

The Rise of Shenzhen – Since 1979

Jiahui Chen

School of Lawrence University, Wisconsin 54911, United States

jiahui.chen@lawrence.edu

Keywords: Development, manufacturing, export and information technology.

Abstract. This as the world's second-largest economy behind the United States, not expected to do well only a couple of decades ago, China's development was understood as an economic miracle. Attributed to Gaige Kaifang, or Chinese Economic Reform by Mr. Deng in 1978, the Chinese economy started growing drastically: the GDP, 11 trillion USD in 2015, was 30 times what it was in 1978. Undoubtedly, "from rags to riches" is the best way to express China's situation. From this reform, the city of Shenzhen proved to be one of the most successful and outstanding cities in China. Moreover, the outcome of the new SEZ was that Shenzhen soon became the fourth super city (the other three are Beijing, Shanghai and Guangzhou) in China, achieved the highest GDP per capita of the whole country and grew the economically fastest over other Chinese cities since 1979. This paper will examine the two eras of Shenzhen's development, from a port county to a special economic zone, and how the city functions as an important global city for China today.

1. Introduction

1.1. The Background of Chinese Economic Reform

After the Communist Party took control over China in 1949, the economy had grown very slowly over a long period of time. It should be noted that the Chinese economy started from an extremely low point in which China's GDP was only 91 billion USD in 1950, whereas Japan's was 867 billion USD and the United States' was 3 trillion USD. Moreover, due to its huge population, China's GDP per capita was lower than that of the majority of countries in the world. Between 1961 and 1977, over a period of sixteen years, China only had an average GDP growth rate of 5% per annum. In the first few years after 1961, there was a maximum growth rate of almost 18%; however, this was not that astonishing since China started with a very low GDP. Nonetheless, China should have had a better GDP growth. Therefore, this time period between 1961 and 1977 was regarded as an economic stagnation.

One of the reasons for this stagnation was China's failure of simulating Soviet communism which was a centralized planned, or command, economy. Although China and the Soviet Union were both governed by communism, their economic systems were different according to Naughton [15]. Whereas a large amount of the Soviet Union's economic output was controlled and managed by the provinces (states), who set production goals, controlled prices, and allocated resources throughout most of the economy, China had a cruder and more decentralized economy without a detailed plan from the central government. For example, in 1980 only 3% of the state-owned factories were directly administrated by the central government and the rest of them were controlled and planned by local governments who took all the profit.

Moreover, there were many other problems existed in the policy, government, enterprise and so on. China was always looking for an effective method to fix the economic stagnation. Chinese Economic Reform was issued to stimulate economic growth. This reform thoroughly changed the role of government on economy and made the economy on its right track. Scholars gave multiple definitions to the Chinese Economic Reform, such as Reynold [16] who said that this reform can be defined in terms of institutional changes, which is the change in planning process and who said that government consolidates enterprise property right and stresses enterprise autonomy and incentives.

1.2. The Background of Shenzhen and Hong Kong

Shenzhen was established as a special economic zone for its natural advantage of its location nearby Hong Kong, one of the wealthiest and most successful metropolises in the world. Hong Kong and Shenzhen had a very close business since the Gaige Kaifang. Shenzhen is located in the southern part of Guangdong province, and is adjacent to Hong Kong. Prior to 1978, Shenzhen was unknown as a city, rather, it was known as Bao'an County whose area was only slightly larger than one of the many districts in Shenzhen today. The population of Bao'an, the predecessor of Shenzhen which was formed by the Eastern Jin Dynasty in 331, was about 367,000 which was only one-thirtieth of the city of Shenzhen in 2013. In 2015, the city's per capita GDP hit 24,000 USD, the highest in China [17]. Because of its coastal nature, Bao'an county's main industries were fishing and farming, and made some small trades with other villages. It was also a transition place for Chinese officers and visitors who went to Hong Kong. Since air transportation was not widely used, they had to stop at Bao'an first, and then went through customs from mainland China to Hong Kong. However, Bao'an was also known for its huge amount of stowaways every year. Many poor people who suffered in mainland China illegally immigrated to Hong Kong because it was much more developed under Great Britain's rule than most of the cities in China.

Hong Kong is well known as the Pearl of the Orient because neon lights on each building and sign brightly illuminate the whole city at night, which makes the city look like a bright and dazzling pearl that existed in the Orient. The lights illuminate not only the city but also the prosperity which comes from finance, tourism, global trades and so on. The GDP of Hong Kong in 1985 was 35.7 billion USD and Hong Kong itself is always one of the economically strong cities in the world.

2. Development

2.1. Manufacturing

Shenzhen was called the backyard of Hong Kong because it offered cheap labors to Hong Kong-owned factories and helped Hong Kong stay competitive in the international market. In return, Hong Kong helped Shenzhen increase the employment rate, build container terminals which created huge amounts of profit, and finally led Shenzhen to be a metropolis almost on the level with Hong Kong. Shenzhen benefited most from this reform which finally changed the entirety of China. Shenzhen was on the frontline of this reform and led the rest of China to be stronger and become the world's second-largest economy in 2010, the first being the United States.

Beginning in the 1970s, manufacturing industries in Hong Kong faced serious problems both domestically and internationally. High labor cost once made the production of industry less profitable and less competitive against those in other countries who had lower labor cost or who owned factories in those countries [5]. For example, ZARA, a cloth brand in Spain, has sweatshops in countries like Brazil, Cambodia, India and other countries who had lower labor cost. Moreover, tax, land and looser pollution policy also contributed to problems with industries in Hong Kong. Nevertheless, the establishment of Shenzhen SEZ gave the industries and companies in Hong Kong opportunity to have a lower labor cost. Since the supply of workers was much more than the demand of low-wage workers and most of the Chinese were poor and lower-middle-class, China, whose population in 1982 was 1.031 billion, was a perfect labor market for industries in Hong Kong. Many labor-intensive industries in Hong Kong started to move to Shenzhen. According to government estimates, most factories relocated after Gaige Kaifang, 94% of the factories relocated to Guangdong province and 43% of them relocated to Shenzhen.

The movement of factories from Hong Kong to mainland China not only helped Hong Kong-owned factories reduce labor cost and tax, but also increased Chinese domestic employment, helped Shenzhen transfer to a modern and industrial city, promoted communication between mainland China and Hong Kong and, most significantly, gave a glimpse of capitalism and free market to the post-reform SEZ and China. Shenzhen improved very fast through this process. From 1981 to 1993, compared to China's 9.6% annual GDP growth rate, Shenzhen was at a shocking 40% per annum, which was more than 30% higher than the national average [1].

2.2. Export

Export played a very important role in the development of Shenzhen in the start-up stages. Shenzhen was one of the first cities that enforced the “open-door” policy. China used to be almost self-sufficient, in which global trade was not introduced. The domestic products could not be exported to other countries and foreign goods could not be imported to China. However, post-reform Shenzhen went a different way, an export-intensive way. Shenzhen’s first container terminal, Shekou Container Terminals Limited (Shekou port) was founded in 1989, which connected Shenzhen not only to Hong Kong but also later to the rest of the world. As we know, trade can make everyone better off. In the early 1990s, over ten thousand containers were transported from Shekou port to regions like Hong Kong and Taiwan and countries like the United States every day. In each container were mostly goods produced in Shenzhen, and Shenzhen started to make a huge profit through the export. Moreover, advanced port management skills were also introduced from Hong Kong, which ensured the efficiency of the Shekou port. Later in 1994, Yantian port was established and its first throughput record was 13,000 TEUs, which was a very big number of throughput in 1994 [3]. These containers transported the goods from China to other countries and regions and also from other countries and regions to China. Because of the character of SEZ, Shenzhen was a pathway connected China to the world and promoted the globalization of China.

2.3. Information Technology

After 21st century, Shenzhen started to put its focus on the development of IT industry. Shenzhen is neither the first city nor the only city that has IT industry in China. Before Shenzhen, there were *Zhongguancun*, Beijing in 1988 and *Zhangjiang* High Tech Park, Shanghai in 1992, and afterwards, there were other cities like Suzhou, Hangzhou and others that developed IT. Nevertheless, Shenzhen is seen as the pioneer and one of the best performers in IT industry among these cities, as the GDP of IT products in Shenzhen grew from 300 billion CNY in 2004 to 800 billion in 2008 [8]. The reason was that the IT industry in Shenzhen was bred under the environment of SEZ, the diversity brought by a large amount of immigrants, and the strong support by the government.

As a Special Economic Zone, Shenzhen had many more opportunities to approach the international industries over other cities before the total globalization of China. Many technologies were first infused into Shenzhen and then to the rest of the country. In the beginning stage of the development, the immigrants from every part of China flew into Shenzhen in order to look for jobs. This was because many non-Chinese factories were established in Shenzhen. The work opportunities attracted those to Shenzhen. There was a famous phrase, “South Down”, at that time because everyone thought there were more opportunities in the south, especially Shenzhen, which also led to a very huge immigration to Guangdong province. These immigrants not only brought labor force, but also diversity through their different ideas. There were also intellectual elites among this group of immigrants. With the support from the Shenzhen government, this group of people found a special way to the IT industry – forming an industrial area, *Huaqiangbei*, in Futian District. *Huaqiangbei* area was constructed in 1999 and did not start to operate until 2003. That was the time that many new high-tech products first came out all around the world. It was a rush of IT industry and China also wanted to achieve its own development on IT. However, the technology was not developed and mature enough at the beginning, and Shenzhen, the frontier of China with other countries, started to introduce lots of foreign IT products and study how they were made. Entrepreneurs in *Huaqiangbei* started to produce and sell phone and computer accessories and electronic products such as surveillance videos and many other products.

Huaqiangbei was a successful case in performing the free market in Shenzhen, and is considered a bottom-up urban development mechanism. In the 1990s, *Huaqiangbei* used to be an industrial area where some factories produced electronic accessories for other companies. It transformed into a successful commercial place where people came to do their own business. However, the transformation was led by the market. From only a few plants to the SEG (Shenzhen Electronics Group) building and to the mixed supplier clusters, *Huaqiangbei* experienced a huge transformation in a very short time, about fifteen to twenty years. Nowadays, *Huaqiangbei* is called “The Silicon

Valley of Hardware” because you can find almost every kind of accessory and hardware here, from CPU to lens of mobile phone cameras [4]. *Huaqiangbei* has electronic accessories from all around the world and also produces them domestically. If any part of the phone is broken, people can easily find a new one at a very low price because the retailers sell the products to the world and are able to stay in pretty competitive positions. Moreover, many companies or institutions order the accessories, machines and components from *Huaqiangbei* to manufacture their products. Many companies just purchase the products and sell them after the secondary processing. *Huaqiangbei* has developed into the largest wholesale and retail electronics marketplace in China. Many companies who are very successful nowadays, like Tencent, Chuangwei, etc., started their business in *Huaqiangbei* and constructed their legend in this area.

3. Conclusion

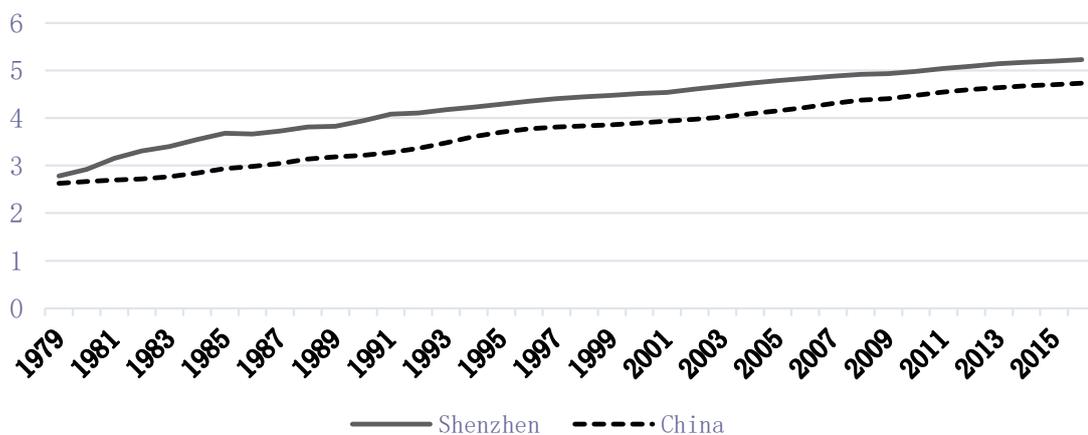


Fig. 1 GDP per capita in log10

After being designated as a special economic zone in 1979, according to the figure 1, a continuously huge boost went through in the economy of Shenzhen, whose GDP per capita was about the same level as that of the average of China. Furthermore, the gap between those two became bigger and bigger, and finally, in 2015, that of Shenzhen tripled the GDP per capita of China. This miraculous increment on GDP shocked the whole nation and even the world, and the name “Shenzhen Speed” was created, in order to express the extremely rapid development of the city.

The development of Shenzhen as a SEZ was a great success for China. Shenzhen benefited most among other cities from the reform. It was hard to believe that a county without any history before could turn into an international metropolis in the short time of thirty years. Chinese Economics Reform was the turning point of the fate of Shenzhen. Because the city's advantage location adjacent to Hong Kong, Shenzhen learned a lot from the success of Hong Kong as a port city and its development under the British government. After building a very close relationship with Hong Kong, Shenzhen gradually found its own route to succeed.

Due to this reform, which introduced the market economy that brought globalization to China, China performed its potential on its economy. As many examples in history, especially after the Industrial Revolution, strong nations always had close connections to each other and traded with more countries and regions as possible. It depends on a basic theory that trade makes everyone better off. Globalization is a developed way of multiple trades. It is the route that every developed country has gone through and many developing countries are experiencing right now. That is what we should learn from the development of Shenzhen and in the future, that is what other developing countries should try to imitate.

References

- [1] Ge, Mei. *Economic Ideas Leading to the 21st Century (Book 5)*, World Scientific Publishing Company, 1999.
- [2] Ji, Zuwei. *The Disadvantage of China's Cheap Labor in Its Foreign Trade*, Shandong Institute of Business and Technology, China.
- [3] Lau, Sau-ye. *A container port development case study: evaluation about competitiveness between Hong Kong and Shenzhen ports*, The University of Hong Kong, 2008.
- [4] Reynolds, Matthew. *Inside Shenzhen: The Silicon Valley of hardware*, 2016
- [5] Tian, Hao. *The development of the Contested City form of Shenzhen, China*. Diss. Massachusetts Institute of Technology, 2004.
- [6] Tian, Hao. *The development of the Contested City form of Shenzhen, China*. Diss. Massachusetts Institute of Technology, 2004.
- [7] Vogel, Ezra F. *One Step ahead in China: Guangdong under Reform*, Cambridge, MA; Harvard University Press, 1989.
- [8] Wang, Zijun. Mingjie Rui and Zheng Xu, *Retrospection of IT Industry in Shanghai – The report of the Experience of the IT Industries in Shenzhen and Taiwan*, China Development Vol.11 No. 6, 2011.
- [9] Zai, Liang. *Foreign Investment, Economic Growth, and Temporary Migration: The Case of Shenzhen Special Economic Zone*, China, 1999
- [10] Zou, Mingxi. *Transforming the "world factory": designing for a [post] industrial Shenzhen*. Diss. Massachusetts Institute of Technology, 2014
- [11] Hart, Alden. *Introduction to Shenzhen, China*, Ten Mile Square Technologies, 2015.
- [12] Zacharias, John, and Desmond Blik. "The Role of Urban Planning in the Spontaneous Redevelopment of Huaqianbei, Shenzhen." *Journal of Urban Design* 13.3 (2008): 345-360.
- [13] Ng, Mee Kam, and Wing-Shing Tang. "The role of planning in the development of Shenzhen, China: rhetoric and realities." *Eurasian Geography and Economics* 45.3 (2004): 190-211.
- [14] Zhu, Yiping, "The new pedestrian friendly Huaqiangbei central retail district: an urban design approach to new Huaqiangbeicentral retail district, Shenzhen." *HKU Theses Online (HKUTO)* (2009).
- [15] Naughton, Barry. *Growing out of the plan: Chinese economic reform, 1978-1993*. Cambridge university press, 1996.
- [16] Reynolds, Bruce L., ed. *Chinese Economic Reform: How Far, how Fast?*. Academic Press, 2014.
- [17] Chen, Frank. *Here's why the Shenzhen growth story has a weak underbelly*, 2016. <http://www.ejinsight.com/20160425-heres-why-the-shenzhen-growth-story-has-a-weakunderbelly/>