Shenzhen, located on the southern Chinese coast, has become globally engaged because of its position just north of Hong Kong, separated only by Sham Chun River. With a metro population of over nine million, its international business connections have risen faster than almost any other city, up more than 80 places between 2000 and 2010, to 106th, just ahead of Cleveland. A remarkable rise in financial services provision means it is inside the top 40 centers in the Global Financial Centres Index, although its small stock market – much smaller than Shanghai’s – and proximity to Hong Kong may limit its progress. The city’s record of attracting investment is exceptional – among the top five in Asia – because of its business-friendliness (second) and huge economic potential (fourth). Information-technology outsourcing is an important driver of investment; the Tholons benchmark rates Shenzhen the 14th best outsourcing city in the world, just behind Shanghai and San Jose, Costa Rica.

Because of its incredible pace of growth, Shenzhen is a long way from being an all-around world city. It ranked second from last of 65 cities in the 2012 Global Cities Index, as it is not a major hub for information exchange and lacks depth of graduate talent. Although the city remarkably places eighth for international visitors, this reflects its links with neighboring Hong Kong rather than its overall tourist provision, which suffers from a lack of cultural amenities. There are, however, some indications in national measures that the city is becoming more popular with creative entrepreneurs and artists.
Shenzhen’s economic model has to some extent become synonymous with China as a whole. Its economic development and internationalization can be essentially divided into two phases, before and after 2000. The formerly marginal fishing town was propelled onto the world stage in 1980 when it was designated a Special Economic Zone (SEZ) by a liberalizing central government. The SEZ was premised on being an assembly base for the growing electronics industry. It operated as the centerpiece of a new approach toward the private sector that leveraged proximity and language ties with Hong Kong. Over the next two decades Shenzhen became the secondary outlet for the relocation of small-scale and labor-intensive manufacturing activity from Hong Kong. Within this sector, Shenzhen was primarily host to original equipment manufacturers (OEMs), firms that developed products on others’ behalf and had no input on design or brand development. Merchandise included watches, furniture, jewelry, textiles, machinery, and toys. Shenzhen was fundamentally a low-cost and high-flexibility production zone, much like Singapore had been in the 1970s.

By the 1990s Shenzhen’s city government began to seek foreign investment programs with longer funding turnover periods so as to limit the volatility associated with opportunist international firms. Most notable was the strategy of embedding large-scale foreign investment within big domestic firms and state-owned companies (SOEs), and using the city’s growing university and research base to forge greater specialization in heavy industries.

Huge manufacturing demand saw a fast percolation of skills and technologies toward more competitive and specialized practices. The rise in productivity and cutting-edge production technologies occurred much faster than in Western economies generations earlier. After the establishment of the Shenzhen Stock Exchange in 1990, spatial competition occurred to take advantage of scale economies in each industrial cluster. Original design manufacturers (ODMs), firms with the responsibility and capability of designing and building products, expanded in number. While this move along the value chain still meant accreding to other companies’ specifications and surrendering marketing responsibility, it indicated that Shenzhen’s firms were gradually competing not only on price but also on quality. A more open model of innovation was fostered. A number of leading firms (Huawei, ZTE, Tencent, BYD) spawned creative small and medium-size enterprises (SMEs) endowed with superior brand and organization know-how. The second phase of Shenzhen’s economic development, since 2000, occurred as manufacturing markets began to reach saturation point with few opportunities for technology upgrades. In response, the city intentionally began to build specific higher-value niches in software, telecommunications, and optical-electromechanical integration. The city government actively sought to raise the quality and integration of the value chain by building clusters, training facilities, and a culture of enterprise. There was a deliberate effort to create a more sustainable private-sector-led economy instead of relying on SOEs. The city now also has strong domestic financing capacity for SMEs to access. Shenzhen is distinctive even among mainland Chinese cities for having achieved fast yet consistent growth over the past three decades. This is due in part to investment in the potential of a dynamic private sector at the city’s core. In 2012, high-tech industries comprised a third of the city’s GDP. Research and development now accounts for 3.6 percent of GDP, one of the highest proportions in China. Two of the largest telecom equipment companies in the world are headquartered in Shenzhen. Huawei is now the leading telecommunications equipment producer globally, having overtaken Ericsson, while ZTE is among the top five largest mobile phone manufacturers. Both are leaders in the global mid-range handsets market, and have recently entered the top-end smartphone segment.

Shenzhen is now searching for opportunities to transform its industrial structure and achieve a more stable high-value-added and services-based growth environment. Labor-intensive industries have been gradually
relocating to secondary inland cities such as Dongguan, and the brand concept “Quality Shenzhen” has been introduced by the city government. This reflects the desire to improve the city’s economic, urban design, and cultural offerings, a positioning that makes sense given that Shenzhen is already recognized by new Chinese university graduates as an immigrant city that enables swift adaptation for new arrivals. The city is also dedicated to becoming mainland Southern China’s main finance hub in partnership with Hong Kong, and it also seeks to attract an educated cadre of with international experience in hopes of creating a genuinely innovation—and technology-led economy.

3) Elements of international and global orientation - In what ways is the city globally connected and relevant? What sort of trade patterns does it exhibit?

Since the establishment of the Shenzhen Special Economic Zone in 1980, nearly 200 of the Global Fortune 500 have made local investments in the city totaling a combined $87 billion. To some extent foreign investment in Shenzhen has lagged behind that in comparable Chinese cities, but the overall trend since 2008 appears positive. The city now approves over 1,000 foreign investment projects a year, with American, French, and German firms especially active.

Currently fewer than 25,000 international professional workers are based in Shenzhen. The city is looking to make big progress in terms of foreign talent in the next five years. In an emblematic initiative, the city government aims to attract 10 world-class international innovative teams of professionals to relocate in 2012, as part of an effort to have a much more diverse R&D base.

Foreign trade reached an all-time high of $40 billion per month in May 2012, $23 billion of exports and $17 billion of imports. Approximately a quarter of all its trade takes place with its neighbor, Hong Kong, with whom the city is now heavily mutually interdependent. Exports to the European Union and the United States are roughly equal, and Japan has become a more significant market recently but from a much lower base. Trade with major partners outside Hong Kong have proven volatile due to sluggish overall economic growth, but new links are being forged with Africa and Latin America, which currently account for 5 percent and 1 percent of exports, respectively.

Shenzhen’s coastal location offers considerable potential for conventional and ecotourism. The city is jointly developing conventions and luxury resort infrastructure to cater to wealthy tourists primarily from Southeast Asia and the Middle East.

4) To what extent is the city’s international dimension inherited or intentional?

Inherited location factors explain Shenzhen’s initial emergence in the 1980s. The city benefited from the limited land supply in Hong Kong, which prompted an expansion of manufacturing and more recently financial business across the border into the mainland. Links with Hong Kong were the premise upon which subsequent specialization could take place.

There is no doubt that Shenzhen’s path to global engagement began with dependence on centrally directed resource allocations and a commitment to investment zones by national policy makers. State funding for port, rail, and road services has been distributed quickly and effectively to support the fast-changing environment. But Shenzhen has also become more and more responsible for attracting its own capital investment for its economic specialization. Thanks to the incremental devolution of more fiscal and administrative powers, the city itself increasingly oversees key economic decisions and provides active top-down strategic policy in accordance with national plans.

The extent of local government power is quite distinctive even within China. The city’s economic and investment system has become more networked, multilevel, and collaborative, focused on facilitating technology transfers, improving the way new technologies are grasped by local firms, and working with the private sector to improve skills and find new foreign customers. There is an emerging public–private
leadership in Shenzhen, albeit underdeveloped by Western standards, which utilizes the expertise of key industry figures.22

Shenzhen is an important example of a metro area whose capture of Investment in productive infrastructure has been central to entry into global value chains. Investment in business parks and connectivity to China’s major cities has been indispensable. In particular the Beijing–Guangzhou–Shenzhen–Hong Kong High-Speed Railway is almost completed. Private investment is playing a growing role in funding this infrastructure. Major banking institutions are signing loan cooperation agreements with the new Qianhai Zone, which aims to attract Hong Kong banks and other services. Ping An Bank, for example, offered a $3 billion loan to Qianhai to finance road construction in 2012.23

Shenzhen’s experience indicates the role that properly managed industrial ecosystems can have in driving a city’s global economic relevance. With a consistent regime of property rights protection, firms were able to cluster effectively and compete for marginal innovation gains, resulting in a much enhanced patent rate.

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1 Brookings analysis of Moody’s Analytics and Oxford Economics data.
2 Ibid.
3 Ibid.
4 Ibid.
5 Ibid.
7 The data were produced by G. Csomós and constitute Data Set 26 of the Globalization and World Cities (GaWC) Research Network (http://www.lboro.ac.uk/gawc/) publication of inter-city data.
8 Brookings analysis of Moody’s Analytics and Oxford Economics data.

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