaborates on the consequences of Shenzhen's development for the people living in the region. We have chosen to exclude culture from our analysis because, although it is an interesting and relevant field of study, we believe its conclusions will not be generally applicable to other areas in the same sense that conclusions from an economics, political history, or social geography perspective will be, because of its inherently local character.

In this paper, we aim to develop an understanding of political workings and thought behind the zone's reform and policy, the economic reasoning behind and workings of the SEZ in Shenzhen, and the influence SEZs have on the demographics and inequality in the areas they are located in. On the whole, we aim to answer the question:

*What factors were key to Shenzhen's successful opening up?*

The economic perspective will examine what the effects of incentives and preferential measures have been on the opening up of the economy, and how the resulting foreign investments shaped Shenzhen's economic development. Additionally, it will examine what obstacles will need to be overcome to remain prosperous.

The political perspective will focus on the relationship between China's authoritarian political system and Shenzhen's economic growth, with the intention of determining whether this political influence and control has assisted or hampered Shenzhen's development. This is relevant to our research question in that it is necessary to understand the influence of China's political system in order to properly assess the applicability of key factors for success.

From a social geographical perspective, the rapid demographic change that took place in Shenzhen following the SEZ's establishment will be assessed. This disciplinary chapter will examine the exorbitant amount of migrants in Shenzhen and evaluate their contribution to its economic growth.

Drawing from these disciplinary research conclusions, we will determine what the fundamental factors for the success of Shenzhen's economic development have been.

# **The successes and implications of Shenzhen's SEZ**

*Matthijs de Coo*

## **Introduction**

China has seen an enormous jump in prosperity and welfare in the last 40 years. As a former state controlled country with a closed economy and central planning, it is miraculous that China is now one of the leading economies in the world. In 1978, China's gross domestic product (Hereafter; GDP) per capita was 307,77 US\$ where in the United States it was 28.500,24 US\$ (The World Bank, 2019), and almost 900 million people were living under the extreme poverty line in China (Allison, 2018). The industry, import and exports were all controlled by the government. This meant that there was little to no competition from foreign firms or domestic private-owned firms, resulting in a bad allocation of the resources available. The only export that China had, was in areas where they had no comparative advantage. These exports were also capital intensive products, while China had an abundance of labour (Tantri, 2013). All these inefficiencies together resulted in the low GDP and high poverty rate. To become a world player, it was clear to the Chinese Government that they had to make changes and reform their state controlled economy to a more open-market economy.

For a country as big as China, with close to 1 billion inhabitants (Banister, J., 1984), implementing a total market reform is risky, expensive and hard (Aggarwal, 2006). To overcome this risk, Deng Xiaoping tried to find the right market-reform through regional experiments, which were more capitalist minded (Wong, K. Y. 1987). These experiments took place in small villages, like the fishing-village Shenzhen. In Shenzhen, China set up a 'Special Economic Zone (hereafter; SEZ) in 1979. In the SEZ, China tried to create a more open-market economy with incentives such as preferential taxes for investors, lower tariffs and more flexible and less bureaucratic labour markets, such as more private owned firms and more decentralization. Another important measure was the change in autonomy, as Shenzhen was allowed to control itself.

Through these preferential treatments and incentives, China tried to transfer capital into the zone through foreign investments and to create employment, create economical and regional development and set up links with economic hinterlands and overseas for import and export (Tatsuyuki, 1998). The SEZ had to support the opening up to foreign investment for the high tech-, manufacturing-, service-, agriculture-, housing- and infra-structural industries. It was the beginning of a new perspective from China on the economy, where opening up marked the beginning of a more outward-looking economic strategy.

To see what the effects of the SEZ were and if these were successful, the economic perspective of this paper will try to answer the following question: ‘What are the ‘successes’ and ‘implications’ of the SEZ in Shenzhen?’

To answer this question, the paper will first examine what happened in Shenzhen and what the results were. Secondly, a comparison between China and Shenzhen’s development will be made, thirdly, the ways in which the SEZ increased development will be identified and explained. Fourthly, the implications and lessons of the SEZ will be evaluated. After this, possibilities on how to foster the growth will be discussed. Lastly, the paper will conclude what the key factors of success and its implications are from the SEZ in Shenzhen.

### **Conditions and results in Shenzhen**

The SEZ in Shenzhen enjoyed some incentives and preferential measures to support the hoped economic development. The corporate tax for foreign investors to invest in Shenzhen was 15%, instead of 55% in the rest of China. These foreign investors also got a preferential measures status. With the decentralization and own-autonomy, the preferential measures and the lower taxes, Shenzhen created a flexible economy with the purpose to attract foreign technology and foreign cooperation (Ng, 2003). This cooperation and technology could in turn stimulate the economy and a faster development of the industries.

According to Wong (1987), it was important for investors to have trust in the Chinese market. It took some years for investors to gain this trust and get knowledge about the Chinese market, before they started investing in Shenzhen. Other reasons for the first slow and later heavily increasing investment, was the need of a good transport network, there had to be a legal system that protected the interest of the investors and the bureaucratic ‘red tape’ had to be loosened or eliminated altogether. When the above mentioned measures started to take form, from 1985 onwards, a dramatic increase in foreign investments is seen. The joint-ventures also started to rise dramatically from 1985, as seen in table 1 (Tatsuyuki, 2003).

Table 1: Foreign investments, foreign joint-ventures and foreign owned firms in Shenzhen.

	1980	1985	1990	1995
FDI (US \$10.000)	2755	17989	38994	130989
Joint-Venture	252	6993	26849	33120
100% foreign owned	612	680	4917	280003

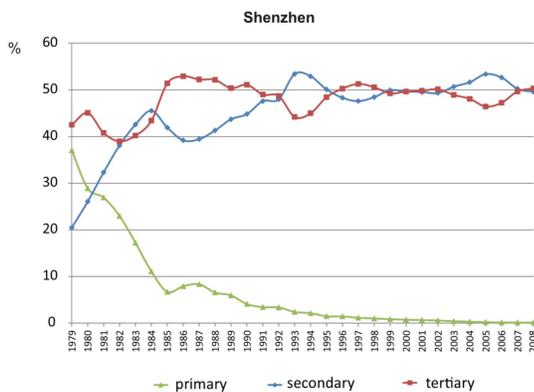
Source table 1: Tatsuyuki, 2003

## Development in China and Shenzhen

In this section, the comparison between China and Shenzhen shows the immense difference in development.

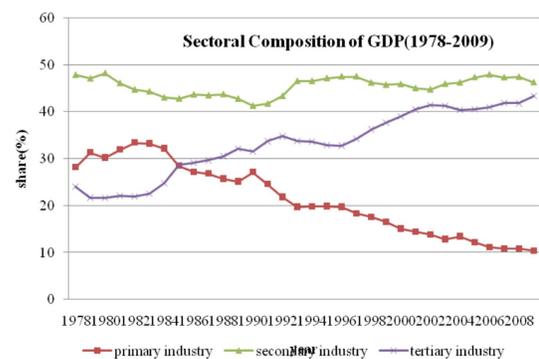
With the increase of investments in Shenzhen, more knowledge and skills were transferred, which resulted in a change in the industry composition. As seen in figure 1 and 2, which show the composition of Shenzhen and Chinese industries (Chen, J., et. al., 2014) Fig 2. (Lin J., Yu M., NB), the former primary sector (agriculture) had a decrease in 1979 from 37% to nearly 0% in Shenzhen, whereas in China on the whole this dropped from 28% to 10%. This could be explained by the better allocation of resources, in this former highly controlled sector, which resulted in a rapid increase in productivity. Less labour was needed and this force thus shifted to the secondary industry. The secondary industry, the industrial sector, remained almost the same in China, but increased drastically from 20,5% to 53,2% in Shenzhen. The tertiary industry, the service sector, increased heavily in China from 24,2% to 39,9% but only slightly from 42,5% to 46,6% in Shenzhen.

Figure 1: Industry composition Shenzhen



Source figure 1. Chen, J., et. al., 2014

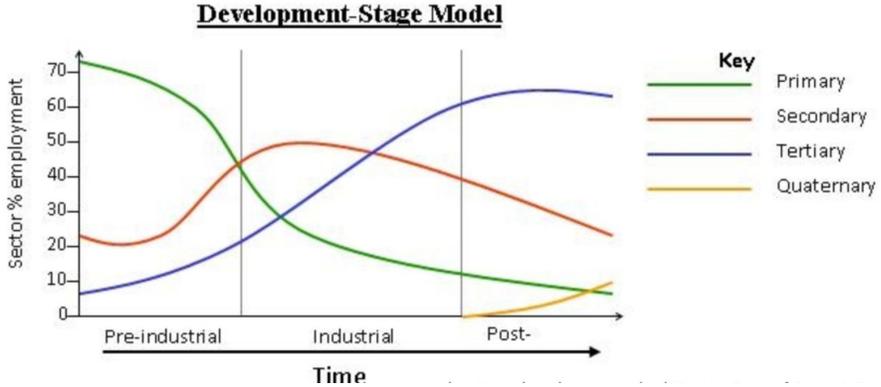
Figure 2: Industry composition China



Source figure 2: Lin J., Yu M., NB

This changing process is also shown in the development stage-model in figure 3 (The Student Room, 2018). This model shows the general development of industries over time and is almost identical to the changing process of the industries from Shenzhen and China. The process of industrialization was introduced in three stages in Shenzhen. Because of difficulties in the region, the focus was initially on small-scale, labour intensive and modern industries. In the second stage the focus shifted to high-technology industries. In the third stage the focus was on advanced technology and modern scientific methods of industrialization (Tantri, 2013). It resulted in an increase in employment and better infrastructure. However, as is shown in figure 1 and figure 2, China had also taken the same road as Shenzhen had, but consistently at a far slower rate.

Figure 3: Development-Stage model



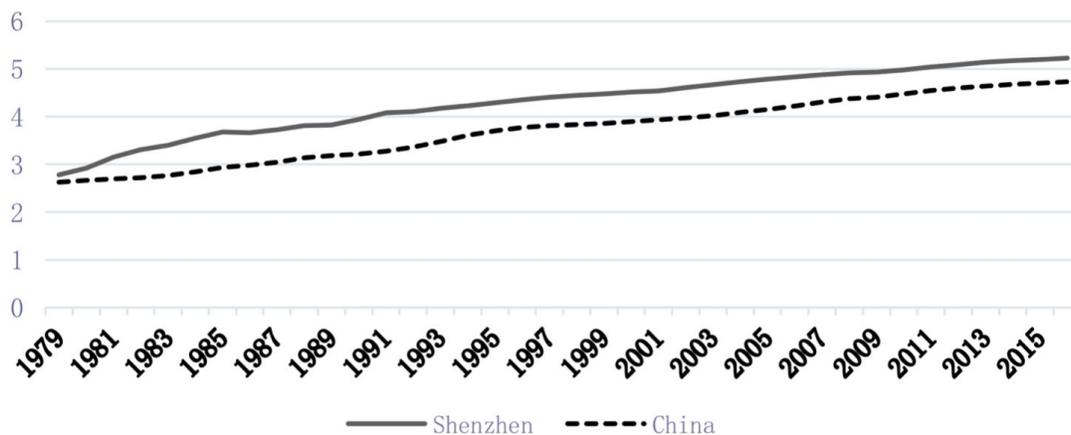
Source figure 3: The Student Room, 2018

The opening of the SEZ has had different effects for China and Shenzhen. The differences in exports and GDP will be discussed below.

## Exports and GDP in China and Shenzhen

The exports in goods and services increased significantly in Shenzhen, from 0,009US\$ to 305,70 billion US\$ in 2013. 10,62 million people lived in Shenzhen in 2013 (Shen, J., & Kee, G., 2017). In the whole of China exports were worth 2.354 trillion US\$, meaning that Shenzhen accounted for 12,98% of all of China's exports (The World Bank, 2019). In 2013, 1,357 billion people lived in the whole of China, meaning that in Shenzhen 0,78% of all Chinese people lived (Worldbank, 2019). This enormous difference in exports is also seen in the GDP difference between China and Shenzhen. The GDP per capita in China before the SEZ was only 280 US\$. Where in Shenzhen GDP per capita was 27.100 US\$ in 2016 (Sun, 2018), in China this was 'only' 8082,29 US\$. The effect of the SEZ on GDP growth in Shenzhen, at 40% per year, was at an excessively high level compared to China, where it was 9,6% per year. As seen in figure 4, the huge gap in GDP per capita between Shenzhen and China is triple the amount (Chen, 2017). There has been an increase of almost 29 times the GDP per capita in China, where for Shenzhen this has been 96 times the GDP in 1979. There also are now less than 1,4% people living in poverty in China in 2018 (Xinyu, 2019).

Figure 4: GDP per capita in Shenzhen and China (in log10)



Source figure 4: Chen, J., 2017

It is clear that the SEZ in Shenzhen has brought enormous prosperity, especially for itself, but also for the rest of China. But what were the effects that the incentives in the SEZ brought?

### **SEZ effects on development Shenzhen**

We have shown that the SEZ has brought a lot of prosperity to Shenzhen, but what did the incentives bring to the SEZ? These SEZs were free trade zones designed to invite Foreign Direct Investments (hereafter; FDI) through preferential measures and incentives. The SEZs incentives caused foreign firms to start joint ventures and invest heavily in Shenzhen. In basic economics, the removing of existing trade barriers encourages foreign investors and increases competition, which in return increases productivity and innovation. The foreign competition forces domestic producers to allocate their resources better.

Besides capital, FDI brought knowledge about processes and skills, which was used in firms in Shenzhen. It resulted in more employment and technology which in return brought more competition and an increase in productivity (Anyanwu, 2017). This increase in knowledge and capital made it possible to switch to more capital abundant industries, such as the high-technology industry.

The SEZ allowed Shenzhen to build mini-economies within the geographically restricted area, giving it an advantage in attracting global competitors (Weaver et al., 2017). FDI has a direct causal connection to economic growth, exports and in return to import (Liu, X., et. al.,2002).

Apart from investments, there also was a need for intensive labour, which Shenzhen could not provide itself. The establishment of the SEZ resulted in more jobs, which attracted many migrants from the Guangdong province and other regions in China. This resulted in an abundance of cheap labour because of the migrants, as seen in table 2 (Liang, 1999).

Table 2: Population growth and temporary migration in Shenzhen, 1979-1994 (in thousands).

Year	Local Residents	Temporary Migrants	Total Pop.
1979	312.6	1.5 (48%)	314.1
1980	320.9	12.0 (3.6%)	332.9
1981	333.9	33.0 (9.0%)	366.9
1982	354.5	95.0 (21.1%)	449.5
1983	405.2	190.0 (31.1%)	595.2
1984	435.2	306.1 (41.9%)	741.3
1985	478.6	402.9 (45.7%)	881.5
1986	514.5	421.1 (45.0%)	935.6
1987	556.0	598.4 (51.8%)	1,154.4
1988	601.4	930.0 (60.7%)	1,531.4
1989	648.2	1,267.8 (66.2%)	1,916.0
1990	686.5	1,332.9 (66.0%)	2,019.4
1991	732.2	1,653.1 (69.3%)	2,385.3
1992	802.2	1,806.8 (69.3%)	2,609.0
1993	876.9	2,073.0 (70.3%)	2,949.9
1994	939.7	2,415.4 (72.0%)	3,355.1

Source table 2: (Liang, 1999)

The abundance in cheap labour was a comparative advantage for Shenzhen. The Ricardian Model states that a country has a comparative advantage over other countries if it can produce goods at a lower opportunity cost (Krugman et al., 2018). The SEZ in Shenzhen thus created a comparative advantage through the investments, the cheap labour and the high competition, which resulted in being able to produce products at a lower cost.

With this increase of FDI more joint ventures and foreign owned firms moved to Shenzhen, resulting in clusters of firms, see table 1. The incentives and preferential measures transformed Shenzhen to an industrial and later high-tech and service industry cluster of firms. Porter adds that these clusters can become advantages for nations (Bräutigam, D., & Tang, X., 2014). These clusters can also be seen as external economies of scale, where multiple firms in an industry move towards each other. External economies of scale results in a decrease in costs and can generate a comparative advantage. It attracts skilled workers, creating a rapid increase in an

industry. Skilled workers tend to gravitate towards cities with SEZs. These cities are the preferred destination of FDI that focuses on technology. A get-together of FDI and human capital is stronger in SEZs (Weaver et al., 2017). But the results of economies of scale are also seen in the creation of financial instruments, bringing firms in proximity to similar firms and increasing information access. This can result in knowledge being spilt over to the competition. Spillovers can be bad for a single firm but can help increase the information level in the whole industry. With the increase of competition, the high amount of FDI and the increase of human capital, economies of scale tend to grow fast. One of the advantages that result from this increase within the industries is that innovation is stimulated. For instance, clusters of innovation (hereafter; COI) can arise. These COI have certain characteristics such as an entrepreneurial process, are mobile and have short innovation cycles. These behaviors evolve from individual actors which are trying to gain success through collaborations, joint-ventures for instance. This cross-industry horizontal networking helps create a win-win situation which can result in a sustained comparative advantage (Engels, J.S, 2015). COI's can help sustain the comparative advantages that result from economies of scale. This in return can result in more diversification in the industries environment.

Another key reason why firms moved to Shenzhen, besides the incentives, was the location near the coast. The urbanization effect adds to the economies of scale, where different benefits arrive from the proximity to different economic actors, such as Hong Kong. Shenzhen built a container terminal in 1989 which connected Shenzhen to Hong Kong and later to the rest of the world (Chen, 2017). This increased trade and in return stimulated globalization. The increase of trade and globalization makes countries economically better off and is a route that every developed country has taken, and which countries such as China before its development, should take.

Being able to trade with short distance countries or big size countries could help other countries to have the quick rise that China had, which itself is a big economy (Bussière & Schnatz, 2009). Also in Chinese trade review, having access to a substantial market such as the EU or Japan helps increase trade for countries like China.

With the economies of scale, the location near the coast, the abundance in human capital, low wages and the high investments in Shenzhen, it has created a comparative advantage opposed to other countries or regions. With the lower barriers of trade and high incentives that the SEZ in Shenzhen provides, the institutional challenges that first were present have been removed and have made trade and investments possible, which led to development and globalization for Shenzhen.

### **Implications and lessons**

It took some time before the foreign investments started flowing in and the development started, as there were multiple implications. First of all, because there were no limitations to who could invest in the SEZ, mostly domestic investors invested because of the high incentives. They were not able to transfer new knowledge or skills, as there was almost none in China. Secondly, the non-convertible Chinese currency made it uninviting for foreign investors. Thirdly, the transport network was not ready which made trade and transfer difficult. Furthermore, the legal system had to change to protect the interests of investors. Last but not least, unfamiliarity with the Chinese rules deterred foreign investors. The only willing investors set up joint ventures, to reduce risk (Tatsuyuki, 2003). Opening up for trade with high incentives is not enough, so it appeared in the beginning of the SEZ. After some years, when trust and knowledge of the Chinese market increased and the aforementioned implications faded, investments started to increase.

Another implication of the enormous economic growth within the SEZ is because of the increasing labour size. The new labour creation, mostly through immigrants, helped generate the rapid economic growth, but this was accompanied by inflation, high land prices and high rents. This, combined with the increase of income per capita in the SEZ, led to a regional income disparity with regions outside the SEZ and Shenzhen

(Tatsuyuki, 2003). The SEZ does increase income within the SEZ, but it creates a disparity between inside and outside of the SEZ, leading to more poverty and less development, the further you move away from the SEZ. Because Shenzhen's location was easily accessible near the coast, many firms had another incentive to move towards it resulting in the flow of resources to it. This meant for the inland areas indirectly that they constantly had a disadvantage because of their location. The inland areas had to rely on economic development from Shenzhen. This is called the trickle-down effect, where development and growth is passed on to outer cities over time. The further away from a big city, the less profit remote cities will have from this effect (Yao, S., & Zhang, Z., 2002). A recent study has shown support for the trickle-down effect: "We found strong evidence in support of the trickle-down hypothesis on the aggregate. That is, at the national level, financial development and economic growth are pro-poor, in the case of China." (Ho, S. Y., & Iyke, B.N., 2018). This complements the analysis and results that were previously found in the increase of prosperity in China, mentioned at the start of this chapter. This trickle-down effect could in return lead to more urbanization for the outer regions and can then increase development in that area. It takes time to notice the effect in outer regions, as Shenzhen had to grow before it could pass out the created development. As seen in the highly increased GDP per capita and the poverty decrease, there is a correlation between the increased development in zones like the SEZ in Shenzhen and the later following increase in prosperity in China.

### **Fostering growth**

The FDI inflow in Shenzhen mostly took place in sectors and industries where they had a comparative advantage, lowering labour costs, increasing exports and improving productivity. But to foster the economic growth in China and Shenzhen, a shift has taken place from labour intensive to capital- and technology-intensive exports. This has led to highly internationalized and competitive industries, which are able to sell exports not only to developing countries but also developed countries. The increasing vertical

FDI led to a more fragmented market. Shenzhen started trading through intra-industry because of the increase in the production in components. (Caporale, G.M. et al., 2015). Intra-industry trading means that an industry can exchange similar goods within the same industry. It helps firms to take advantage of economies of scale and are often seen in industries which require skilled labour, capital and high technology (Krugman et al., 2018). Intermediate goods are imported and used by locals to produce exports. This is seen in Shenzhen, where there has been a shift towards the more high tech and skilled labour industry. Combined with economies of scale, this leads to competition and in a better performing industry, the worst performing firms exit and best firms will increase in size.

The above analysis shows the importance of focussing on the high-tech industry with capital and less on labour abundant industry. The high-tech industry attracts more people from outside Shenzhen, who are highly skilled and can bring new ideas. This is because firms will try to attract them to stay innovative and ahead of competition. Shenzhen's economy of scale will only grow with the increase of more skilled human capital from outside Shenzhen. This also means that there will be more spillovers and that migrants will become more expensive. The high-tech industry is also seen among local authorities as the 'best new engine to boost local economic growth', according to Yang Qin, Shenzhen's people's congress delegate (Huifeng, 2018).

China also joined the WTO in 2001. This stimulated exports, reduced tariffs on imports and exports, further improved trade liberalization and gave private interest more power (Boden, 2012). This is another key lesson for countries who are not yet a member of the WTO, as it helps increase development through the aforementioned benefits. For China and Shenzhen, joining the WTO has been key to develop even further as it has helped open up even more for trade.

To foster growth and economic development, Shenzhen switched to more capital abundant and high-tech industries, as this is a more capital-intensive industry, of which Shenzhen has abundance of because of all the foreign investments. Joining the WTO has

helped Shenzhen to stay competitive and increased its globalization, resulting in never standing still which is key to keep developing and spilling the development over to the rest of China.

## **Conclusion**

The experiment of the 'Special Economic Zone', where focussing on opening up to a more market-based economy stood central, has led to an enormous development and increase in prosperity. This paper examined the successes and limitations of this successful zone.

Shenzhen had its own autonomy and successfully implemented incentives and preferential measures to gain and increase the level of foreign investment in the zone, FDI. This increase in FDI brought, apart from capital, an increase in knowledge and in skilled human capital. The better allocation of resources, such as migrants and capital, resulted in an increasing rate of competition. Combined with these flows of cheap labour from migrants within China and its excellent location, this resulted in economies of scale. It marked the beginning of the transformation from the labour-intensive agriculture to the industrial industry and over time to a more high-technology industry with abundance of capital and skilled labour. The high learning curve that was accomplished resulted in more vertical FDI and in a more fragmented market. Shenzhen began to produce components themselves and started importing intermediate goods to create final products.

The SEZ enabled Shenzhen to create comparative advantages over other countries and regions. The proximity of Japan and Hong Kong, but also the access to markets like the EU, and joining the WTO stimulated the global trade of Shenzhen even more. The zones economic development grew at a staggering level.

However, the economic development of the zone has taken some time before it took off. At the start, it had to overcome institutional challenges, culture and currency gaps. It took time before these implications faded away and before the investors gained

enough trust in the market to really invest. Joining the WTO may have helped to increase this trust level at a faster rate, as trade barriers decreased and trade rules became more transparent.

The SEZ also created disparity between Shenzhen and outer regions. As a high level of resources moved to Shenzhen, it seemed that only Shenzhen profited. But, the economic growth from the SEZ eventually spilled over, through the ‘trickle-down-effect’, to more outer regions and this created urbanization in those regions. It takes time before this gap is overcome, but data has shown that development will spill over to outer regions even more. Further investigation is needed to find out the time and effort needed to increase the effect of this spill over.

With the enormous growth Shenzhen has gone through, it has shown to the rest of China that opening up for trade will eventually have positive effects on the whole country.

The ‘Special Economic Zone’ in Shenzhen has proven to be a success story. This paper has shown the most important successes and implications from Shenzhen. The success story could be used as a guideline for other regions and countries for development. Important is that the conditions, as mentioned above, are met.

**The bird in the cage:  
The role of China's authoritarian government in Shenzhen's economic  
success**

*Charlotte Boin*

China's remarkable economic growth since opening up some forty years ago has given lie to many widely held beliefs about the workings of government and economics. As its economy began to develop, Western scholars predicted and waited for China to transform into a democratic society. When, however, that expected transition failed to take place many switched sides entirely and joined a large number of scholars in praising and analyzing its reform as a new paradigm of development, an alternative model to the one presented by Western countries in their promotion of democracy (Chen & Goodman, 2012).

The body of literature dedicated to assembling a coherent "China Model", which could be applied to other countries, is most striking in its contradictions. Many authors have pointed to China's strong centralized government as a key factor in its development; others argue that it is precisely China's decentralization that has enabled its growth (Howell, 2011). Certain scholars view China as a stagnant model, with economic growth but no political reform; others point to extensive political changes in line with shifts in the economic system (Naughton, 2010; Li, 2012). Finally, some scholars maintain that China's decentralization and marketization will result in a more democratic political system; others argue it is quite the opposite, and that China's decentralization was meant to *pre-empt* cries for democracy (Tsang, 2009; Li, 2012).

A recurring element in these debates is the strong presence of China's authoritarian political system in the economy, incidentally an aspect that makes the China Model so alluring to developing countries unwilling to give up their own authoritarian forms of government. Naughton (2010) describes the active deployment of the authoritarian political system in the new market environment as a unique Chinese characteristic, and argues that China's successful development prescribes an active role

for government in the economy. As Naughton (2010: 439) put it, China retained a “hierarchical authoritarian political system which it actively deployed in the new market environment,” which he credits for the country’s economic development.

Naughton’s argument for the positive role of authoritarian control in economic development is convincing when looking at China as a whole, but becomes quickly confusing when one focuses on the engines of Chinese economic development: China’s Special Economic Zones (hereafter: SEZs). These are special zones relatively unrestrained by governmental control, which are given certain legislative autonomy in their economic reform. SEZs were the major instruments for the introduction of market economy elements into the centrally planned economy of China in the 1980s (Leonard, 2008). The shining example of the SEZs’ success is Shenzhen. This small, unremarkable fishing village offering but a meagre living to its few thousand inhabitants became, in the span of thirty years, one of China’s most prosperous and developed cities (Martinek, 2018). Is it plausible that China’s authoritarian government was a prerequisite for economic development, or even simply a positive force, when it was precisely the areas that were *least* restrained by the central government that enjoyed such radical growth and success?

The evaluation of a local area provides a valuable insight into theories on the relationship between China’s government and its economy that have been formulated from a national perspective, which rarely if ever mention case studies. The focus of this paper will therefore be on Shenzhen, China’s first and most successful SEZ. Shenzhen is especially interesting in the study of the relationship between authoritarian governmental control and economic development, because it was the testing ground for the role China’s central government would come to play in the new market economy. By examining the political ideas and vision behind the zone’s establishment and the evolution of the central government’s involvement in the SEZ, this paper will seek to determine: what does Shenzhen’s economic success imply about the role of China’s central government in economic development?

In my research for this paper, I have made use of papers by scholars analyzing China's political and economic development as a whole, as well as studies devoted solely to Shenzhen. Interestingly enough, the former rarely if ever mention the latter, and vice versa. Throughout the paper, thus, my findings will be compared or contrasted with the conclusions made by scholars examining China from a national perspective.

First, China's reform and accompanying decentralization will be discussed. Then, the political thinking behind the establishment of SEZs will be considered, followed by an examination of Shenzhen's establishment and trajectory and the evolution of governmental control throughout. In conclusion, the influence the central government's control appears to have had on Shenzhen's economic development will be discussed.

### **China's reform**

China's reform, beginning in the late 1970s, went hand in hand with political and legal decentralization (Chung, 2011). Before, there had been no division of power between central and local authorities; the latter functioned as "extended arms" of the central government, acting according to its will (Martinek, 2018). As China moved to reform, however, the central government began to recognize the significant benefits of delegating legislative autonomy to local governments, and started to redistribute power accordingly (Martinek, 2018). In the words of J.H. Chung (2011: 303), China had exited its "totalitarian phase" of authoritarian government.

Has this decentralization meant a decrease in the central government's influence and control over local governments? By definition, yes. The decentralization has made local governments less dependent on the central state, making it more difficult to enforce national policy (Howell, 2006). Nevertheless, the balance of power between Beijing and local governments has not shifted decidedly towards the latter: "Beijing still commands and the localities still listen" (Chung, 2011: 303).

The relocation of power to local governments increases the effectiveness and flexibility of policy. In a country as vast and diverse as China, there can be no

“one-size-fits-all” policy making. As such, local knowledge key to successful policy implementation (Martinek, 2018). Local governments have therefore become creators and executors for innovative reform within the central government’s reform framework (Yiming, 2017). The central government seeks to stimulate this by incentivizing local officials. By granting them the right to introduce changes in systems, removing reform risks such as high expenses, and giving compensations or awards for effective reforms, a beneficial environment is created for reform initiation (Yiming, 2017).

This decentralization and reform framework opens the stage, too, for local-level experimentation under the purview of the central government, or “experimentation under hierarchy” (Heilmann, 2008). This experimental approach fits well in China’s pragmatic approach to policy making (Leonard, 2011). There has been no clear blueprint for Chinese reform. Instead, China’s outlook has been likened to “crossing a river by feeling for stones”: in other words, feeling out what works by testing different approaches and remaining flexible and willing to change tactics (Li 2005). Indeed, the central government seems willing to experiment with all sorts of policy and economic innovation so long as they don’t threaten the communist party’s monopoly on power (Tsang, 2009).

A central part of this approach has been the employment of experimental policy making: the testing of measures on a local scale, to implement on a national level if deemed successful. As a legislative instrument, experimental policy making is a widely used method in China. Testing policy in a specified zone prior to implementing it on a national scale is beneficial for governments in that the costs, if the experiment turns out badly, are far smaller than they would be otherwise (Qinghe et al., 2017). It is this local-level experimentation that we see in the Shenzhen SEZ.

The Shenzhen SEZ was designated as the laboratory for China’s economic reform. Tsang (2009) describes how party elder Chen Yun explained the original approach of the central government to economic reform with an analogy of a bird in a cage, with the bird representing the economy and the cage representing the room for it to develop. As long as the bird grows enough, the government is willing to enlarge the cage (i.e.,

loosening restraints, granting more autonomy). Tsang emphasizes that although the cage might be large enough for the bird not to be hampered in its growth most of the time, it would be a mistake to think the cage has been removed: the party can and will shrink the cage if it deems it necessary.

Has the heavy involvement of the Chinese political system in its market system indeed been a key factor in the success of the latter, as Naughton (2010) argues? Or has it instead been a hindrance, as the bird-in-cage analogy would suggest? The Shenzhen SEZ provides us with a well-documented local case study where these questions can be investigated. To do so, the following sections of the paper will first examine the political reasoning behind the SEZ's establishment and then assess its trajectory throughout the years, focusing throughout on the extent of authoritarian control from the central government in the zone and the ways in which the government strove to attain economic growth.

### **The establishment of the Shenzhen SEZ**

The idea of a special economic zone breaks with traditional socialist Chinese thinking. Instead of attempting to develop all regions at the same rate, Deng Xiaoping decided to “let some people get rich first”: reformers were to be cut loose and allowed to steam ahead without being weighed down by less advanced areas (Leonard, 2011). After tours of the country, Xiaoping's eye fell on Shenzhen: a promising option due to its advantageous proximity to Hong Kong and its cheap land and labor force. Shenzhen also had the weakest planned economy in China at that time, making it easier to push through reforms (Yitao, 2017; Li, 2005).

Shenzhen was a first-generation SEZ with a clear goal: to act as a field for institutional experimentation, focusing on the transition from a planned economy to a market economy (Qinghe et al, 2017). Shenzhen was to pave the way for the rest of the country, to provide experience and become a model for national reform and development (Yiming, 2017). Xiaoping described the Shenzhen SEZ as “a new socialist

trial. It's our best wish to make it a success. If not, it's still an experience for us" (Yitao & Lu, 2012).

The poor fishing town of Shenzhen was granted special policies in the form of tax-breaks for leaders, a release from governmental regulation and the freedom to pioneer new market ideas by Deng Xiaoping himself (Leonard, 2011). All plans regarding the SEZ were controlled and approved by the central government, and a survey of Shenzhen's history reveals constant supervision from the highest levels of government (Yitao & Lu, 2012; Xiaoyun, 2017). Shenzhen's developmental model was continuously adjusted in response to lessons and setbacks (Yitao, 2017).

In the following section, a brief survey of the SEZ's trajectory will be presented with a focus throughout on the extent and character of central governmental control in the zone and the economic development that accompanied it, in order to assess the role China's central government played in Shenzhen's growth.

### **Autonomy and growth**

Shenzhen's SEZ was established in 1980. From the get-go, local officials were highly incentivized to initiate reforms. Successful reform ideas were met with significant rewards, unsuccessful ones with low to no punishment (Yiming, 2017). The central government sought to create a beneficial environment for the invention and implementation of innovative measures. The legislation introduced in this period was initially aimed at breaking free of the original planned economy and removing obstacles for further reform. Almost immediately, Shenzhen's GDP grew enormously: impressed, the central government granted the city sub-provincial status, which brought greater autonomy (Martinek, 2018).

Throughout the SEZ's history, we can clearly see this bird-in-cage approach repeating itself. Economic progress was rewarded with enhanced administrative status and autonomy, which facilitated further economic development, which in turn stimulated further economic development (Martinek, 2018). Applied here, the

bird-in-cage analogy is a positive, self-enforcing cycle. It further implies that the central government's control hampered the economy.

Meanwhile, however, a heated debate was ongoing nationally over the direction China's reform should head in and which economic path was the wiser choice (Xiaoyun, 2017). Poorer areas resented the preferential treatment of certain areas of the country, including Shenzhen; they viewed the substantial diversion of funds to the zone's development of infrastructure as being out of proportion to the little advanced technology Shenzhen was bringing in at the time. Some even suggested the zone's problems in starting up were the result of the absence of a planned economy; still others viewed the zone as a breeding ground for "bourgeois afflictions that would undermine the communist edifice" (Saich, 2004: 323).

This conflict impeded Shenzhen officials' decisive implementation of reforms on a much larger scale. Combined with financial troubles on the national level, Shenzhen was struggling. The central government was worried, and in 1985, the State Council set Shenzhen on an altered path; its focus should shift from the zone's construction to the development of industry and production, with an emphasis on the acquisition of technology and knowledge (Jian, 2017). In response, Shenzhen's local government made its previously implemented reforms systematic, effectively splintering the framework of the traditional system. A market economy was given the room to take shape.

In the wake of these reform measures, Shenzhen's economic development sped up. Shenzhen's technological products began to enter international markets. Industrialization sped up further, along with urban construction; the GDP grew, on average, 30% annually and hit 5 billion yuan in 1987 and 10 billion yuan in 1989. In 1987, Shenzhen reversed its trade deficit as export eclipsed import. In 1988, it ranked number two in the country in terms of total exports (Jian, 2017). In response, the central government awarded the city with the authority to not only govern at the same level as a provincial city but also pursue an independent economic plan for development (Martinek, 2018).

In the spring of 1992, Deng Xiaoping went on an inspection tour in the south of China. Xiaoping had concluded that continued economic reform was of vital interest to the party's legitimacy: he feared that if the reforms were reversed, the people's support would be lost and the party "could be overthrown at any time" (Saich, 2004: 76). In what would be a pivotal moment for Shenzhen's further development, Xiaoping confirmed the zone's tremendous achievements and declared that the SEZ had decided the debate on China's future: the economic path forward would be market-oriented but not capitalist. China's path was to be characterized by "socialism with Chinese characteristics", its own form of a market economy (Yitao, 2017). Shenzhen's role was to keep paving this road and easing the way for the rest of the country to follow. Now that the decision to pursue a market economy had finally been made, the debate surrounding the reform's direction quieted and the costs of institutional change dropped significantly (Xiaoyun, 2017).

Shenzhen's local government was granted legislative power, making Shenzhen the first sub-provincial city to enjoy such a privilege (Martinek, 2018). Local officials quickly set about drawing up a plan detailing the fundamental changes that needed to take place to achieve the transition to, and incidentally the conception and perfection of, a socialist market economic system (Jian, 2017). The focus was to remain on increasing and creating new advantages in order to become the model for a socialist city with Chinese characteristics. In pursuit of this novel economic development, continuous experimentation took place in transforming the basic framework of the economic system. This involved not only transformations in the economic field but also the revamping of local governmental functions and the building of a law and regulation system according to the needs of a market economy (Jian, 2017). This institutional reform was important for the implementation of further comprehensive reform (Yitao & Lu, 2012). At the same time, the general *opening-up* of the zone was actively pursued: foreign investment was encouraged by ensuring welcoming conditions for foreign investors, and China began to follow international practices to simplify reforms and trade (Jian, 2017). The results confirmed the measures taken: with an annual economic

growth rate of around 20% on average, Shenzhen ranked in the top of large and medium-sized Chinese cities in terms of comprehensive economic strength (Jian, 2017).

Intriguingly, the reform method gradually evolved from top-down to something more mixed: both social and market forces had become active participants in institutional change. Xiaoyun (2017) identifies three active reform forces starting in the early 2000s, where before there was only one: not only the government initiated and enacted reform, but society and the market also began to play significant roles. In 2002, China first begin to observe World Trade Organization rules, a significant step in its opening up and an additional sign, too, that the global market has become a propellant for institutional change in Shenzhen.

Looking to the future, we see increasingly higher goals set for the Shenzhen SEZ in the pursuit of further development, not only in economic but also in social, cultural, scientific and technological fields (Chen et al., 2016; Portyakov, 2017). Scholars of the SEZ also predict increased power in the hands of Shenzhen's local government, although it is also explicitly stated that coordination between the Party Committee local governmental operations in Shenzhen are to be actively maintained and even enhanced (Chen et al., 2016). The cycle of greater autonomy and economic growth seems likely to continue into the future.

## **Conclusion**

At first glance, the influence of central governmental control on Shenzhen's economic development seems clear. Throughout, decentralization – the redistribution of power from the central to local government – has benefited Shenzhen's development. It was decentralization on the national level that made the SEZ's establishment possible in the first place, enabling local-level experimentation under the central government's surveillance. Shenzhen's being granted legislative power is what enabled it to enact the many innovative reform measures that have influenced and enabled its transition to a market economy. In other words, decentralization was *necessary* for Shenzhen's

success: its market-oriented reforms could not have taken place without delegated legislative authority (Martinek, 2018).

As the zone developed, governmental restraints were loosened and the zone developed further. All the evidence I encountered in the literature suggests the autonomy granted to Shenzhen worked to stimulate economic development, as local authorities were given the power to enact legislation as they saw fit. A decrease in governmental restraint and decentralization were thus at the base of the innovative policy-making that enabled and steered Shenzhen's transition from a planned economy to a market economy.

This contradicts those scholars pointing to the importance of central control for the country's economic success, where in fact it seems to have been precisely the absence of that central control that fueled the development of the Shenzhen SEZ, one of the main motors of China's economy. This might indeed confirm the possibility for economic success under an authoritarian political system, but hardly makes the latter a prerequisite for the former, or even an advantage.

However, the factors that created the beneficial conditions for Shenzhen's economic development were put in place by the central government. Preferential economic policies and reform incentives for local officials enabled the growth that followed. Furthermore, the initial breaking out of the planned economy's restraints necessitated central governmental support (Martinek, 2018).

It seems, therefore, that governmental control was necessary in the initial phase of the SEZ's establishment to ensure the institutional environment for economic success. Initially, as noted above, the central government was the main source and enactor of institutional change, and in that sense a key factor in Shenzhen's development. After the conditions for its growth had been put into place, and Shenzhen began to grow, the government gradually loosened its hold and the economy took off. At this point, the granting of further authority to Shenzhen's local government seems to have only benefited its economic growth, suggesting a negative effect of governmental interference on the desired development.

Shenzhen was the testing ground for China's transition from a planned to a market economy, and its trajectory resembles the country's development at the national level. Economic reform has resulted in a significant redistribution of economic power away from the state (Saich, 2004). The puzzling aspect of this is the party's obsession with maintaining a grip on power, emphasized by many scholars (Leonard, 2011; Tsang, 2009; Heilmann & Perry, 2011; Saich, 2004). Why would the central government have willingly decentralized if it meant a decrease in direct economic and political control and influence?

The party's leading principle has been that in order to stay in power, maintaining stability is essential (Tsang, 2009). Deng Xiaoping resented Stalin for undermining socialism but drew a valuable lesson from Russia's downfall: a failure to deliver economic growth might doom China to the same path (Saich, 2004). Economic reform was therefore deemed vital to the party's legitimacy.

As such, political reform became dictated by the needs of economic reform (Saich, 2004). Accordingly, Naughton (2011) describes China's political system as having evolved alongside and in the service of economic development; Martinek (2018) asserts that the legislative delegation inherent to China's reform must be viewed as the transfer of legislative authority *when necessary* to spur meaningful economic development.

With this in mind, the scholars interpreting China's decentralization as a move towards democracy appear to be mistaken. China's economy has been transformed into what resembles a free-market economy, but it is only selectively free (Zhao, 2017). China has adopted most of the basic principles of the Western model of a market economy while modifying or rejecting the aspects that would lead to a reduced role of the state. It also maintains complete control over sectors of the economy it deems vital to national security (Zhao, 2017). China's decentralization appears not to have been a movement towards democracy but instead was intended to pre-empt the need for such a system (Tsang, 2009).

Letting go of control over most of the economy has resulted in an economic growth, which in turn, according to several scholars, has strengthened the Chinese political system and ensured a sustainable balance of authoritarianism and economic development (Naughton, 2010; Nathan, 2017). In addition, China's international standing and influence has steadily increased due to the legitimacy its economic success has lent it (Yitao & Lu, 2012; Leonard, 2011).

Other observers, however, argue that further economic growth may prove to be more than the party can handle. Howell (2006) and Saich (2004) emphasize the ways in which economic reform undermines the central government's political and administrative control, due to the increased power of the market's workings. Local governments may disobey or selectively implement central governmental policy in order to best serve their own developmental goals (Saich, 2004). Generally, the central government has tended to slow down the pace of reform when necessary to perpetuate its system of authoritarian control; but time will tell if this will remain possible in the economic field. The institutional durability of economic decentralization makes it difficult to turn back such reforms (Howell, 2006). Only time will tell how large the bird's cage will finally grow and if it may even someday fly the coop – or whether the bird's growth will only strengthen the bars that hold it.

# **Migration and inequality in Special Economic Zones Shenzhen**

*Ewoud de Groot*

## **Introduction**

In 1979, China started to implement Special Economic Zones as a political experiment. The first SEZ was established in Shenzhen. Shenzhen was chosen among other cities to be a SEZ for multiple reasons. Shenzhen is located near the Chinese Sea and connects the mainland of China with the autonomous territory of Hong Kong. Shenzhen is therefore from a geographical point of view a perfect location to be an economic hub. Besides the geographical location, the Shenzhen area attracts multinationals due to the fact that it is beneficial for these firms, because of the comparative advantages (Sit, 1985). These comparative advantages are low-wages, low property prices and the low taxes. Also, the SEZ, like Shenzhen, are chosen by the Chinese government to be far away from the political capital Beijing. So, there would be as little of political influence as possible (Yueng, Lee & Kee, 2009). Shenzhen is the first city to be chosen as a SEZ, therefore a lot of research has been done into Shenzhen. Most of these researches focussed on the economic growth and the development of the economic growth. This section of this research will focus on the influence the rapid economic development had on the changes in demographics within a SEZ, like Shenzhen. The changes in demographics will especially focus on the rise in population, migration and inequality. At first, there will be further explanation about Shenzhen.

Nowadays, Shenzhen is seen as the most advanced SEZ in China. The SEZ are based on free-market economic zones and foreign direct investment is encouraged (Sit, 1985). The GDP in Shenzhen rose an average of 15.6% yearly during the 1979 – 1994 (SZSB, 1993). A rapid increase in population in Shenzhen also shows that the SEZ grew a lot in size in a short period of time. According to several sources, in Shenzhen, before the start of the SEZ, the number of inhabitants varies between 30000 and 71000. In 1990, the population increased to one million (Zhu, 1994). Within twenty years, the

population grew a fourteen-fold. This is to some extent extraordinary. The population growth in Shenzhen contradicts the political policy of China. In 1979, the Chinese government introduced the one-child policy (Blanister, Bloom & Rosenberg, 2012). The one-child policy was introduced to decrease the population growth. However, what has been said before and what figure 5 shows, is that Shenzhen population rapidly grew since the beginning of the one-child policy. The population growth can be explained due to the economic growth in the area. The SEZ attracted a lot of multinational firms. All these firms need low and high skilled workers, which attracted migrants. One can argue that the SEZ is responsible for the rise in population in Shenzhen. The population growth of Shenzhen in comparison to the population growth of China shows a different growth pattern. In figure 5 and 6 shows a different growth for Shenzhen and China. In the figures, one can see that the population growth of Shenzhen has been a lot higher than the rest of China. There has been a rapid development in urbanization and most of the population increase is due to migration.

There are multiple reasons why China have created the SEZ. All these reasons diverge from one another. One of these reasons and where the focus will be in this section of this research is to raise to standard of living in SEZ. One way to increase the standard of living in SEZ is, according to the Chinese government, the trickle down effect. This trickling down effect is also a central element in neo-classical economic thinking. The Chinese government sees this approach as a successful path to economic growth, to raise the standard of living for all and reduce poverty in China. A SEZ is therefore a good system. The SEZ will get wealthier due to the economic growth. The wealth will as the trickle down claims, eventually flow to the poor in Shenzhen. This path to achieve economic development for the SEZ arises from the saying and reflects the strategic thinking of the Chinese government is: “Let certain regions (and some people) get rich first” (Jones & Cheng, 2003). This shows that China can make important decisions, with outcomes that are not beneficial for all people on the short term. According to the trickle down effect, the poor will benefit from this approach on the long term. Additionally, there is evidence from earlier research that after Shenzhen

opened up to the outside world, the inequality in China did not decline but rapidly rose (Wan, Lu & Chen, 2012). China profited very much from the movement of globalization and its integration in the world market. Globalization can be defined as the expanding integration of economies and societies (Dollar, 2001). There are several perspectives on globalization. According to some, globalization increases inequality while others say it decreases inequality. However, China is determined to achieve economic growth even if it increases inequality within an area, which is rather strange taken in account that it still is a communist country. This research will focus on the rise of inequality in the SEZ.

Furthermore, this research will give an overview how the SEZ are implemented in China and what effect they had on inequality of the area Shenzhen. Before the SEZ, these areas were known as areas with small villages, some even without a traffic light (Yueng, Lee & Kee, 2009). These areas rose to an economic hub which had experienced economic growth, urbanization and migration in a small period of time. This research will examine how the SEZ had affected the aspects of life of the people in these areas. At first, this research will focus on the development of the demographics of the SEZ. How did the SEZ grew, since the beginning of the implementation of the SEZ. Secondly, the focus will be on migration to Shenzhen, the migration led to the rapid increase in population. Finally, the results will be used to give an indication how the SEZ affected the demographics in Shenzhen. This SEZ have shown that it is a successful approach for rapid economic development, but is this growth a good development for other regions and people in general? What key factors can be determinative from the implementation of SEZ for developing countries in the sectors of the rise in population, migration and inequality?

### **Population growth of Shenzhen**

The huge amount of migration affected the demographics of Shenzhen. The Chinese government does not have the exact population numbers of the SEZ in Shenzhen. The numbers from the National Bureau of Statistics of China are not focussed on this area.

In the yearbook of the National Bureau of Statistics of China, the aim is on the province of Guangdong, where Shenzhen is a part of. However, the population number of Shenzhen in the yearbook of the National Bureau of Statistics is different from other sources. To give an overview of the growth of the population of Shenzhen data from various sources will be used to estimate an average population. The population number in 1979, before the start of the SEZ, differs from 30.000 inhabitants (Liang, 1999) to 71000 inhabitants (Zhu, 1994). It increased to one million in 1990. This was much higher than the planned target of Shenzhen. Shenzhen intended to have a population of 600.000 in 1990 (Ng & Tand, 2004). From the period of 2000 - 2010 it rose 5 times to 10 million (Lindtner, Greenspan & Li, 2015). In this decade, Shenzhen was fastest growing region on earth. From 2010 onwards, the population didn't grow as much as the decade before, but the population still grew to more than 12 million (Ng, 2011). Figure 5 shows that there has been a rapid increase in population in Shenzhen.

According to Lindtner, Greenspan and Li (2015), 95% of the population in Shenzhen are migrants in 2015. This could be the reason why the amount of population in Shenzhen varies between different sources. The hukou system makes inland migration complex, but it's still happening. The hukou system states that migrating to another city is illegal without consent of the Chinese government. Because of the hukou system and thus the illegal migration, the number of inhabitants of Shenzhen can differ than in official counts. Nowadays, the hukou system is in some way collapsed, looking at the large number of migrants in Shenzhen. The old system has been replaced by a more market-based approach. This is mostly due that the local government did not have the power to stop this development (Leaf, 1996). Further elaboration on the hukou system is described later.

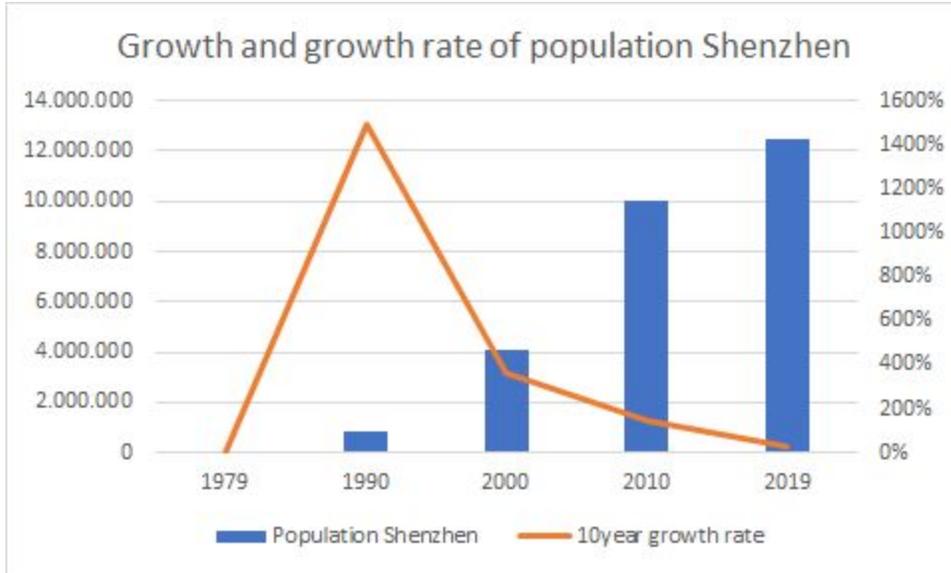


Figure 5:

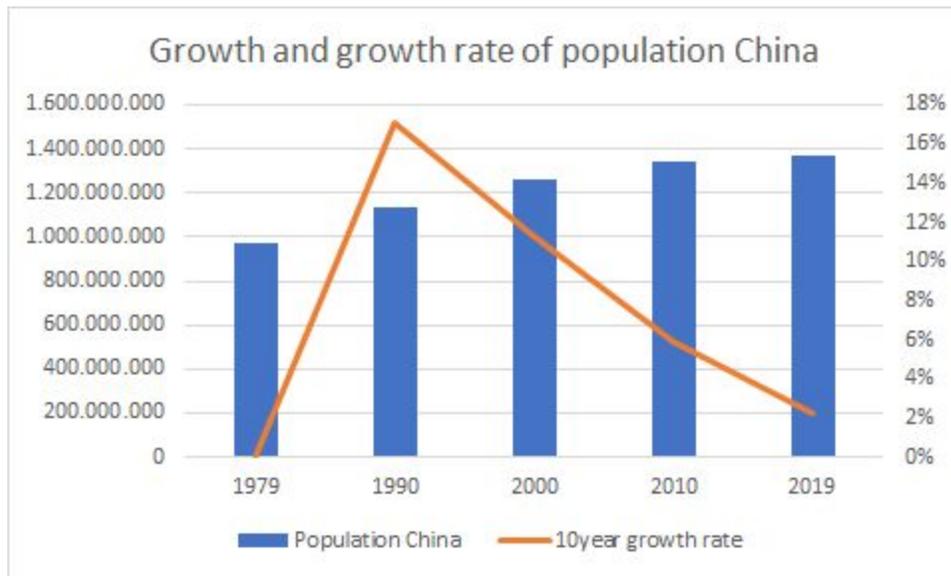


Figure 6:

## Migration

As noted earlier in this research, the Shenzhen area rapidly rose in population after the implementation of the SEZ. Today, there are more than 13 million inhabitants in the first SEZ, Shenzhen (Ng, 2011). In 2011, 83% of the population of Shenzhen were national and international migrants. Most of the migrants are inland migrants. According to Pieke (2012) and to the population census in China (2010), the total number of international migrants in Shenzhen was only about 600.000 people. Shenzhen is therefore the most attractive location for inland migrants. This shows that Shenzhen had and still has a lot of pull-factors for the rural inhabitants in China (Farole, 2011). Most of the migrants hope for a better future. Migrants know that there is more money to be earned in Shenzhen than in their hometown. Family members will migrate to Shenzhen to send back remittances to their families. This is one way how the trickle down effect works. Money earned in the SEZ flows back to the rural villages, where the migrants come from. These rural areas could get wealthier on the long term. What kind of work the migrants did in Shenzhen, depended on the kind of industry established there. The kind of industries that came to Shenzhen after the 1979 is discussed in the economic chapter.

Next to the economic factors, there are also social factors for migration to Shenzhen. One social factor is specifically attached to Shenzhen. From a research into sweatshop workers in Shenzhen, one can conclude that being a migrant in Shenzhen is different than anywhere else in the world. A respondent of an interview stated that migrants in Shenzhen are not socially excluded. They are seen as local people and not as outsiders (Lindtner, et al., 2015). It is interesting how this situation has occurred. This may be the result of the large number of migrants in the region. Since there are so many migrants, the city has become more tolerant towards outsiders. The fact that there were only approximately 70.000 original Shenzhen inhabitants in 1979, also plays a role in the tolerance towards outsiders. There are now many more migrants than original inhabitants.

The economic growth is responsible for growth in the labour markets of industrial and social sectors. Migrants hope for better wages and opportunities. New jobs are found for low and high skilled workers and this attracts migrants. Most of the migrants are rural-to-urban domestic migrants. Eight out of every ten migrants were educated till lower-middle school. These migrants are labelled as unskilled workers (Shi, 2008). These migrants favour long workdays and slightly better working conditions inside factories above working outside in the field (Liang, 1999).

The urbanization of the SEZ led to a rapid increase in suburbs close to the SEZ. These suburbs mostly consist of poor migrants. Migrants who came to the SEZ for a better life. This movement from rural-to-urban migration is called the 'blind flow' (Wang & Wu, 2010). The Chinese government did not interfere with the housing policy near the SEZ. Illegal migrants needed housing and made self-help houses, which created suburbs. Research proved that the migrant villages are an efficient urban housing market for migrants (Hao, Sliuzas & Geertman, 2011). This is because migrants were on their own and without the help of the government. Migrant villages are built by and for migrants themselves. This is an important factor in the urban development of for example Shenzhen. The illegal self-made villages are the result of the hukou law made in 1950.

The Chinese household system, the hukou, is different from anywhere else in the world. This hukou system is over fifty years old but is still seen as responsible for the chasm between rural-urban residents and the reason the Chinese government would not interfere with the housing policies in migrant villages. Understanding the hukou system is important to realise how little the Chinese government got involved in the blind flow to Shenzhen.

The hukou system made it for peasants more difficult for inland migration. This started in 1950 with the beginning of industrialization. Cities were growing due to the industrialisation and thus became wealthier. Rural peasants wanted to migrate to industrial cities for a better future. However, the communist government could not lose the peasants as the peasants were needed to grow crops and food. To avoid the peasant

from migrating, the Chinese government implemented the hukou system. This system stated that rural-to-urban migrant families did not have the right for urban housing and social welfare, once they would migrate (Chan, 2009).

However, some say that the hukou system could be the secret to economic growth of China. The hukou system led to a form of illegal moving. However, in some way this helped the economy in the SEZ. The illegal migrants accepted a lower wage. The illegal moving of rural to urban peasants kept the wages low (Chan, 2009). This had as a result that the production costs stayed low. This made it attractive and beneficial for multinationals to produce goods in Shenzhen. From this perspective, the hukou system is integrated in the socio-economic and economic development strategy of China. So, the hukou system kept the wages low and created a 'floating' migrant population in Shenzhen. It attracted many multinationals, who benefitted from this law. However, the hukou system also opened up the possibility to discriminate and exclude migrants. Illegal migrants were treated as second-class citizen. The illegal migrants did not have the right for healthcare and lower education for their children, as the migrants were seen as illegal. This migrating system lays the foundation for planned authoritarian government. On the other hand, the system doesn't work in a market-based economy as can be seen in the huge rise of migrants in Shenzhen.

The hukou system is still an active law in China, and therefore still has consequences for migrants in SEZ. The 'blind flow' caused many problems for the migrants. They were "excluded, isolated and discriminated" by the government (Wang & Wu, 2010). However, the demand for migrants increased due to the expanding of the SEZ. This looks contradictory. The increasing demand for migrants is necessary for the SEZ to keep growing. Nevertheless, migrants were poorly treated and did not really get assisted by the local government. Partly, this is due to the hukou system. Inland migrants were unable to build legal houses. So, they needed to build their own houses without the help of the local government. Self-help houses are built close to the business district, which had led to high-density housing. High-density housing led to an unhealthy environment and social problems (Hao et al., 2011).

## **Inequality**

As stated above, Shenzhen developed to an economic hub and a world city in a short period of time. This caused a lot of migration to the city, both legal and illegal. This section will focus on the inequality between Shenzhen and the rest of China. The focus will be on income distribution and poverty reduction. Shenzhen, one of the world's richest cities, is one of the biggest wealth generating cities in China. This SEZ in the east, is the opposite of the western part of China. In West-China are two-thirds of the poor households located (Du, Park & Wang, 2005). The distribution of wealth in China is crooked.

Under the past regime of Mao, there was less inequality. Since the death of Mao in 1976, a new policy was introduced in China. This policy changed the ultimate communist approach introduced by Mao, where Mao aimed for social equality and created a transition from a socialist approach to a more planned economy system. The new policy was focussed at economic growth at all costs, even if it would decrease equality (Whyte, 2012). Migration played a substantial part in the raising inequality in China and Shenzhen. The hukou system, mentioned above, created a chasm between the rural and urban areas. Poor rural workers could not migrate to the growing urban cities, like Shenzhen, due to the hukou system. However, the migrants who did migrate to a SEZ, illegal or with permission of the Chinese government, send back remittances to their families in their hometowns. One could say that this enriches the poor rural areas. From this perspective, one could argue that the trickle down effect used by the Chinese government is beneficial for the whole of China. On the other side, the Chinese government didn't always condone the illegal migrants. An example from 2007, when the Chinese government raided and closed a building, where children of illegal migrants were educated. The distribution of money is not always equally spread throughout China. The Gini coefficient shows the statistical rating of inequality. Looking at Shenzhen, the Gini coefficient was 0.447. This rating is stated as highly unequal and

calculation was based on social factors, like social integration and health. Monthly income was standardized (Lin, Zhang, Chen & Ling, 2017).

By the implementation of the SEZ, Shenzhen grew, economically and demographically seen, rapidly, while the rural stayed behind. This increased the inequality between rural and urban. For example, the GDP per capita in China is \$8827 in 2018 (Worldbank, 2017). While the GDP per capita in Shenzhen is close to \$27.100 (Globaltimes, 2019). This shows the uneven money distribution in China. Looking at Shenzhen, this is a good development focussing on the wages of its inhabitants. However, when the wages keep increasing as a result of inflation, Shenzhen could lose their comparative advantage. Further research is needed to understand how this will affect Shenzhen in the future.

### **Concluding**

Since 1979, China's path to success was focussed on one goal; economic development. Economic development was so important that negative consequences of economic development, like inequality were less important. Most of the positive effects of the SEZ can be found in the rising welfare. Some parts of China became very rich as a result of the implementation of the SEZ. GDP and income rose rapidly in those areas. The SEZ attracted multiple multinationals and migrants. Shenzhen grew from a village of approximately 70000 inhabitants to a world city of more than 11 million inhabitants. The SEZ had many consequences for the people living in Shenzhen. Demographic growth is the result of the economic growth. Economic growth attracts poor people, who are looking for a better future. In the SEZ, there are more jobs and the wages are higher. Rural workers thus migrated to a SEZ to earn money and send remittances back to their families in their hometowns. The 'blind flow' in combination with the old hukou system, helped the SEZ with keeping their comparative advantages. The hukou system helped with keeping the comparative advantages by keeping wages low in the beginning of the SEZ. Illegal migrants would work for a lower wage than legal migrants. This is a critical

factor in the success of Shenzhen. The population growth in Shenzhen has had positive outcomes for its inhabitants. Namely, Shenzhen got wealthier looking at rise of average income. There is no evidence that the trickle down effect worked, but the only aspect that helped the rest of China is the fact that a part of the wages earned by rural-to-urban migrants flowed to the rural parts of China. So, what lessons can be learned from the implementation of the SEZ?

When implementing a SEZ in a small village, the government should keep in mind that this village will grow rapidly. In China, the population growth in the SEZ of Shenzhen grew enormous, regardless of the fact that of the hukou system or the one-child policy, what should reduce the population growth. China must indeed reform the hukou system in order to decrease social and income inequality.

Another important issue that should not be forgotten is the fact that Shenzhen is the most successful SEZ. It is the reason why it is taken here as an example, but not every SEZ can be as successful as Shenzhen. Several factors that played an important role in the success story of Shenzhen can't be found in every area. The huge amount of domestic migrants in Shenzhen is an important factor in this success. However, not every country has that many domestic migrants that helped the development of Shenzhen. Next to the domestic migrants, there is also the hukou system and the trickle down effect. The hukou system kept the comparative advantages for Shenzhen in comparison with other regions. The illegal and legal inland migration made the growth for Shenzhen possible. Other countries, that aren't as big as China, must overthink this problem in terms of international migration. There will be migration to a region that experiences economic growth. Therefore should smaller countries, when implementing a SEZ, be prepared for international flow of high and low-skilled migrants and use the migrants in a way to maintain comparative advantages.

## **Integration**

### **Introduction**

In this chapter of the research, the conclusions of the previous three disciplinary research chapters will be compared and contrasted. By first stating our respective conclusions, we will examine immediately evident overlaps or contrasts. These will be further investigated by "pulling apart" our conclusions and examining conflicts and agreements between disciplines regarding concepts used in the research, creating common ground by using techniques provided by Repko and Szostak. With a deeper understanding of how our disciplinary insights relate to one another, we will then sketch Shenzhen's trajectory as understood from the combination of the combination of our insights, highlighting key factors for its success and explaining several important processes in its development. This process description will provide an answer to our research question: What factors were key to Shenzhen's successful opening up?

### **Disciplinary insights**

To reiterate, the economic view assessed how the opening up of the economy in Shenzhen led to foreign investments. Combined with migration, this has led to economies of scale and an improved allocation of resources, resulting in a comparative advantage. The economic development that followed has not been contained to the SEZ, but gradually spread to outer regions as well, through the trickle-down effect.

The political historical perspective determined that the central government played a key role in Shenzhen's establishment and in the creation of the institutional environment and beneficial conditions necessary for economic reform. As Shenzhen developed, however, central governmental control became more of a hindrance than a benefit, as seen by consistent economic growth following an increase in Shenzhen's autonomy. Although the central government lost power over the economy, it gained in legitimacy and soft power.

The social geographical perspective examined Shenzhen's demographic change after the establishment of the SEZ. Shenzhen's economic growth attracted a flow of migration, which served to keep wages low. This created a comparative advantage for Shenzhen. The domestic migrants send remittances to their hometowns, leading to a trickle-down effect of wealth to the rural areas of China.

### **Creating common ground**

In order to fully understand the conflicts and agreements between the disciplinary insights, the concepts used in research need to be analyzed. We have selected concepts of key importance to our respective insights and compared them. When disciplines had contrasting views, the concepts' definitions have been altered for their use in the more comprehensive understanding.

One concept that is used differently by all three disciplines is the concept of *opening up* to the world. From a social geographic perspective *opening up* is used in combination with globalization. Globalization in the social geographic discipline is seen as a way of expanding integration of economies and societies. The economic definition focuses on the opening for trade: having a more outward-looking strategy for collaboration and export, and more incentives for firms to invest in China. Political history views *opening up* as a policy decision made by the government of a country to turn themselves outward and open themselves to diplomacy and trade.

The technique of redefinition is used to overcome this conflict, because the definitions aren't the same nor do they oppose each other. The redefinition technique from Repko and Szostak (2017) is used to modify concepts in different texts "to bring out a common meaning." In the context of China, the concept *opening up* is here defined as the governmental decision to open the country to trade and diplomacy, and so expand integration of economies and societies.

Another concept found in both the disciplines economics and social geography is *comparative advantages*. In the social-geographic perspective, this concept refers to a region's advantage in wages, production costs or resources. Shenzhen can be used as an example: mass-migration kept the wages low, giving Shenzhen a comparative advantage. From an economic perspective *comparative advantages* means that a producer produces more of a good when it can produce it for a lower price or lower opportunity cost than the competitor.

The technique of extension will be employed, because the economic definition of comparative advantages does not encompass migration to the extent that it is relevant in the context of Shenzhen. Therefore, *comparative advantage* will be defined as a region's advantage over other regions in terms of lower production costs, due in part to low wages.

*Incentives* is a concept used by the political as well as the economic discipline. In the economic discipline, the incentives in China were used to attract foreign investors and foreign firms to move to China. The incentives for instance entailed a tax reduction for investing in Shenzhen and preferential measures for foreign investors over domestic investors.

The political history perspective employs an entirely different use of the concept of incentives. In this view, incentives are bonuses and rewards given, in this case, to legislators implementing successful and innovative reform policies, thus incentivizing them to formulate and implement more such ideas toward economic development.

In the integration, when discussing incentives in the economic sense of the word, we will use the term *economic incentives*; when using it in the political sense, we will use the term *political incentives*.

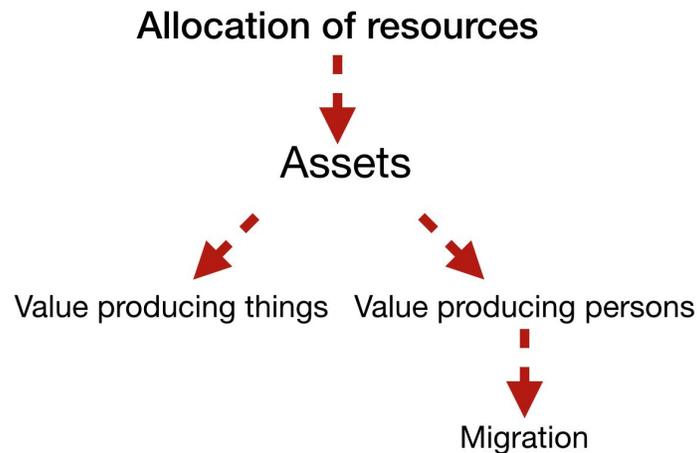
This contrast is perhaps a reflection of the disciplines' differing outlook on the concept of a special economic zone itself. Economics and social geography see a special economic zone as a zone where incentives are used to engineer economic development: a zone geared towards economic development above all else. Political history, on the

other hand, views a special economic zone as a field for policy experimentation, a testing ground for different strategies and measures that go on to inform national policy.

To overcome this conflict, we will use the method of extension to define an SEZ, in the context of Shenzhen specifically, as a field for policy experimentation in the pursuit of economic development. As such, we see that the disciplines focus on different aspects of this definition, as shown in the diagram below.



Another concept used by the political and economic discipline is *allocation of resources*. Both disciplines define the concept as how scarce resources are allocated throughout a region through supply and demand but also competition, with a focus here on how effectively these scarce resources are distributed in China. These resources could be *assets* that produce value, such as natural resources, or *persons* that produce value. The high flow of migration towards Shenzhen is therefore an example of resource allocation: migrant laborers are a part of the production value, because the stream of migrants kept the wages low. To link the concepts allocation of resources and migration, we make use of the technique extension, as portrayed in the diagram below: allocation of resources is therefore defined as the effective distribution of value-producing assets and value-producing persons, which in the context of Shenzhen are present as a result of migration, making migration a form of resource allocation.



Migration is a concept dealt with in both the economic and social geographic discipline. From an economic perspective, migrants are divided into two groups. Migrants from within China were mostly low-salary, poorly educated people, resulting in an abundance of cheap labour. Foreign migrants, however, were generally highly educated. Foreign migration, which often arises through foreign investments, therefore contributed to the transfer of knowledge and skills.

From a social geographic perspective, migration concerns the poor Chinese migrants, who looked for a better future in the SEZ. These migrants can be seen as economic refugees; however, mainly due to the hukou system, most of these migrants are illegal in the SEZ, as they travelled without the permission of the local government. Nevertheless, the migrants were beneficial for the development of the SEZ.

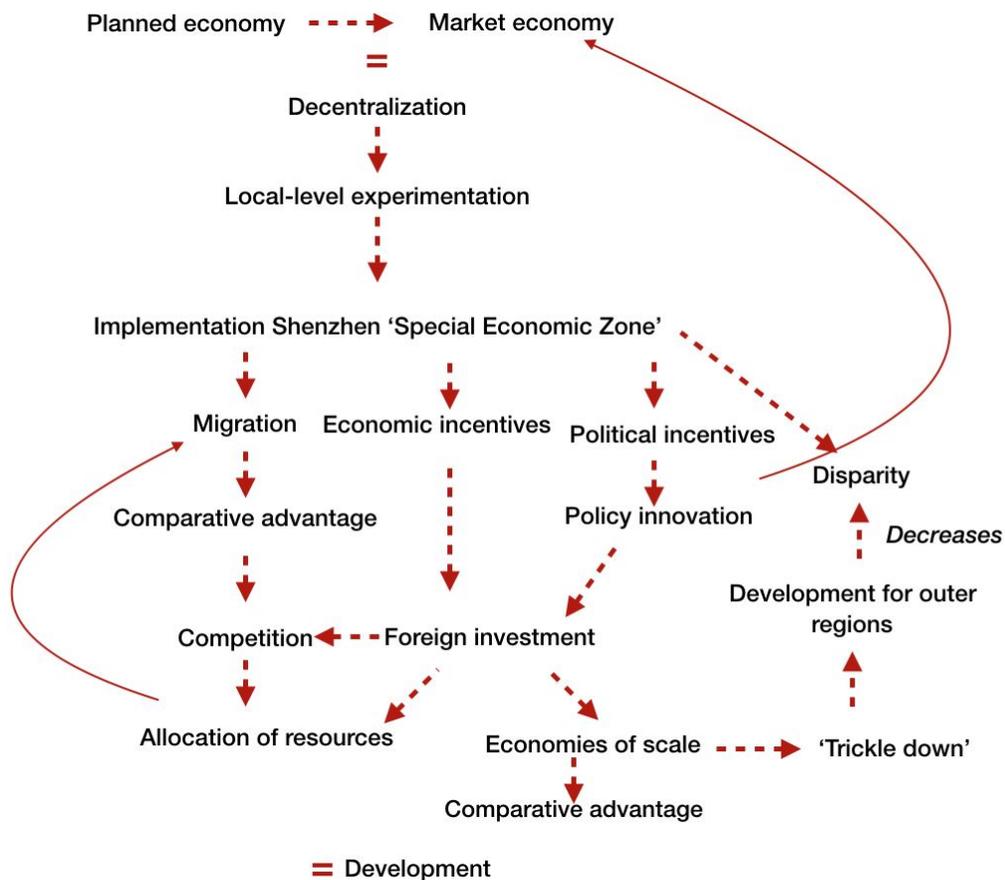
Using the technique of extension, migration will be defined as the flow of cheap domestic labor as well as international, high skilled labor to Shenzhen.

Our disciplines "agree on" the definition of several other terms of importance in our analysis. One example of these terms is the *trickle-down effect*: the idea that if one area or one group of society becomes rich, this wealth will "trickle down" to the rest of society in the long term. Another concept is *economies of scale*: multiple firms and agents cluster in one industry, resulting in a decrease of costs which can generate a comparative advantage.

## More comprehensive understanding

In the following section, we will describe the process of Shenzhen's successful opening up, in its transition from a state-planned to a market economy. In doing so we will be distinguishing important processes and factors as according to our combined disciplinary insights. The integration of these disciplines will create a more comprehensive understanding and an answer to the question: *Which factors were key to Shenzhen's successful opening up?*

To reach a more comprehensive understanding of Shenzhen's opening up, we have combined our disciplinary insights in order to describe the process of Shenzhen's development to identify the key factors enabling this trajectory. This process is pictured in the diagram below.



The implementation of the SEZ in Shenzhen was the start of China's successful opening up to the world, the country's transition from a state-planned to a market economy. This transition was made possible by the Chinese government's decentralization, which was set into motion with China's reform. Where before the central government had held all legislative power, it began to redistribute power to local governments, leading to more flexible, successful policy-making and a greater capacity to govern. The redistribution of power incidentally led to the possibility for central-local experimentation: the government could experiment in certain zones to test eligibility for national policy. It was this mindset that led to the implementation of China's Special Economic Zones, designated as areas for the experimentation of economic legislation. Shenzhen was chosen specifically for its advantageous proximity to Hong Kong and its weak planned economy which made economic reforms easier to push through.

The central government granted Shenzhen preferential economic policies, such as lower taxes, referred to here as economic incentives. Additionally, local policy-makers were stimulated to formulate and implement reform initiatives by way of political incentives, which formed the basis for Shenzhen's opening up: policy-makers were highly rewarded when their ideas worked well and hardly punished when they did not, creating a beneficial environment for innovation.

The economic incentives, the innovative policy resulting from the political incentives, and Shenzhen's advantageous location drew foreign investors, resulting in the establishment of many joint ventures and the presence of foreign firms. Foreign investment brought capital, knowledge and skills. These, explicitly, foreign investments were needed as the knowledge and skills in China were far behind the rest of the developed world. The knowledge and skills brought by foreign investments made it possible to increase competition and in return in productivity and innovation.

The government's decentralization had ensured that resources could be more effectively allocated according to competition, instead of being organized from the center. Shenzhen had a strong competitive standing due to its foreign investments, resulting in beneficial resource allocation. As described above, resource allocation refers

not only to the allocation of capital but also to labor. The establishment of the Shenzhen SEZ brought a wave of mass-migration to Shenzhen, which both contributed to Shenzhen's competition through low wages and as a result brought on more migration. This initial wave of migration migration contribution to Shenzhen's competition, ensuring beneficial resource allocation and therefore more migration. Migration was a prerequisite for Shenzhen's economic development because of the resulting low wages.

The multiple joint-ventures and other firms that moved to Shenzhen resulted in *economies of scale*. Through the economies of scale, mass migration (ensuring low wages), and its advantageous coastal location near Hong Kong and Japan, Shenzhen created *comparative advantages*, as efficiency and productivity increased and costs decreased. The economies of scale and the comparative advantages made it increasingly appealing for foreign investments. As a result, the industry started shifting to a more high-technology and capital abundant industry which attracted more high skilled labour. This created a positive reinforcing cycle.

The concentration of capital, labor, and resources in Shenzhen was at first to the disadvantage of surrounding communities, creating disparity. The migration that so benefited Shenzhen hampered the development of the areas that the migrants left. The compensatory aspect for these communities surrounding Shenzhen is the *trickle-down effect*: as previously defined, the idea that a group or area becoming wealthier leads to the "trickling-down" of this wealth to the rest of society. One example of the trickling down effect are remittances sent by rural-to-urban migrants; in this way, money earned in wealthy Shenzhen flows back to poor rural communities. Though there is a significant time lag between the concentration of resources in Shenzhen and this process, the enrichment of Shenzhen should thus eventually lead to the enrichment of its hinterlands, although cities farther away cannot expect to enjoy the same benefits.

Shenzhen's growth on a local level also greatly benefits the central government through improved central legislation, based on Shenzhen's reform measures, and an improved international standing and legitimacy lent to the government by the region's economic success.

## **Conclusion**

When viewing Shenzhen's opening-up process, what key factors appear to have been fundamental to its success?

Decentralization lies at the very foundation of Shenzhen's success. It enabled local-level experimentation and thereby the establishment of China's SEZs. Decentralization incidentally enabled Shenzhen's legislative autonomy, which, combined with political incentives granted by the central government, resulted in the innovative policy that put Shenzhen's economic reform into motion.

The central government granted Shenzhen economic incentives as well. These, along with the policies implemented by the local government, attracted foreign investment. The foreign investments brought, next to capital, knowledge and skills. This increased economic development and led to economies of scale. Combined with better allocation of resources, such as cheap labour as a result of the huge flow of mostly domestic migrants, increased competition and resulted in a comparative advantage for Shenzhen on the short term opposed to other regions and countries, who benefited from the SEZ in Shenzhen on the long term.

The political incentives and economic incentives put in place by the central government led to foreign investments, improved resource allocation and a large flow of migrants to Shenzhen; meanwhile, further decentralization and increased legislative autonomy in the Shenzhen enabled radical policy innovation and further economic growth. Taken together, these constitute the main factors for Shenzhen's successful opening up.

## **Critical awareness**

In the previous chapter, we integrated our disciplinary conclusions regarding the key factors in the Shenzhen SEZ's successful opening up. Political history and economics combined created a clear overview of the processes underlying Shenzhen's development. Social geography complemented this overview with a more specific outlook on Shenzhen's demographic changes throughout its development, focusing on migration. Once integrated, the three disciplines portrayed a developmental process from which it became easy to pick out essential factors for its success.

A limitation in the research is the absence of a cultural anthropology perspective. China's unique history and culture probably played into Shenzhen's success, but are not considered in this research. An additional limitation is the fact that we only considered one case study, which was more successful than other SEZs, thereby complicating the extent to which our conclusions might be generalizable. Valuable future research might therefore focus on this difference to determine what might have made Shenzhen more successful than China's other SEZs, to further narrow down essential elements. In our research, we have refrained from determining which factors could be applicable in other regions, and to what extent, because this is dependent on the region's own starting conditions.

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