SUSTENABLE DEVELOPMENT OF THE ROMANIAN ECONOMY BY ADOPTING THE CHINESE MODEL OF SPECIAL ECONOMIC ZONES

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The architecture of the Chinese economy began to take shape in the late 1980's, because of the new reforms that the Chinese Communist Party started to take. With the death of Mao Zedong in 1976, the Chinese leadership is taken by Deng Xiaoping, who stated a blitz course in capitalism. The new president encouraged foreign direct investments by creating special economic zones near the costal cities, were foreign companies obtained several tax brakes and other incentives, only to invest in those regions. With the help of statistical data from WTO, IMF, and the World Bank, the current paper analyzes the impact of these special economic zones on the Chinese economy, raging from mutations in the labor market and economic sectors structure and their evolution in the formation of the GDP, FDI inflows, and last but not least external trade and current account situation. On the other hand, the paper tries to make a connection with Romania, computing and predicting, based on the Chinese figures, the way in which the Romanian economy, by creating four economic zones within the counties of Satu Mare, Bihor, Arad, and Constanța, will be able to experience the same growth. The first three counties have been piked up based on their proximity to the Schengen area, and/or on their infrastructure, plain terrain, and a qualified and skilled labour force. Constanța, the only one that resembles with its Chinese counterparts, has been taken in consideration because of its capabilities of shipping products right away as they are manufactured. The results would decrease the disparity that exists in revenue levels across Romania, Bucharest leading the group way ahead of the other counties. Foreign direct investments in those areas will attract more others made by the local authorities in the infrastructure (schools, universities, roads, airports, high speed railways). This development will have a direct impact on the current account of the Romania's balance sheet of payments, while its external trade deficit will reduce in time, even transforming in a trade surplus, and helping this way in putting an end to the chronically external debt.

Key words: special economic zones, counties, external trade, economic impact, foreign direct investment

JEL codes: F21, F32, G18

New conditions of doing business in China

Leaders of any country feel when something needs to be changed. In 1978, the Chinese communist leader Deng Xiaoping, felt that the Chinese economic model was suffering greatly and something was needed to be done. In a comparison with Romania today, when every economic reform affect all the inhabitants, the Chinese started with only a handful of regions were they tried to experiment different approaches that were targeting fiscal policies, labor legislation, bureaucracy and other measures that were similar to those in the capitalist western economies. All these measures were put in action in the so called "Special Economic Zones" or simply SEZ.

In order to understand what a SEZ is, we will take a look at what some international organizations define them:
-SEZs are generally defined as geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures, for instance) to businesses which physically locate within the zone
-Designated areas in countries that possess special economic regulations that are different from other areas in the same country. Moreover, these regulations tend to contain measures that are conducive to foreign direct investment. Conducting business in a SEZ usually means that a company will receive tax incentives and the opportunity to pay lower tariffs.
In 1980, four SEZ were created - Shenzhen, Zhuhai, Shantou and Xiamen - in order to experiment how new legislation, labor conditions and a lower bureaucracy will interact with the economy. And the results came quickly. As presented bellow (Table 1: FDI Inflows in SEZs, million current US$, 1978–2008) foreign direct investment started to pore in, reaching almost 4 billion $ in 2008 for Shenzhen, 1 billion for Zhuhai and Hainan. All the figures indicate a huge increase, especially after the year 2000, after China got accepted in the World Trade Organization. This move made China more appealing to international investors. As presented below, all four SEZ registered a surge in ISD inflow.

Table 1: FDI Inflows in SEZs, million current US$, 1978–2008

Year	Shenzhen	Zhuhai	Shantou	Hainan
1978	5.48	n.a.	1.61	0.1
1990	389.94	69.11	98.09	100.55
2000	1961.45	815.18	165.61	430.80
2006	3268.47	824.22	139.61	748.78
2007	3662.17	1028.83	171.62	1120
2008	3929.58	1138.49	n.a.	n.a.

Source: SBHN 2007, SBST 1994, SBST 2007, SBSZ 2007, SBSZ 2008, SBZH 2007

All of the investment made was concentrated on building production facilities from scratch, and from there to supply the internal market and the ship products all over the world. As presented in Table 2, exports increased exponentially, Shenzhen leading the group and being the first in the group to register figures above 100 billions $, reaching almost 170 billion $ in 2007. These numbers are the result of FDI inflows in these regions, as well as the accession into the ranks of WTO.

Table 2: Exports, million current US$ in SEZs, 1978–2008

Year	Shenzhen	Zhuhai	Shantou	Hainan
1978	0.009	0.009	0.251	n.a.
1990	8.152	0.489	0.841	0.471
2000	34.654	3.646	2.595	0.803
2006	135.959	14.843	3.484	1.376
2007	168.542	18.477	3.912	1.838
2008	163.780	19.73	3.278	n.a.

Source: SBHN 2007, SBST 1994, SBST 2007, SBSZ 2007, SBSZ 2008, SBZH 2007

All that inflow of FDI, the surge in exports, automatically influenced the living conditions in those zones. For instance, if we watch closely in Table 3 and 4, its presented the evolution of the GDP and Per Capita GDP.

These four zones made it possible to present the multiplier effect of Keynes upon the local economy. If the state offers you tax brakes for the next 30 years, you, as a business entity, will build a production facility. Building a production facility means hiring local workers. Perhaps, some of your suppliers will follow you there. If everything goes well, some of your competitors will join in. This step can be made in any industry. At one point, if the Chinese see that there are jobs needed in that region, they will move there in order to work for a higher salary and better working conditions.

If this thing happens, we can imagine that the local administration will earn a lot of money from local taxes. If the GDP of the region rises, so does the incomes for that region. Now the local administration has money to invest in the infrastructure (roads, highways, electricity, airports, bridges, optical fiber, railways, hospitals, schools, and universities). All these measures connect themselves, developing that region, enhancing its competitiveness.

Table 3: GDP of Special Economic Zones, 1978–2008, billion current RMB

Year	Shenzhen	Zhuhai	Shantou	Hainan
1978	0.196	0.209	1.079	2.886
1990	17.167	4.143	7.245	10.242
2000	218.745	33.143	45.016	52.672
2006	581.356	74.77	73.738	105.285
2007	680.157	89.59	85.01	122.96
2008	561.176	70.041	72.083	106.275

Source: SBHN 2007, SBST 1994, SBST 2007, SBSZ 2007, SBSZ 2008, SBZH 2007

Everybody wins from this chain of events. The companies receive tax breaks, and in time they will be able to search from a pool of better educated workforce. That workforce, in the beginning, it will be composed of "blue colored" jobs, meaning the workers on the production line. After a while, when investments will be made in the education sector, "white colored" jobs will become more and more demanding, and better paid. Table 4 illustrates that path, in 2007 a worker receiving more than 10 times it did in 1990, in almost every region.

Table 4: Per capita GDP of Special Economic Zones, 1978–2008, current RMB

Year	Shenzhen	Zhuhai	Shantou	Hainan
1978	6.6	579	366	510
1990	8.724	6.678	2.029	1.562
2000	32.8	27.693	9.741	6.798
2006	69.45	52.185	14.872	12.654
2007	79.645	61.693	17.048	14.631

Source: SBHN 2007, SBST 1994, SBST 2007, SBSZ 2007, SBSZ 2008, SBZH 2007

These figures make us think, for how long are we going to be able to call China a cheap country. If the level of income will rise in the same manner, we will see how part of the production of these zones will be diverted from exports, to internal demand.

Present situation on the home front

The Chinese case can be a good case practice, in order to imitate and try to implement in our own way. We also should pose the same question that Deng Xiaoping did in late 1980s, when he asked himself: what fiscal measures are needed in order to boost the FDI inflow.

In order to answer that question first we have to analyze the balance sheet of one municipality, let's say Oradea. In Table 5 are stated the main indicators that compose the municipality balance sheet.

It is known that due to the "color" of the government, some municipalities that have mayors from the ruling party receive larger subsidies, and those who don't receive less. In this case, Oradea has the color "yellow" and the ruling government is "orange".

I have omitted those subsidies because they can vary from time to time, as the government does, and try to stress those factors that have a more stable component.

Table 5: Brief balance sheet of the city of Oradea in 2010

No.	Explanation	Code	Plan thousand Lei
A	Incomes		246.018
1	Split shares from the income tax	04.02.01	111.020
2	Taxes on corporate buildings	07.02.01.02	25.500
3	Taxes on corporate motor vehicles	16.02.02.02	6.900
4	Revenues from concessions and rentals	30.02.05	5.800

Source: Local Council approved balance sheet on 2010

If that's the case, than any municipality needs to widens its share from the income tax. As we can see in Table 6, a large portion of the income tax comes back to the place where the contributor pays he's taxes. We can observe the evolution, from 47% in 2006, to 44% in 2010, and perhaps in the future, even less.

Usually these money are spent on infrastructure maintenance (roads, schools, hospitals), and on public services. If this is the case, than any municipality needs to widen its colleting points by encouraging companies to invest in its zone, and to hire locally. From this point of view, if a town receives more, it can spend more.

Table 6: Percentage of the revenue tax returned to the place of the taxpayer

Revenue tax	Law no.273/2006	OUG 63/2010
% returned to municipalities where the tax payers register their activities	47%	44%
% returned to county budget where the tax payers register their activities	13%	12%
% returned to a distinct account to	22%	21%

the tax collectors of each county, in order to stabilize the deficit		

We also have to take in consideration that a suffocating fiscal legislation opposes and diminishes the entrepreneurial spirit, suffering modifications almost every year that doesn't take into account mid or long term planning activities of local companies. There is no consistency of the fiscal policies, some of them entering in effect not from the beginning of the new fiscal year, but right away as the law passes the senate approval. The other disturbing case is the sum of taxes that an employer must pay for one employee, sum that amounts almost 60% of its gross salary, so for example if somebody wins 1.000 LEI, the state takes 600 LEI.

The need for a change

Why do we need to adopt the Chinese model of Special Economic Zones?

We should adopt that model in order to experiment how different policies interact with the economy. If we want to reduce the amount of taxes that an employer pays for one employee from 60% to 45% or less, or to reduce the amount of the income tax, than we need to observe this phenomenon on a small scale, not to implement it and observe it on the whole country.

In this paper, four counties have been chosen, Satu Mare, Bihor, Arad, and Constanța, the first three counties being picked up based on their proximity to the Schengen area, and/or on their infrastructure, plain terrain, and a qualified and skilled labor force. Constanța, the only one that resembles with its Chinese counterparts, has been taken in consideration because of its capabilities of shipping products right away as they are manufactured.

If we want to reduce the social contributions, the income tax, health tax, place a moderate tax on land and buildings, offer free terrain, or whatever measure that attracts FDI, we should do it first on a small scale, and then apply it on a bigger one.

If these zones are created in these four counties, we should expect a surge in FDI as we have seen in the four Chinese counterparts. Production will grow, exports will surge, workers will be needed, salaries will increase, infrastructure spending will go up based on new income, and with this, the competitiveness of these regions will register the same effect.

Lets not forget the demographic impact that these four regions will have, especially when we talk about regional migration. Taking in consideration that large areas are interconnected, being not that far away one of another, for example Cluj Napoca is situated only at 150 km from Oradea, having a proper highway between these two cities, a worker can make a trip of one hour onwards and backwards, not three hours like today.

If some measures are viable, they should be adopted at national level, in order to decrease the disparities that exist among counties and regions. But I feel that once the counties feel independent from the state, they will search for more authority and power, transforming Romania from a republic, to a federation.

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