Moving beyond Shenzhen

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Shenzhen was the pioneer of China's success, yet it has not, so far, provided a solution to the problem of sustainable and balanced development.

China is celebrating the 30th anniversary of the creation of the Shenzhen Special Economic Zone. How time flies. The past thirty years have seen explosive economic growth in China, and Shenzhen has grown from a fishing village into one of the Far East's major metropolises.

Shenzhen was earmarked as one of China's first trial sites for economic opening, allowing market mechanisms to be introduced and tested. The choice of Shenzhen was apparently because of its geographical proximity to Hong Kong, giving it easy access to its capitalist neighbour while Shenzhen's relative insignificance allowed the government to retain control of the process. This reflected Beijing's caution – while the leadership was courageous enough to dilute China's long standing planned economy, it could not afford a disaster from such an experiment in a megacity such as Shanghai. In contrast to Gorbachev's perestroika and Yeltsin's shock therapy, the Chinese approach demonstrated awareness of a dual responsibility – to do it and do it safely – on the part of the then Chinese paramount leader, Deng Xiaoping.

Today, we have the time and space to reflect on the lessons, of China's reforms. Based on the relative success of Shenzhen and a dozen other coastal cities, China's opening-up has widened and deepened, from Shenzhen to Shanghai and from the coast to the hinterland. Shenzhen was the pioneer of China's success.

Shenzhen's growth is not a complex story. It allowed, and tried to attract, external resources to trade for internal resources. From the beginning, economic, financial and technological resources from advanced foreign countries, as well as Hong Kong and Taiwan, were encouraged to take root in Shenzhen's soil and tap China's abundant labour and natural resources. Moreover, as China was starting from a relatively poor base, the country needed to secure a consumer market for its ever-increasing export-orientated production.

Such a pattern of international trade is economically viable given certain conditions, but it took extraordinary effort for the Chinese leadership to renew its thinking and embark on this course, as it seemed to deviate from China's traditional orthodox ideology. The Chinese authorities carefully reviewed the grim domestic situation in the aftermath of the "Cultural Revolution", and concluded the country was "on the verge of economic collapse". At the same time, the improving international environment permitted China to soften its threat perception. The government launched the epoch-making opening-up and reform program, dramatically adjusting its institutions and mindset. The result was to greatly enhance Chinese living standards and China's international competitiveness, now so visible just thirty years since the Shenzhen model was put to test.

The Chinese leadership has proven itself pragmatic rather than dogmatic. The Communist Party was founded in 1921 to reform Chinese society and put an end to China's semi-colonial and semi-feudal status. With that solid mission, the party applied its principles to complex realities and succeeded in a short span of 28 years in seizing state power. But after ruling for thirty years, it had to revamp its fundamentalist approach to readjust to the new realities of global détente and domestic stagnation.

Chinese socialism with its own characteristics made Shenzhen a channel to receive overseas funds, technology, and management skills, and also to tap export opportunities. Such theoretical revisions were not developed without ideological challenges, and Deng Xiaoping had to make a tour of southern China in the early 1990s to reaffirm his basic line of reform.

Shenzhen's success was repeatable, so the rest of China followed suit (it should also be remembered that China's reform helped India learn and open up). But while heralding Shenzhen's accomplishments, its limitations should also be taken into account. Shenzhen's growth has come at a cost – in terms of over-expansion, failure to balance key relationships, especially those between capital and labour and between production of wealth and development of technology. Of course, it is understood that the lessons of Shenzhen apply to China as a whole, although Shenzhen should not be held responsible for the nation's limitations.

China is in the midst of rapid urbanization, and Shenzhen is an apparent show case. On the one hand, Shenzhen has contributed to a massive rise in living standards for those who previously lived in rural areas. Government data indicate that Shenzhen's population, 12 million in 2006, now stands at 14 million, though a more detailed analysis argued that in 2004, Shenzhen already had a population of some 18 million. Even at the level of 14 million, Shenzhen's population density is already equivalent to that of Tokyo and Hong Kong, and is exhausting local resources such as water and land, and challenging its sustainability. Surely this is no longer a model for others to follow.

Though Shenzhen has become a manufacturing hub, it has yet to evolve into a centre of indigenous research and development. Although Shenzhen is the home of Huawei and Tencent, it remains largely an outsourcing centre, dominated by American and Taiwanese production and packaging firms. The best known of these manufacturing giants is Foxconn, which employs some 420,000 workers in the mainland, with 270,000 in Shenzhen alone. Foxconn's Shenzhen plant is famous for manufacturing the iPod, iPhone, HP laptops as well as Motorola cellphones, but contributes hardly anything to domestic technological innovation. And Foxconn has recently become infamous, for a series of suicides among its employees. The Shenzhen model of outsourcing, prevalent also in some other parts of China, is being called into question, because of an apparent failure to protect the interests of its workers.

The Shenzhen experience – backed up by government preferential policies in terms of land use, financial investment, and massive outsourcing production – may be repeatable, but it is not sustainable. Shenzhen may have been a suitable model in previous decades, but in the post-financial crisis era China is searching for a new paradigm – clean and green development, and a balance between nature and humanity.

While we acclaim China becoming No. 2 in the world in terms of GDP, there are grim prospects ahead. China's GDP is only one-third that of the U.S., and its per capita GDP is only 7.4 percent that of the U.S. and 9.1 percent that of Japan. This gives China an impetus to develop faster to narrow the gap. China may argue that its per capita energy use and CO_2 emissions are also well behind others, and that it should not be called upon to demonstrate its "international responsibilities" on the issue of global warming.

On the other hand, comparisons with America and Japan could be misleading, as they may not be good examples. A more objective comparison would place China in a global context. China accounts for some 20.1 percent of the world's population (year 2010), and its energy use has reached 19.5 percent of the world total (year 2010, co-No.1 with the U.S.), its CO_2 emissions are 22.1 percent of the world total (year 2008, No.1 in the world, 4.8 times those of Japan, and 4.7 times those of India), although China's total economic output is just 8 percent of world output.

China's percentage share of world population is roughly the same as those of its energy use and carbon dioxide emissions. Therefore neither China nor the rest of the world should have any complaints. Per capita wise, China is spending the world average in energy to feed its people, and is "contributing" to climate change at the world average level. So China cannot argue that it is burning less energy and producing less CO_2 than the world average. The international community should also not blame China for burning more energy than the world average, or emitting more greenhouse gases than average. The real question is that given these energy and environmental costs, why is the Chinese economy not producing at the world average per capita level.

To raise its world share of GDP, currently 8 percent, to some 20 percent corresponding to its present population share, China would have to increase the size of its economy by 2-3 times. If China does not increase its energy efficiency and reduce its CO_2 emissions significantly, China may soon be using 30-40 percent of the world's energy and emitting 30-40 percent world green house gases while still failing to produce 20 percent of future world GDP. This uninviting prospect will loom large on the horizon over the next 10-20 years.

The Shenzhen model has not, so far, provided China with a solution to the problem of sustainable and balanced development. It is time for China to look for a new institutional and technological revolution, moving beyond Shenzhen.

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