

# How China Became Rich

**Can We Engineer Economic Growth?**

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The Institute of Development Studies

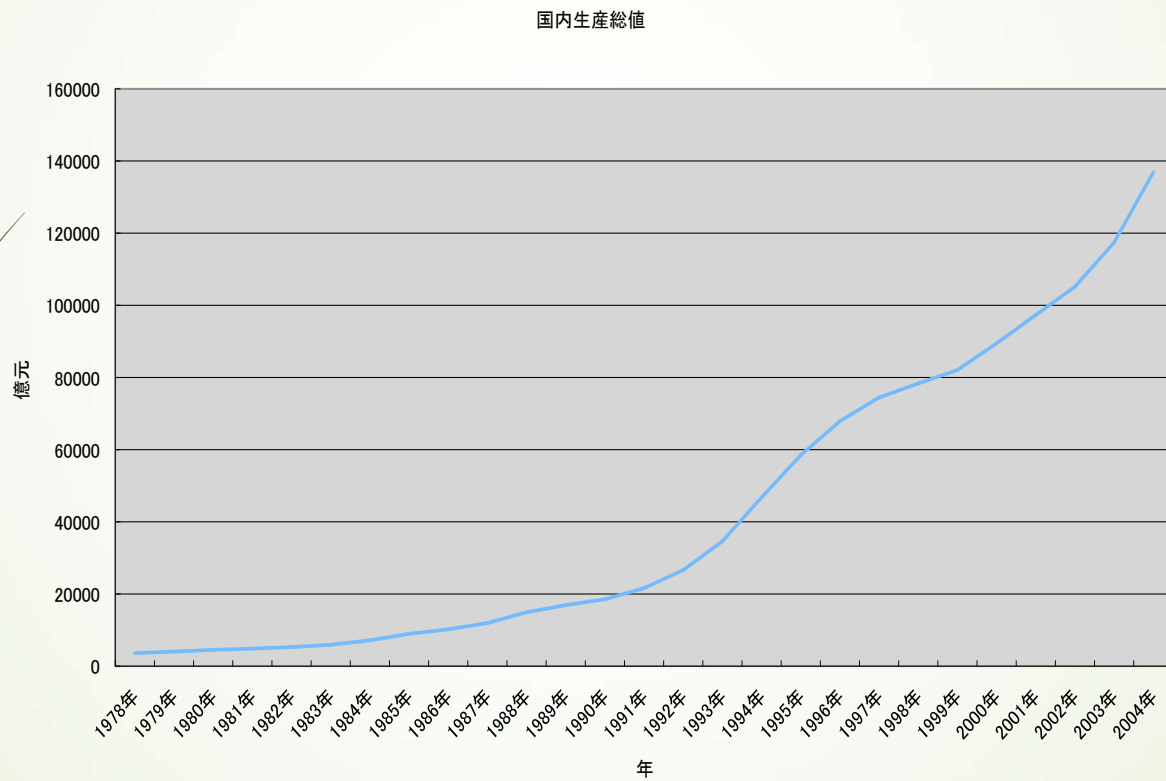
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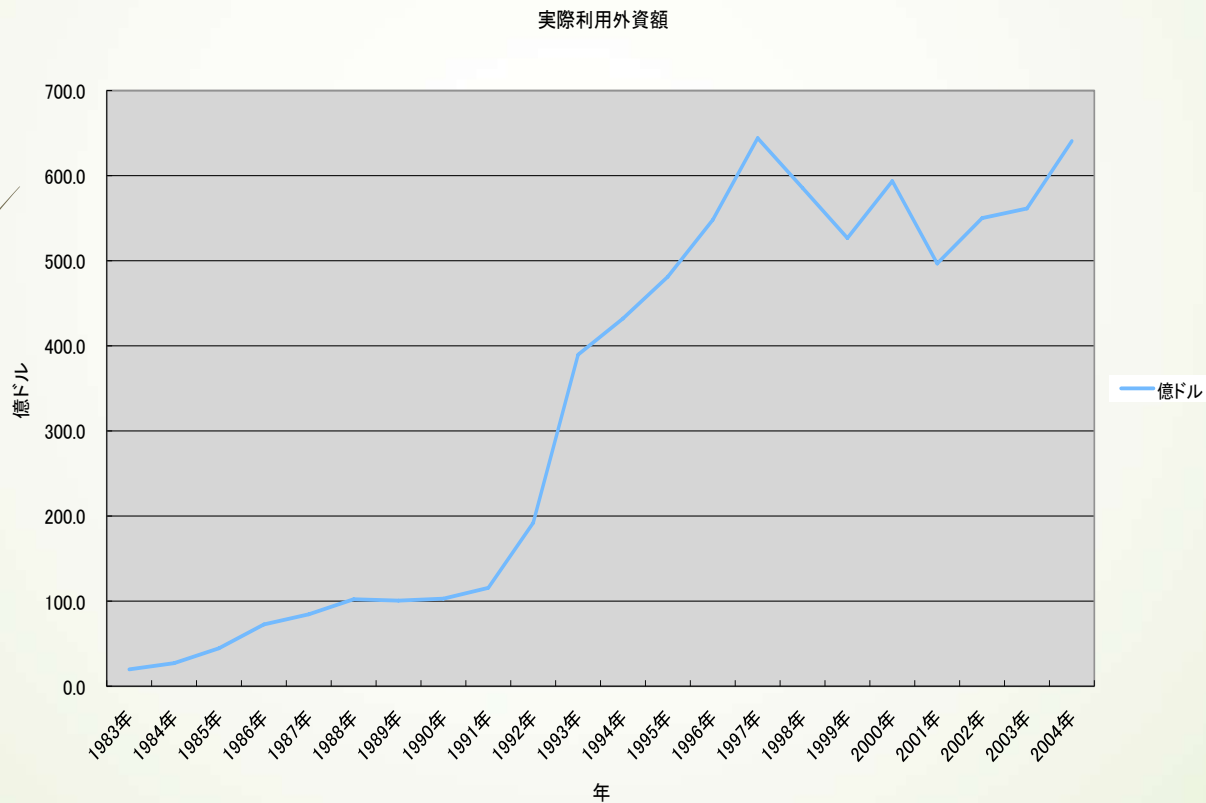
# What happened in Guangdong in the early 1990s

- ▶ Guangdong's economy grew rapidly. Guangdong enjoyed double digit economic growth in the following years.
- ▶ Guangdong received huge amount of foreign direct investment (FDI). In 1992, the amount quadrupled.
- ▶ Many joint ventures started operation in Guangdong.
- ▶ The private enterprises overwhelmed the state enterprises.
- ▶ Guangdong got close to Hong Kong:  
Beijing stresses patriotism (北京愛国)  
Shanghai loves going abroad (上海出国)  
Guangdong sells out motherland (廣東売国)

# Gross Domestic Product (GDP) China (yuan)




# Foreign Direct Investment (FDI) China (US dollars)





# What was happening in Shenzhen SEZ, Guangdong

- 1. Shenzhen district governments started selling the land use rights to foreign enterprises.
  - 2. Foreign real estate agents in Shenzhen sold the land use rights to joint venture manufacturers.
  - 3. Joint ventures exported their products tax free via Hong Kong.
  - 4. All of them, the Shenzhen government, the joint ventures, and Hong Kong made a record profit.
  - 5. Before long, the other counties and cities in Guangdong started doing the same.
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- By the mid-1990s, China's other provinces followed Guangdong.
  - By 1997, China had achieved a “miraculous” economic development and become the “factory of the world.”



# The components of the economic break through in Guangdong

- 1. People
- 2. Goods
- 3. Money




# People



- 1. There was a huge pool of workers, who were young, hard-working, and ambitious: China's potential excess labor force in the countryside was 670 million.
- 2. There was a group of forward looking and well-educated Chinese local cadres: the post-Cultural Revolution college graduates happened to be coming of ages.
- 3. Many Japanese managers and engineers were available as the Japanese economic bubbles burst in the end of 1989.
- 4. These three parties, the Chinese workers, the Chinese cadres, and the Japanese managers happened to meet in Shenzhen in the early 1990s.



# Goods: Supply



- ▶ Land lease was available cheaply. The land lease price went down sharply right after the Tiananmen Incident in June 1989.
- ▶ Buildings for factories were available cheaply. Most of the large state-owned factories were out of business by the end of 1980s.
- ▶ You can import raw materials via Hong Kong tax free.
- ▶ You can bring used machines into Guangdong tax free.
- ▶ You can export all the finished or semi-finished products tax free.






# Goods: Demand

- ▶ There was strong demand for cheap consumer goods: shoes and T-shirts
- ▶ There was strong demand for modular parts: cameras and watches.
- ▶ There was strong demand for medium-skill assembly work: home appliances, cell-phones and computers.
- ▶ There was strong demand for OEM (original equipment manufacturing): motorcycles and automobiles.
- ▶ Demand was so strong that you do not have to worry about sales.



# Money: Guangdong as a huge backyard of Hong Kong

- ▶ 1987.Dec: The Beijing government allowed the first public tender of the land use rights (50 years) in Shenzhen.
- ▶ Guangdong's land was not suitable for farming but good enough for the factory.
- ▶ Shenzhen is closer to Hong Kong than to Guangzhou, capital city of Guangdong.
- ▶ The Chinese magnates in Hong Kong were looking for cheap land and cheap labor for their business.
- ▶ The sales of the land use rights was slow, however. China's future was murky and its economy remained socialist.




# The first turning point: The Tiananmen Incident in June 1989

- ▶ To local cadres in Guangdong: the central government was busy with other things. “天高皇帝遠 the sky is high and the emperor is far away.”
- ▶ To Hong Kong magnates: a golden opportunity to invest in Guangdong. The price of the land use rights hit the bottom. Tough competitors were not likely to show up for a while.
- ▶ To Japanese managers: small business owners had a chance to make it big. The initial cost of starting a manufacturing firm in Guangdong was about 2.5 million yen. (Kojima, 2015)




# Hong Kong magnates: fast-moving risk takers

- ▶ 李家誠 Lee Ka-Shin : Real Estate magnate
- ▶ Henry Fok: Hotels and resort estates
- ▶ Stanley Ho: Gambling magnate in Macau
- ▶ Ran Ran Shau: Movie and entertainment business
- ▶ Y.K. Pao: Shipping and trading companies



# The second turning point: Deng's Shenzhen trip in January 1992.

- ▶ 1992.Jan-Feb: Deng came down to Shenzhen and endorsed what had been going on in Guangdong since 1989.
- ▶ The wall separating Shenzhen Special Economic Zones (SEZs) from other counties in Guangdong fell.
- ▶ In a few years, all of Guangdong became a huge SEZ.
- ▶ Hong Kong magnates grabbed the best deals in Guangdong.
- ▶ Chinese business people in Hong Kong, Taiwan, Singapore jumped on the bandwagon. So did the Japanese and Korean business people.



# China's Domestic Politics mattered

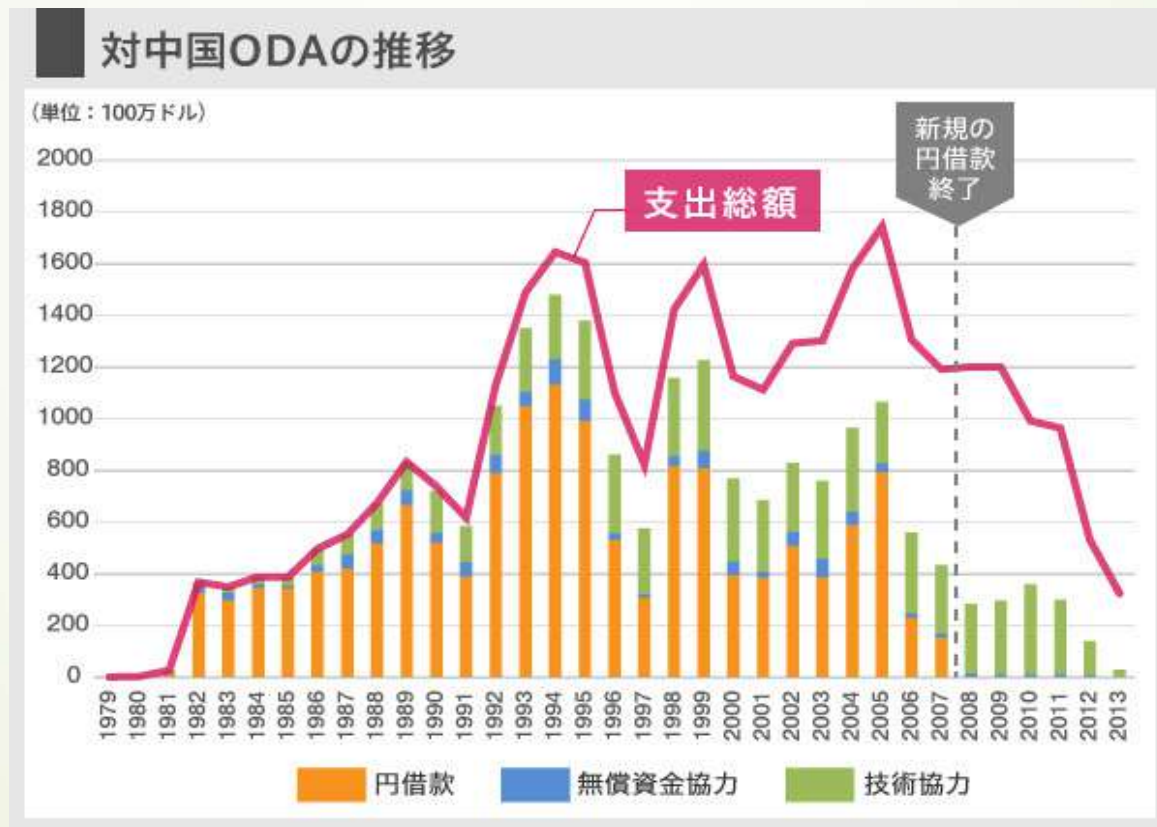
- ▶ Deng silenced the conservatives who resisted the introduction of market economy into China.
- ▶ Deng tried to reform the socialist economy in 1984 but failed. This time, in 1992, the conservatives could not stop Deng. Socialist orthodoxy was in big trouble since the dissolution of the Soviet Union in November 1991.
- ▶ Deng let a competent manager take charge of the Chinese economy: Zhu Rongqi
- ▶ Deng made use of the reformist legacy in Guangdong: old cadres like Xi Zhongxun (father of Xi Jinping) and Xu Jiatung had cultivated informal ties with Hong Kong.



# China's Foreign Policy also mattered

- ▶ Deng let Hong Kong magnates make a heck of money in Guangdong: As a result, Hong Kong became a major gateway into Guangdong and China.
- ▶ The Chinese local cadres had learned from Hong Kong how to make money easily and quickly. (Xu Jiatun, 1993)
- ▶ Deng let Taiwanese business people join the money making game in Guangdong via Hong Kong.
- ▶ Deng's "low-key" foreign policy helped three "partners" come and invest in China: The Japanese Prime Minister Kaifu visited Beijing in August 1991. Emperor and Empress in October 1992. South Korea normalized relations with China in August 1992. President Clinton decided to "de-link" human right issues from the economy in May 1994.

# Japan helped: Japanese ODA (Official Development Assistance) to China








# Local rules in Guangdong favored foreign direct investment (FDI)

- ▶ The utmost duty of the Chinese local cadres was the economic development.
- ▶ The Chinese local cadres had de-facto discretion over wide-ranging business transactions. They cared much about profit and little about environmental protection, legal rights of the workers, and the directives from the central government.
- ▶ The most popular way to make a grade was to entice foreign investment into their counties. The competition was fierce. Local cadres offered various sorts of “preferential treatment” to foreign companies.
- ▶ Labor unions were friendly to the foreign enterprises.
- ▶ Workers remained un-protected but felt happy. They got something hardly available in the past: the cash.



# Everything must end

- ▶ 1997. Feb. : Deng Xiaoping died.
- ▶ . July : China recovered the sovereignty over Hong Kong
- ▶ .Aug.: The Asia financial crisis broke out
- ▶ .Sept. : 15<sup>th</sup> Chinese Communist Party Congress
- ▶ .Oct.: CCP Party Chief Jiang Zemin visited the U.S.
  
- ▶ 2008: Beijing Olympic Games
- ▶ 2010: Shanghai Expo




# Relative decline of Hong Kong/Guangdong in the 2000s

- ▶ 2003: labor shortages surfaced in Guangdong
- ▶ 2007: The Chinese Labor Contract Law enacted
- ▶ 2008: The Chinese government decided to collect 10% corporate income tax from Chinese state enterprises listed in Hong Kong
- ▶ 2015: The richest man in Hong Kong, Lee Ka-Shin announced that he would move his headquarters to Cayman Islands (Yukawa, 2016)



# Implications and further research questions

- ▶ Does the Chinese Model of the economic development make sense?
- ▶ What happened in Guangdong in the early 1990s was a “process,” not something that happened in an instance.
- ▶ The process was “path dependent” – the outcome was not automatic but dependent upon the precedents, the sequence of events, and the organized memory of the participants.
- ▶ Why no break through happened in Russia? (or any former socialist countries?): Jacobinism died with Chairman Mao. Not so in Russia. Ukraine was not Guangdong and Crimea was not Hong Kong.



謝謝大家！

