

# The Shenzhen Example

*Where China's economic miracle began.*

BY BARRY D. WOOD

**I**n 1980, Shenzhen was an unimportant fishing village adjacent to Hong Kong's new territories. Its population was thirty thousand.

Today Shenzhen is China's richest city on a per capita basis. Its population is thirteen million, having become the world's fastest-growing city ever. Shenzhen is a technology center—headquarters for Huawei and Tencent. It has the world's fourth-biggest container port and China's fifth-busiest airport.

During the forty years from 1980 to 2020, Shenzhen's economy averaged annual growth of 21 percent. There has never been anything like it.

What happened? How did this extraordinary transformation take place?

Deng Xiaoping came to power in 1978 determined to overcome the chaos and devastation of China's ten-year-long cultural revolution. Deng declared China open to the world, and in 1980 designated Shenzhen a special economic zone to test the principles of a market economy.

The results of China's opening succeeded beyond anyone's wildest expectations. Since 1980, a staggering 850 million Chinese have been lifted out of poverty.

Ultimately, China created six special economic zones and fourteen coastal regions where foreign investment and entrepreneurship were promoted. But Shenzhen was first to be allowed to overturn the strictures of communist economic orthodoxy. Citizens were allowed to buy land. Administered prices set by planners in Beijing were gradually abolished as market forces were allowed to determine prices. Similarly, wages were freed from state control. Foreign banks were allowed in and tax policy was used to attract investors.

The World Bank for two decades has pointed to southern China's pro-growth policies as a model for the developing world. Once closed to trade, today China is open. Startups are promoted and it is easy to start a business. China's private sector, virtually non-existent in 1978, now accounts for 70 percent of economic output.

When I first visited Shenzhen in 2005, I was stunned to observe shoppers rushing into the aisles of the new Walmart Super Center when doors opened in the morning. I was further stunned to watch young store employees in red shirts sing the company song for a visiting journalist. This panorama of

consumerism was a jolting wake-up call to how much China was changing. I thought back to the 1960s when angry Red Guards waved Little Red Books and sang the praises of Chairman Mao.

What would Mao think of the new capitalist China, or as the ruling Communist Party calls it, socialism with Chinese characteristics? Some analysts say Mao would be appalled by the consumerism and income inequality. Others say he would take pride in the rise of China and the success of Chinese people competing in the world economy.

Shenzhen today is part of the world's biggest megalopolis, the Greater Bay Area, an amalgam of nine cities comprising over seventy million people radiating out from Hong Kong in Guangdong province. Collectively, the region has attracted \$1 trillion of foreign direct investment and accounts for 10 percent of China's GDP and 25 percent of exports. Shenzhen's economy is larger than Hong Kong's and one-half of all global patents registered by China originate in Shenzhen.

The Greater Bay Area is China's answer to America's Silicon Valley near San Francisco. In China's new division of labor, Hong Kong is designated the financial center, Macao the gaming and entertainment center, Dongguan the manufacturing hub, and Guangzhou the trading center.

When Deng created Shenzhen's special economic zone in 1980, he justified the experiment as "crossing the river by feeling the stones." Today the successful experiment is hailed as evidence of China's national rejuvenation. Every Chinese leader since 1980 has crowned each decade of achievement with a visit to Shenzhen.

The year 2020 was no exception. On October 14, President Xi Jinping addressed a large celebratory gathering in the city, calling Shenzhen "a miracle in world development." He outlined a plan for the city becoming an innovation hub, a magnet for entrepreneurs, and symbol of Chinese technological self-reliance. Shenzhen, said Xi, will lead the world in 5G cellular technology, artificial intelligence, and the development of a digital currency. ◆

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