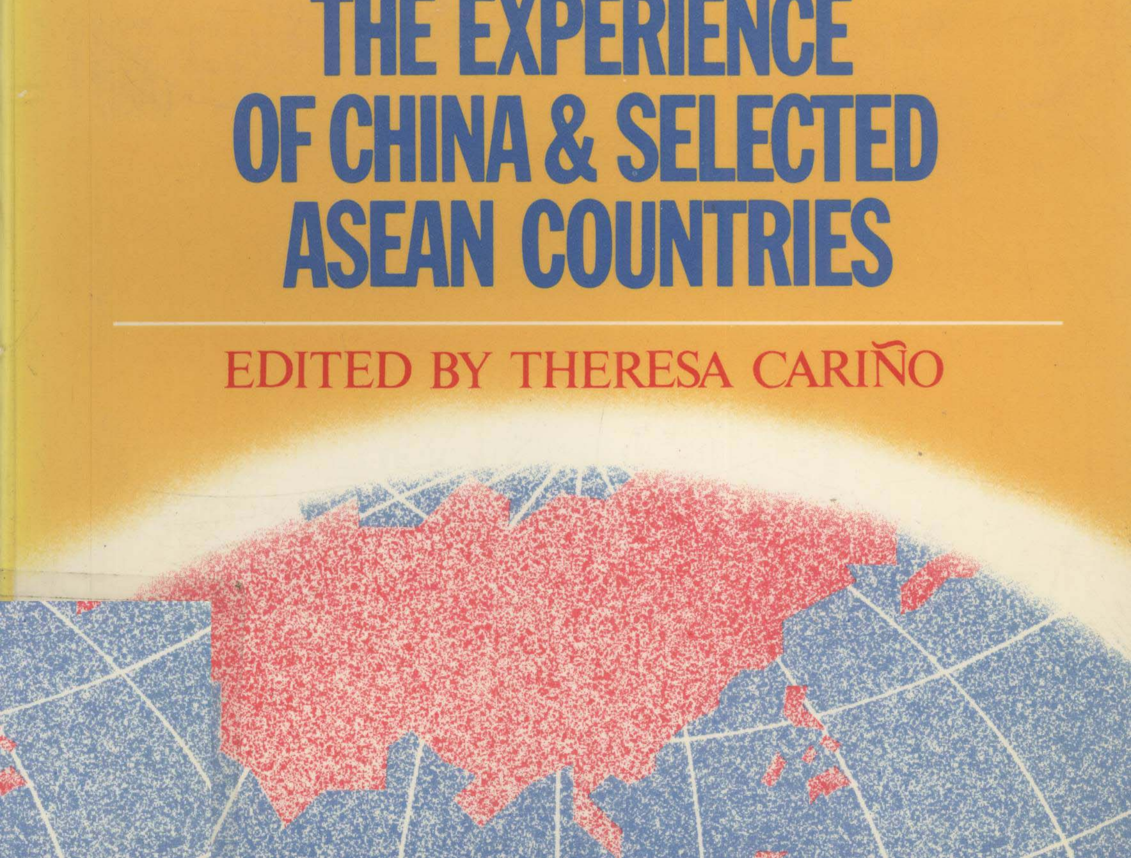
TRANSNATIONALS AND SPECIAL ECONOMIC ZONES

THE EXPERIENCE OF CHINA & SELECTED ASEAN COUNTRIES

EDITED BY THERESA CARIÑO



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INTRODUCTION

When the China Studies Program and the Foundation were organizing this Conference on transnationals (TNCs) and special economic/export zones (SEZs), it was recognized that the dimensions and complexities of the topic would vary from country to country and from speaker to speaker. It was then agreed that general perceptions and specific conceptual framework on the topic would be left for the individual lecturers to develop rather than be prescribed by the organizers.

The aim of the country study approach is to provide good understanding and appreciation of the unique and particular experiences of the four countries with TNCs and SEZs.

Few developments have played a critical role in the extraordinary growth of international trade and capital flows during the past two decades as the rise of the TNCs. Private foreign investment in Third World countries has been extremely rapid--from an annual rate of $2.4B in 1962 to $9B by the mid- 70s, and $40B in the late 70s, as studied by the UN Centre on TNCs in 1981. Two major characteristics of TNCs are their large size and the fact that their global operations and activities tend to be centrally controlled by parent companies.

Such enormous size confers great economic power on TNCs in the countries they operate and this is strengthened by their powerful market positions. In the UNCTC 1981 survey, some TNCs were found to effectively manipulate prices and profits in Latin America, collude with other firms in determining areas of control in Asia, and in general restrict the entry of potential competition through their dominating influences over new technologies, special skills, research and development, consumer tastes through product differentiation and advertising, extractive activities, and services.

The major areas of discussion during our Conference center on the varying degrees of interpretation of the issue of costs and benefits of private foreign investment particularly those of TNCs and special export or economic zones in Third World countries. Drawing from the papers of our lecturers, there are a number of contributions of TNCs to national development in these countries.

Prof. Hsieh's paper on "Special Economic Zones in China" cited the role of TNCs in filling the resource gap between targetted or desired investments and locally mobilized savings. The feature of China's socialist system with mixed economies in view of her unique historical characteristics was emphasized in explaining the present strategy of government in establishing SEZs and attracting the location of TNCs.

A second contribution cited this time in Professor O'Connor's paper on "Malaysian Electronics Industry" is related to the export-oriented industrialization strategy which it pursued to alleviate balance of payments deficits through the generation of net positive inflow from the export earnings of foreign semiconductor firms. Prof. O'Connor however highlighted the fallacy of this argument which leads to a net worsening of both current and capital accounts due to the importation of capital equipment and the outflow of repatriated profits.

A third gap said to be filled by TNCs was indicated in Prof. Wong's paper on the "Prospects of China's SEZs" referring to the geo-economic development and industrial transfomation of four (4) zones which follow the blueprint for an export-oriented strategy as the key to development. Prof. Wong equally noted the directional configuration of sub-regional development that can be induced by this strategy of encouraging industrial-commercial enclaves leading to "free-port" types of activities.

Fourth, TNCs are recognized as contributory to management, entrepreneurship, technology, and skill which are presumed to be partially or wholly filled by their domestic operations as elaborated by Prof. Hsieh's lecture. In China's experience, TNCs not only have mobilized financial resources but also have supplied the package of needed resources from corporate experiences to training programs, sophisticated technological equipment, overseas financing and banking, and diversified international marketing.

These four "gap-filling" observations were equally countervailed by a number of empirically verified country-analysis of our lecturers.

Professor Hsieh noted several decision points before TNCs located in SEZs, namely--profitability margin; production cost; investment environment; raw materials; and market access.

These are concurred by Prof. Wong's comments that the surge of economic and business uncertainty in China in 1984 led to the dwindling foreign investments in SEZs caused by a host of complex, interrelated domestic problems concomitant in a country coping with the incipient dynamics of industrial expansion and economic growth. Dr. Lo's (ADB) insight on the perception by TNCs of China as essentially a zone for locating labor-intensive industries does indeed lead to a serious policy-reformulation by government planners who view SEZs as the first step in the long march towards fullest, possible economic growth. That political stability as a major underlying factor for TNCs to locate in SEZs need not be underscored. Dr. Lim (UP School of Economics) further explained that China's policy on TNCs and SEZs emerged after years of consolidating state and political power, enabling her to assume a strong position, exercise economic leverage and control of domestic resources before embarking on the international expansion of trade and investments with TNCs.

Similarly, Dr. Lim indicated that China's TNC policies are governed by firm regulations on foreign exchange and trade, not unlike those in other market economies.

Professor Wong also points out that China would need to continuously review her policies towards TNCs and SEZs in search of better procedures to realize mutual economic benefit in a "planned commodity economy" while simultaneously acting on the more urgent complaints of foreign firms in the zones. While the China case presents itself as a unique model in TNC-developing country relations, the rest of the case-studies in Malaysia, Singapore, and the Philippines reveal discordant developments in their experiences.

Prof. O'Connor's treatise belies previously accepted perceptions on export-oriented industrialization. While as a whole, the "second best" industrialization strategy appeared to have achieved objectives in promoting efficiency, realizing financial export earnings, and in creating a specialized electronics sector, this industrial nucleus has led to unintended and unanticipated effects, leading to a policy-dilemma that threatens to "kill the goose that lays the golden egg" (as Prof. O'Connor terms it). A number of reasons for this unforseen situation is cited:

First, the electronics industry was not prepared to absorb the international recession which proved detrimental to Malaysia's near-total dependence on this sector as a result of previous policies in single commodity promotion.

Second, Malaysia's industrial growth strategy has anchored unwisely on the export enclave syndrome and TNC electronics firms.

Third, such being the case, lateral integration with local industries has not been achieved in view of the reliance on imported capital goods, inputs, and technology.

Professor Heyzer's lecture provides another view of one of the unforeseen effects of TNC operations in Singapore--this time on the labor force--most especially the women. She draws attention to Singapore's experience with economic and industrial policies affecting the configuration of the women workers. Citing her first-hand account in a textile factory, Prof. Heyzer indicates that while increasing employment and productivity objectives have contributed to Singapore's economic strength, these assumed deeper significance in the light of depressed wages among TNC women workers. The implications on the resulting composition and demands on Singaporean women workers requiring more skill in specific tasks are leading to their eventual displacement by more skilled foreign workers, affecting even the contracting of marriages. This is similarly echoed by Mr. Surendra (Asian Regional Exchange Network Association ARENA) who suggests more relevant and accurate description of TNC effects on the workers--to include both socio-economic tracking of quality-oflife as well as improvement of workers' education. Ms. Maranan's (KALAYAAN) observation of organizing women workers into a potent force was well-taken in the light of a shift in emphasis of women's movements. How such movements and organizations can become effective vehicles for upholding women's rights in factories remains a new area of investigation in TNC operations in developing countries.

Prof. Diokno's paper goes beyond the issue of EPZs and TNCs and analyzes the nature of foreign capital and the export-oriented industrialization strategy of the Philippine government. Citing documented studies and official sources, Prof. Diokno argues that all postulated objectives of export zones have neither been achieved nor benefitted the Philippines. What these indicate is that the strategy and policy on foreign capital entry of the Marcos regime being failures, can hardly be held up as an industrial or economic cornerstone of the new government--as it now appears to vigorously pursue. The Diokno paper stresses that unless the Filipino people firmly take stock of and deal with TNCs as *one* nation, TNC inroads into every sector of the Philippine economy will continue unabated--further subsuming national under corporate interests.

Mr. Whiting's (American Chamber of Commerce in the Philippines) observations provide another dimension to TNCs as these have now transformed themselves in the light of emergent developments in international finance, trade, business, and in host-government policies. Distinguishing the Bataan Export Processing Zone (BEPZ) from other similar zones, as well as the tapping of Filipino capital by TNCs and domestic firms to spur growth and development, would appear as immediate steps towards Philippines productivity and economic recovery. Mr. Whiting also stressed that such qualified analysis would caution against sweeping assessments on the export-oriented strategy and TNC operations in the Philippines.

Given the broad range of issues and economic evaluations raised by the international lecturers and discussants, I dare not draw theoretical or operational commonalities in these most informative and detailed analyses of transnational corporations and

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TRANSNATIONAL CORPORATIONS AND CHINA'S SHENZHEN

PROF. HSIEH SHU-SHEN

I Introduction

1. China's modernization and her new relations with transnational corporations

The ultimate objective of China's present economic reform and restructuring is to realize socialistic modernization. In order to achieve this objective, China has adopted an "open to the outside world" policy. Under this open policy, China has inevitably cherished a more positive attitude towards transnationals and endeavored to strengthen and develop her relations with them, because the latter can come with capital, technology, know-how and market access, which are badly needed for China's modernization. At present, in China, transnational corporations are no longer viewed as totally bad, as exploiters. Their impact on China's economy is not thought of as generally adverse. Without fundamentally redefining transnational corporations, China's new policy admits that it is possible to deal with them in a way that results in mutual benefit. For the foreign investors, they could have an outlet for their capital and they can seek for high profit in China. To China, the potential gains from the investment of transnational corporations may take the form of enhanced capital formation, technology transfer, increased income and employment.

On the other hand, the transnational corporations may impose adverse effects on China's economy. But China still holds the view that the positive effects would outweigh their negative effects. Hence, at present, regarding transnationals, the issue is not whether they are always good or bad for China's economic development, but whether China would make use of the resources in the hands of transnationals and whether they can make a positive contribution to China's modernization.

China's positive stance towards transnational corporations is by no means unqualified. Her new relations with transnational corporations does not imply that all transnational corporations are equally welcomed with open arms. Transnationals are required to operate in accordance with Chinese laws and regulations. Their objectives and interest should conform to China's national interest and socialistic objective. China's positive attitude towards transnational corporations does not imply the denial of their possible negative impact. So long as their positive contributions can out-balance their negative effects and their overall impact befits the objective of modernization, they are perceived by the Chinese as partners and not as adversaries, and their business operations are still regarded as contributive to China's economic construction.

China's new relations with transnational corporations have already generated a significantly positive impact on her economy. The huge amount of foreign capital provided by transnational corporations in the form of foreign loans and direct investment has become essential in financing China's modernization. China has always appreciated the achievements of the transnational corporations and is expecting further inflow of foreign capital. At the same time, there is a list of transnational corporations that have expressed an interest in China and have taken steps to develop future business there. The list would include virtually all the world's major corporations.

2. Special Economic Zones in China's modernization

In order to accelerate the pace of China's economic development, four special economic zones (SEZs) have been established in China since 1979. These four zones are located at Shenzen, Zhuhai, Shantou in Guangdong province and Xiamen in Fujian province. They were officially designated as SEZs in 1980, consequent upon the granting of special status in the developmentof foreign trade to Guangdong and Fujian provinces in 1979. The role of SEZs is primarily to import high technology and know-how, to attract funds and bring in export-oriented industries which earn foreign exchange by producing goods mainly for export and not for domestic consumption. Since their designation as SEZs in 1980, they have developed tremendously in their sizes, population, commerce and industry, e.g. Xiamen special economic zone expanded from 2.5 sq. km. (Huli Industrial Zone) in 1980 to 131 sq. km. in 1984, covering the whole of Xiamen Island and Gulangyu Island. The population of Shenzhen has increased from 20,000 before 1979 to approximately 400,000 in 1986. The four Special Economic Zones, especially Shenzhen, have achieved great progress in construction and industry, and have set themselves as models for fourteen coastal open cities, especially the four big coastal cities of Shanghai, Guangzhow, Dalian and Tienjin.

The reason why foreign investors and corporations are attracted is that the SEZs are granted the right to adopt special policies towards foreign investors. The latter are offered special privileges in their business operations and management which are denied to other cities. What inducements have SEZs offered to foreign investors? Although the precise details of inducements vary among the four SEZs, there are a number of investment incentives in common which, in accordance with encouraging foreign investors could be summarized as follows:

(1) Staff and workers:

SEZs are allowed to employ overseas managerial staff in their Enterprises with Foreign Investment (EFI), fully foreign-owned enterprises, joint ventures and cooperative enterprises, with a view to providing the necessary levels of supervision and training. Local workers may be directly hired by these enterprises or via SEZ labor service companies, and contracts are signed with individual workers, who are subject to warnings, discipline and dismissal. The salaries and wages including bonus in these enterprises will be much higher than those in enterprises of other cities or areas. In the SEZs, there are no more "iron bowls" and "eating at the same big pot." Workers will get more, if they work more.

(2) Tax and tax exemption:

Income tax for export-oriented enterprises will be reduced from 15% to 10% for high technology enterprises, with a tax reduction of 50% available for a further three years.

(3) Regarding land use fees:

Land is available on a leasehold system with land use fees and lease periods varying depending on the different localities. For export-oriented and high technology enterprises in the areas where the exploitation and use fees are combined together, the land use fees vary from 5 to 20 yuan per square meter, except for the downtown areas in the large cities. Generally, the cheapest land use fees and largest leasing periods are set for industrial purposes and high technology projects (lease periods range from 20 to 50 or even 60 years). Different rentals and lease periods exist among SEZs e.g. Xiamen offers the cheapest rentals and often longer lease periods. Zhuhai and Shantou are also cheaper than the Shenzhen SEZ.

(4) Foreign exchange:

At present, the regulations of foreign exchange control are greatly relaxed for enterprises with foreign investment including fully foreign-owned, joint ventures and cooperative enterprises. Today, not only can SEZ's enterprises or corporations open accounts and settle foreign exchange transactions through Chinese or foreign banks registered in SEZs, but those high technology and export-oriented enterprises can borrow short term capital and other essential credit capital with priority, if approved by the Bank of China. Besides, they can sell or buy foreign exchange in the exchange coordination center of SEZ (e.g. Shenzhen) at the rate entirely determined by demand and supply, provided that the transactions are approved by the SEZ Bureau of Foreign Exchange Control. Besides, the Bank of China and other banks appointed by People's Bank can extend both RMB loans and foreign exchange loans or mortgage loans to the enterprises with foreign investment.

In addition to the above mentioned benefits offered to the EFI in SEZs, there are other minor benefits for foreign investors. Moreover, as China's open policy proceeds, it is believed that more and more advantages will be provided and laws and regulations which govern economic activities and operations will become more and more relaxed for SEZs enterprises with foreign investment.

On account of the priorities and advantages given to SEZs, and other advantages (such as geographical locations: Zhuhai nearby Macao and Shenzhen nearby Hong Kong), SEZs have been advancing by leaps and bounds. There is no doubt that under China's open policy, which will continue and be further implemented, China's four SEZs will become increasingly prosperous and play a more important role in the realization of modernization, despite the fact that they will encounter various difficulties and setbacks in the course of their success.

II Shenzhen SEZ's Improvement in its Investment Environment for Enterprises with Foreign Investment (EFI) and Transnational Corporations

As Shenzhen is the most important and prosperous Special Economic Zone for the present, we take it as a subject for our discussion and analysis of its relation with enterprises with foreign investment and transnational corporations. We all know that foreign investors come to China and her SEZs to engage in business mainly for profit which should usually be higher than what they can make at home. In order to make high profit, foreign investors are particularly concerned about the investment environment. Therefore, let us first analyze the investment environment of Shenzhen SEZ, how this has improved and what will be the prospects for foreign investors.

At the initial stage, the investment environment was not as favorable as that of Hong Kong especially in terms of investment costs. Shenzhen's production costs are generally favorable in these items: water supply, lodging, income tax and its exemption, raw material (bought mainly domestically) building and land, somewhat favorable in labor cost, and unfavorable in electric power, transportation, communication and custom restriction and its various taxes, individual income tax, administrative expenses, living expenses and production income. According to the study on the comparative costs of production conditions for enterprises of both Shenzhen and Hong Kong by a research group a few years ago, the results are as follows.

1. **Taking two villages with similar conditions in Shenzhen and Hong Kong i.e. 'Sheng Bu' and 'Ba Gua Ling' industrial villages, and Hong Kong 'Da Pu' village, for comparison.**

   In Da Pu village, the price for the land is HK$800 per square meter while in Shang Bu and Ba Gua Ling the prices for land are HK$738 and HK$899 respectively. Taking into account the investment costs in power, water supply and communication which are not included in the land exploitation expenses of Da Pu village, the land exploitation expense for Shenzhen is lower than for Hong Kong.

2. **A comparison of prices for building:**

   For Ba Gua Ling and Shang Bu, the prices for factory building are HK$1915 and HK$1730 respectively, while the price for 'Da Pu' village is HK$3229. The conclusion for building price is definitely favorable for Shenzhen.

3. **A comparison of taxes:**

   It is difficult to make an accurate comparison of taxes between Shenzhen and Hong Kong, because the two different areas impose different types of taxes. As for income tax for enterprises, the tax rate is much lower in Shenzhen than in Hong Kong. Besides, a great part of taxes for Shenzhen's enterprises are exempted.