



# **Chinese Culture and Recent Economic Development ( Part II)**

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# Chinese Culture and Recent Economic Development

- China's Economic transition
- China's Economic Developments
- International Trade and Foreign Direct Investment
- China's WTO Accession: commitments and Implications

# Chinese Culture and Recent Economic Development, cont'd

- The development of financial market
- The raising private sector
- The special economic development zones in China
- Current Issues and Problems



# Staggering period

- From 1949 to 1978, China had a nearly autarkic economy.
- During these 30 years, China prohibited foreign investment and restricted foreign trade.
- It reflected its historical belief that contact with foreigners tended to corrupt its politics and harm its culture.

# China's Economic Transition

- In 1978, China's government launched the policy of "reform and open to the outside world".



# The reform objectives

- The policy of “Reform and open to the outside world” was designed to move the Chinese economy away from central planning, government ownership, and import substitution policies and toward greater decentralization and an opening up of the Chinese Economy.

# The starter and designer of Chinese economic reform

- The key obstacle comes from ideology
- Deng Xiaoping said:
  - “Crossing the river by groping the stones”
  - “Everybody will be equally rich, but someone may move to the goal earlier than others”
  - “The policy will not be changed in 50 years”



# Deng Xiaoping



*Deng Xiaoping*  
*(Teng Hsiao-Ping)*  
*Reference Archive*

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# Principles of China's Economic Transition

- Liberalizing economic activity, prices and market operations, along with reallocating resources to their most efficient use.
- Developing indirect, market-oriented instruments for macroeconomic stabilization.

# Principles of China's Economic Transition, con't

- Achieving effective enterprise management and economic efficiency, usually through privatization.
- Establishing an institutional and legal framework to secure property rights, the rules of law, and transparent market-entry regulations.

# The effect of Chinese economic transition

- Since then, the Chinese economy has grown dramatically.
- Over the past 20 years, China's national gross domestic production has been growing at 9.6% on average.

# The growth of China's GDP

- China's GDP was ranked the seventh in the world in 2002.
- Chinese growth in GDP has exceeded that of the industrial countries, the world in general and east Asia and the Pacific.

# The driving forces of China's growth

- China's fast growth can mainly be attributed to a rapid increase in capital investment and improved productivity.
- The key to achieving such rapid economic growth is the continuation of the strategic restructuring of the economy.

# The result of a research

- This has been driven by reforms and the opening to the outside world and technological progress.
- China's economic growth relies:
  - 60% on capital inputs
  - 30% on improvements in productivity
  - 10% on aggregate labor supply

# The capital investment

- China's investment rate has remained at around 35% of GDP.
- This high investment rate can be in part explained by the fast-growing income of the Chinese people and their high propensity to save.



# Internal vs. External financing

- China's growth initially was internal rather than export-led in contrast to other East Asia countries like Korea and Japan.
- Although China has borrowed from abroad, it has financed over 75 percent of its growth from domestic sources.

# Improved productivities

- Technological progress
- Better education of the workforce
- Better allocation of resources among economic sectors
- Advanced foreign technologies and management expertise brought by FDI.

# International Trade and Foreign Direct Investment

- According to <The Economist>
  - In 2003, China's imports have risen by 40%
  - America's by 2%
  - Japan's exports to "Greater China" are now bigger than those to America

# Foreign direct investment

- Another factor supporting rising investment was the large inflow of foreign investment as a result of China's preferential foreign investment policies.
- China has become the largest recipient of FDI among all developing countries.

# Major achievements

- Since 1993, China has ranked second to the United States for FDI inflows among all countries.
- By the mid-2002, total FDI in China had exceeded \$700 billion and was invested in nearly 400,000 ventures.

# Major players

- More than 400 of the Largest 500 corporations, such as Coca Cola, DELL, Motorola, P&G, McDonalds, have been investing in China.
- Japan, Taiwan, and the United States are China's most important sources of FDI

# An example

- McDonald's
  - In the first six months of 2001, McDonald's opened 96 restaurants in China, totaling 430 restaurants altogether.
  - It plans to open 200 stores each year from 2003 to 2013.

# Chinese considerations

- Capital formation
- Export promoting
- Job creation
- Technology transfer





# MNEs' considerations

- Market potential
- Market performance
- Infrastructure
- Strategic positioning

# The special economic development zones in China

- Since the early 1980s, China has provided special economic zones (SEZs) that offered foreign investors preferable tax, tariff, and investment treatments.
- There are 14 SEZs in China.
- Shenzhen, Zhuhai, Xiamen the examples.

# The current important SEZs

- Beijing: Yi Zhuang Economic Developing Zone
- Shanghai: Pu Dong Economic Developing Zone
- Shuzhou: Shuzhou Industrial Developing Zone

# Government approval of FDI

- FDI in China need to get the permission from MOFTEC or provincial authorities.
- MOFTC prioritized industries– those that is encouraged, restricted, or prohibited involvement by foreign companies.
- The higher the priority, the more likely the approval would be granted.

# Wholly foreign-owned ventures

- Until the mid-1990s, China required most foreign firms to agree to an equity joint venture with a local partner as a precondition of market access.
- China has gradually permitted wholly foreign-owned ventures.

# Wholly foreign-owned ventures, con't

- In 1997, such ventures surpassed equity joint ventures for the first time.
- By 1999, more than half of all foreign investments in china were in the form of wholly foreign-owned ventures.

# China's WTO Accession: commitments and Implications

- China's WTO accession has boosted its economic growth and enhanced its legal and governmental reforms.
- Galvanized by its WTO admission, China's macroeconomic situation has improved remarkably.

# Stimulated trade volume

- China has become the fourth largest trade body in the world following the United States, European Union and Japan.
- The rapid growth in China's trade volume is directly attributable to the improving trade environment following its WTO accession.



# World economic engines

- America has long been the primary engine of the global economy, but increasingly China has become a second important engine of growth.
- The world economy will be better off if China's economy remains robust.
- Airplanes are always safer with two engines than with one.

# Reduced tariff

- China's average import tariff rate was cut from 15.6% to 12%. The former trading instability brought by bilateral negotiations has been roughly written off by a more stable multilateral trade framework.
- And many of the quota restrictions of other countries have been lifted on Chinese products.

# Improved investment environment

- China's foreign investment introduction has also increased rapidly.
- More and more countries begin to be more confident in investing in China after its WTO accession.

# Where does the confidence come from?

- Foreign companies' increasing confidence in China arises from the stable returns they can get from the Chinese market.
- China's rich, low-cost labor resource and vast market, provide much scope for profit making.

# How about the government?

- China's WTO membership has also brought fundamental changes to the government.
- To meet the requirement of its WTO membership, the government has initiated a campaign to set up a unified governmental regulations to meet the WTO rules.

# The development of financial market

- Banking industry
  - The state owned banks
  - Policy-oriented banks
  - The regional banks
  - Foreign banks



# The governing bodies of financial market

- The Ministry of Finance
- The Committee of Development and Reform
- The People's Bank of China

# Special governing bodies

- Security Trading Supervision Committee
- Banking Supervision Committee
- Insurance Supervision Committee



# The state-owned banks

- Bank of China
- China Industrial and Commercial Bank
- China Agricultural Bank
- China Communication Bank

# The Policy-oriented banks

- China Import-Export Bank
- China Agricultural Development Bank
- China Development Bank

# Security trading

- China is the first among developing countries to establish security exchanges
- Two stock exchanges
  - Shanghai Stock Exchange
  - Shenzhen Stock Exchange
- Dual share system
  - A share
  - B share

# Type of securities

- Two futures exchanges
  - Shanghai Futures Exchange
  - Dalian Futures Exchange
- There are 1,160 listing companies
- The total market value of listing companies is 4350 billion yuan, about 45% of the GDP of China

# Bond trading

- There are 109 stock brokering firms and 51 investment funds in China
- Beside stocks, bond trading is also underway
  - Government bonds
  - Corporate bonds

# The open of Chinese capital market

- Current account was open in 1995
- The capital account is more open
- It will be further opened in the next 3 to 5 years

# The raising private sector in China

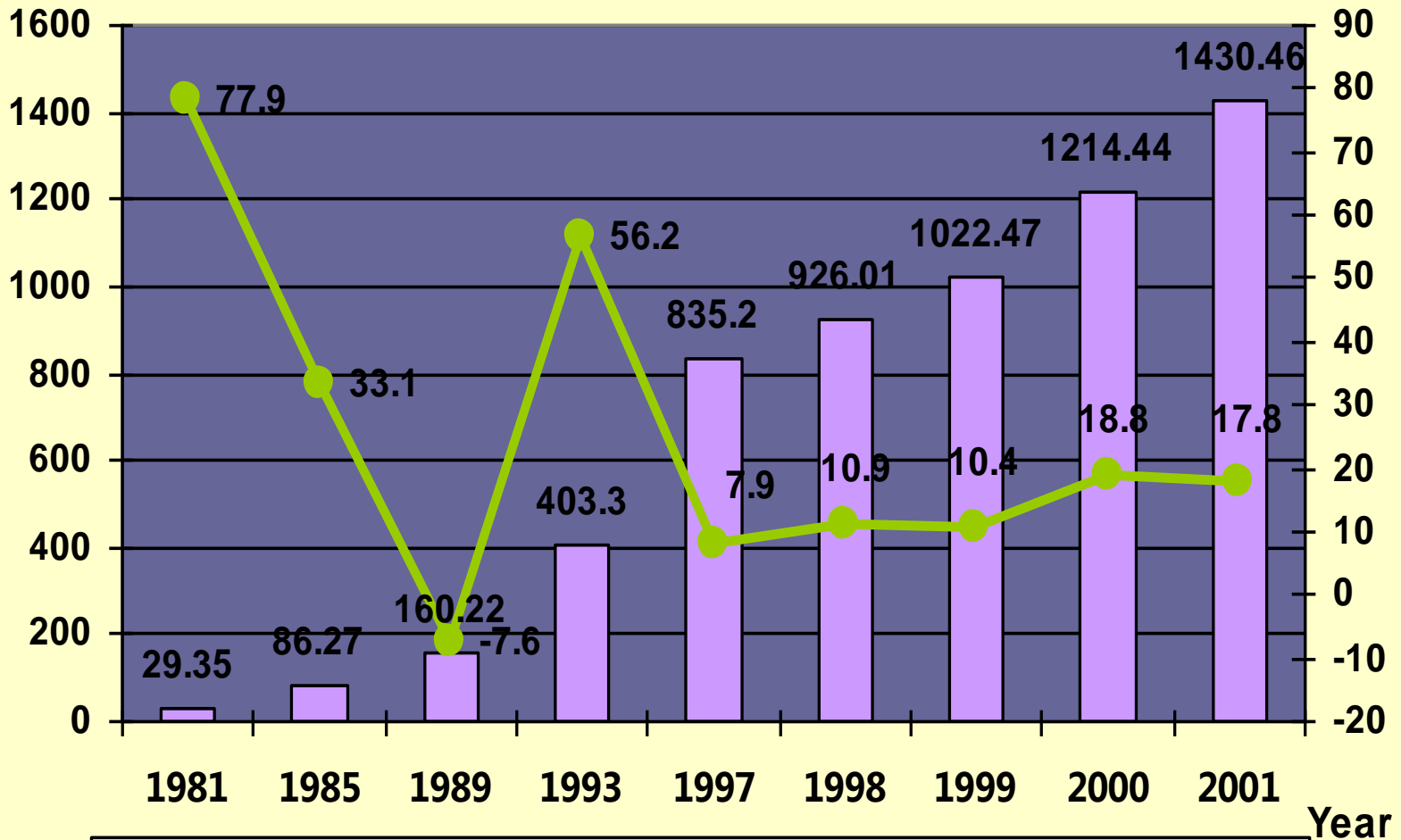
- Initially, privatization was not an issue, but China has moved to liberalize its economy and allow private investment while not completely giving up control of the economy.

# The raising private sector in China, cont'd

- However, every year, the Chinese government loosens the economy a little bit more.
- The private economy has risen from a mere 0.2% to 33%.



## Ups and Downs of Private Investment



Private Investment (billion yuan)  
 Investment Growth (%)

# Political recognition

- 1998, the Communist Party removed ideological barriers to private ownership by amending the state constitution to acknowledge the private sector.
- In 2001, President Jiang Zemin called on the Communist Party to allow entrepreneurs and business executives to join it, thereby legitimating the idea of private enterprise.

# Current Issues and Problems

- State-owned enterprises (SOEs)
  - China is struggling with its SOEs
  - Although the SOEs are becoming less influential in the Chinese economy, they are still huge and are a source of concern because of the large numbers of people they employ.
  - Most of China's government subsidies have shifted from daily necessities to covering enterprise losses.

# Baosteel—an example of SOE

- President: Ms. Xie Qihua, 60-year old
- She is in the vanguard of turning SOEs into globally competitive firms.
- With a degree in civil engineering from Tsinghua, a top university, and over 30 years experience in steel plants, Ms. Xie is at heart a technocrat.

# Performance of big steelmakers

	Cashflow per ton shipped, 2002, \$	Steel shipments, 2003, m tons
Arcelor	37	41.5
Baosteel	104	13.4
Corus	-5	18.8
Ispat	21	15.3
Nippon Steel	33	29.1
Nucor	24	17.3
Posco	93	29.6
ThyssenKrupp	52	19.0

# Ambitious goal

- Baosteel is the most technologically advanced and efficient steel producer in China.
- It's goal is to become one of one of Beijing's "global champions".

# Market share of Baosteel

- Baosteel's capacity is nearly 20m tons.
- It supplies half of the steel used in car factories in China, including the joint ventures involving Volkswagen and GM.
- IT has a 47% share of the home-appliance market and half of the market for pipelines.

# World's to 500 companies

- Thus, it aspires to generate sales of 100 billion yuan(\$12billion) by 2005.
- This will make Baosteel to enter the rank of the world's top 500 companies.
- Baoshan Iron& Steel, the Shanghai listed subsidiary of Baosteel, ranked the third out of the world's top 35 steel makers.



# Expansion plan

- Expansion, including building a fourth blast furnace, will raise capacity further by 2005.
- Adoption of fashionable western management techniques such as “Six Sigma” should boost production quality.