China's new 'Special Economic Zones': colonial enclaves for hot money and drugs

by Gregory F. Buhyoff

As part of its "light industry" economic strategy, China has now assigned top priority to the national establishment of new, large "Special Economic Zones" (SEZs), which have already been set up in the southern coastal provinces of Guangdong and Fujian near the colonial bastions of Hong Kong and Macao. Since last year, the Deng Xiaoping regime has been trying to interest foreign financiers and industrialists in investing in these zones in labor-intensive, Hong Kong-style light-industry projects through joint ventures or other mechanisms.

The SEZs have ostensibly been assigned the task of "importing technology, increasing exports and foreign exchange earnings, and successfully assimilating useful foreign experiences, management, and administration."

The priority Peking attaches to the SEZs can be seen by the fact that the Shenzhen SEZ alone occupies more than 100 miles of coastline in China's Guangdong province.

In order to attract foreign investment in the districts, Peking has, for example, removed the local army garrison from the Shenzhen SEZ to "provide a more convenient atmosphere" for investors in the district. Customs and immigration procedures have been greatly relaxed. "Tax holidays" are extended to foreigner-launched enterprises. In all the zones, Peking is now allowing foreigners to operate wholly owned enterprises empowered to hire and fire labor and management at their own discretion. Foreign currencies are now legally circulating alongside China's own national currency, the Renminbi.

The public arguments made for the SEZs are twofold: they will serve as a transmission belt for the introduction of Western manufacturing technology and thus eventually lead to the modernization of the mainland; and that Western firms can make money by trading and investing in China in this manner. Neither is true.

Notwithstanding the hoopla made by wishful thinkers in Peking and among its admirers in U.S. banking circles, the SEZs have in fact fallen far short of original expectations, attracting little business of the significance anticipated by the Chinese leadership. According to one official from the National Council for U.S.-China Trade, who has just returned from a two-month visit to the zones, "The SEZs have just not served as a magnet for Western participation." Able to recall only three "true joint ventures" currently under negotiation with Western firms (a Pepsi Cola bottling plant, an Australian quarrying operation, and a feed mill), the official added emphatically, "And when dealing with the Chinese, there is a great deal of difference between negotiating and finalizing a contract." Abysmally low skill levels and problems with locally hired labor and management have also caused many Western firms to shy away from investing in the zones. As one China expert from a leading Japanese trading company put it, "Our firm is simply not interested in the investment opportunities offered by the SEZs in China."

Far from attracting technology transfer and the upgrading of skills and managerial levels of Chinese labor and industry, the SEZs have developed into little more than havens for foreign interests, primarily overseas Chinese, to take advantage of the abundant supercheap labor available there. Nearly all the enterprises to date in the special districts have been launched by overseas Chinese groups, many of whom have extensive ties to the international narcotics traffic. As in Hong Kong, many of the deals in the zones are sealed "on a handshake basis" as one U.S. businessman put it.

Deng's two Chinas

The main activities in the SEZs include the manufacture of light industrial products such as textiles, clothing, small electronics, food items (mostly for export to Hong Kong), and packaging services for Hong Kong-made products, as well as tourism and agriculture. Factories engaged in light electronics production are involved exclusively in components assembly. The official from the National Council for U.S.-China Trade commented that such electronics are only of the "most simple" variety "unsuitable for marketing in the United States or Japan." He added that such items are intended for export to Third World countries "like those in Africa."

At the same time, in stark contrast to the labor-intensive squalor of the manufacturing, high-rise luxury hotels are nearing completion in several zones. One project involved the construction of a oceanside resort in Shenzhen, complete with an 18-hole golf course, a marina, swimming pools, and fine restaurants. The resort clientele is expected to be almost exclusively wealthy Chinese from Hong Kong. Abuses of the concessions of the zones have occurred, creating resentment from the local citizens. In one case, an overseas Chinese firm, bent on making a fast buck with minimum capital outlay, imported old and faulty equipment for use in a short-term joint venture. The project failed miserably, causing bad feeling between the owners and workers.

Any Chinese who remembers the pre-1949 foreign-owned "concessions" in Shanghai and elsewhere can only look with disgust at the new Special Economic Zones. In fact, there is discussion of creating an SEZ in Shanghai. There should be no doubt that this resemblance will increase Deng's domestic political troubles. However, the colonial character of the zones does not bother Deng. Deng's faction does not intend to industrialize China, and does not bother to hide this fact.

For Deng there are two separate Chinas. His only concern with that 80 percent of the country that is agrarian is to ensure the peasantry does not revolt or breed too quickly. The coastal special zones are to be divorced from the countryside, except insofar as the latter may provide raw materials. Deng's anti-heavy-industry campaign in fact ensures that neither these zones nor any other cities can engender the type of industry that so rapidly transformed South Korea and Taiwan into newly industrializing countries. This is the meaning of Deng's "light industry" readjustment.

For the West, Deng's policy means that, for the foreseeable future, mainland China will continue to be a much smaller trading partner than the tiny island of Taiwan.

The overseas Chinese connection

Deng's interest in the SEZs is not industry, but in finance and political connections. Peking hopes the zones will become, like Hong Kong, quick-cash areas to give the regime financial backup for its international political ambitions. Part of the key to the latter, and the secret of the zones, is the overseas Chinese. Through these, who dominate business in such Southeast Asian countries as Malaysia and Indonesia, Peking hopes to reassert its longstanding claims to political hegemony in East Asia—as part of its ambitions on the world political stage.

Currently there are four officially designated SEZs in China: the better-known Shenzhen and Zhuhai districts in Guangdong province bordering, respectively, Hong Kong and Macao; Shantou in the Chaozhou region of northern Guangdong, and Xiamen in Fujian. These locations, the ancestral homes of the majority of Chinese expatriates in Southeast Asia, were carefully chosen for their potential to attract investments by the overseas Chinese.

Peking has announced its view of the long-term strategic importance of the overseas Chinese community: if they serve Peking, then China wields tremendous clout in Asia.

Guangdong province's First Secretary Ren Zhongyi said last month, "No matter what corner of the globe they drifted to, and no matter how many generations they have lived overseas, the overseas Chinese still unswervingly love the motherland and their native village. This is a national characteristic of China. . . . We welcome overseas Chinese compatriots and Hong Kong and Macao compatriots to invest in China and to cooperate with and contribute to the country. We welcome the overseas Chinese, Hong Kong and Macao compatriots, and Chinese of foreign nationality to return to the motherland and their native villages to visit relatives, travel around and, engage in economic, cultural, and academic exchanges. . . . The whole country is now attaching importance to Overseas Chinese Affairs Work."

The Chinese government is strenuously welcoming overseas Chinese back to their native villages. Peking has dictated that the homes formerly belonging to overseas Chinese be given back upon their return, including the palatial villas now used as offices or residences by high Communist officials since 1949. High-priced luxury apartments in Shenzhen are being purchased by Hong Kong and other wealthy foreigners who have business interests in the SEZs.

Peking has feted some of Hong Kong's top brass over the recent period for consultations on economic policy, which underlines the important role the colony has assumed as a liaison between China and the outside. Deng Xiaoping met in July with Hong Kong shipping magnate Y. K. Pao—who simultaneously serves on the boards of Peking's Bank of China and the Hongkong and Shanghai Bank—to discuss economic cooperation between Hong Kong and the mainland. Concurrently, Peking entertained a number of other Hong Kong financiers for a two-week seminar on China's economy and the SEZs.

China and the Pacific Basin

There are those in the United States, London, Hong Kong, and elsewhere who want to push the SEZ concept, not because they have any illusions as to the SEZs' economic viability, but because they believe the policy serves China Card-oriented security and economic policies. This view holds that involving the SEZs in an intricate web of trade ties with the nations of the so-called Pacific Basin will help keep Peking tied to the West politically. The holders of this view generally are the same faction that regards economic development of the Pacific Basin not as the industrialization of the developing countries, but as using them either as simply sources of raw materials or as they use Hong Kong or, now China's SEZs, as runaway shop areas.

This April, two proponents of this view went to Peking to discuss such proposals. They were Weldon Gibson of the Stanford Research Institute, a prime promoter of this variant of the Pacific Basin economic development concept, and David Newbigging, chairman of Hong Kong's Jardine Matheson. Newbigging has caused headlines in Hong Kong for the past year by helping expatriate Chinese allied with Peking, such as Y. K. Pao, buy out British-owned real estate in Hong Kong.

In early August, Lehman Brothers Kuhn Loeb took matters a step further by reaching a consulting pact with China's main directing agency of SEZs, the China International Trade and Investment Corporation (CITIC). According to the pact, Lehman Brothers will "be available to the Bank of China for advice on general financial matters and other matters of mutual interest. . . . The two sides shall . . . carry out joint research on market trends, commodity prices, general and financial conditions, and other issues."

William Butcher, president of Chase Manhattan Bank (whose board also includes Y. K. Pao) joined the effort by telling China's Hsinhua news service during an Aug. 15 visit, "I happen to be a very strong supporter of the [economic] readjustment process in China. . . . The elements of readjustment in China are not only the pace [of economic development] but also the shape, i.e. the emphasis on light industry."

SEZs and opium

A discussion of Deng's revival of the colonial zones in coastal China would not be complete without mentioning the resurgence of that most prominent characteristic of the Chinese colonies: the twin curse of drug addiction and crime. According to the Chinese press, this is particularly severe in, but not limited to, the SEZs. Nearly every racket in illicit activity has established a presence in the districts including rampant smuggling, official corruption, counterfeiting, prostitution, and drug trafficking. The Hong Kong Communist-affiliated newspaper *Wen Wei Po* reported recently that counterfeit U.S. and Hong Kong currency has turned up not only in the SEZs, but in other areas such as Hianan Island, and other criminal rings are engaging in document forgery, prostitution, and drug trafficking. As the Chinese press notes in thinly veiled references, much of the crime is being organized by the notorious Chinese secret societies, which have resurfaced throughout China.

Guangzhou's (Canton) *Nanfang Ribao* newspaper warned on Aug. 18, "The peddling and taking of drugs and the activities of brothels and prostitutes are evils left over from the old society. . . . With the door further opened to the outside world, the influence of the bourgeois way of life has increased and the poison of the capitalist society has spread to our province, and our public security work has not kept pace with the development of the situation. This gives the criminals a chance to sneak in and the dregs of society a chance to come to the surface again. The peddling and taking of drugs and the activities of brothels and prostitutes, which had been stamped out for many years, have recently revived in some big and medium-sized cities in our province. *Taking advantage of our province's location adjacent to Hong Kong and Macao and its easy accessibility, some international drug-peddling cliques take our province as a transfer post for trafficking drugs for huge profits. The law-defying elements collude with those outside the province* [emphasis added]."

Reports in the Hong Kong-affiliated New York Chinatown press have confirmed the existence of a well-worn drug route linking Southeast Asia's notorious Golden Triangle and Hong Kong via China's southern provinces. According to the *Ming Pao Daily,* Guangzhou authorities arrested 14 members of a drug ring and confiscated 17 kilograms of opiates. The dope runners included nine individuals from China's Yunnan province, four from Guangzhou, and one Hong Kong resident.

Thai authorities at Bangkok's Don Muang airport recently arrested a Hong Kong man on drug charges as he boarded a plane bound for Guangzhou. Even the official media of the remote northwestern province of Qinghai has decried the existence of narcotics smuggling. Other reports cite Hong Kong and Chinese officials trying to cope with the "uncontrollable number" of Chinese fishing junks involved in the smuggling of drugs and contraband, a phenomenon that has spread up the coast as far north as Zhejiang province.

As *EIR* had reported earlier, Deng has been under constant pressure this year from military and heavy-industry-oriented factions who regard his light-industry economics as undermining the economic basis of national power and as causing internal political instability due to unemployment, poor economic growth, food shortages, and crime. As the colonial character of the SEZs and Deng's stress on them become more manifest, this pressure can only be expected to increase.

EIR Announces....

WASHINGTON, D.C. CONFERENCE SERIES

"I read EIR all the time."
Robert Hormats
Assistant Secretary of State for Economic Affairs

"EIR is certainly well-informed on Mexico."
Raymond Waldmann
Assistant Secretary of Commerce for International Economic Policy

"EIR is the expert in Soviet development of space-based ABM systems."
Dr. Richard DeLauer
Undersecretary of Defense for Research and Engineering

Entering the fall season, economic and military matters are certain to dominate the policy agenda in Washington. *Executive Intelligence Review* has planned a fall series of four seminars to ensure that these issues are competently explored in detail.

Topics have been announced for two of the conferences:
Sept. 30: "U.S. and Soviet Strategic Doctrines for the 1980s"
Oct. 14: "The Cancun Summit and U.S. Relations with Developing Countries"

Topics of the remaining two conferences, one in October and one in November, will be announced in coming weeks.

Registration for each conference is $100. Payment can be made for the conference series, at a special fee of $250.

Name ______________ Title ______________

Company ______________

Address ______________

City ________ State ________ Zip ________

Account No. ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

Signature ______________

☐ $396—Full year *EIR* subscription
☐ $250—Four-conference series
☐ $500—Four conferences, and full year *EIR* subscription
☐ $400—Four conferences, and six-month *EIR* subscription

Make checks payable to:
Executive Intelligence Review
2025 I St., No. 520, Washington, D.C. 20006
For more information, contact Laura Chasen (202) 223-8300