

# **Research Series on the Chinese Dream and China's Development Path**

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Yitao Tao · Zhiguo Lu

# Special Economic Zones and China's Development Path



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## Series Preface

Since China's reform and opening began in 1978, the country has come a long way on the path of Socialism with Chinese Characteristics, under the leadership of the Communist Party of China. Over 30 years of reform efforts and sustained spectacular economic growth have turned China into the world's second largest economy and wrought many profound changes in the Chinese society. These historically significant developments have been garnering increasing attention from scholars, governments, and the general public alike around the world since the 1990s, when the newest wave of China studies began to gather steam. Some of the hottest topics have included the so-called "China miracle", "Chinese phenomenon", "Chinese experience", "Chinese path", and the "Chinese model". Homegrown researchers have soon followed suit. Already hugely productive, this vibrant field is putting out a large number of books each year, with Social Sciences Academic Press alone having published hundreds of titles on a wide range of subjects.

Because most of these books have been written and published in Chinese, however, readership has been limited outside China—even among many who study China—for whom English is still the lingua franca. This language barrier has been an impediment to efforts by academia, business communities, and policymakers in other countries to form a thorough understanding of contemporary China, of what is distinct about China's past and present may mean not only for her future but also for the future of the world. The need to remove such an impediment is both real and urgent, and the *Research Series on the Chinese Dream and China's Development Path* is my answer to the call.

This series features some of the most notable achievements from the last 20 years by scholars in China in a variety of research topics related to reform and opening. They include both theoretical explorations and empirical studies, and cover economy, society, politics, law, culture, and ecology, the six areas in which reform and opening policies have had the deepest impact and farthest-reaching consequences for the country. Authors for the series have also tried to articulate their visions of the "Chinese Dream" and how the country can realize it in these fields and beyond.

All of the editors and authors for the *Research Series on the Chinese Dream and China's Development Path* are both longtime students of reform and opening and recognized authorities in their respective academic fields. Their credentials and expertise lend credibility to these books, each of which having been subject to a rigorous peer review process for inclusion in the series. As part of the Reform and Development Program under the State Administration of Press, Publication, Radio, Film and Television of the People's Republic of China, the series is published by Springer, a Germany-based academic publisher of international repute, and distributed overseas. I am confident that it will help fill a lacuna in studies of China in the era of reform and opening.

Xie Shouguang

# Preface

This book, *Special Economic Zones and China's Development Path*, currently available to you, is an achievement under the Major Program of the National Social Science Fund (No. 10AJL001). It took four and a half years to complete this research. Although we hope that our research achievement is a “meticulously engraved jade”, it is certainly not flawless. Even when we reviewed the final draft, we believed that much could have been done better and more thoroughly. We are keenly aware that academic research is a process of sharing, thinking and contention, sparking inspiration, and brainstorming. We hope that our research will be recognized by our peers, so that we can make some self-improvement amid debates and dialogues because both recognition and criticism are of invaluable wealth for us.

Our research is based on the following considerations.

First, though China's Development Path covered in our research refers in particular to a number of policies and choices of paths since China's reform and opening up in 1978, the reform and opening up aims at making Chinese society open, prosperous, and powerful, and fundamentally, it is designed to achieve modernization in an all-round way. Therefore, the exploration and practice of China's Development Path involve a process of choosing the path towards the modernization of Chinese society; the special economic zones, on the other hand, represent a “shortcut” for accelerating that modernization against the background of an unbalanced development. Proceeding from the different choices of paths of different countries for achieving modernization, our research aims at shedding light on the distinctive characteristics of China's Development Path in a more explicit and in-depth way by comparing the paths towards transformation adopted by different countries in the course of the historical development of the world.

Second, even though the reform and opening up in Chinese society started from the establishment of the special economic zones—the special economic zones are not only the starting point of but also part of China's Development Path—theoretically, it is certainly the focus of and the difficulty in our research to give a clear picture of the inherent logical relationships between the special economic zones and China's Development Path, which also has the highest theoretical value and the greatest significance, and is the core of the whole research. In Chap. 2, based on the

theories relating to developmental economics and comparative institutional economics, by using the research methods, including empirical analysis and quantitative analysis, we first of all proceeded from the historical background of China's reform and opening up to carry out the construction of the theory and the explanation of the model regarding the inherent logical relationships between the special economic zones and China's Development Path, from both historical and logical perspectives. Chapter 3 further expands—from the perspectives of political economics, institutional economics, developmental economics, and regional economics—the research discussed in Chap. 2: This chapter abstractly and critically elaborates on the special economic zones and China's Development Path under the principles of economics.

Third, Chaps. 4–7 touch upon the theoretical contributions of the special economic zones to China's market economy, their institutional contributions to China's modernization, their economic contributions to China's modernization drive and their cultural contributions to China's modernization, respectively. Such a structural arrangement was made from the following three considerations:

- (1) Theoretically and practically, China's Development Path is a concept which needs to be constantly enriched, improved, and gradually made systematic. The Path has come into being, but the experimentation is still underway; the experience has been gathered, but the theories need to be further sought after. We have reviewed and analyzed the developmental process and some mature policies, thoughts, and theories developed in that process, and we will continue the review and analysis. Among a number of things which give expression to the significance of China's Development Path, some have been crystallized into Chinese characteristics, while some are being tested in practice and show considerable room for reform and experimentation, and are being put into practice to fill the theoretical gap. Therefore, we have not researched the theoretical system of China's Development Path; on the contrary, we have summarized and expounded some policies, thoughts, theories, even modes and routes which constitute China's Development Path, and have historically explained the practical process of China's Development Path, and the theories and thoughts which have taken shape during that practical process.
- (2) The special economic zones are the explorers, forerunners, and practitioners of China's Development Path. First of all, implementing pilot programs in the special economic zones as the first movers to acquire experience and then universally applying the experience across the country is the basic path towards institutional change in Chinese society and the choice of a path for modernizing Chinese society. Therefore, when summarizing, reviewing, and researching China's Development Path and demonstrating the internal logic between the special economic zones and China's Development Path, we naturally give prominence to the special economic zones as the vivid examples, the experimental fields for reform, the providers of experience, the explorers, and creators of theories. In this regard, the most typical and successful, the Shenzhen Special Economic Zone, is put in the most conspicuous position.

- (3) The reform and opening up in Chinese society started from the economic reform; however, if the people's minds were not emancipated and the mind-sets were not renewed and revolutionized, the practice of China's reform and opening up and the emergence of the special economic zones would be impossible. Culture and mind-set cannot directly change society, but they can change the people, and the people can bring about changes in society. Therefore, the cultural contributions of the special economic zones to China's modernization, as expounded in Chap. 7, essentially reveal the impact of the changes in the mind-set on Chinese society. The special economic zones have created numerous economic miracles for Chinese society and have changed it with the power of the mind-set, giving rise to a revolution of the mind-set sufficient to influence billions of Chinese people. The modernization of a society begins with the modernization of the people, while the modernization of the people starts from the modernization of the mind-set. Only the people are the resource-generating resources, the wealth-creating wealth, the main players of, and the motive power behind social innovations.

Dante Alighieri said, "It is love that moves the sun and the earth". In my opinion, the conscience and feelings and the sense of mission of scholars enable us not to give up thinking and experimentation. Rationality prevails at the academic level, thus scholars should be rational and passionate. This is because there is no impulsion for creation if there is no suffering in the soul. We are lucky to live in an era of change and make contributions in such an era during which thoughts are needed and generated.

Shenzhen, China  
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After a relatively short gestation period, the *Research Series on the Chinese Dream and China's Development Path* has started to bear fruits. We have, first and foremost, the books' authors and editors to thank for making this possible. And it was the hard work by many people at Social Sciences Academic Press and Springer, the two collaborating publishers, that made it a reality. We are deeply grateful to all of them.

Mr. Xie Shouguang, president of Social Sciences Academic Press (SSAP), is the mastermind behind the project. In addition to defining the key missions to be accomplished by it and setting down the basic parameters for the project's execution, as the work has unfolded, Mr. Xie has provided critical input pertaining to its every aspect and at every step of the way. Thanks to the deft coordination by Ms. Li Yanling, all the constantly moving parts of the project, especially those on the SSAP side, are securely held together, and as well synchronized as is feasible for a project of this scale. Ms. Gao Jing, unfailingly diligent and meticulous, makes sure every aspect of each Chinese manuscript meets the highest standards for both publishers, something of critical importance to all subsequent steps in the publishing process. That high-quality if also at times stylistically as well as technically challenging scholarly writing in Chinese has turned into decent, readable English that readers see on these pages is largely thanks to Ms. Liang Fan, who oversees translator recruitment and translation quality control.

Ten other members of the SSAP staff have been intimately involved, primarily in the capacity of in-house editor, in the preparation of the Chinese manuscripts. It is time-consuming work that requires attention to details, and each of them has done this and is continuing to do this with superb skills. They are, in alphabetical order: Mr. Cai Jihui, Ms. Liu Xiaojun, Mr. Ren Wenwu, Ms. Shi Xiaolin, Ms. Song Yuehua, Mr. Tong Genxing, Ms. Wu Dan, Ms. Yao Dongmei, Ms. Yun Wei, and Ms. Zhou Qiong. In addition, Xie Shouguang and Li Yanling have also taken part in this work.

Ms. Li Yanling is the SSAP in-house editor for the current volume.

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# Introduction

Essentially, research on the special economic zones and China's Development Path is research on the history of China's reform and opening up in the past 40 years, the path to institutional change in Chinese society and the road to achieving China's modernization. This is because the reform and opening up in Chinese society is a process of transformation from a planned economy to a market economy, from self-seclusion to policy-based and institutional opening up, from widespread poverty to common prosperity, and from the backwardness characterized by planned development, seclusion, a small-scale peasant economy under the traditional system to prosperity featuring market-based development, opening up, internationalization, and modernization.

China's Development Path mentioned here refers to the way and path adopted by China since 1978, towards achieving social transformation, economic development, and all-round modernization. Specifically, in China, a large country—with a 30-year history of a planned economy—where the planned economy is practiced, traditional ideology undoubtedly dominates, and development is severely unbalanced among regions and between the urban and rural areas, as an institutional change, the special economic zones were established to break through the traditional system, with a view to gradually transforming the whole country from a planned economy to a market economy, so that Chinese society could embark on the path of a market economy in an all-round way in a certain period of time, gradually, really turning China into an economically prosperous, institutionally advanced socialist market economy country under the rule of law.

In my opinion, compared with the Washington Consensus, China's Development Path has certain characteristics determined by the history, culture, and the nature of a particular country: First, the establishment of the special economic zones is the first—and successful—choice of a path towards institutional change; second, giving priority to economic development and starting from the reform of the economic system is the inevitable, but very correct, starting point for institutional change; third, advancing cautiously and steadily, first of all implementing pilot programs, creating experience, exploring the path, and universally applying it

is an overall—and relatively sound—train of thought and practical logic for achieving institutional change; fourth, promoting the reform through opening up is a wise and basic philosophy for reducing ideological resistance during institutional change; fifth, the “whole nation system” is an efficient political resource and power with an enormous capability for mobilization during institutional change; sixth, a government committed to continuous self-reform serves as the internal motivational power and fundamental guarantee for continuing and intensifying institutional change.

## **Several Theoretical Issues Concerning China’s Development Path**

The previous research on China’s Development Path, modernization, China’s special economic zones and relevant issues provide us with a wealth of solid thoughts and the academic foundation for great referential significance so that we can deepen and expand our research now. However, the previous research projects were subject to a number of limitations and there are theoretical fields not covered by them due to the era, ideology, and other factors, so some issues were left out, which needed to be further explored in our current research, and they provide a possibility and room for research with theoretical value and practical significance.

First, with respect to the starting point of China’s Development Path, I agree with the view that China’s Development Path refers in particular to the social developmental path or developmental experience since China’s reform and opening up. As mentioned by Stephen Halper, a senior research fellow at the University of Cambridge, when it came to China’s Development Path, it mainly referred to the development and a series of reforms in China over the past 30 years and more. This was because China’s Development Path, that we are discussing now, was a particular concept with a special historical significance against a unique background rather than a concept simply or purely involving a history or the history of the communist movement and the history of the Communist Party of China. For a century, the Chinese people have staunchly pursued the road to national independence and modernization leading to a civilized and powerful country. China’s revolutionary road and road towards construction is the one full of arduous and hard struggles, regardless of the period, from the Opium War in 1840 or the founding of the P.R. of China in 1949; however, the road that China traveled throughout history is different from China’s Development Path adopted by China since the reform and opening up in 1980. Therefore, China’s Development Path that is mentioned here should not be broadly understood as China’s modern history of nearly 120 years starting from the old democratic revolution, the new democratic revolution to the socialist revolution and construction. Furthermore, in the first 30 years after the founding of the P.R. of China, we followed the Soviet Model instead of taking our own road. The reform and opening up is based on the repudiation

of the traditional planned economy typically represented by the Soviet Model, thus logically, theoretically, and practically, it is impossible to inherit or retain the repudiated things and consider the reform and innovation as the “development” of the “reformed things”.

Second, the discussions regarding China’s Development Path must dispense with the ultraleft mind-set and the mentality of the Cold War, especially the dogmatic train of thought which stressed a distinction between what is socialist and what is capitalist in terms of economic development. China’s reform and opening up started from the emancipation of the people’s minds; an important symbol of such emancipation is the historical judgment made by Deng Xiaoping: “A market economy is not equal to capitalism, and there is also a market in socialism.” As shown by the historical course of China’s reform and opening up, only when the contention is shelved can China’s reform and opening up be carried out, can a market economy come into being, can the special economic zones be developed, and can China’s Development Path take shape. In view of the ultimate goal for human development—turning it into a prosperous, civilized and free one, the road to achieving social development, and then modernization should not be prefixed by “capitalism” or “socialism”. Indeed, the developmental paths may vary according to the different countries due to history, culture, value outlook, national character, and other factors; however, this is an embodiment of diversity rather than mutual negation among diverse cultures and value outlooks. Therefore, I disagree with such a judgment: There were many roads to modernization in the world in the twentieth century, and they can be summarized into two categories: (1) modernization with capitalism as the core; (2) modernization with socialism as the core. This classification is too simple and lacks inclusiveness and respect for diverse cultures and value outlooks. Moreover, it is unnecessary to gnash your teeth at “The End of History” brought forward by Francis Fukuyama and simply consider his theory as the victory of Western capitalism over socialism. The realistic basis for his theory is the collapse of the Soviet Union. Therefore, I believe that it is more objective to consider “The End of History” as the end of the era of the traditional socialist countries. We also take note of other views of Francis Fukuyama’s—for example, Francis Fukuyama said that the USA cannot determine the time when and the place where democracy occurred. Specifically, if there were not a demand in a country, the outsiders cannot impose democracy on this country; the demand for democracy and reform must emerge domestically. Therefore, democratic improvement was a long process during which the time gradually became ripe, and this process relied on gradual political and economic improvement. Similarly, the development was fostered by the poor, but not given to the poor by the rich. In an interview with the *International Herald Tribune* in June, 2011, Francis Fukuyama made the following response concerning “The End of History”, China’s developmental model and other issues: It was necessary for the USA to learn from China. He also believed that China’s Model could not be copied by the rest of the world because it originated from particular historical and cultural traditions of bureaucracy and power in China.

However, in my opinion, China is not only a large country with a traditional planned economy but also a developing country. Its transformation from a planned economy to a market economy has been a process of reform and opening up as well as one of the constructions of an emerging market economy; in particular, amidst today's economic globalization, as a developing country with an emerging market economy, China has many similarities with other developing countries and countries with an emerging market economy. For example, we have all benefitted from but are subject to economic globalization, seen population aging before we are rich enough to be ready, and seen problems with public education, public medical service, and health; all of these countries need to improve their market economic system, social laws, and regulations and learn from best practices from other countries. I believe that once the development and social issues shared by the developing countries and the emerging countries with a market economy are successfully addressed by China under the "whole nation system" to varying degrees, this will be of profound referential significance to the developing countries and the emerging countries with a market economy. This is of universal significance like the success of the Four Asian Tigers and Taiwan's land reform. The nationality of or the country-specific success in a country often is objective of worldwide significance due to the law which governs human development and the widespread problems in human development. This significance lies in providing human beings with sharable wisdom and spiritual wealth instead of setting an example for the world. As a successful transformational path, China's Development Path provides a vivid case concerning the choice of a path for the economic development and the modernization of the emerging countries with a market economy.

Moreover, the special economic zones have become the chosen path for the developing countries and the emerging countries with a market economy to seek economic development and modernization against the background of relatively widespread poverty and unbalanced economic development. With the successful experience in China's special economic zones, China will provide the above countries with invaluable experience and lessons to pursue their economic development by establishing special economic zones.

Third, with respect to the debate on whether China's Development Path exists, I am more willing to believe that there are different perspectives or approaches towards this issue. (1) The existence of China's Development Path is an indisputable and objective fact. The transformation of Chinese society from a planned economy to a market economy and from a country with widespread poverty to one with common prosperity, and China's Miracle created in nearly 40 years since the reform and opening up mirror China's Development Path. In the opinions of the scholars who assert that China's Development Path does not exist, if China's Model and China's Development Path are discussed within the theoretical framework for the building of a modern country, China's Model is nonexistent, as is China's Development Path, because the contemporary Chinese Mainland has not yet completed the building of a modern country and the currently available unique

institutional combination lacks sufficient stability and extendibility.<sup>1</sup> In my opinion, adopting the above view to demonstrate that China's Model is unavailable makes sense; I also believe that China's Model is currently nonexistent. A model means that the institutions have been inflexible and have become a paradigm, so it is not necessarily a good thing for a country which is in the process of experimentation and development. However, it is excessively arbitrary to conclude that China's Development Path is nonexistent just because there is no model called "China's Model". If China's Model is the result of a summarization, China's Development Path is a realistic existence and a choice. The "model" has not yet taken shape and does not exist, but a path has started taking shape in an ever clearer way.

Fourth, China's Development Path and modernization. Most scholars logically associate China's Development Path with the road towards China's modernization; they even equate the former with the latter. In my view, indeed, there is a certain internal logical relationship between both, but the former is not absolutely equivalent to the latter. China's Development Path is the result of the path chosen by the Chinese people with respect to modernization; however, the road to modernization that the Chinese people have experienced is not merely the currently discussed China's Development Path because such a road includes the Soviet Model. In my opinion, the above discussion about the relationship between China's Development Path and modernization expands the significance of China's Development Path and takes the general concept of China's Development Path as China's Development Path with a particular significance. China's Development Path can be considered the path towards modernization with Chinese characteristics,<sup>2</sup> but it is inappropriate to consider China's modernization as China's Development Path. The Chinese people have pursued modernization for a time, much longer than the period since the current China's Development Path took shape. The success of the new democratic revolution marked the end of "the century of humiliation" for China since the Opium War in 1840; the founding of the independent P.R. of China has laid a solid foundation for China to achieve modernization; when modernization became the theme of China's social development, how to achieve China's modernization became an issue which needed to be immediately addressed. China ultimately chose the road of "pursuing modernization but rejecting westernization": adopting socialism to develop China's economy and promote China's social development and rejuvenation of the Chinese nation.<sup>3</sup> From this perspective, the roads adopted by the Chinese people after the success of the new democratic revolution in order to pursue industrialization, modernization, and seek prosperity are China's Development Paths—they share the same name, but they are different in essence.

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<sup>1</sup> Yao Zhongqiu, "Transformation" of an Institutional Change Mode—Take China's Institutional Change in 30 Years as an Example, *A Theoretical Analysis of China's Change in 30 Years—From the Perspective of the Austrian School*, Zhejiang University Press, 2009.

<sup>2</sup> Zhou Feng, China's Development Path: a Modernization with Chinese Characteristics, *Theoretical Research*, 2012 (3).

<sup>3</sup> Mao Liyan, An Overall Understanding of China's Development Path from the Perspective of Modernization, *Economic Review*, 2010 (2).

The road to China's modernization not only attracted wide attention from scholars, but it was also the ideal to which several generations of politicians and personages of noble aspirations dedicated their whole life. We once sincerely—but hopelessly—learnt the strong points of foreigners with the aim of containing foreigners; we even had the fever of making unrealistic and awkward attempts to surpass Great Britain and catch up with the United States; however, the road to achieving goals ran counter to the goals, thus the Chinese people who had been afraid of poverty had to reflect on whether the road they had chosen was correct. After drawing comparisons about the characteristics of modernization in major countries in the nineteenth and twentieth centuries, some scholars pointed out that the capitalist road to modernization in the nineteenth century combined private property rights with market competition and naturally took shape after hundreds of years. Private ownership, market orientation, and gradual change are the basic characteristics of this model. In the twentieth century, some backward countries took the socialist road and got involved in a top-down process of compulsory industrialization guided by an aggressive political revolution, with an attempt to rapidly achieve modernization—through the Soviet Model with national plans and radical reforms—on the basis of pure public ownership. Such a model met with a crisis after a brief success.<sup>4</sup> China did not really embark on the road to modernization—which was proved to be correct by practice—until the 1990s. This is the road with Chinese characteristics towards socialist modernization—the establishment of the special economic zones aimed at the reform and opening up as planned by Deng Xiaoping.<sup>5</sup> China's Development Path that is being currently discussed refers to China's Development Path—towards modernization with Chinese characteristics—which starts from the establishment of the special economic zones towards the reform and opening up and aims at establishing a socialist market economy in the direction of an all-round reform and comprehensive development of society.

Fifth, the relationship between the special economic zones and China's Development Path. The special economic zones and China's Development Path have been much discussed, but the internal logical relationship between them has not yet been fully discussed. China's Development Path is more associated with modernization, while the special economic zones are, to a larger extent, regarded by the people as the “experimental fields” of the early stages of the reform and opening up. In my opinion, given the logical starting point of China's reform and opening up as well as China's Development Path, it is quite appropriate to think highly of the special economic zones. This is because, if the special economic zones had not been established, the following consequences would not have occurred: the reform and opening up would not have been carried out in China; a market

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<sup>4</sup> Luo Rongqu, *Retrospect of the 20th Century and Outlook for the 21st Century—From the Perspective of the World's Modernization Process*, *Strategy and Management*, 1996 (3).

<sup>5</sup> Zhang Yanguo, *A Comparative Study and Analysis of Mao Zedong and Deng Xiaoping's Thoughts Regarding Modernization*, *Wuhan University Journal (Philosophy & Social Sciences)*, 2004 (3).

economy could not have been established and taken shape; the mind-sets in Chinese society could not have been updated and revolutionized; the creative power of every citizen could not have been demonstrated in the Chinese society; China's Miracle, which has astonished the world, could not have been achieved; there would have been no internal driving forces for transforming the economic developmental mode; there would have been no realistic basis for the Scientific Outlook on Development, and no social material and spiritual foundation for the Chinese dream; China's Development Path, which makes hundreds of millions of people better-off, could not have taken shape. The special economic zones are the breakthroughs in China's reform and represent a shortcut for modernizing the Chinese society by means of an unbalanced development. This has been proved by the successful experience from the early special economic zones represented by Shenzhen and the birth of the emerging special economic zones represented by Kashgar, Khorgos, and Tumen River.

The establishment of China's special economic zones is a symbol of China's Development Path. It means that the Soviet Model, the planned economy, egalitarianism in the small-scale peasant economy, the balanced development, the large-scale reform, and the original system have become unfeasible. As a result, a breakthrough was made by establishing the special economic zones to bring about a top-down compulsory, progressive institutional change outside the rigid system, so that China was able to embark on China's Development Path to modernization—a unique developmental path unlike both the Soviet Model under the traditional system and the Western model in the era of capitalism.

We should proceed from the whole process of China's reform and opening up to research the irreplaceable historical status of the special economic zones, their unique roles in pushing forward China's reform and opening up and their missionary significance for modernizing the Chinese society. In my opinion, the special economic zones are neither a phenomenon nor the product of a particular stage; on the contrary, they are the entry points for carrying out the reform and opening up in Chinese society, the forerunners to intensifying the reform and opening up and the shortcut to achieving modernization. Given the whole process and the history of China's reform and opening up, the mission of the special economic zones is far from accomplished. These views are supported by the theory of unbalanced development and the theory of institutional innovation cost. The construction of the special economic zones is a practice of unbalanced development. From the perspective of institutional innovation, as the entry points for China's reform, opening up and institutional transformation, the special economic zones have greatly reduced the tangible and intangible costs of institutional change in the Chinese society against the background in which the traditional system and ideology still hold the dominant position.

## **Special Economic Zones and China's Development Path**

As the outcome of a special policy, the special economic zones constitute the epoch-making hallmark of rationality and fever, thinking and blindness in the modern history of China. They mark the beginning of the transformation of the Chinese society from a planned economy to a market economy and the real opening of China's gateway which had been closed for 30 years. They herald the emancipation of the people's minds and the renewal of mind-sets. They indicate that a large country on the verge of economic collapse has really embarked on the path towards scientific development. Therefore, in view of the social and political background at the beginning of the reform and opening up, the special economic zones certainly represent the only road for Chinese society to transform from a planned economy to a market economy so as to initiate social transformation in an all-round way; from the perspective of experimentation regarding the road to modernization, the special economic zones undoubtedly serve as the inevitable path for thoroughly breaking away from the conflicts between the ideal and reality, in order to take the socialist road with Chinese characteristics to common prosperity; in terms of choosing the path for China's institutional change, the special economic zones are unquestionably essential for breaking the rigid traditional system and the doctrine of ideology so as to complete the institutional change of a transitional society from top to bottom in a traditional socialist country once dominated by traditional ideology; with regard to the developmental strategy, the special economic zones are surely indispensable for a country—once overwhelmed by an ultraleft ideology—to really abandon the blind developmental concepts that “man can conquer nature” and “development is fostered only for the sake of development” and thus achieve scientific development.

### **Emergence of the special economic zones and the formation of China's Development Path**

The institutional change in Chinese society mainly highlighted by the establishment of a market economic system constitutes an arduous and glorious course of the growth and development of the special economic zones. The practice of the reform and opening up—full of twists and turns but giving birth to outstanding achievements—in China's special economic zones represented by the Shenzhen Special Economic Zone not only reveals the uniqueness, the main features and future developmental trends of China's Development Path towards modernization with distinctive characteristics, but it also vigorously stimulates the transformation and development of Chinese society on the basis of their correct choice of path and impressive development.

China's Development Path mentioned here means that the special economic zones were established in China to complete the transformation of the system and achieve economic development. More precisely, in China, a large country—with a 30-year history of a planned economy—where the planned economy is practiced and traditional ideology undoubtedly dominates, as an institutional change, the special economic zones were established to break through the traditional system,

with a view to gradually transforming the whole country from a planned economy to a market economy, so that Chinese society could embark on the path towards a market economy in an all-round way in a certain period of time, gradually, really turning China into an economically prosperous, institutionally advanced socialist country with a market economy under the rule of law.

The road to China's modernization not only attracted wide attention from scholars but also was the ideal to which several generations of politicians and personages of noble aspirations dedicated their whole life. We once sincerely—but hopelessly—learnt the strong points of foreigners with the aim of containing foreigners; we even had the fever of making unrealistic and awkward attempts to surpass Great Britain and catch up with the United States; however, the road to achieving goals ran counter to goals, thus the Chinese people who had been afraid of poverty had to reflect on whether the road they had chosen was correct. Scholars widely believe that China did not really embark on the road to modernization—which was proved to be correct by practice—until the 1990s. This is the road to socialist modernization with Chinese characteristics—the establishment of the special economic zones aimed at the reform and opening up as planned by Deng Xiaoping.<sup>6</sup>

Historically, the reform and opening up, initiated 38 years ago (1978), started from building the oasis of a market economy amidst the vast sea of a planned economy in China. As a place with the weakest planned economy in China at that time, Shenzhen was the first to become the oasis thanks to its geographical advantages (its proximity to Hong Kong, Macau, and its remoteness from the center of the planned economy). The blind and crazy socialist practice for nearly half a century and the situation of China's social and economic development at that time clearly showed that the planned economy had become unfeasible, so had the developmental strategy for blindly catching up with and surpassing other countries, and egalitarianism in a small-scale peasant economy. In a large backward country sustained by the egalitarianism of a planned economy and plagued by widespread poverty, the only way to shake off poverty consisted in breaking the institutional mechanism leading to widespread poverty within the system and taking an unbalanced developmental road. Such a developmental road is what was advocated by Deng Xiaoping—allowing part of the people and regions to get well-off first.

As a compulsory institutional arrangement, the special economic zones were established to break the state of general equilibrium resulting in widespread poverty in the traditional system, so that the social change characterized by unbalanced development became the best road to institutional change in Chinese society, and China—a large country governed by a planned economy for half a century—could move, in a short time, from the “plan” causing widespread poverty to the “market” allowing part of the people to become prosperous first. As a formal top-down

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<sup>6</sup> Zhang Yanguo, *A Comparative Study and Analysis of Mao Zedong and Deng Xiaoping's Thoughts Regarding Modernization*, *Wuhan University Journal (Philosophy & Social Sciences)*, 2004 (3).

institutional arrangement, the establishment of the special economic zones not only has greatly reduced the resistance to institutional change and cut down the costs of institutional innovations, but it has also successfully prevented the reform from possibly bringing about more risks, thus the performance in institutional change could quickly emerge and fruitfully play an exemplary role nationwide within a short period of time.

China's Development Path should be a road to modernization with Chinese characteristics. "Chinese characteristics" gives expression to the aspects—country-specific, nationality-specific, historical, and international—instead of denying the essential significance of modernization and the inherent value judgment. Therefore, "Chinese characteristics" only lies in the distinctiveness of the path towards achieving goals and the choice of a path for reaching goals rather than the goals themselves. "Chinese characteristics" involves the process through which human beings recognize universal values and are anything but a denial of international conventions.

### **Growth of the special economic zones and characteristics of the concepts of development**

In a broader sense, especially in terms of the traditional system and developmental model in the period of the planned economy, the establishment of the special economic zones was the critical choice for scientific development and opened the road to it in Chinese society. The growth and development of the Shenzhen Special Economic Zone is in fact a process of continuously adjusting the developmental strategy amidst lessons and setbacks, optimizing the industrial structure, transforming the model of development, and exploring a gradual shift from a society driven by economic growth to a welfare-oriented society with well-rounded development. The philosophy of scientific development has expanded the "outlook on development" from the transformation of the pattern of growth to social development and from the economic field to various fields of social life. The course of Shenzhen's development sheds light on China's Development Path and its significance.

The transformation from a planned economy to a market economy is none other than the transformation of Chinese society from the strategy for catching up with and overtaking other countries to the strategy for unbalanced development. Compared with the "blind developmental outlook" in the period of the planned economy, the establishment of the special economic zones doubtlessly carved out the correct road to the scientific development of Chinese society. The Scientific Outlook on Development touches upon development in essence; it is anything but a debate on whether development should be pursued; on the contrary, it stresses the scientificity and correctness of the social developmental model, method, pattern, and choice of path. It is firmly believed that only when the philosophy of scientific development has been established can China's special economic zones come into being, can hundreds of millions of people have the pursuit of common prosperity and can China's economy be brilliant for 38 years (1978–2016).

The development of the Shenzhen Special Economic Zone was a process in which the developmental strategy was continuously adjusted amidst lessons and setbacks, the industrial structure was optimized, the model of economic development was transformed and there was experimentation regarding a gradual shift from a society driven by economic growth to a welfare-oriented society with well-rounded development. The development of the Shenzhen Special Economic Zone started from processing the materials supplied by foreign clients, processing according to buyer's samples, assembling the parts supplied by foreign clients and engaging in compensation trade. The selection of such a developmental model was determined by the factor endowment available at that time. Shenzhen was just a little-known small fishing village less subject to the planned economic system at the initial stage of the reform and opening up. The comparatively advantageous production factors in Shenzhen at that time were a cheap labor force and land, while Shenzhen had a shortage of capital, technologies, and management. This coincided with the industrial upgrading and structural adjustment of Hong Kong's economy; thus guided by the policy of reform and opening up, the labor-intensive industries dominated by the processing industry appropriately settled down in Shenzhen where the manufacturing industry was urgently needed, at just the right time. The industrial transfer was accompanied by a gradual shift of capitals, technologies, management, and a modern enterprise system to growing Shenzhen. With efforts to carry forward the chain of industrial renewal from the territories and countries with a developed market economy, Shenzhen not only reduced the costs for jump-starting the economic development, but it also greatly lowered the costs for learning from the market economy, determining the basic characteristic which defines an outward-looking economy. Meanwhile, the "importation" of the processing and manufacturing industries also gave rise to derivative demand, thus stimulating the rise and development of the tertiary industry. As of 1993, 87% of Shenzhen's foreign trade has come from the net exports from Chinese-foreign joint ventures, Chinese-foreign cooperative enterprises, and the entirely foreign-owned enterprises as well as from the income from processing the materials supplied by foreign clients, processing according to buyer's samples, assembling the parts supplied by foreign clients and engaging in compensation trade; the tertiary industry accounted for 46% of Shenzhen's GDP and the labor force absorbed by the tertiary industry made up 32.2% of the employed people in Shenzhen.<sup>7</sup>

As Shenzhen embarked on the track of rapid economic growth, the constraints from the inherent shortage of natural resources in Shenzhen emerged soon and aroused concern from policymakers. That shortage meant that under the law of scarcity, with any choice of a pattern of growth based on consumption and use of natural resource factors, people would have to pay relatively high prices for the creation of wealth and development, so that the price for economic growth would also increase. Moreover, as an emerging city which had become the first to practice

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<sup>7</sup>Tao Yitao, Lu Zhiguo, *China's Economic Zones: Design, Implementation, and Impact*, Beijing, Social Sciences Academic Press, August, 2008 (1), the first print, p. 99.

a market economy, Shenzhen could not repeat the developmental model and path of traditional industry and was more responsible for experimenting with and trying out a new economic growth mode and manner of creating wealth, and thus setting a good example for the whole country.

With a shift from focusing on processing the materials supplied by foreign clients, processing according to buyer's samples, assembling the parts supplied by foreign clients and engaging in compensation trade to developing the new high-tech industries as a backbone, Shenzhen chose a path towards sustainable development in due time. The leading force of the government decision-making in institutional change (the establishment of special funds and the adoption of preferential policies, etc.) addressed the gap in financing resulting from high input during the early stages and mitigated the pressure on the new high-tech enterprises for taking risks alone. With the broad mind peculiar to reformers, actions were taken to foster an institutional environment for the new high-tech enterprises to settle down, grow, develop, and innovate in Shenzhen and this attracted a large number of new, well-known domestic and foreign high-tech enterprises to Shenzhen. With the foresight and sagacity of innovators, a solid intellectual guarantee was provided for the subsequent development of the new high-tech industries; some well-known universities and a variety of scientific research institutions took root in Shenzhen.

Imitation was the main way for increasing the output value of the new and hi-tech technologies for a considerably long time. However, the real international competitiveness of a country cannot derive from a shortcut and instant benefits brought about by imitation for a long time. The creative power of industries—the original innovation capability, the integrated innovation capability, and the capability for introduction, assimilation, adoption, and re-innovation—is the fundamental source for the permanent vitality of an enterprise and the lasting competitiveness of a country. Therefore, self-dependent innovation was put forward as a strategic train of thought giving full expression to the philosophy of sustainable development.

Theoretically, self-dependent innovation is a kind of innovative activity higher than imitation. It builds a new productive function or incorporates an unprecedented “new combination” of factors of production and production system into the production process. It stresses the applications of inventions in the economic activities and delivers profits to the parties involved in production. Therefore, self-dependent innovation emphasizes self-research and development and the ownership of the core technologies, and it underscores the added value of technologies and patents in the process of the creation of value. In this sense, self-dependent innovation is the inevitable requirement for the transformation of the economic growth mode and also an important method for such transformation. This is because if self-dependent innovation features “neutral technical progress” (unchanged proportion of the factor input), “labor-saving technical progress” or “capital-saving technical progress”, it increases the output on the premise of neither increasing nor decreasing the use of factors, so as to improve the efficiency of the utilization of resources. This means that we cannot be merely content with the simple “imitation” of foreign advanced technologies and cannot just rest on the mode of introducing extensive, low-level

technology dominated by the importation of equipment during the early stages of the reform and opening up; on the contrary, we should rethink and determine the economic growth mode to export the “soft technologies” and increase the contribution from self-dependent innovation (creation of the core technologies) to the GDP.

The labor-intensive processing and manufacturing industry—based on processing materials supplied by foreign clients, processing according to buyer’s samples, assembling the parts supplied by foreign clients and engaging in compensation trade, the capital-intensive and the technology-intensive new high-tech industry, as well as the philosophy of self-dependent innovation have taken shape in the economic field to achieve social and economic development through the transformation of the mode of economic growth. In the meantime, the philosophy of scientific development has expanded the “developmental outlook” from the transformation of the growth mode to social development and from the economic field to various fields of social life. Solving and correcting the problems of development through the cognition of scientific development and the philosophy of harmonious development—after the achievement of brilliant successes and accumulation of wealth—represents the thoughts and reflections about moving the city of Shenzhen forward.

Shenzhen has followed a track of rapid growth to bring wealth and prosperity to the striving people. As we know, the GDP is the material base for social development, but it is anything but the ultimate goal for social development. The GDP and per capita GDP growth not accompanied by an improvement in social welfare is nothing but pure material growth without soul and humanistic caring.

A labor-intensive economy has allowed Shenzhen to build competitive power with a price advantage in seizing the market as a result of low costs, while the global financial crisis has further laid bare the problems—stemming from the economic growth mode in the labor-intensive economy—concerning the low added value of capital and technologies, lack of core competitiveness; it has also seriously presented the transformation of the mode of economic development as the inevitable strategic choice for scientific development.

A comparative advantage is an important principle for seeking economic development in different countries and territories. This advantage is a comparative advantage of the factor price determined by the degree of the relative scarcity of factors. When the labor resources are relatively abundant and thus labor cost or price is relatively low in a country or territory, with an absence of capital and the disadvantages of technological factor endowment, utilizing the cheap labor peculiar to it first has become the best natural choice with the lowest developmental cost in the period of economic takeoff. The comparative advantage of the latter was exactly the main choice for economic takeoff and the initial development in Shenzhen, even in the whole country during the early stages of the reform and opening up.

Scarcity is the basic premise for and the general principle of economics. Research on economics touches upon how a society makes use of the scarce resources to produce valuable goods and services, and distributes them among different people. However, most of the economically backward developing

countries are subject to resource constraints in the sense of factor structure rather than a lack of resources in terms of natural endowment. The resource constraints in the sense of factor structure mean that the structure of the factor endowment is at a low level; in other words, there is a lack of relatively high-level factors—such as capital, technology, education, management, and legal system—but a crop of uneducated or less educated ordinary labor is available during the economic development of a country or territory. Therefore, the root cause for the low economic structure lies in the structure of low factor endowment instead of in the structure itself. The low structure is not the cause for itself, but it is the result of or realistically mirrors the structure of low factor endowment. If there is only simple labor in the stock of factors in a country, a labor-intensive economy is a natural choice. The economic structure cannot be artificially changed merely by wish in any economy because changing the quality and structure of factors is the practical, logical precondition for improving the industrial structure. Nietzsche said that nothing was scarcer than sane honesty in a philosopher. The advancement of human society needs not only diligence and passion but also thinking and rationality.

### **Development of the special economic zones and China's modernization**

When the economic value of the people is increased, our society will enjoy a number of new and better opportunities. The government should not lead the social economy with its own wishful thinking; on the contrary, it should create an institutional environment, supply public goods, and develop a social welfare mechanism while respecting the market. Development is the result of reform and also the material prerequisite for intensifying the reform, but development cannot replace reform. If there is no reform of the political system fit for the economic system, the reform of the economic system cannot become really successful. On the unique China Path to modernization and in the course of building a law-based civil society, as the city given first priority for development, Shenzhen should show a sign of hope for tomorrow.

Theodore W. Schultz believed that the impact from the long-term change of any economy on institutional change was more far-reaching than that from wages on the change of rent.<sup>8</sup> The improvement in the economic value of the people generates new needs for institutions, while some political and legal systems are designed to meet these needs. Human capital calls for clarifying the situation of the social institution when seeking its own right of participation, thus many institutions are created as a result of incentives for economic growth.

In the book *Development as Freedom*, Amartya Sen, with the conscience, morality, and wisdom of a scholar, answers the question about the goal for the development of human society: As it is people-centered, the highest goal and value standard for social development is freedom. Wealth, income, technical progress and

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<sup>8</sup>Theodore W. Schultz, Institutions and the Rising Economic Value of Man, *American Journal of Agricultural Economics* (50), December, 1968.

social modernization, etc., are certainly the goals pursued by the people, but they ultimately fall within the scope of tools and serve the development and welfare of the people.

China's social reform has unfolded at a relatively low level of per capita income—on the one hand, a huge middle class has not yet taken shape; on the other hand, the gap between the rich and the poor is becoming increasingly salient and wide. Therefore, poverty amidst economic growth and low welfare in economic prosperity have “prematurely” become the social problems which the government must solve through institutional arrangements. Affirmatively, the government must treat the establishment of the institution of social welfare as the guarantee for achieving common prosperity rather than the result of common prosperity. In any society, the creation of wealth begets poverty and the achievement of prosperity is followed by the decreasing happiness of some people, which is more dreadful than widespread poverty. The welfare institution—a system which is not a luxury in economic development—is an important part of the development and an integral part of substantive freedom.

There is an inherent correlation between the market and the basic freedom of people. It is not impartial that the people praise the market mechanism merely from the perspective of efficiency. A market failure may become the important basis for the people to deny the market, but a market failure does not mean a negation of the market mechanism; on the contrary, it means a perseverance in the market mechanism—the market should do what it can do, while the government should do what the market fails to do, and do it well. The government's power plays an indispensable role in compulsory institutional change characterized by top-down authorization. However, subject to the law of the market, any overwhelming government power does not duly correct a market failure but destroys the law of the market. The government should refrain from leading the social economy with its own wishful thinking and should create an institutional environment, supply public goods, and develop a social welfare mechanism while respecting the market.

The reform of Chinese society started from the economic field; this undoubtedly was the best way, but quickly a number of problems surfaced—such as the absence of supporting resources in the general social environment and a lack of the effective institutional environment—and led to system and institutional bottlenecks in intensifying the reform. The institutions are always embedded within an institutional environment, while institutional change cannot be really accomplished without an institutional environment. Likewise, if there is no reform of the political system fit for the reform of the economic system, the reform of the economic system cannot become truly successful. Fundamentally, many social problems and contradictions at the present time resulted from a lagging behind of the reform of the political system.

In a transforming society, the establishment of a brand-new social operating mechanism entails the process in which the powers and vested interests of the government officials are crippled, deprived of, and even lost, and a service-oriented government forms, develops, and grows. In an institution in which the

government's powers need to be removed by the powers themselves, the level of the civilization and the foresight of the government are crucial for the institutional performance of a society.

Our society will not perish just because there is a lack of miracles; however, its vitality will not endure if the line of thought which creates miracles is not available. As the special marks of miracles and miracle-creating thinking, the special economic zones not only inject infinite vitality into the Chinese society but also bring limitless hope for this nation to create miracles. They serve as the inevitable road to the modernization of the Chinese society.

## **Historical Contributions of the Shenzhen Special Economic Zone to China's Reform and Opening up and the Sharing of Experiences**

In the history of China's reform and opening up, no city except Shenzhen—a typical special economic zone in China—emerged to herald the beginning of an era and the end of another era; no city except Shenzhen has, through its own development, shown and led the direction of institutional change in the whole country, and created a novel, fruitful social development model; no city except Shenzhen has continuously undergone changes to bring about miracles in social transformation, and has fostered new mind-sets, spirits, and philosophies while creating wealth.

Therefore, the history of the growth of Shenzhen depicts not only the development of a city but also the trajectory of experimentation regarding the path towards institutional change and development in a transition country as well as the course of a nation's efforts in seeking prosperity. With a short history, Shenzhen records the practice of a 38-year reform and opening up in China, and in the course of 38 years, it has presented a reflection on and criticism of the traditional system which has lasted for nearly half a century, and it has indicated the goal and direction for China's future development. In these 38 years, it has provided many invaluable thoughts for China regarding transition, while its powerful and challenging thoughts and mind-sets destroyed the spiritual shackles which hindered the reform and the "sacred" things which were considered as the absolute truth in the traditional system.

Thirty-five years have elapsed since the Shenzhen Special Economic Zone embarked on its splendid course. We remember and review that history not just because we have experienced the incredible times, but because that history has left a lot of wealth to us. This wealth has mixed the miracles of success with unforgettable failures and lessons. We review the past not just because we have a profound and thrilling memory, but because the spirits, feelings, and willpower we had in the past are indispensable for us now. We respect history not just because history carries much and cannot be copied, but because the character of a city forged by trailblazers should be treasured and inherited. When we endeavor to remember

history, we should bear in mind the past years and, more importantly, the endearing people who created and wrote the history during the extraordinary times. This is because, for any country, the people are always the main players in history and the most powerful force is the quality of courageousness! As we eulogize the past years, it does not mean that we are intoxicated with the past glories and miracles, but it means that we should rationally, passionately look into the future. It is impossible that Shenzhen will always serve as a “wholesaler” of the experience acquired from China’s reform and opening up, but Shenzhen should not and cannot, as always, lose the pioneering spirit and the innovative character which have been accompanying its emergence and growth. This is because they constitute the cornerstone of this city and are the most valuable things left to the city by the trailblazers.

### **Historical contributions of the Shenzhen Special Economic Zone to China’s reform and opening up**

As the most typical and successful special economic zone in China, Shenzhen has made four major historical contributions to China’s reform and opening up.

**1. It became the first to explore, demonstrate, and practice a socialist market economy, and has contributed a “brand-new institution”—the socialist market economy—to economic development in Chinese society, thus providing an institution—the basic ideological guarantee—for the reform and opening up as well as the institutional change in Chinese society.**

During the transformation of Chinese society from a planned economy to a market economy, Shenzhen has commendably accomplished the historical mission entrusted to it at its inception—the forerunner in the reform, the window for opening up, and the experimental field for the market economy. The historical data reveal the great changes which took place in Shenzhen, a small fishing village. Shenzhen’s GDP was only 196 million yuan in 1979 when the reform and opening up had just started, but exceeded 1.5 trillion yuan in 2014, an increase of 7653 times in 36 years. Shenzhen’s per capita GDP soared from 624 yuan in 1979 to about 24,000 USD (about 150,000 yuan) in 2014, an increase of 240 times in 36 years. Shenzhen’s GDP grew by about 10% in 2014, higher than the national and provincial average growth rates; in 2014, Shenzhen reached the GDP goal—1.5 trillion yuan—specified in the 12th Five-Year Plan one year ahead of schedule, and Shenzhen’s per capita GDP was the highest one among the sub-provincial cities on the Chinese Mainland. In 2014, Shenzhen’s imports and exports totaled 487.74 billion USD, up 9.7% after having been adjusted for financing-based trade.<sup>9</sup>

China’s special economic zones have a dual mission: In the sense of “reform”, they are functionally designed to accelerate the transformation towards a market economy and continue to serve as the vanguards and forerunners for China’s reform and opening up; in the sense of “development”, they functionally aim at speeding up

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<sup>9</sup> *Shenzhen Statistical Yearbook* (2015)

the transformation of the developmental mode and building a new regional economic landscape in China, so as to provide a shortcut for achieving modernization.

**2. With its own development and success, it has verified a “new path”—China’s Development Path to China’s modernization, so that the Chinese society can adopt the unbalanced developmental strategy to quickly shake off widespread poverty and achieve the ultimate goal of common prosperity.**

China’s Development Path should be a path towards modernization with Chinese characteristics. China’s Development Path means a recognition of the rules universally adopted in a market economy rather than a negation of international practice. With the establishment of the emerging special economic zones including Kashgar, Khorgos, and Tumen River, the expansion from the coastal opening up to the opening up along the border has become the grand strategic line of thought for establishing and improving the market economic system across China, and the special economic zones have made a shortcut to the modernization of Chinese society against the background of unbalanced regional development.

**3. The pathbreaking practice and the courage of the first mover offers a “new spirit” for promoting the reform and opening up in Chinese society—blazing new trails in a pioneering spirit, thus driving forward a revolution to renew the mind-sets of billions of people, and helping foster a mind-set and a culture of reform innovation suited to a socialist market economy.**

As an immigrant city, Shenzhen has the distinctive immigrant cultural traits: encouraging innovations, tolerating failures, being down-to-earth, pursuing excellence. The most striking innovative spirit of this special economic zone lies in daring to make breakthroughs and take risks.

According to incomplete statistics, Shenzhen has created more than 500 number ones in China and more than 120 first-ever occasions in the world in the 38 years since the reform and opening up. Each reform resounded throughout the country and each breakthrough opened a rift in the planned economy, injecting the vitality of a market economy into the transforming system and mechanism.

The reform and opening up in Chinese society started from emancipating the people’s minds. If the reform and opening up is considered as the path towards China’s institutional change, the emancipation of the people’s minds is the prerequisite for making such an institutional change. If the people’s minds are not emancipated, the reform and opening up would be impossible, while the reform and opening up put into practice such emancipation.

In my opinion, further emancipating the people’s minds and breaking the fetter of traditional ideology is not a thing which has been done, but is an issue which has not yet been fundamentally addressed in Chinese society at the present time. Previously, as the people’s minds had not been emancipated and the planned economic system had not been broken up, nobody could benefit from the institutional innovations, so the officials were prone to criticize traditional ideology and drive forward social reform. However, 38 years later, when the personal gains from further reform are smaller than the benefits for the society, the people with vested interests may become rigid and conservative. Therefore, economic development is

restricted not only by resources but also by the people's minds and outlooks which are more important than resources.

**4. With the prosperity achieved first by development and the achievements in leading China's reform and opening up, it has been proved that free development of the people is part of and the goal for social development; the creative power of every citizen is the driving force for realizing both social development and the Chinese dream; intensifying the reform is the inevitable road to fulfilling China's modernization and the Chinese dream.**

China's reform and opening up was initiated by emancipating the productive forces, and such emancipation is the emancipation of humanity, and the release and emancipation of the people's creative power. During the nearly 40 years from widespread poverty to common prosperity, the Chinese people have been freed from the cage of a traditional planned economy and have demonstrated the amazing, great creative power once they had the freedom and self-reliance to pursue wealth—after the farmers were granted the right to freely develop the township enterprises and rural migrant workers emerged and China's Miracle was created; after the enterprises were granted the right to freely develop, the entrepreneur came into being and China saw rapid economic growth; after the intellectuals were granted the right to enjoy freedom, the intellectuals came out and there was open and inclusive brainstorming; after the general public was granted the freedom of speech, there was civic awareness and the characteristics of a society under the rule of law, including supervision, responsibility, and obligation. The release and emancipation of the people's creative power will certainly incorporate the people's development into the social development while creating the economic miracle.

The hallmarks of the people's emancipation include not only prosperity—of course, emancipation is out of the question without prosperity—but also the rights and dignity which accompany prosperity; the aspects which mark the emancipation of the productive forces are the right to free movement, and the equitable realization of exchange under the law of the market and the foresight of the government, as well as the effective protection of the legitimate rights and interests, the equality of opportunities and equitable granting of the right to choose. If there is no equity and freedom to choose, there is no happiness and dignity of development.

#### **Sharing the successful experience of the Shenzhen Special Economic Zone**

China is a large country with a traditional planned economy, and it is also a developing country. The transformation of Chinese society from a planned economy to a market economy has been a process of reform and opening up and the construction of an emerging market economy country; in particular, amid today's economic globalization, as a developing and emerging market economy country, China shares many similarities with other developing countries and emerging market economy countries. Once the development and social issues shared by the developing countries and the emerging market economy countries have been successfully addressed by China under the "whole nation system" to varying degrees, it will be of profound significance to the developing countries and the emerging market economy countries as a point of reference. Of course, this significance lies

in providing human beings with sharable wisdom and spiritual wealth instead of setting an example for the world. As a successful transformation path, China's Development Path provides a vivid case concerning the choice of a path towards the economic development and modernization of the countries with an emerging market economy.

### **1. The direction of a reform-focused market economy was chosen, introduced, and upheld**

As early as the 1980s when the *Regulations on the Special Economic Zones* were promulgated, Guangdong Province made it clear that the special economic zones should focus on introducing foreign capital and practicing a market economy. At that time, the market economy was considered a dreadful monster and the development of a market economy was equated with capitalist restoration in China. Therefore, there were severe criticisms from the traditional ideology, and "combating peaceful evolution" became the main theme in 1982, just 2 years after the establishment of the special economic zones. Fundamentally, China had embarked on an irreversible road towards advancing the great cause of the reform and opening up as initiated in China in 1978, but China was shrouded in vast shadows of doubt. In 1992, however, Deng Xiaoping made the "South Inspection Speech" and prevailed over all dissenting views with the political wisdom, courage, and resourcefulness of a great man to reverse the situation, and ultimately determined the market economy as the direction for China's reform and opening up. He finally concluded that the market economy was not equal to capitalism and that there was also a market in socialism.

For China, a market economy gave birth to the successful special economic zones in China and also saved China.

### **2. The reform was promoted through opening up**

China's opening up started from the establishment of the special economic zones. The reform and opening up accelerated the overall transformation of China from a traditional society to a modern society and also led to fundamental changes in its economic system. Initially, the opening up only meant the expansion of foreign trade and the introduction of technologies and equipment, etc. With the intensification of reform and opening up, the meaning of opening up was also further clarified and extended, while the substance of an all-round opening up was institutional innovation and the use of a system for reference.

As the reform and opening up in the Shenzhen Special Economic Zone originated from the geographical advantages resulting from the area's proximity to Hong Kong, Shenzhen-Hong Kong cooperation naturally became the important part of Shenzhen's reform and opening up. In a considerable sense, the introduction of capital and technologies from Hong Kong not only conformed to the fundamental direction of the reform and opening up in Chinese society, but it also helped find a shortcut towards building a modern city. Hong Kong is the unique regional factor conducive to the success of the Shenzhen Special Economic Zone.

Logically and realistically, with respect to the reform and opening up, Chinese society experienced a transformation from an outward-looking economy to an open economy and a transition from a policy-based opening up to an institutional opening up. Both reflected the logical evolution and unity in the developmental course. They were not only two aspects of one course but also the inevitable results of development in a certain course.

First, there was a development from an outward-looking economy to an open economy. An outward-looking economy is an economic operational mode with both ends of the production process on the world market; it refers in particular to the operational mode under which the raw materials are imported and processed to make products and then those products are exported. The development of China's economy from a closed one to an open one is a unique process of transformation from an inward economic development to an outward economic development. At the initial stage of the reform and opening up, the special economic zones were established, and the coastal cities were developed and opened to mainly draw on the market management experience from foreign investors and focus on utilizing foreign capital, developing foreign trade and increasing supply to address the shortage economy, so as to stimulate economic growth. The subsequent development and opening up of the Pudong New Area was also an important step towards implementing China's strategy for developing an outward-looking economy.

However, the opening up strategy for an outward-looking economy also gradually presented some inherent defects—as actions were taken to predominantly make coastal areas open to the outside world, thus the overall economic openness was not high and the targets of the opening up were excessively concentrated; the domestic interregional differences expanded; the coordinated opening up effect was low; the opening up cycle was interrupted, etc. It was objectively inevitable for an open economy with a greater amount of openness and internal and external integration to replace the strategy for developing an outward-looking economy.

An open economy refers to the economic system—with a relatively great amount of openness—supported by a well-developed operational mechanism and legal system. An open economy works in such a way that the government carries out administrative activities basically according to the mechanism and rules which govern a market economy; an open economy is regulated by a mature economic system and has a wider significance and higher degree of openness than an outward-looking economy. The development of an open economy centers on participating in international competition and international economic cooperation, maximizing the absorption of all civilization achievements created by the human society and beneficial to China's drive towards modernization.

Second, there was a shift from a policy-based opening up to an institutional opening up. The development of an open economy is a process in which the economic system for opening up progressively evolved from a policy-based opening up to an institutional opening up. The special policy system adopted when the opening up process was initiated was not of an “institutional” nature in the strict sense as it brought differential treatments and preferential measures to special areas and objects, but it was the necessary form of the broad sense of an open economic

system during the initial stage. However, after the opening up and development was rapidly promoted and a series of institutional reforms were carried forward with the endogenous forces accordingly, China gradually moved towards building a well-functioning open economic system fit for the operating mechanism which governs a modern market economy, while the open economic system gradually acquired a genuine “institutional” significance. Final establishment and improvement of an “institutional” open economic system in the strict sense is precisely the main task and objective for China in the future.

The opening up and the corresponding institutional reform were initiated by special policies during the early stage, while the establishment and development of the special economic zones was a typical case of such a mode. With the successes in the special economic zones, the Central Government continued to practice the thought and mode of “giving special policies to launch the opening up” and made more areas and fields open to the outside world—such as the open coastal cities, the economic and technological development zones, the open coastal economic areas, and a strategic shift from coastal opening up to the opening up of border areas. As the opening up was initiated by special policies, some reforms and changes also took place in the domestic system accordingly to gradually establish a relatively complete operational management system for absorbing, utilizing foreign capital, and developing foreign trade.

China’s accession to the WTO in 2001 marks the commencement of a gradual shift from a policy-based opening up to an institutional opening up for really starting the establishment of an open economic system with a profound “institutional” significance.

The key to shifting from a policy-based opening up to an institutional opening up lies in actively and effectively building an institutional environment. The provision of the preferential policies was changed to environmental and institutional construction; instead of utilizing the preferential policies for boosting the opening up, a good soft social environment—including infrastructure, transportation and communication, education, human capital, administrative efficiency, laws and regulations, etc.—was fostered, to promote the development of an outward-looking economy. Global competition at the current stage mainly consists of a good institutional and legal environment, thus in order to build the new advantages for international competition and cooperation, it is essential to develop a good, fair, and transparent legal and institutional environment.

### **3. The emancipation of the people was respected and expanded. China’s reform and opening up started from emancipating the productive force, while such emancipation was, in essence, the emancipation of the people and of humanity**

First, the reform and opening up has aroused the enthusiasm of the leading actors in a market economy—individuals. The ultimate actors in the society are people as “economic men” in the market economy rather than a country, cities, and units. For example, more than 95% of the migrants in Shenzhen made up the most basic element of the productive forces—free movement of the people, while the capital

vigorously introduced from Hong Kong and foreign countries made up the most powerful element of the productive forces—free flow of capital. The rural migrant workers who migrated to cities as from the 1990s became the leading actors in building and serving China’s special economic zones and they are also the creators of “China’s Miracle”.

Second, the reform and opening up has stimulated the enthusiasm of another leading actor in China’s market economy—the local government. This is also an important cause for the “charm” of Chinese characteristics. Under the planned economic system, the local governments were subject to “arrangements” and were spurred to “carry out”, while in the market-oriented economic environment, the local governments take the initiative to innovate due to competition. The regional competition—including inter-province, intercity, intercounty competition—constitutes a special enormous internal impetus for China’s economy, which can explain much about China’s Miracle. The people have been given a solemn sense of mission and have a burning desire to change their personal destiny, making governments of the special economic zones more vibrant.

However, innovations have been conducted mainly by enterprises rather than governments. A good entrepreneurial environment in the special economic zones has ultimately given birth to a number of innovative enterprises including Tencent, Huawei, ZTE, BYD, Giant, Gree, etc., and a crop of entrepreneurs behind them. The innovative enterprises have become the mainstay in the special economic zones; 90% of the output value comes from the high and new technology industry—the IT industry, turning the special economic zones into the extraordinarily important new high-tech places in China; the entrepreneurs are the soul of the market economy, while the entrepreneur stratum serves as a solid cornerstone for the free development of the special economic zones.

The emancipation of the people lies not only in the politics but also in the economy; its fundamental part is the confirmation of individual property rights. A clear definition of assets rights is a key condition for market transactions. With the reform and opening up, China has shifted from a class-based definition of rights to the institution under which the rights are defined on the basis of assets, thus miracles have happened in China. With the redefinition of property rights, the institutional operational costs under the complete public planning mode have been substantially reduced in China, thus the productive forces and the creative power of immense human resources have been emancipated to build the competitive advantages based on comprehensive costs on the global market. The reform and opening up has significantly lowered the institutional costs in China’s economy, thus China has become the fastest-growing economy and China’s growth has changed the pattern of the global economy.

#### **4. Full play was given to the advantages of the “whole nation system”**

China’s success with building special economic zones reflects the “charm” of distinctive Chinese characteristics, of which the “whole nation system”, under which the government possesses unprecedented power of mobilization and the ability to bring all available national resources to bear in pursuit of collective

endeavors is the most prominent. Examples of the unmatched scale, efficiency, and effective of this system abound, including massive events such as the China New High-tech Fair and the China International Cultural Expo. Of course, I do not believe that the transition state in the process of transformation and the undertaking of these extraordinary projects represent should be normalized and become a permanent feature. Thirty-five years of brilliant achievements made in China's development of its special economic zones are testament to the correctness of this distinct developmental path for China, whose correctness consists in its being fundamentally consistent with universal values and the development logic of market economies. It is through this particular development process that what is generally true of the development of human society as a whole is rendered even more evident.

Fundamentally, China pushed ahead with a top-down compulsory institutional change, and the governments, especially the Central Government, were starter, leader or the most direct advocator of this institutional change as well as the first to "be reformed" within this change. On the one hand, the practice of the reform and opening up cannot do without the decision and authorization from the Central Government—for example, the special economic zones were the results and products of the special policies given to the local governments by the Central Government; on the other hand, the governments also experienced self-reform in which the powers of the governments were taken away by the governments themselves. The practice of the reform and opening up in China for nearly 40 years proves that, for the countries in transition, the governments certainly play a tremendous role in compulsory institutional change; furthermore, if not driven by a powerful top-down political force from the governments, the transformation from a planned economy to a market economy cannot be accomplished and the universal establishment of today's market economy and the prosperity of the social economy would even be impossible. In particular, the Central Government and the powerful "whole nation system" can efficiently concentrate resources to do great things subject to scarce or limited resources, and make decisions in an efficient way to lead the direction of the development of the social economy. However, the government functions and roles are different under the following two circumstances: The market economic system is established by a compulsory institutional change; the market economy is improved under the condition that the market economic system has been basically established. The former may have more need of a relatively strong government intervention for promoting the formation of the market economy, so as to speed up the transformation from a planned one to a market-oriented one, while the latter requires the governments, subject to respecting the market law and mechanism, to correct market failure and serve the market rather than rein and lead the market. From the perspective of a result, a powerful country and a developed market are undoubtedly alluring, but their realization entails efforts to properly handle the relationship between the country and the market or the governments and the market.

**5. The people's minds were emancipated; there was the courage to innovate; failures were tolerated; a loose, inclusive, free, shared cultural environment for the reform and opening up was fostered**

China's reform and opening up was launched by emancipating the minds of the people. If the reform and opening up is considered a path to an institutional change in China, the emancipation of the minds of the people is the precondition and guarantee for achieving such a path. The practice of the reform and opening up cannot take place without such emancipation, while the reform and opening up has turned such emancipation from a philosophy into a reality; the driving forces for the sustainable social and economic development in China could not have been available without an innovative spirit, while the reality of the sustainable social development in China has offered a broader and more inclusive institutional space for bold innovations; the subjective initiative of the leading actors in the social economy—the people—cannot be stimulated without a loose, inclusive, free, and shareable social environment, while the development and demonstration of the people's subjective initiative injects vitality and creative power into the loose, inclusive, free, and shareable social environment.

I agree with such a view: Our society will not wither due to lack of miracles, but it will lose vitality because of no thoughts for creating miracles.

**6. The factor endowment changes were leveraged to propel the adjustment of the industrial structure and the transformation of the developmental mode**

The Shenzhen Special Economic Zone kicked off its development by processing the materials supplied by clients, processing with supplied samples, assembling the parts supplied by clients and engaging in compensation trade. The selection of such a developmental mode was determined by the factor endowment available at that time. Shenzhen was only a small, little-known fishing village with a relatively weak planned economy at the early stages of the reform and opening up. The comparatively advantageous production factors in Shenzhen at that time were a cheap labor force and land, while Shenzhen fell short in capital, technologies, and management. This coincided with the industrial upgrading and structural adjustment of Hong Kong's economy, thus guided by the reform and opening up policy, the labor-intensive industries dominated by the processing industry appropriately settled down at just the right time in Shenzhen where the manufacturing industry was urgently needed, while industrial transfer was accompanied by a gradual shift of capital, technologies, management, and a modern enterprise system to growing Shenzhen. With efforts to carry forward the chain of industrial renewal from the territories and countries with a developed market economy, Shenzhen not only reduced the costs of jump-starting its economic development, but it also greatly lowered the costs of learning from the market economy, determining the basic characteristic which defines an outward-looking economy. Meanwhile, the "importation" of the processing and manufacturing industries also gave rise to a derivative demand, thus stimulating the rise and development of the tertiary industry.

As Shenzhen embarked on the road towards rapid economic growth, the constraints from the inherent shortage of natural resources in Shenzhen loomed large

soon and aroused the concern of policymakers. Such a shortage means that under the law of scarcity, with any choice of growth pattern based on excessive consumption and the use of natural resource factors, the people have to pay relatively high prices for the creation of wealth and social development so that the price for economic growth will also increase with the high costs of the creation of wealth.

Shenzhen chose a path towards sustainable development in due time mainly by processing the materials supplied by clients, processing with supplied samples, assembling the parts supplied by clients and engaging in compensation trade, and then by developing the new high-tech industries as a backbone. The leading force of the government decision-making in institutional change (the establishment of special funds and the adoption of preferential policies, etc.) addressed the gap in finances that resulted from high input during the early stages and mitigated the pressure on the new high-tech enterprises for taking risks alone; with the broad mind peculiar to reformers, actions have been taken to foster an institutional environment for the new high-tech enterprises to settle, grow, develop, and innovate in Shenzhen and to attract a large number of well-known domestic and foreign new high-tech enterprises to Shenzhen. With the foresight and sagacity of innovators, a solid intellectual guarantee has been provided for the subsequent development of the new high-tech industries; some well-known universities and a variety of scientific research institutions have taken root in Shenzhen. By 2000, the output of computer magnetic heads in Shenzhen ranked No. 3 in the world, and the output of microelectronic computers, stored program control exchanges, and genetic interferon accounted for 25%, 50%, and 60% of the total national output, respectively, and Shenzhen was also the largest production base for printers, hard disk drives, and cordless telephones nationwide, and five large new high-tech pillar industries—including electronic information, biotechnology new materials, optical, mechanical and electronic integration, and lasers—had taken shape.<sup>10</sup>

Imitation was the main way for increasing the output value of the new and high technologies in China for a considerably long time. However, the real international competitiveness of a country cannot originate from the shortcut and instant benefits brought about by imitation for a long time. The Shenzhen Municipal Government quickly realized that the creative power of industries—the original innovation capability, the integrated innovation capability, and the capability for introduction, assimilation, absorption, and re-innovation—was the fundamental source for the permanent vitality of an enterprise and the lasting competitiveness of a country. Therefore, self-dependent innovation was put forward as a strategic line of thought, giving full expression to the philosophy of sustainable development.

The transformation of the economic developmental mode requires our society to change its previous practice of the simple use of labor and low-price consumption, and make an institutional arrangement by turning the “catastrophic” use of cheap labor into the goal-directed value-added use—increasing the economic value of

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<sup>10</sup>Tao Yitao, Lu Zhiguo, *China's Economic Zones: Design, Implementation, and Impact*, Beijing, Social Sciences Academic Press, August, 2008 (1), the first print, p. 99.

labor and then the added value of products by means of technical training and welfare improvement.

Most of the economically backward developing countries are subject to resource constraint in the sense of factor structure rather than lack of resources in terms of natural endowment. The resource constraint in the sense of factor structure means that the factor endowment structure is at a low level; in other words, there is a lack of relatively high-level factors—such as capital, technology, education, management, and legal system—but a crop of uneducated or less educated ordinary labor is available during the economic development of a country or territory. Therefore, the root cause of the low economic structure lies in a low factor endowment structure instead of the structure itself. The low structure is not the cause in itself but it is the result of or realistically mirrors the low factor endowment structure.

### **7. All-around development is the inevitable road that leads to the continued development and prosperity of a society**

Economic prosperity will bring about social prosperity, but prosperity itself will not automatically lead to social civilization. Economic prosperity, institutional civilization, and social prosperity will certainly make up the ultimate goal for China's institutional social change.

Theoretically and practically, the relationship between “growth” and “development” is not like the simple relationship between one Chinese name for a potato (*Tudou*) and its other Chinese name (*Malingshu*). “Economic growth” means more output, an increase in products and services of a country, or an increase in the actual per capita output; generally, it is measured by the GDP or per capita GDP. “Economic development” is economic growth along with the reforms of the economic structure, social, and political systems; it means not only a growth in the output but also output and the structure of the income changes along with an increase in the output, as well as changes in the economic system, political conditions, and cultural conditions; it means not only social affluence but also the disappearance of poverty, hunger, associated illiteracy, diseases, and early death along with social prosperity; it means not only the abundance of material wealth but also equality in people's spirit, power and opportunity, equal respect for the people, and an equal granting of powers to the people; it means not only the maximization of personal welfare but also the improvement of the overall welfare in a society, sharing equal opportunities for social surplus. The GDP is the material base for social development, but definitely not the ultimate goal for it. The growth of the GDP and per capita GDP, which is not accompanied by the improvement of social welfare, is nothing but mere material growth without soul and humanistic care.

The Scientific Outlook on Development as put forward by the Chinese Government extends a “development” from the transformation of the growth pattern to social development and from the economic field to every field of social life, and it also truly incorporates the people's development into the significance of social development. As the main players in human society, the people are bound to awaken self-respect and a demand for freedom while creating wealth because the people's emancipation does not merely mark prosperity (of course, emancipation is

out of the question without prosperity), it necessarily includes an enjoyment of rights and dignity along with prosperity. The emancipation of the productive forces marks not only the obtaining of power for free movement, but also the equitable realization of exchange under the law of the market and the foresight of the government, the effective protection of the legitimate rights and interests, the factual equality of opportunities, and equal granting of the right to choose. Happiness and dignity in development do not come without equity and the freedom to choose.

China's social reforms were carried out at a relatively low per capita income level; the huge middle class has not yet come into being, and the distribution system and social security system are imperfect in a transformational society, thus poverty amidst economic growth and low welfare in economic prosperity have "prematurely" become the social problems which the government must solve through institutional arrangements. Affirmatively, the government must treat the establishment of the social welfare system as the guarantee for achieving common prosperity rather than the result of common prosperity. In any society, the creation of wealth begets poverty and the achievement of prosperity is followed by the decreasing happiness of some people, which is more dreadful than widespread poverty. Under no circumstance can social welfare be considered a luxury in economic development in our society because it is an important part of development and an integral part of substantive freedom; moreover, it also tests and proves, at the highest moral level, the overall goal for social development.

Furthermore, profound social and institutional changes are essential in order to really establish a complete and effective social welfare system which universally benefits both rural and urban areas, and to achieve the wonderful goal of "making all people get access to education when they need to learn, and payment after they provide services, support, and care when they become elderly, and housing where they can live" because this is an institutional issue rather than merely a shortage of resources and a policy issue. The traditional system is the institutional cause for the dual urban-rural structure in Chinese society. Under the traditional system, our society is inundated with the magnificent slogans about the elimination of the urban-rural gap, it is a society where the urban and rural differences are solidified by the household registration system and ownership system, the urban-rural gap is widened and the urban and rural differences become a social normalcy which farmers cannot but accept. The primary task in this institutional change is identified as follows: Really, thoroughly break the dual urban-rural structure, change that dual structure into a unitary structure with rural-urban integration, and make farmers really enjoy the citizenship and rights of urban residents rather than treating them as second-class citizens. The urban-rural gap cannot disappear if such a dual structure is not broken down, while the social well-being cannot really become widespread in both rural and urban areas if the urban-rural gap does not disappear. Farmers cannot truly enjoy the dignity, rights, and equality of citizens unless farmers historically "disappear" from the dual urban-rural structure.

Becoming prosperous and strong is the common aspiration and goal of all people around the world. Although many goals pursued by the human race are the same, there are diverse routes and ways to realizing or achieving these goals and no

one-size-fits-all developmental path and mode are available. The developmental experiences of various countries can be used for reference and shared, but only the one suitable for one's own purpose is the best, the most useful, and the most fruitful.

## **From the Coastal Opening up to the Opening up along the Border**

The course of China's reform and opening up in nearly 40 years shows that the emergence and development of the special economic zones not only is necessary from a geopolitical perspective, but it also reflects the national strategy for regional economic development. With a gradual opening up—characterized by the special economic zones, the coastal opening up, the opening up along rivers, and the opening up along the border—in Chinese society, the new landscape of China's regional economic development has gradually become clear, and the all-round, extensive, and multi-tier pattern of opening up has also progressively taken shape under the strategic arrangement from coastal opening up to opening up along the border, ushering in a new phase of regional economic development and overall coordinated economic development in Chinese society.

### **The course from coastal opening up to the opening up along the border**

China launched the reform and opening up in four special economic zones. According to the line of thought at that time, three major economic supporting regions—the Yangtze River Delta, the Pearl River Delta, and the Circum-Bohai Sea Region—would emerge in the course of China's opening up in the future. Facts prove that it was wise and correct to establish the special economic zones; this establishment has resulted in the universal establishment of a market economic system as well as the development and prosperity of a city or region; guided by the unbalanced developmental strategy, an effective imbalance among regions has occurred—the policy differences among regions have been actively expanded to deliver potential benefits in a special region, to effectively attract capital, technologies, and management experience to the highland of economic growth built by the special policies, to enhance economic prosperity and efficiency in this region, bring about a noticeable regional imbalance and efficiency difference, and then transfer this efficiency difference inland, so as to stimulate economic development of the whole society.<sup>11</sup> This was the original intention for establishing the special economic zones and also an important function of those zones.

With the development of the special economic zones, the urban comprehensive reform also started in China. The first round of the urban comprehensive pilot

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<sup>11</sup> Zhang Yaohui, *Regional Economic Theory and Regional Economic Development*, Beijing, China Planning Press, 1999, p. 86.

reform was initiated in 1981 when the State Council approved Shashi in Hubei Province as the pilot city. As of 1987, 72 cities had been designated by the State Council in a single batch, and approved by provinces and autonomous regions, as the pilot cities. In this period, the grand goal for the reform and opening up was established, but the reform goal of establishing a socialist market economy had not yet been specified, so the main task of the reform involved breaking up the old system and making preparations for new innovations. The strategic thought of “developing both transportation and circulation to promote the economic takeoff” in Wuhan, the thought of “impact and reflection” and “streamlining administration and delegating power to the lower levels, invigorating enterprises” in Shijiazhuang, etc., presented beneficial experimentations regarding the establishment of a socialist market economic system.

The second round of the urban comprehensive pilot reform was launched in 1992 when the State Commission for Restructuring the Economic System approved Changzhou City as the pilot city for a new round of the comprehensive reform. As of 1998, an additional 55 cities across China had been approved as the pilot cities for this comprehensive reform. During this period, the 14th National Congress of the Communist Party of China explicitly put forward the reform goal of establishing a socialist market economy; these pilot cities focused on transforming the microeconomic system, and accomplished great achievements in the enterprise reform, the development of the market system, the transformation of governmental functions, and the establishment of a new-type social security system, as well as producing a good demonstration effect to expedite the reforms in their regions and nationwide.

The third round of the urban comprehensive pilot reform started in June 2005 when the State Council approved the Pudong New Area of Shanghai as the national pilot zone for comprehensive reform. During this period, the Central Government brought forward the strategic thought of scientific development and the building of a harmonious society in response to various prominent problems including an undue emphasis on the growth rate, the extensive growth mode, and social contradictions involving the people’s livelihood; this round of pilot reforms was mainly designed to address two major themes: scientific development and a harmonious society.<sup>12</sup>

The urban comprehensive pilot reform, national comprehensive pilot reform, and national pilot zone for comprehensive reform mark the basic establishment of a market economic system, and the formation of two great philosophies, including the intensification of the reform and all-round coordinated development. Therefore, the national pilot zone for comprehensive reform in the third round of the urban comprehensive pilot reform started in 2005 had changed in both substance and significance. The previous urban comprehensive pilot reforms aimed at breaking the fetter of the traditional system, establishing a market economic system and

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<sup>12</sup> Su Dongbin, Zhong Ruoyu, *A Study of China’s Special Economic Zones*, Beijing, The Commercial Press, March, 2010 (1), pp. 325–334.

promoting the universal establishment of a market economy across China, while the national pilot zone for comprehensive reform placed more emphasis on institutional innovations—the actual local developmental problems and the practical difficulties in China’s reform and opening up are considered and solved at the same time, and the local advantages are utilized to break the bottlenecks in the reform and development, so as to explore a model or path, which can be applied nationwide, to improve the market economic system, address the global economic challenges, and achieve scientific development.

Since 2009 after the launch of the urban comprehensive pilot reform and national pilot zone for comprehensive reform in China, the State Council has approved a number of regional planning schemes at the national level. The national-level regional rejuvenation plans have been introduced to cover almost every economic region across China. So far, the grand pattern of overall regional development from the special economic zones, the coastal opening up, the opening up along rivers to the opening up along the border has unfolded in an all-round way.

### **Characteristics of the pilot zone for comprehensive reform**

The pilot zone for comprehensive reform centers on “comprehensive” and aims at changing the development outlook—formed during the course of many years—concerning an undue emphasis on economic growth. The reform should be pushed forward in various respects and fields, including economic development, social construction, urban–rural relations, land development, environmental protection, and social welfare, and the effectively coordinated management system and operation mechanism should be developed to really achieve common prosperity and scientific development after allowing part of the people and regions to become rich first. Therefore, as an institutional arrangement for intensifying the reform in Chinese society, the national pilot zone for comprehensive reform presents the following four characteristics<sup>13</sup>:

- (1) Thanks to the universal establishment of a market economic system, the material and spiritual achievements from the reform and opening up, the national pilot zone for comprehensive reform has a more explicit theme, mission, and tasks—for example, the Wuhan Metropolitan Area and the Changsha-Zhuzhou-Xiangtan City Group mainly undertake the mission of carrying out the national pilot reform in building a resource-conserving and environmentally friendly society, carrying out experimentations and innovations regarding a system and mechanism conducive to saving energy and protecting the ecological environment.
- (2) The successful experience and profound lessons from the old special economic zones, especially the Shenzhen Special Economic Zone, help reduce the trial-and-error costs for China’s reform and opening up. As a result, the national

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<sup>13</sup>Hu Limin, Cui Meirong, New Developments in the Examination and Approval of the National Comprehensive Reform Pilot Areas, *China-Today Forum*, 2009 (1).

pilot zone for comprehensive reform may—and has the necessary conditions—to transform from the reform and breakthroughs in a city at the initial stage to more emphasis on promoting coordinated regional development—for example, the Pudong New Area of Shanghai, Shenzhen, the Binhai New Area of Tianjin mainly involve the pilot reform in a city or special region, while the Wuhan Metropolitan Area is a city circle with Wuhan as the core; the Changsha-Zhuzhou-Xiangtan City Group is a city circle demonstration region consisting of Changsha, Zhuzhou, and Xiangtan; Chengdu and Chongqing actually constitute the Chengdu-Chongqing Region.

- (3) The grand thought of coordinated development becomes increasingly clear and the regional disparities have gradually narrowed, so the national pilot zone for comprehensive reform has been chosen by paying more attention to the basic conditions—shifting the focus from the location of a region to the pilot reform foundation of a region in terms of a market economy. The Pudong New Area of Shanghai, Shenzhen, the Binhai New Area of Tianjin have mainly benefited from the advantages of their location, while the Wuhan Metropolitan Area, the Changsha-Zhuzhou-Xiangtan City Group and the Chengdu-Chongqing Region mainly enjoy an excellent foundation for pilot reform. Of course, this is relative because the Pudong New Area of Shanghai, Shenzhen, the Binhai New Area of Tianjin enjoy not only the advantages of their location but also a terrific long-standing foundation for reform.
- (4) The Central Government has transformed its governance philosophy and functions, thus the government has shifted its focus from the giving of preferential policies to the granting of autonomous rights in supporting the pilot zones for comprehensive reform—for example, previously, the government provided the reform pilot zones with preferential policies concerning fiscal revenue, taxation, and finance; now the government attaches greater importance to granting various zones the privilege of autonomous reform, and encourages the pilot zones to make bold innovations and experimentations, while the pilot plans are developed at the local level and then reported to the National Development and Reform Commission; this leaves sufficient room for the people in various zones to actively explore their developmental paths in light of the local conditions. The granting of autonomous rights and the right to choose is the most important and most fundamental prerequisite for mobilizing the enthusiasm and the creative power of the economic players, including the local governments. This is the adjustment of the government's governance philosophy and embodies the transformation and regularization of the governmental functions. Fundamentally, freedom guarantees development. Freedom is the precondition for development and is also part of development. This is because a free economic system is the soul of a market economy.

The national comprehensive reform was piloted in the cities in the developed coastal region and then pushed forward to make breakthroughs nationwide. All of the three major zones for pilot reform—Shenzhen, the Pudong New Area of Shanghai, and the Binhai New Area of Tianjin—are situated in the eastern coastal

region and are mainly designed to stimulate the development of the eastern coastal region first. The supporting pilot reform zones are established in the central and western regions, and are given an explicit developmental mission; this shows that the universal establishment of a market economy makes it possible to achieve coordinated and all-round development across China, while scientific development is the all-round synchronous development in various sectors of the society and also the all-round development of China as a whole. The national comprehensive pilot zones are the expansion of the national developmental strategy towards the central and western regions, and they represent the choice of both philosophy and reality; if there is no realistic foundation—the universal establishment of a market economy, it would be impossible to expand the developmental strategy towards the central and western regions.

### **The significance of the expansion of the opening up strategy**

The expansion from the coastal opening up to the opening up along the border is the grand strategic idea of establishing and improving the market economic system across China; it is a major measure for achieving the coordinated development of the Chinese society; it is an active exploration of the all-round opening up path; it is a great practice in scientific development; it is the overall arrangement for realizing modernization in an all-round way. It takes a strategic perspective to outlining the grand blueprint for the all-round development of Chinese society; it will also boost the rational distribution of the industrial structure among regions, and foster and effectively give play to the comparative advantages—consisting of factor endowments and other elements—among regions; it increased the influence of China's economic growth on the outside world so as to tap a broader international market; it mitigates the impact of the worldwide economic crisis on the economic growth mode dominated by an outward-looking economy, and it helps build up economic developmental strength that is stable, sustainable, and endogenous with increasing room for growth; it is conducive to forming an economic community—characterized by regional coordination and complementation—that aims at gradual balanced development and common prosperity across China. Therefore, it exerts a profound and lasting impact on China's future development; its strategic significance is far-reaching and immense.

- (1) The unique political and economic characteristics peculiar to different cities or regions because of their geographical locations will be effectively utilized to shape the comparative advantages—composed of the geographical locations and factor endowments—which can jumpstart the economy in a region and also promote overall sustainable economic development—such as the *Several Opinions Concerning Supporting Fujian to Accelerate the Construction of the Economic Zones on Both Sides of the Taiwan Straits*, which advocates early and pilot efforts to enhance the communication among the people from both sides of the Taiwan Straits, and pinpoints the direction for building a new integrated opening up channel that would serve the surrounding areas and the

goal of establishing the important advanced manufacturing base and a natural and cultural center of tourism in the eastern coastal region; the *Development Plan for Liaoning's Coastal Economic Belt*, which positions the region as the national strategic inland highland for economic development and opening up and it also specifies the goal of building the national high technology industrial base for modern agriculture as well as the historical and cultural base for showcasing Chinese civilization; the *Ecological Economic Plan for Poyang Lake*, which spells out the goal of building the guarantee zone for water ecological safety in the middle and lower reaches of the Yangtze River and the platform for international ecological economic cooperation; the overall national plan converts the regional advantages and the comparative advantage resulting from factor endowment into the “innate advantages” for overall national sustainable development.

- (2) The advantages due to political resources under the “whole nation system” are leveraged to effectively promote the adjustment of the industrial structure and gradual rational industrial distribution among regions. The opening up strategy marked by the regional economic development plan is expanded to solve or drive forward the ongoing process of solving the large historical problem: the dual economy and regional economic development imbalance in China. Therefore, the expansion of the opening up strategy takes the general situation into account and also fully reflects the characteristics of industrial development and the differentiated needs in different regions; it avoids both the localization of regional plans and the one-size-fits-all approach adopted in the national plan; it is more suitable to the reality of regional economic development and is also very beneficial to adjusting the industrial structure and undertaking the industrial transfer across China, especially the rational distribution among the eastern, central, and western regions. Since 2008, the growth rate in the central, western, and northeastern regions in China has exceeded that in the eastern region, which is largely attributable to the implementation and effect of the grand strategic idea concerning the expansion from coastal opening up to opening up along the border.
- (3) The influence of China's economic growth on the outside world is enhanced to exploit the vaster international market so as to cushion the impact of the worldwide economic crisis on the economic growth mode dominated by an outward-looking economy. China's reform and opening up started in the southeastern coastal areas. Europe and the USA are the main consumers of China's manufacturing and the largest, most important international markets for China's foreign trade. With the impact of the global financial crisis, we have to think about the problems and embarrassments caused to our society by excessive dependence on an outward-looking economy, and the necessity for tapping the broader multilateral international market. The *Development Plan for Jiangsu's Coastal Areas*—which specifies the construction of the new Eurasian continental bridgehead as one of its main goals—and the *Plan Outline for the Cooperative Development of China's Tumen River Area*—which aims at turning this area into an important gateway to opening up towards Northeast

Asia—and the approval of Xinjiang’s Kashgar Special Economic Zone—which connects eight countries through five ports and Eurasia by one road—embody the national opening up expansion strategy, address China’s social and economic development, especially the improvement and rationalization of the industrial structure, they overcome the developmental predicament resulting from the disappearance of low labor costs, and achieve a win-win outcome in such a manner that China will be able to undertake the work due to the upgrading of the industrial structure in the Four Asian Tigers during the early stages of the reform and opening up in Chinese society.

- (4) Stable and sustainable endogenous economic strength with an increasing amount of space will be vigorously fostered; an economic community—characterized by regional economic coordination and complementation—towards gradual balanced development and common prosperity across China will be energetically and effectively planned and developed. The core of all developmental plans is the development of the people; all economic growth aims at enhancing the people’s economic value. The key to making billions of Chinese people share the achievements of the reform and opening up lies in raising the disposable income level. Therefore, the loftiest and purest goal of the reform and opening up is to make it possible for the people to be able to consume, live a decent life, and happily create wealth and value. Confucius, a famous Chinese philosopher, said that if the people became rich, a country would certainly become prosperous; if the people lived in poverty, a country cannot become prosperous. It appears that making the people rich is the eternal theme of human progress.

It should be stressed that, in an effort to achieve regional coordinated economic development and common prosperity, when striving to solve the contradictions caused by the dual urban–rural structure and mitigate the income inequality, we should, guided by the great wisdom of Deng Xiaoping that contention should be shelved, intensify the reform to complete institutional change so as to reach the ambitious goal of building an economically prosperous, institutionally advanced modern country.

### **Functions and comparisons of the new and old special economic zones**

The establishment of the national pilot zones for comprehensive reform is a new move which grants autonomous rights to the local governments for seeking development with the aim of promoting local economic and social development under the guidance of the Scientific Outlook on Development during the new stage of economic and social development. In a sense, these pilot zones are “new special economic zones” following the “old special economic zones”, including Shenzhen. As the “new special economic zones”, these pilot zones have some characteristics that are different from the “old special economic zones”; these characteristics stem from the transformation of the national developmental strategy and also reflect the changes during China’s reform and opening up, as well as fully demonstrating the objective need for improving the market economy and the intrinsic requirement for social institutional change.

Regarding the background and objective of their establishment, the old special economic zones were set up against the background of the planned economy and the impressive oases in the vast ocean of the planned economy. They aimed at completing a transformation from a planned economy to a market economy and exploring a feasible developmental path from widespread poverty to common prosperity. The new special economic zones were founded when the market economic system had basically already been established, and they are mainly designed to improve the market economic system through institutional innovations.

The new and old special economic zones have different tasks and means of development. The old special economic zones were mainly intended to address the issues concerning domestic reform and opening up, with the introduction of foreign capital as an important means for development. The new special economic zones are designed to comprehensively solve the contradictions in the system of economic development, with institutional innovation as an important means for development.

The new and old special economic zones differ in the choice of method. The old special economic zones focused on the coastal cities or areas where the planned economy was relatively weak—on the one hand, these cities or areas were given the priority of development at relatively low costs as they were subject to less burden from the planned economy and less fetter from traditional ideology; on the other hand, the advantages of their coastal location were utilized to introduce foreign capital and quickly open the door that had been closed for nearly half a century by means of export substitution, thus opening a window to connect the Chinese society with the outside world and building a bridge leading to the market economy and the international community in seeking national development, prosperity, and dignity. The new special economic zones mainly proceed from the overall national strategy for regional development to explore a new mode of coordinated regional development under the new historical conditions in the new process of development, so as to practice China's Development Path and verify whether it is feasible and correct.

In a sense, the Kashgar Special Economic Zone is different from the old special economic zones; it has some characteristics that are different from the national pilot zones regarding comprehensive reform. It does not have the political capital for being the first to carry out the reform and opening up like the old special economic zones. It does not enjoy the internal and external market economic environment which endows the open coastal cities with some innate advantages—for example, Shenzhen is adjacent to Hong Kong, an area with the freest market economy in the world; Shanghai was an area with a relatively high level of economic development even in the era of the planned economy. Kashgar does not have the experience of reform and the excellent foundation for social development that some cities, city circles, and regions have as the national pilot zones for comprehensive reform; that foundation includes infrastructure, education, population quality, social public facilities, and the institutional arrangement of the social welfare system as well as other social capital, resources, and institutional stock. However, as an emerging special economic zone with its own characteristics, Kashgar has unique conditions for development and much regional and constitutional room for development for undertaking the national strategic arrangements. Specifically, there are the following three characteristics:

- (1) As an emerging special economic zone, Kashgar is built and developed on the shoulders of giants because it enjoys the generous policy support at the national level and receives the assistance covering the human, physical, and financial resources from the economically developed regions, provinces, and cities. All of this constitutes the developmental conditions which are not available in other cities and areas, but are peculiar to the Kashgar Special Economic Zone thanks to selfless political and policy support.
- (2) The Kashgar Special Economic Zone was established under the following general background: The Chinese society had experienced the reform and opening up for nearly 40 years; a market economic system had been universally established; social rules and regulations had been gradually improved; much experience in development had been verified; some growth paths had been recognized; the area's achievements and problems, perseverance and abandonment, and directions and goals had become increasingly clear in China. Like other special economic zones or the pilot zones for comprehensive reform, it will certainly be subject to the establishment and selection of its own developmental path, mode, and route, but its takeoff and development can be based on the lessons drawn from the previous paths, the source of education from the previous developmental price, the experience and lessons from errors of selection, and the correct developmental philosophy, giving birth to successes and a good performance. Therefore, the development of the Kashgar Special Economic Zone is entirely possible, and should begin at a relatively high starting point to deliver a significant developmental outcome at relatively low trial-and-error costs.
- (3) The Kashgar Special Economic Zone has this developmental characteristic: the weak spot is its space. Its natural conditions are severe; there is a lack of resources for production; the industrial foundation is relatively weak; its level of market economy is generally low; all these aspects are undoubtedly the weaknesses for the Kashgar Special Economic Zone. However, it can draw upon the well-proven national modes of development and develop its own plan for development in light of its strong and weak points, and it might even turn its weaknesses into distractive features, rationally distribute its industrial structure, thus uniquely nurture the beauty of industrial growth and development in Kashgar and make Kashgar really embark on a developmental path with its own characteristics. According to the developmental plan for the Kashgar Special Economic Zone, a nontraditional urban developmental path should be carved out for this zone; only when the traditional mode for relying on the resource input to seek new development is broken up and a low-carbon sustainable ecological developmental path is adopted can Kashgar obtain an inexhaustible endogenous power of development.

Document No. 33, released by the State Council in 2010, specifies Kashgar's positioning: First, it is necessary to give full scope to Kashgar's local advantages in opening up to turn Kashgar into China's important window for westward opening up and help shape a new pattern with equal emphasis on both the opening up of the

land and the sea. Second, it is essential to attract domestic and foreign capital, technologies, and talents; undertake industrial transfer at a high starting point; promote the development of industrial agglomerations; and build a modern industrial system, converting Kashgar into a new economic growth point for Xinjiang's leapfrog development.

In my opinion, when moving towards the above developmental goals, attention should be paid to the following issues in the practical development of the Kashgar Special Economic Zone:

- (1) Development and economic growth remain the priorities for the Kashgar Special Economic Zone, but the people in this Zone must meticulously learn about and bear in mind the past problems caused to our economy and society by excessive and undue emphasis on the GDP and economic growth. Development is of overriding importance, and the reform is the major premise, while institutional innovations are fundamental. Only the growth of the GDP accompanied by the people's happiness is a healthy kind of growth; only the growth rate which increases with the people's well-being is a meaningful growth rate; only economic development which can effectively conserve the environment and is environmentally friendly is a really sustainable kind of development. With the experience and lessons from the nearly 40-year-long reform and opening up in China, the takeoff and development of the Kashgar Special Economic Zone at a relatively high starting point should be achieved in a less blind and crazy but more rational, pragmatic, and scientific way.
- (2) One major mission of the Kashgar Special Economic Zone is to improve the market economy and thus develop and elevate Xinjiang's economy; however, the improvement of the market economy is anything but a simple process of economic construction; it is a process of realizing social development in an all-round way. In my view, for the Kashgar Special Economic Zone, first, it is necessary to develop education and comprehensively improve the skills, knowledge reserve, and humanistic quality of the workers so as to form the potential practical human capital because this is the internal condition for ensuring the rapid growth and sustainable development of the Kashgar Special Economic Zone. This is because a modern city is impossible and modernization cannot be achieved if the people are not modernized. Second, the renewal of the mind-set is the mental prerequisite for the development of the Kashgar Special Economic Zone. The mind-set cannot directly change the society, but it can change the people, and the people can bring about changes in the society. As a renewed mind-set is an intangible productive force, it is a deep power—which transcends the material and capital—capable of driving forth economic development and social change.
- (3) As Kashgar is an emerging special economic zone in an area inhabited by minority nationalities, its development must be based on respecting, retaining, and utilizing the heritage and unique charm of the ethnic culture. Modernization is certainly a process in which different cultures are modernized in different ways, but it is not a process in which different cultures are assimilated through

modernization. In my opinion, no matter what development might be, the Kashgar Special Economic Zone must and should be a special economic zone with the characteristics of its ethnic culture and distinctive national character, in which the ethnic culture shines.

- (4) Assistance from the developed areas or cities is a generous policy adopted by the Central Government to distinguish the Kashgar Special Economic Zone from other special economic zones, and also provides the good condition and possibility for the Kashgar Special Economic Zone to rapidly take off and develop, and even draw on the experience acquired in other areas. Indeed, the capital and talents from the assisting cities, regions or provinces, and the well-proven advanced philosophies of management and administrative operational modes from the developed areas are delivered to Kashgar; in particular, they have an impact on the way of acting and the philosophy of governance of the local governments, and they can quicken the transformation of the governmental functions. However, fundamentally, that assistance is nothing but an external power, while the real enduring development depends upon the Kashgar Special Economic Zone, more precisely, the cognitive ability, philosophy of development, and level of governance of the local government and its foresight for abandoning the pursuit of quick success and instant benefits.

The development of China's special economic zones is crucial for the overall reform and opening up in China and also an exploration of the path towards China's regional economic development. However, there is no currently available mode of special economic zones which can be copied; moreover, the Shenzhen Special Economic Zone is not a wholesaler of experience. Regional economic development will certainly, at different levels and at different stages, show diverse developmental paths, ways, and significance. We do not intend to develop Kashgar into another Shenzhen (Shenzhen assists Kashgar in an oriented way); instead, we should turn today's Kashgar into a new modern Kashgar.

Adam Michnik, a polish intellectual, said that we strove for a bright today instead of a bright tomorrow; we strove for an imperfect society rather than a perfect society. In my view, the implementation of the grand blueprint—an expansion from the coastal opening up to the opening up along the border—will bring a prosperous and bright future for a beautiful China!

## **The New Mission of the Special Economic Zones**

When inspecting Shenzhen in 2012, General Secretary Xi Jinping delivered an important speech, requiring Shenzhen to bear in mind its mission and act audaciously to assume responsibilities, further sharpen wits, emancipate minds, especially encouraging the cadres and masses to make bold experimentations and innovations, and gain new achievements in building a moderately affluent society in an all-around way, comprehensively intensifying the reform, governing the country

under the rule of law and strengthening Party self-discipline, and to endeavor to foster new innovative advantages in the construction of the special economic zone and reach a higher level of development. He particularly pointed out that, as the forerunner in the reform, Shenzhen should continue to produce the demonstration effect and, being the first to achieve the “Four Comprehensives”—comprehensively build a moderately prosperous society, comprehensively intensify reform, comprehensively implement the rule of law and comprehensively strengthen Party discipline—it would become the new mission of the special economic zones in the new era.

Shenzhen’s Sixth Congress of the CPC Representatives vowed to succeed in accomplishing this mission in response to the earnest expectation of General Secretary Xi Jinping. It specified an impressive developmental goal for Shenzhen in the next 5 years: emancipate the mind, carry out the solid work, boldly serve as the forerunner in achieving the “Four Comprehensives”, endeavor to build a modern international innovative city; strive to build a special economic zone with more of a leading role in the reform and opening up, a national independent innovation demonstration zone at a higher level, a national economic central city with more power to influence and stimulate the outside world, an international city with more competitiveness and influence, and a city with a higher quality—that of making people happy.

**In order to serve as the forerunner in achieving the “Four Comprehensives”, Shenzhen should continue to inherit the courage and mettle of the first mover, with the forerunner’s sense of mission and the sense of mission for first-ever implementation of pilot programs, to commendably accomplish the new mission of the special economic zones in the new period**

Daring to make breakthroughs and blaze new trails is the unique spirit and character which defines Shenzhen, while the first-ever implementation of pilot programs is the innate character given by transformational China to the special economic zones, the policy “privilege” given by the compulsory institutional change to the special economic zones, the right to enjoy the first priority to change subject to risks and costs given by the unbalanced developmental strategy to the special economic zones, and the reason for the enduring political vitality of the special economic zones. At the early stage of the reform and opening up, the Shenzhen Special Economic Zone enjoyed the policy “privilege” for first-ever implementation of pilot programs to become the first to initiate the great and arduous practice of the market economy in China. Under the flag of first-ever implementation of pilot programs, the Shenzhen Special Economic Zone delivered the most basic concepts and practice of a market economy—the law of value, market competition, labor power as a commodity, stock dividend—to the rest of China, and it also made the earth-shattering slogan “time is money, efficiency is life” heard across China. Thirty-eight years later, with the intensification of the great cause of China’s reform and opening up, the people’s expectations regarding a more profound institutional change and a comprehensive intensification of reform in Chinese society confer a

more profound significance and a deeper significance to the first-ever implementation of pilot programs as well as a more far-reaching mission of the first-ever implementation of pilot programs. This new far-reaching mission is to continue, with the courage, wisdom, and resourcefulness of the first mover, to be among the top across China in comprehensively exploring the social operational rules and regulations, social institutional environment, and legal safeguard mechanism fit for a market economic system; groping for the path of institutional innovation towards the reform of the political system, the government's governance system and mechanism and capacity modernization; probing the unique path towards transforming the mode of economic development, effectively achieving innovation-driven development and maintaining sustainable social and economic development; exploring how to build a moderately prosperous society in all aspects, and make the institutional arrangement for building a welfare society in which the social surplus is equitably shared, and becoming the forerunner in further improving the market economic system, promoting the all-round healthy development of Chinese society and the first to realize the "Four Comprehensives".

The first-ever implementation of pilot programs is a process of making innovations and learning from the advanced. Such first-ever implementation involves not only the economic system and mechanism but also the deeper institutional changes in various fields of the society, including the political system, the legal environment, the government's governance system and mechanism and capacity modernization as well as cultural ideology. This is the innate character of China's special economic zones and the more challenging new mission of China's free trade zones in the new era.

As a policy, the special economic zones may disappear, but as a spirit, a choice of path for China's institutional change and the great practice of China's Development Path, they will and should not disappear. Therefore, Shenzhen should fully realize, treasure, and properly utilize the political capital accumulated through China's reform and opening up in nearly 40 years and the unique and irreplaceable political and geographical advantages resulting from its proximity to Hong Kong; moreover, it should enhance the strategic awareness and the capability for identifying its own positioning and seeking development from the perspective of overall national development. Shenzhen should continue to act as the forerunner in China's efforts to intensify the reform and a modern international city with a unique institutional character and charm in South China. In my opinion, it is particularly important for Shenzhen to continue to serve as the forerunner in China's efforts to intensify the reform; if this is abandoned, such an abandonment will lead to a loss of history and the largest and most valuable political asset that is Shenzhen. In this regard, the institutions prevail over technologies, even thoughts surpass actions. I want to quote the view of Hayek to further clarify my standpoint: From a long-term perspective, the mind-set and the people who communicated the mind-set dominated the historical developmental process. The practice of China's reform and opening up in nearly 40 years also proves another view of Hayek's: the transformation of the mind-set and the willpower of the people shaped today's world. It is impossible—and not necessary—for Shenzhen to act as the "wholesaler" of the

experience from China's reform and opening up; however, it is entirely possible for Shenzhen to do that, and Shenzhen should become a city which is the most courageous in reform and the most innovative in China. This is the character which was once possessed by Shenzhen and can and should never be lost or discarded.

If there are not the first-ever implementation of pilot programs and the spirit and courage of the first mover, Shenzhen's development, Shenzhen's miracle, even a brighter tomorrow will be impossible. Shenzhen should be bold in serving as the forerunner in achieving the "Four Comprehensives" and write, with the spirit of the time, Shenzhen's character on the flag of development.

**In order to boldly serve as the forerunner in realizing the "Four Comprehensives", our government should have not only foresight and wisdom but also the spirit of assuming responsibilities, the courage and mettle to revolutionize by itself. For a transformational society, only when the government is brave in reform can the society persevere in reform; only when the government's governing capacity is modernized can social development be modernized; only when the government becomes open-minded can the society become institutionally civilized**

Chinese society has been experiencing top-down compulsory institutional change, while the governments, especially the Central Government, are the initiators, leaders or the most immediate advocators of this institutional change, and are also the first to be reformed in the change. If there is no decision-making and authorization from the Central Government, the practice of the reform and opening up is impossible—for example, the establishment of the special economic zones and the free trade zones is the result of the special policies given to the local governments by the Central Government and also the outcome of the overall strategic arrangement of development made by the Central Government.

The constitutional change in Chinese society follows a pragmatic path. In spite of this, it will not naturally occur just because of the potential profit-making opportunities like induced institutional change. This is because compulsory institutional change often alters the distribution of interests among the original social groups, even some people will lose their interests—in particular, the government officials as the main reformers and implementers of the reform will lose their interests—while other people will obtain interests because of it. Therefore, in principle, in a market economy under development, a protective government can make great contributions to cultivating and supporting the internal institutions. The government's functions and roles can produce the effect of a "scale economy" during restriction and transformation. However, the failure of the government's policies will also reduce or hinder the effectiveness and process of the institutional change, thus increasing the costs of social reform. In a general sense, both the maintenance of an ineffective institutional arrangement and the government's failure to take actions to eliminate the institutional imbalance are policy failures.

What the government looks like determines the institutional arrangement; the government's civilization is the precondition and guarantee for institutional

civilization. Meanwhile, the government's cognitive ability also largely determines the costs and effectiveness of the reform. Therefore, remolding the government, transforming the government's functions, enhancing the cognitive ability, and the governing capacity of the government officials are the internal logical requirements for intensifying the reform and modernizing the government's governance system, mechanism, and governing capacity. China's free trade zones, following the special economic zones, undertake the mission of intensifying the reform.

The work we have constantly carried out in transforming the government's functions during the reform and opening up in nearly 40 years have mainly focused on transforming the centralized government closely associated with the planned economy under the traditional system to a service-oriented government fit for a market economy. The establishment of the government's governance system and mechanism in the process of comprehensively intensifying the reform and the modernization of the governing capacity focus on further revolutionizing the government, reshaping the system and mechanism of a modern government, and really establishing the rules of a law-based government as well as solidly pushing forward the reform of China's political system.

In my view, with respect to the government's governance system and mechanism as well as the modernization of the governing capacity, the professional views in the book *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector*, written by the American administrative science scholars David Osborne and Ted Gaebler, are very useful to us.<sup>14</sup> David Osborne and Ted Gaebler first affirmed that what we faced was anything but the gradual withering away of the State; on the contrary, we needed a vibrant, powerful, and very active government. We are confident in the government because we believe that if there is not an effective government, a civilized society cannot effectively operate. The government is a mechanism by which we make public decisions—for example, we need to decide on the places where the roads are to be built, how to deal with the homeless people, and what kind of education for our children; the government is a way of providing us with beneficial services covering national defense, environmental protection, police protection, roads, dams, water supply, and drainage system; the government is a way for us to solve the common problems such as drug-taking, crime, poverty, illiteracy, discharge of toxic wastes, global climate warming, and skyrocketing medical and healthcare expenses, which call for collective actions, while the collective actions cannot be taken unless the government gets involved. We believe that the problem lies in the system in which the government officials work rather than the government officials themselves. However, fundamentally, the government should operate the rudder instead of paddling. Any move designed to massively associate governance with “solid work” will severely cripple the actual policymaking capacity. Any move aimed at forcing

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<sup>14</sup>(US) David Osborne and Ted Gaebler, trans. by Zhou Dunren et al, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector*, Shanghai, Shanghai Translation Publishing House, 1996, pp. 25–32.

the policymaking body to carry out “solid work” means that our government laboriously commits a folly. This is because the policymaking body is unable to do so, in essence, that falls outside the scope of its work. We need a powerful government which confines itself to policymaking and guidance and assigns “solid work” to others.

Instead of simply collecting the service objects to tirelessly provide services, a real efficient modern government should empower the society and the people to a greater extent. Empowerment—which is not a simple service—is precisely the creative way to fully develop our society, and utilize the enthusiasm of social organizations and the self-confidence and capability of the citizens.

A government with a modern outlook towards governance should be a government with a sense of mission. In order to enhance the governing capacity of the government, first, it is necessary to change the governmental organization that is just aware of going by the book, and turning it into a governmental organization with a sense of mission. This is because a governmental organization with a sense of mission is more efficient, effective, innovative, flexible, and energetic than a government which just knows how to go by the book. This has also been proved by the successful practice of China’s reform to varying degrees. The government should foster and develop the culture of mission.

A government with a modern governing capacity should be a government with the ability to foresee rather than one which knows how to cure. In a sense, the more important function of the government lies in solving problems instead of providing services. E. F. Schumacher, a British economist, reputed as the prophet of sustainable development, said that a wise man solved problems, while a gifted man avoided problems. It is easier and more inexpensive to prevent than cure a disease. Likewise, it is easier and more inexpensive to prevent than handle a crime. Amid the debate on a high road maintenance budget, a senior mayor in the USA said that if we did not take actions right now, we would not be able to afford to do that in the future, so we decided to either correctly maintain roads or let the road system collapse; it was clear that if we did not spend money right now, we would go broke in the future.

The view of Alvin Toffler, the author of the well-known book *The Third Wave*, may be in a better position to explain the necessity for or inevitability of reforming the government: I can’t understand why we had a technological revolution, a social revolution, an information revolution, and a revolution of morality and epistemology but no governmental revolution; the government should convey the best idea to our society instead of hindering our creative power, self-confidence, our desire, and ability to create a good life.<sup>15</sup>

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<sup>15</sup>(US) Alvin Toffler, trans. by Huang Mingjian, *The Third Wave*, Beijing, China Citic Press, 2006, pp.204–205.

**In order to courageously serve as the forerunner in realizing the “Four Comprehensives”, our society must explicitly incorporate the free development of the people and universal improvement of the social welfare into social development. The realization of the “Four Comprehensives” should and must aim at emancipating humanity and be a process of free development of the people and equalization of social welfare**

China’s reform and opening up started from emancipating the productive forces. The emancipation of the productive forces is the emancipation of humanity, the release and emancipation of the people’s creative power.

“The first premise of all human history is, of course, the existence of living human individuals.” “Man is man’s highest essence.” “For man, the root is man himself.”<sup>16</sup> Marxist classic writers always considered the high development of the productive forces as merely the condition and foundation for an all-round development of the human being. The realization of an all-round and free development of the human being was always the lofty ideal of Marxist-Leninists. Karl Marx and Frederick Engels regarded the all-round and free development of the human being as the “basic principle” of the new “social form” which replaced capitalism and the “basic thought” of the future society. Karl Marx attributed the historical trend of capitalistic production to the following: It itself, with the necessity that it dominated the changes in nature, gave rise to its own negation; Karl Marx added that it itself had created a new factor in the economic system, and it also gave a tremendous boost to the all-round development of the social labor force and all individual producers, ultimately guaranteeing the economic form—all-round development of the human being—while ensuring the extremely high development of the social labor force.<sup>17</sup>

Some people asked, “What on earth is an international modern metropolis?” Now, many original sufferings have gone, so the original word—happiness—becomes increasingly vague. This forces us to trace the most basic value in life, that is, only in the metropolis which can, to a larger extent, concentrate the social resources and rationally allocate them, everyone—regardless of man or woman, the strong or the weak—may share the same dream and the same world. As a matter of fact, there is only one goal of happiness—living a better life. This is exactly the goal of our reform and the significance of the pursuit of the scientific spirit and humanity. I hold that this is also the significance of building a modern international and innovative city.

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<sup>16</sup> *Karl Marx and Frederick Engels* (Vol.1), Beijing, People’s Publishing House, 1956, pp. 460–461.

<sup>17</sup> *Selections of Karl Marx and Frederick Engels* (Vol.3), Beijing, People’s Publishing House, 1995, pp. 339–342.

## **Qianhai: Another Hong Kong**

Twenty-eight years ago, on June 3, 1988, when meeting with the representatives of the 1990s China and World Conference, Deng Xiaoping, the chief architect of China's reform and opening up, stressed that we would further build several Hong Kongs on the Chinese Mainland. In May 1989, Deng Xiaoping reaffirmed, before the then leaders of the Central Committee, that in the past he vowed to further build several Hong Kongs. As the State Council approved the *Overall Development Plan for Shenzhen-Hong Kong Cooperation in the Modern Service Industry in Qianhai*, submitted by Shenzhen, the great conception of Deng Xiaoping, a great man, about "further building several Hong Kongs" has been put into grand practice in the beautiful blueprint in Shenzhen, on which Deng Xiaoping placed a great hope. Such a grand practice means not only the emergence of a new economic cooperation zone but also a gradual intensification of China's reform and opening up on the basis of a power of institutional innovation. From a long-term perspective, the establishment of the Qianhai Shekou Free Trade Zone will give birth to another Hong Kong.

The establishment of the Shenzhen Special Economic Zone in 1978 aimed at gradually transforming the economy from a planned one into a market one across China by means of unbalanced development. The Qianhai Economic Cooperation Zone, guided by direct Shenzhen-Hong Kong cooperation, has been established in Shenzhen where the market economy has developed considerably; fundamentally, this cooperation zone is designed to further improve the market economic system through institutional innovations, learning, fostering, and creating an institutional environment suitable to the growth of the market economy so as to really bring about a great institutional change in Chinese society. Thirty-five years ago, when the Shenzhen Special Economic Zone was established, Shenzhen served as the window for China's reform and opening up; however, under the general background of globalization in which China and the outside world interact with each other, the Qianhai Economic Cooperation Zone guided by direct Shenzhen-Hong Kong cooperation will become a more extensive platform for opening up and a modern world-class metropolitan area with an international vision and competitiveness.

With the planned land covering an area of 15 km<sup>2</sup>, situated on the east bank of the Pearl River Estuary and the west side of the Shenzhen Nanshan Peninsula, the Qianhai Economic Cooperation Zone will certainly become a vibrant economic entity with boundless creative power. Innovative financing; modern logistics; a headquarters economy; science, technology, and professional services; communication and media services; and high-end commercial services are listed as industrial priorities of this cooperation. However, its functional positioning—the forerunner zone for Shenzhen-Hong Kong cooperation, the zone for system and mechanism innovation, the zone for modern service industry clusters, and the leading zone for structural adjustment—shows the demonstration effect of the Qianhai Economic Cooperation Zone on a deeper institutional change in transformational China: It represents a kind of economic cooperation and institutional innovation; it heralds an

industrial cluster and an institutional change; it creates a number of opportunities and ideas; it makes the economy prosperous and the society civilized. The innovations to the system and mechanism as well as a deeper institutional change are the preconditions for and the significance of its establishment, and they constitute the basic institutional guarantee for its survival, development, and demonstration.

Therefore, the Qianhai Economic Cooperation Zone is anything but a simple economic entity and a simple industrial cluster; instead, it should be a loose, inclusive, and efficient institutional environment which encourages innovations, and a paradise where entrepreneurs can realize their personal ideals; it should be an elegant and warm soil which nurtures civic awareness and spirit, and a beautiful and civilized harbor which reflects globalization and economic integration. Therefore, the statement made by Deng Xiaoping that “we will further build several Hong Kongs” by no means implies that we will further build several skyscrapers and simply copy the prosperity of a commercial society; instead, we will ensure that the mature market economic system which guarantees the continued prosperity of Hong Kong’s society, the well-functioning social operational rules and the civilized institutional environment beneficial to social development and progress will become the more extensive consensus and the more universal social operational system and mechanism, and will exert a far-reaching impact on improving the market economic system in Guangdong Province, Hong Kong, even nationwide.

**The institutional advantages of Hong Kong are utilized to ensure that international practice really becomes the institutional power for participating in international competition**

The objective of the Qianhai Shenzhen-Hong Kong Cooperation Zone is to make use of Hong Kong’s institutional advantages and give play to the advantages and roles of Hong Kong as the international economic center to deepen the cooperation between Guangdong Province and Hong Kong and shape a new pattern of China’s reform and opening up.

In nearly 40 years since the reform and opening up, Hong Kong has always been the most direct and convenient place for the Chinese Mainland to understand the outside world, learn about the market economy, and become part of the international community. The governments (mainly the governments of the Chinese Mainland) have provided policies; encouraging free movement of private capital is the universal cooperational model between Hong Kong and Shenzhen, Guangdong Province even the whole Chinese Mainland, and the introduction of Hong Kong’s capital, the establishment of joint ventures with Hong Kong investors, and the sole proprietorship of Hong Kong investors have constituted the most basic and uppermost mode of cooperation between the Chinese Mainland and Shenzhen in a considerably long time. CEPA’s implementation is mainly designed to open the market of the Chinese Mainland to Hong Kong and adopt the preferential policies to permit and encourage Hong Kong’s capital to compete on the market of the Chinese Mainland. Affirmatively, the cross-border movement of Hong Kong’s capital, materials, goods, technologies, talents, and other economic factors has driven the reform and opening up forward on the Chinese Mainland, especially

Shenzhen and Guangdong Province; such movement has speeded up the transformation from a planned economy to a market economy and has brought forth the competition and prosperity sufficient to change the social operational system and common development based on common values. Meanwhile, Hong Kong's system and institutional resources are, to a large extent, only the exogenous variables of the economic growth for influencing our life and choices rather than the endogenous factors of social development for changing our ways of acting, our mind-sets, decision-making procedure, and modes. The establishment of a direct Shenzhen-Hong Kong cooperation zone under the "one country, two systems" policy turns the philosophy of drawing on Hong Kong's institutional advantages into the introductory factor for seeking further development and the realistic choice for achieving common prosperity. Therefore, we definitely do not simply understand the market economy as science and technology, tools, and means; fundamentally, the market economy is defined by institutions, mechanisms, cultures, and civilizations.

Hong Kong's society showcases to us an excellent framework for government management and a number of administrative operational procedures which have been tested in practice, well proven, corrected, and improved through trial and error. Hong Kong is a very valuable source of learning for the Shenzhen Municipal Government born from the reform and opening up in terms of the functions and efficiency of social management, the government's decision-making philosophy and procedure, the officials' service awareness and legal sense, the value orientation of democracy, and equity in the political life of Hong Kong.

Hong Kong's institutional advantages are invaluable resources. Learning the advanced institutions is helpful for the government of a transformational society in overcoming and avoiding its conservative line of thought and low efficiency resulting from its own limitations—for example, the vested interest and traditional ideology within the original system will directly affect the officials' choice of preference during the institutional change, while the advanced systems can produce a demonstration effect to quickly free the people from the fetter of the traditional ideology in a short time, and prevent the individual rationality constraints so as to enhance the ability to understand the institutional change. For another example, the institutional change in a transformational society is often accompanied by this kind of a situation: Even if the government is confident in making the new institutional arrangement to return to a balance from an imbalance, the government cannot make a correct institutional arrangement due to a shortage of social science knowledge. As a result, the short-term efforts in maximizing the profits will lead to the pursuit of the continuously ineffective activities (in the case of given system restrictions), and even though they pursue the productive activities, there may be an unforeseeable result. Learning about the advanced institutions can remove the lagging behind in institutional change, lower the costs of institutional change, and reduce the intangible losses—including psychological and affective losses—during the institutional change; such learning can also enable the government to become mature and rational, and develop a sense of responsibility and the value orientation

of professionals regarding serving the society and the people during institutional change.

The Shenzhen-Hong Kong Cooperation Zone epitomizes the economic globalization and integration in China. Drawing on Hong Kong's institutional advantages means that we must learn to act according to the international rules under the framework of "one country, two systems". The uniqueness of Chinese characteristics lies in the path to realizing the goals and the choice of path for such realization rather than the goals themselves.

### **The policy "privilege" in first-ever implementation of pilot programs continues to be exercised to intensify the reform**

The Qianhai Shenzhen-Hong Kong Cooperation Zone is entrusted with a new historical mission: It becomes the first to implement pilot programs to explore the path towards institutional change leading to the innovative development of the modern service industry, so as to stimulate innovations in the operational systems and mechanisms which govern the whole society, and set a good example for the whole country with an excellent performance in institutional innovations, moving forward the great cause of the reform and opening up in Chinese society.

The first-ever implementation of pilot programs is the "innate" character given by transformational China to the special economic zones and the policy "privilege" given by the compulsory institutional change to the special economic zones. Such first-ever implementation is the right—to enjoy the first priority to change subject to risks and costs—given by the unbalanced developmental strategy to the special economic zones and the reason for the enduring political vitality of the special economic zones. In an exclusive interview conducted by the journalists of the *Shenzhen Special Economic Zone Daily* on the eve of the 30th anniversary of the establishment of the Shenzhen Special Economic Zone, Mr. Donald Tsang, former Chief Executive of the Hong Kong Special Administrative Region, said that they hoped to introduce Hong Kong's service industry to Qianhai in an all-round way, and the cooperation with Shenzhen would be carried out through Hong Kong's strong points; that they wanted to build a base in the Pearl River Delta for first-ever implementation of pilot programs, the best base would be Shenzhen, while the best place for pilot efforts in Shenzhen would be Qianhai. With respect to the development of the Qianhai Shenzhen-Hong Kong Cooperation Zone, Mr. Donald Tsang also stressed that the most important foundation for Shenzhen-Hong Kong cooperation was that the "one country, two systems" policy should connect both sides. Originally, some things could not be done by Hong Kong, but this connection made things possible. Likewise, Shenzhen was not able, by itself, to do a good job in some respects, especially regarding financial services, but Hong Kong's participation could help them do better. Therefore, the "one country, two systems" policy is one of the roads to success.

Hong Kong is a developed market economy region that is full-fledged, well-enhanced, and highly internationalized, while it is a city with relatively high levels of both market economic development and degree of internationalization on the Chinese Mainland. Fundamentally, Qianhai Shenzhen-Hong Kong cooperation

is a natural combination derived from market economic development and the inexorable outcome of the common choice. As if the farm output quotas were fixed on the household basis in the past, the cooperation zone was approved by the Central Government, but its creative power comes from the grassroots. Hence, we are fully confident that Qianhai is not merely an economic platform for direct cooperation between Shenzhen and Hong Kong, and Qianhai, with its practice in institutional innovations and its experience in the first-ever implementation of pilot programs, is bound to intensify the reform and opening up, in Chinese society, towards fostering a loose, open, inclusive, and civilized international life circle. Thirty-eight years ago, the proximity to Hong Kong enabled us to quickly learn about the market economy, while the current Shenzhen-Hong Kong direct cooperation zone will make it more straightforward and urgent for improving the social operational mechanism and for innovating the management system. As a well-functioning society, Hong Kong demonstrates to us a high degree of work efficiency of the service-oriented government, a democratic and transparent order for discussing official business and handling affairs, an open and competitive market order, and a well-developed, universal social security mechanism, as well as a highly developed and robust social emergency system, which are good sources of learning for Shenzhen.

The first-ever implementation of pilot programs is a process of carrying out innovations and learning from the advanced. Such first-ever implementation covers not only the economic system and mechanism but also institutional change in the political system, the administrative management system, and the social and cultural systems. This is the character and new mission of the special economic zones.

**A service-oriented government is built to foster a good institutional environment as the core guarantee for the growth of the productive forces**

The leading role of the government in making policies is brought into full play to create an excellent policy, institutional environment, and legal environment for the development of an agglomeration of the modern service industry in the Qianhai Zone, which is the basic guarantee for the steady growth of the Qianhai Shenzhen-Hong Kong Cooperation Zone.

The Qianhai Shenzhen-Hong Kong Cooperation Zone creates and opens a brand-new—and challenging—mode for Shenzhen-Hong Kong cooperation. Previous Shenzhen-Hong Kong cooperation mainly involved the circulation and movement of factors, while this cooperation zone will switch the cooperation from the field of pure factor circulation to the institutional level which determines the flow of factors. This cooperation zone tests our management instead of merely our entrepreneurs. The direct cooperation between Shenzhen and Hong Kong is a process of learning the modern enterprise system and moving towards a modern service-oriented government. The economic activities—especially the activities in the market economy—cannot be carried out in an institutional and legal vacuum. On the contrary, the really guaranteed individual freedom and private property rights, a sound orientation system and effective public services are exactly the prerequisites for the existence and development of a market economy. Therefore, the primary task of the government is to provide an institutional guarantee of

security so that every worker can enjoy the fruits of their labor and are motivated to work in an honest and efficient way.

The government is the sole provider of the institutional environment. For a transformational society, the government plays its roles in compulsory institutional change mainly by creating, revising, and improving the basic institutional arrangement in order to foster an institutional environment beneficial to reforms and innovations. Theoretically and logically, a particular institutional environment is a legal—moral space for operating a particular institutional system and also the core guarantee for the growth of the social productive forces.

George Joseph Stigler said that the State may be either a resource or a threat to every industry in a society. Richard A. Epstein held that any political party which realized that fewer government actions would lead to more achievements would enjoy the huge and gratifying developmental opportunities in the political arena. According to Walter Eucken, the interdependence between political procedure and economic procedure forces us to address both at the same time; both are part of the whole procedure. If there is not a competitive procedure, a capable government will be unavailable, while there will be no competitive procedure if such a government is nonexistent.

For a transformational society, the establishment of a service-oriented government is a process in which the functions are transformed and the powers are delegated to lower levels. If there is not an institutional guarantee for a government, there will be no market procedure or prosperity; however, if a government acts beyond its authority and concentrates all its powers, it will do harm to the market and economic growth. In the process of transforming from a traditional investment-oriented government and an order-focused government to a service-oriented government, we should carefully learn the experience and lessons concerning Japan's Disease in the period of the 1980s-1990s, during which the Japanese Government excessively loosened control over the financial market, land prices, and large-scale infrastructure, plunging Japan's economy into stagnation.

We must be keenly aware that, in a market economy, the government is the supporting actor, while the leading actor cannot be anything but companies (enterprises). Market failure makes it possible for the government to intervene, but the roles of the market cannot be replaced by that of a government. Only when such a philosophy is developed can Qianhai become a real market—which shines with the great brilliancy of nationality, economically flourishes, and advocates fair competition—and thus embrace Hong Kong.

## **From the Special Economic Zones to the Free Trade Zones: The Special Mission of China's Free Trade Zones**

The establishment of the Shenzhen Special Economic Zone 38 years ago was a great earth-shaking event in the history of new China—it marked the end of an era and the beginning of another era. The establishment of the China (Shanghai) Pilot Free

Trade Zone in September 2013 was an important milestone which is comparable to the establishment of the special economic zone in the history of new China's reform and opening up—it marked the deepening of the reform and opening up of Chinese society, a transformation from an outward-looking economy to an open economy and the launch of a new round of deeper institutional opening up; it means that the socialist market economic system which, under the rule of law, centers on defining the government powers is being improved in a very profound way.

In April 2015 after the China (Shanghai) Pilot Free Trade Zone was successfully built, the State Council officially approved the China (Guangdong) Pilot Free Trade Zone, the China (Fujian) Pilot Free Trade Zone and the China (Tianjin) Pilot Free Trade Zone, among which the China (Guangdong) Pilot Free Trade Zone covers the Guangzhou Nansha Free Trade Zone, the Shenzhen Qianhai Shekou Free Trade Zone and the Zhuhai Hengqin Free Trade Zone. As if the previous “5 + 2” traditional special economic zones—Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, Pudong of Shanghai, and Binhai of Tianjin—led the direction of China's reform and opening up with their practice in the first-ever implementation of pilot programs, today's free trade zones represent a new form of China's special economic zones under the new historical conditions, and will continue, with practice in the first-ever implementation of pilot programs and the new functions given by the times, to undertake the mission of the times for intensifying the reform and boosting the institutional opening up in Chinese society.

**China's special economic zones are not a simple economic concept; likewise, China's free trade zones are not a pure economic concept, but they are the outcome of economic globalization and regional economic integration as well as the intensification of reform in Chinese society. In a deeper sense, like the previous special economic zones, they shoulder the reform mission that is much heavier than their pure economic mission**

Conceptually, China's free trade zones refer to the multifunctional special economic zones which were established outside the customs district within China's territory, and adopt the preferential tax and special customs supervision policies as the main means, and mainly aim at trade liberalization and facilitation. They center on creating a good international business environment which accords with international practice and enjoys international competitiveness for both domestic and foreign capital. However, the current free trade zones in China do not really represent the internationally accepted FTA (Free Trade Area) concept and the FTZ (Free Trade Zone) concept; instead, they make up a concept of a free trade zone with Chinese characteristics which functionally transcends the FTZ and is different from the FTA in terms of rules.

The FTA originates from the WTO rules concerning a free trade area and was included in the text of the *General Agreement on Tariffs and Trade 1947* at the earliest. Subparagraph (b), Paragraph 8, Article 24 of this Agreement makes a special explanation about the concepts of the customs union and the free trade area: A free trade area shall be understood to mean a group of two or more customs

territories in which the duties and other restrictive regulations of commerce are eliminated on substantially all the trade between the constituent territories in products originating in such territories. Its characteristics are the following: It is established by a number of sovereign states or territories and is a block consisting of two or more economies; it covers two or more customs territories; with respect to the internationally accepted practice, the WTO rules are observed; the core policy emphasizes the trade openness and removal of tariff barriers among the members of a free trade area, but maintains the preservation of respective independent foreign trade policies; with regard to the legal basis, a bilateral or multilateral agreement is observed. Currently, the EU, the North American Free Trade Area, and the ASEAN-China Free Trade Area are typical FTAs around the world.

FTZ comes from the rules concerning free zones. According to the *Kyoto Convention* signed by the Customs Cooperation Council in 1973, the FTZ is part of the territories of the contracting parties, and any goods which enter this zone are generally considered to be outside the customs territory with respect to the import tariff. Its characteristics are the following: It is established by a single sovereign state or territory and its establishment is the act of a single sovereign state or territory; it is a small area within a customs territory; when it comes to the internationally accepted practice, the WCO (World Customs Organization) rules are observed; the core policy underscores “under bond” and tax exemption as the main policies, supplemented by such investment policies as income tax preference; with respect to the legal basis, the laws are made within a sovereign state, and it is not bound by a multilateral agreement. Of course, both the FTA and the FTZ are designed to reduce the international trade costs and promote the development of foreign trade and international commerce. In essence, they are, to a larger extent or mainly, economic communities or economic regions.

Developing the economy is the logical starting point of the reform of Chinese society and is also the entry point of China’s institutional change. Thirty-eight years ago, under the strategic guidance of Deng Xiaoping’s idea that “development is the absolute principle” and the slogan that “let some people become prosperous first”, the special economic zones successfully sought out a path towards institutional change from widespread poverty to common prosperity, and also impressively accomplished the mission of the experimental fields for transforming from a planned economy to a market economy. Reform is always the most fundamental mission of China’s special economic zones, while deepening the reform is undoubtedly the most fundamental mission of the current free trade zones in China.

Like the past special economic zones, China’s free trade zones make up a community of mission (reform) and development (promotion of economic globalization, trade liberalization), and an experimental field for innovations to the system and mechanism and institutional innovations—for example, the overall

requirement for the China (Shanghai) Pilot Free Trade Zone is as follows: The pilot free trade zone should undertake the important mission of accelerating the transformation of governmental functions, actively exploring the innovations in the management mode, and boosting trade and investment facilitation to probe a new path and acquire new experience for the intensification of the reform and expanding the opening up in China in the new period.<sup>18</sup> The overall requirement for the China (Tianjin) Pilot Free Trade Zone is specified here: This pilot free trade zone should, in light of the national strategy, drive forward reform, development, and transformation through opening up, focus on the institutional innovations, give play to the role of the market in determining the resource allocation, and explore a new path to transforming the government's functions and a new mode for expanding the opening up, thus groping for a new path and new experience for comprehensively intensifying the reform and opening up in China, and actively producing a demonstration effect to stimulate and serve the development of the whole country.<sup>19</sup> The strategic positioning of the China (Guangdong) Pilot Free Trade Zone is identified as follows: This pilot free trade zone should serve as the forerunner in reform and opening up as well as innovative development, it should focus on institutional innovations, carry out the One Belt and One Road initiative and other national strategies, and become the first to tap the reform potential and overcome the reform difficulties in building a new system for an open economy, exploring a new mode of economic cooperation between Guangdong Province, Hong Kong, and Macao and fostering a business environment under the rule of law; it is necessary to actively explore the management mode of the pre-establishment national treatment and a negative list for foreign investments, intensify the innovations in the administrative management system and enhance the efficiency of administrative management, elevate the capacity and level of in-process and postmortem supervision.<sup>20</sup> The overall requirement for the China (Fujian) Pilot Free Trade Zone is specified here: This pilot trade zone should, based on the national strategy, focus on intensifying the economic cooperation between both sides of the Taiwan Straits, innovating the system and mechanism, and further probing a new mode for such economic cooperation, as well as expanding a new path to reinforcing the communication and cooperation with the countries and territories along the 21st Century Maritime Silk Road.<sup>21</sup>

In my opinion, the special economic zones are no longer a temporary economic phenomenon, an outcome of a particular stage or a makeshift in policies; instead, they serve as the experimental fields for carrying out the all-directional reform in China and the effective choice of a path for accomplishing social transformation and institutional change, and they constitute a "shortcut" for accelerating the modernization drive in a large country where economic development is unbalanced. Given

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<sup>18</sup>Overall Plan for the China (Shanghai) Pilot Free Trade Zone

<sup>19</sup>Overall Plan for the China (Tianjin) Pilot Free Trade Zone

<sup>20</sup>Overall Plan for the China (Guangdong) Pilot Free Trade Zone

<sup>21</sup>Overall Plan for the China (Fujian) Pilot Free Trade Zone

the whole process of China's reform and from the perspective of China's reform and opening up, the mission of the special economic zones is far from being accomplished. This is evidenced by the successful experience of the early special economic zones represented by Shenzhen, and by the establishment of the emerging special economic zones, including Kashgar, Khorgos, and Tumen River, and today's free trade zones. As the upgraded version of the special economic zones in assuming a more profound reform mission, China's free trade zones will certainly continue to carry forward the character and practice of the first mover to theoretically, practically enrich the essence and significance of China's Development Path.

**The first-ever implementation of pilot programs for exploring the path and road, and for providing the successful experience which can be drawn on and copied for the reform in Chinese society is the unique choice of a path for institutional change in Chinese society. The correctness of this unique choice of path has been verified by the 38-year success in China's reform and opening up and evidenced by China's Miracle created by billions of Chinese people, the successful experience and the lasting vitality of China's special economic zones. Therefore, in the sense of the choice of a path for China's reform and opening up, the first-ever implementation of pilot programs is currently the "Chinese characteristic" which distinguishes China's free trade zones from the FTA and the FTZ, as if the first-ever implementation of pilot programs was the important function of China's special economic zones in the past.**

As a formal top-down institutional arrangement, the special economic zones have produced the demonstration effect through the first-ever implementation of pilot programs to greatly reduce the resistance from the system during the institutional change under the condition that the traditional ideology dominates, and to lower the ideological and social costs for institutional innovations and successfully avoid more potential risks from the reform, so that the excellent performance in institutional change can quickly become visible in a short time and effectively set a good example for the whole country. Therefore, fundamentally, the first-ever implementation of pilot programs is a process of making innovations and learning from the advanced; such first-ever implementation involves deeper institutional changes in various fields of the society, including the political system, the legal environment, the government's system and mechanism of governance and capacity modernization as well as cultural ideology. This is the innate character of China's special economic zones and the more challenging new mission of China's free trade zones in the new era.

In a sense, the free trade zones are the special economic zones entrusted with a new mission under the new historical conditions and developmental background. The historical mission of the free trade zones remains the following: The first-ever implementation of pilot programs is enabled to offer the experience which can be copied and popularized for the reform in Chinese society, thus carrying forward the reform in Chinese society. For example, the Central Government requires the China (Shanghai) Pilot Free Trade Zone to follow the national strategy and further

emancipate the mind, persevere in first-ever implementation of pilot programs, and drive forward reform and development through opening up, become the first to develop a cross-border investment and trade rule system under the rule of law from an international perspective, so that the pilot free trade zone becomes the important carrier for further integrating China into economic globalization. Specifically, on the premise that the risks are controllable, actions could be taken to create the conditions for piloting the Renminbi capital account conversion, interest rate liberalization and Renminbi cross-border use in the pilot free trade zone; measures should be taken to promote the development of the transshipment cargo consolidation business, and allow the non-five-star-flag ships owned or controlled by Chinese-funded companies, on a pilot basis, to undertake the coastal cargo transport through the import and export containers between domestic coastal ports and the Port of Shanghai.<sup>22</sup> The China (Guangdong) Pilot Free Trade Zone is required to make bold experimentations regarding institutional construction for opening wider to the outside world, take actions for first-ever implementation in this regard, and more quickly shape a high-standard investment and trade rule system.<sup>23</sup> The China (Tianjin) Pilot Free Trade Zone is required to pilot Renminbi cross-border use, cross-border investment and financing facilitation and capital account conversion; partner with well-known domestic and foreign equity investment institutions to establish venture capital funds on a pilot basis.<sup>24</sup> The China (Fujian) Pilot Free Trade Zone is required to make pilot efforts to promote financial cooperation between both sides of the Taiwan Straits.<sup>25</sup>

The first-ever implementation of pilot programs is the function of China's special economic zones and the unique part of China's Development Path; such first-ever implementation is also bound to be the unique function and mission of China's free trade zones. In this sense, the special economic zones and free trade zones are part and embodiment of China's Development Path as well as the expansion of China's Development Path with the times. Stephen Halper, a senior research fellow at the University of Cambridge, said that when it came to China's Development Path, it mainly referred to development and a series of reforms in China over the past 30 years and more.<sup>26</sup> In my view, China's Development Path is a very broad concept covering diverse aspects, but in terms of the internal logic of China's reform and opening up, China's Development Path can be described as follows: It starts from establishing the special economic zones, and adopts the path which is first-ever implementation of pilot programs, and aims at carrying out

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<sup>22</sup>Overall Plan for China (Shanghai) Pilot Free Trade Zone

<sup>23</sup>Overall Plan for China (Guangdong) Pilot Free Trade Zone

<sup>24</sup>Overall Plan for China (Tianjin) Pilot Free Trade Zone

<sup>25</sup>Overall Plan for China (Fujian) Pilot Free Trade Zone

<sup>26</sup>Wei Xiaowen, Liu Zhili, "Recent Foreign Studies on China's Model, Their Trends, Dilemmas and Inspirations", *Theoretical Horizon*, 2010 (10).

reform and opening up, and establishing a socialist market economy under the rule of law, in order to achieve comprehensive reform and all-round development of the society, which is the path with Chinese characteristics to modernization. As the institutional arrangements at different historical periods, the special economic zones and free trade zones constitute the choice of a path with Chinese characteristics for achieving modernization.

**The establishment of the special economic zones 38 years ago aimed at completing the transformation from a planned economy to a market economy, establishing the socialist market economic system and bringing about a change from self-seclusion to opening up, so that the innovations in institutional social arrangements were made to generate an internal impetus to push ahead with the transformation of the government's functions. China's free trade zones at the present time are designed to further improve the market economic system and enable a transformation from an outward-looking economy to an open economy, so as to stimulate and urge the Chinese society to switch from the policy-based opening up to an institutional opening up, transform our government from an omnipotent one to a service-oriented one, from a service-oriented one to a delegation-oriented one, really make institutional arrangements for transforming the governmental functions rather than merely stressing the philosophy of such transformation, gradually accomplishing the arduous mission of comprehensively intensifying the reform in Chinese society**

Both special economic zones and free trade zones are the outcomes of the top-down compulsory institutional change; all of them are part of the overall national strategy and undertake different missions during different historical periods of the reform and opening up in Chinese society. Meanwhile, driving forward the reform through opening up represents their common logical starting point. As the 5 + 2 traditional special economic zones in the past can exert an influence at the regional level, China's free trade zones at the present time have the important function of reshaping and enhancing the regional landscape of China's economic development, and will become the powerful supporting points and engines for coordinated regional development. For example, the China (Guangdong) Pilot Free Trade Zone is intended to boost the long-term economic cooperation between the Chinese Mainland and Hong Kong, Macao to form the Pan-Pearl River Delta Economic Circle with mutual benefits, reciprocity, and shared prosperity, and become the important hub for the 21st Century Maritime Silk Road. The China (Tianjin) Pilot Free Trade Zone will serve as the locomotive for the coordinated regional integrated development of Beijing, Tianjin, and Hebei Province. The China (Fujian) Pilot Free Trade Zone places emphasis on the cooperation between both sides of the Taiwan Straits, and opens a new path to enhancing communication with the countries and territories along the 21st Century Maritime Silk Road. As the traditional special economic zones in the past were bound to explore the ways to transform the government's functions and reform the government, China's free trade zones at the present time continue, at a more profound level, this difficult exploration that has a vital bearing on the success of the reform in Chinese society. In the compulsory

institutional change in which the government's powers need to be dismantled by the government itself, the cognitive ability of the government is undoubtedly crucial.

What the government looks like determines the institutional arrangement; the government's civilization is the precondition and guarantee for institutional civilization. Meanwhile, the government's cognitive ability also largely determines the costs and effectiveness of the reform. Therefore, remolding the government, transforming the government's functions, enhancing the cognitive ability and the governing capacity of the government officials are the internal logical requirements for intensifying the reform and modernizing the governance system of the government and its mechanism and governing capacity. According to Walter Eucken, an American economist, the interdependence between the political order and the economic order forces us to address both at the same time; both are part of the entire order. If there is no competitive order, a capable government will be unavailable, while there will be no competitive procedure if such a government is nonexistent. Making the institutional arrangement for transforming the government's functions instead of merely focusing on the philosophy of such a transformation is a process of building a government under the rule of law. The significance of a government under the rule of law means that the government governs the country according to laws, and more importantly, the government is bound by those laws. China's free trade zones, following the special economic zones, undertake this more profound and arduous mission.

Becoming prosperous and strong is the common aspiration and goal of almost all of the people around the world. Although many goals pursued by the human race are the same ones, there are diverse routes and ways to realizing or achieving these goals and no one-size-fits-all developmental path and mode are available. The developmental experiences of the various countries can be used for reference and shared, but only the one suitable for one's own purpose is the best, most useful, and most fruitful. China should not be caught in the line of thinking that only unlimited economic growth is healthy; China may rationally adjust its direction and shift from the unlimited output growth to the improvement of the people's social welfare. In this regard, we may suffer from the ordeal from the conflict between the ideal and the reality; however, it is certain that the future is immensely bright. China's free trade zones, full of vitality, herald a bright and brilliant future.

## **Positioning and Responsibilities of a Law-based Government**

The key to a law-based governance of a country is the transformation of the government's governance mode, while the key to such transformation lies in identifying relevant government functions in a standardized way and transforming the corresponding functions. In a sense, for transformational China, only when the

government is reformed can the rational goal—which arouses the enthusiasm for reform—of building a society under the rule of law be achieved.

Which functions really need to be undertaken by the government? Basically, this is a fundamental issue concerning value judgment. Thus, it, to some extent, depends on the philosophy of a design of the social system and the cognitive ability and the level of a government. According to the experience in the development of the human society, the provision of public goods, the correction of market failure and the establishment of a social security system which universally covers all of the people are the important responsibilities of a government; however, fundamentally, protection is a function which basically positions a government under the rule of law and is the core responsibility of a government under the rule of law.

The protective function of the government means that the government utilizes the power of laws to preserve the social order, guarantees the rights that every citizen should enjoy and protects these rights against infringement by anybody. The economic life is unquestionably the most important part of the human societal activities, so it is an important responsibility of the government for protecting the way of resource allocation and the economic operational model chosen by a society; property rights and private autonomous rights are the indispensable prerequisites for the normal operation of a market economy, thus protecting property rights and private autonomous rights is undoubtedly the primary responsibility—with the significance of building—of the government in a transformational society. The government is a group of particular professional people and the government functions are performed by the governments at various levels and the government officials, so the government must assume the responsibility of self-learning and self-cultivation in the process of building a government under the rule of law, which is the fundamental guarantee for governing the country according to laws.

**The government is the largest provider of public goods in the market and the most powerful preserver and protector of the market system and order. A well-developed legal system is the internal institutional guarantee for a full-fledged market economic system, while the market economy is certainly an economy under the rule of law, even the market system can be considered a legal system. This is because the mechanism on which the effective operation of the market economy depends is bound to be the power of making equal treatment without discrimination before laws rather than lucky speculation, the result of plans, and an arbitrary decision of a power. A government under the rule of law is the guardian which ensures selflessness and justice in such an institutional environment with equal treatment without discrimination.**

The extent to which the institution and the laws of a country help meet the economic goals of the economic growth rate and members of an economic community greatly varies with the type of such institution and the degree of perfection of the laws, resulting in a significant gap in the social welfare. The neoclassical growth theory only identifies the most direct growth conditions such as capital accumulation and technological change, while in order to explain why the people save,

invest, acquire, and gather the useful knowledge, we must focus on various institutional systems and value systems behind economic success. For any society, a full-fledged legal system is the original principle followed in the above systems and also the guarantee for the effectiveness of these systems. The protective function of the government can enhance the social order, and make it easier for individuals, private manufacturers, and nongovernmental organizations to make coordination in face of ignorance and thus build up confidence in the social institution. Under many circumstances, the protective function of the government cannot be performed unless the laws and regulations are made. Famous economist Milton Friedman gave his standardized answer about the core responsibilities of the government in the market economy: The government should preserve law and order, define property rights, act as the tool for us to revise the property rights and other economic game rules, adjudicate the disputes arising out of the explanation rules, compulsorily execute deeds and promote competition...In the *Centesimus Annus* in 1991, Pope John Paul II stressed that the economic activities—especially the activities in the market economy—cannot be carried out in an institutional, judicial, and legal vacuum. On the contrary, it is conditional upon the really guaranteed individual freedom and private property rights, a stable currency and the effective public services. Therefore, the primary task of a country is to provide such security so that all of the people engaged in work and production can enjoy the fruits of their labor and are motivated to work in an honest and efficient way. For a country with an emerging market economy, the most striking protective function of the government lies in building and preserving a fair and equitable market order, guaranteeing free competition, protecting all citizens against coercion, and maintaining economic and social order. Theoretically, the undertaking of the protective function by the government in a market economy is equivalent to the conclusion of a “disarmament pact” among all of the citizens. Our society will pay extremely high exclusion costs and compulsory execution costs if it becomes anarchic, and compulsion is restricted only relying on the “violence potential” of the parties, and all members of the society must resist others by themselves to protect their own property. Anarchic self-protection will inhibit much favorable labor division and greatly hinder social prosperity. Therefore, the government is “employed” as an agent by the people and is also entrusted with the mission of protecting individual freedom, and safeguarding social and economic order, justice, and equity. In a market economic system in which the government can correctly undertake the above protective functions, the state of the market—free competition—can be protected and healthily exist. This is because a world with personalized micro-relationships always thrives amidst increasing improvement and expansion of a competitive market order.

Today’s Chinese society is in the state of the “semi-market-oriented” “semi-traditional” mixed economic system led by the government. On the one hand, a well-developed market economic system has not yet really taken shape; on the other hand, the legal system has not yet become full-fledged. The underdevelopment of both systems increases the costs for the operation of the market economy and institutionally subjects the law of the market to the administrative order, thus institutionally making administrative power stronger than the strength of the legal

system. When the market has to yield to the administrative order, the original functions of the market mechanism cannot work; when the power is stronger than the strength of the legal system, the laws are nothing but the tools of power.

In my opinion, with respect to the protective function of the government, the government should build a well-developed market system by improving the legal system, and ensure that every citizen can participate in the market in a fair, orderly, protected, and equal way, as well as restrict its own powers and its power in the economic life by the coercive force of laws. In the framework of compulsory institutional change in which the government's powers need to be deprived of by themselves, an important goal of transforming the government's functions is to reduce the intervention of power in the market and inhibit the infringement of the citizens' interests and the interests of the general public by power. Therefore, the primary premises for the government to perform and realize the corrective protective function are self-discipline, self-restraint, self-regulating delegation of powers and rational self-"weakening" subject to meta rules, really transforming the government from an authority-oriented one to a service-oriented one.

**From the perspective of the market economy, a great defect in China's current economic system is that the property rights institutional foundation of the market is unclear; in particular, the land property rights institution is severely defective. A lack of a property rights institution is a fatal damage to the market economy. This is because the market economy is conditional upon a clear definition of property rights and the autonomous right to conclude deeds. The government not only is the sole provider of the institutional arrangement of the property rights, but it also necessarily performs the function of legal protection and compulsory execution of property rights. This can be considered the important and conventional social responsibility of a market-friendly government.**

The market economy is based on establishing and protecting the exclusive institution of private property rights, while such property rights are the prerequisite for deed-based voluntary transactions. Well-defined and protected property rights are essential for inspiring the people to make efforts. Once this condition is available, the people will make efforts of their own free will. These efforts can function as the "invisible hand", which always objectively benefits others, while the strivers often do not know these beneficiaries. The property rights are not an abstract concept which merely influences large enterprises or the intangible financial market. They are closely related to everyone's daily life. They have a direct bearing on employment, consumers' choices and the motivational power for everyone to learn. They are vital for the living opportunities of the ordinary citizens, especially the people who are not born with a silver spoon in their mouths.

Generally, the property rights are defined as a combination of rights of individuals and organizations to be protected. They can enable the owner to hold or dispose of assets by purchasing, using, mortgaging, and transferring those assets, and possess the benefits generated from operation of those assets. Of course, they

also include the negative benefits—losses. Therefore, property rights determine the responsibilities and benefits in the operation of properties. Property rights include, but are not equal to, ownership, so someone cannot confuse property rights with his/her own articles. Private property rights always establish a relationship between a particular individual and a particular asset. This asset may be a material product, a thought or a human body. Where property rights are fully respected and well protected, “economic freedom” can be deemed available. As an institutional arrangement, property rights—being universal—form an integral part of social justice. Such universality is that the institution shall not have differential treatments towards individuals without a definite reason; no one can be above the law; therefore, it means equal procedure for everyone. On the contrary, where property rights are unclear and uncertain, many favorable property uses may disappear due to less protection of property rights.

There is another concept—private autonomous rights—which is related to property rights and merits our attention. Private autonomous rights mean that the rights of the property owner with respect to the use of the properties are not restricted by a private person or the government. Once an individual enjoys the autonomous right to use personal private properties—including his own knowledge and labor—he enjoys the right to economic freedom. When the property owner is subject to excessive restrictions, his autonomous right will also be infringed. When such intervention becomes legitimated by virtue of political actions, this will increase the information and transaction costs for the operation of the society, and incur losses to the society. The right of economic freedom to own and use the private properties constitutes the essence of civil liberty and the freedom of choice. It makes it possible for every citizen to use his own material means to safeguard his own rights without others’ prior consent.

The nonpublic sectors of the economy have become an important part of China’s basic economic system since the 15th National Congress of the Communist Party of China, and serve as the foundation for building and governing the country together with the public sector of the economy; however, the class worship of the public ownership and the ideological discrimination against private ownership have affected the real establishment and improvement of the property rights institution during the building of the market economy, and have exerted an impact on the level of the people’s cognition of property rights, private autonomous rights, and the sense of reverence in the legal sense—sacred and inviolable. Even with the shadow cost from the “natural” superiority of public ownership from an ideological perspective, the infringement of private rights by public rights becomes justified and appears to have the innate justice and legitimacy to overstep laws. However, the supervision over public rights is very weak; subject to the inertial thinking under the traditional system that “public” means “shared by all the people”, it is difficult to supervise public rights and such supervision seems to be unjustifiable and an offense or a challenge against one idea by another one.

Numerous successful cases in the market economy prove that when the institutional arrangement of property rights makes the people feel it is worthwhile to engage in production activities, there will be continued socioeconomic growth. We

should not ignore property rights when respecting the market, and should not restrict private autonomous rights while pursuing economic growth because one thing cannot exist without its fundamental basis.

**The constitution is the fundamental law of a country; however, the conventional thinking of acting according to the official documents has taken shape and continued since the period of the planned economy—on the one hand, Chinese people are unfamiliar with the constitutional articles; on the other hand, the performance of the officials is evaluated mainly by the extent to which the indicators assigned by the departments at higher levels are accomplished, rather than the standard that they shall act according to laws, so the constitution is essentially shelved. This is one of the important reasons why it is difficult to really and fundamentally promote law-based governance in China. The building of a government under the rule of law is anything but a manifestation of an authority-oriented government but is bound to give expression to a service-oriented government; it is anything but an intervention in the market by the power, but it is certainly a protection of rights by laws; it is anything but the monopolization of “something scarce” by the privilege, but it is necessarily the reverence of fairness for justice and equality. Self-learning and self-cultivation of a government under the rule of law is the fundamental premise for building a society under the rule of law**

William Niskanen said that the objective of the constitution was to define the island of the government’s power in the vast ocean of individual rights. Hayek held that protecting individual freedom was the ultimate function of the constitution and a standardized test of the constitution. The constitution refers to a number of high-level institutions. They establish a set of “meta rules”, while these rules become the general principles which result in and regulate more specific external institutions. The constitution contains two basic parts: First, specifying the people’s rights; second, defining the limits of the government’s functions and powers. The former protects the people’s rights and interests from being infringed, while the latter ensures that the State apparatus in the hands of the government is only used to protect the people’s constitutional rights, but it cannot, and it refrains from being used to infringe on the people’s basic rights. An analysis of the economic consequences of various constitutions is part of the research regarding constitutional economics. The basic premise for constitutional economics is the individuals who act in light of their own interests rather than the people’s class or group. Therefore, an analysis of constitutional economics focuses on various rules which guide the individual choices and resorts to various individual values—autonomous economic rights of private individuals.

The constitution contains a number of high-level institutions, while they cannot be easily changed like the low-level institutions, so they offer a framework involving continuity and foreseeability for the unavoidable regulation of the low-level institutions. The constitution contains the affirmation of the basic and inalienable individual rights. These rights should be negated by the low-level

institutions, the private strong forces or government bodies. The most fundamental logic for protecting personal properties as enshrined in the constitution is that personal properties provide the material foundation for individual autonomy.

The principles and institutions discussed under the constitution are the high-level and universal constraints on public policy. They help supervise the abuse of the official powers. They are designed to restrict the collective authority, protect the free domain of individuals, and contain the opportunistic and rent-seeking activities of the government as the agent. In other words, the principles and institutions under the constitution are established to restrict the political powers which make differential treatments. These principles and institutions are always incorporated into the political charter and the economic charter: The overarching principles will not be rocked in case of revolutionary change. Only when we understand the importance of the order can we agree to build a protective mechanism to resist opportunism.

Under no circumstance can we simply understand the constitution as the means for Western countries to govern the countries, while the constitution should also be adopted in socialism to govern the socialist countries. The fundamental guarantee for building a society under the rule of law consists in upholding the authority of the constitution, developing the reverence for laws and fostering a legal culture of abiding by laws. Meanwhile, it is particularly necessary for our officials to learn to subject the mentality of leading officials to rules and submit rules to laws; our government should also first learn to replace policies—especially the policies of handling special cases with special methods—with rules, replace administrative orders with laws, and incorporate or make policies and administrative orders into legal constraints, instead of replacing the *fait juridique* to dominate the operation of the society. The political order of a country should be established under the constitutional framework: The administrative powers are restricted and thus are not abused. Political democracy should be achieved under the meta rules of the constitution: Every citizen can rationally and lawfully exercise their rights to participate in administering the country. Human dignity should be realized under the protection of the constitution: Every citizen enjoys the freedom given by laws so that everybody is equal before the law.

A society under the rule of law is first of all a civil society since a civil society is the soil for a society under the rule of law. Civil liberty refers to that state of a person: He is protected by laws and civil institutions and can independently use all of his strength for the sake of his welfare. We consider happiness as the outcome of freedom and freedom as the fruit of courage, while laws serve as the guarantee for both things for which we yearn. Laws are relentlessly rational (Aristotle). We are slaves to laws, so we are free (Marcus Tullius Cicero).

Putting people first is anything but a top-down political slogan showing solicitude for the people; instead, it is a developmental philosophy focusing on free development of the human being and also the core of the Scientific Outlook on Development (*Report to the 18th National Congress of the People's Republic of China*). The people are not only the power which creates wealth but also the power which enjoys the life that they have the reason to treasure. If we measure the social development only by GDP, we will deviate from the real goal; likewise, if we

merely treat the people as the “productive force”, this implies that we replace the real major players with other major players. The establishment of a correct developmental outlook is a process of using mind-sets to conquer mind-sets and also a process in which the government’s understanding is deepened. When human economic value increases, our society will usher in some new, better fields of opportunity. Human development is not only a part and the goal of social development but also the outcome and fruit of social development; meanwhile, human development is also the prerequisite and guarantee for making human society really civilized and free. The decision to begin the reform and opening up is vital to the destiny of contemporary China; the reform and opening up is the only road towards developing socialism with Chinese characteristics and rejuvenating the Chinese nation; only socialism can save China and only the reform and opening up can develop China, socialism, and Marxism (*Report to the 18th National Congress of the People’s Republic of China*). We neither replace the reform with development nor stick to the way or mode of a particular stage during the reform as the ultimate goal. Seeking development through the reform and pushing forward the reform through opening up remains the developmental path that must be followed in Chinese society.

Victor Hugo said that freedom begins where ignorance ends. Once a nation moves from ignorance, conservativeness, and seclusion towards self-consciousness, change, and opening up, it gains a strong institutional force to achieve free development. This institutional force is the charm of the socialist system shown to the people in the *Report to the 18th National Congress of the People’s Republic of China*.

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