



THE RETURN OF CHINA TO THE GLOBAL ECONOMY

**IMPLICATIONS AND OBSERVATIONS
ON CHINA MEGATRENDS & THE
REMAKING OF THE CHINESE
CIVILIZATION IN THE 21ST CENTURY.**

FOONG WAI FONG

Founder & Director, Megatrends Asia
waifong@get-ed.com

Lecture Summary Notes for Participants of The Close-Up on The
New China Program © Copyright Reserved, Megatrends Asia.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century

Foong Wai Fong

Founder & Director, Megatrends Asia

The Dragon Rises in the East. The Chinese Civilization boasts a continuous record of more than 5000 years. Her many cycles of rise and fall display a distinct record of a quarter of humanity in search of a fuller life. The recent 200 years of Chinese history has been most dramatic on the Chinese psyche. In retrospect, one could put together the cumulative effects of key historical moments; the effects of the emotional impact of Mao's rule in China with the subsequent cultural revolution and the humiliation brought on by Western powers as a "creative destruction" process to genetically-modify the culture of the Chinese. The explosive energy released by the reforms put in place by Paramount leader Deng Xiao Peng had its sparks smolder in the decades of decay, centuries of war, abject poverty and material backwardness. 100 years from now, when we look back at the 1979-2008 period, of dramatic change in scale and speed of political, economical and social lives in China, is a ground-up expression by the Chinese as a great civilization that is working to regain its leadership position in the world today.

The Chinese doesn't deserve to be poor. This is what the phenomenal change in China is all about. Communism and Western humiliation had somewhat "leveled" the Chinese society, where many were kept poor. The reforms allowed "some to get rich quicker than others" and "development is the only way out." The pent-up energy at the end of the 70's was so strong, causing people to want to be done with an impoverished life and return to the glories of richer material and spiritual lives experienced in several past periods of their long civilization. In 3 decades; China went from communist and spiritual to a new value proposition; "A modern person must be able to make money." To get to that end, the Chinese have become most pragmatic and open in learning from the world.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

China's Moving Development Pattern:



1. 1980's - The Pearl River Delta (PRD)
2. 1990's - The Yangtze River Delta (YRD)
3. 2000 - The Bohai Economic Ring (BER)

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

DEVELOPMENT ZONES & LEADERSHIP

While China makes great strides to join the global economy and promote rapid modernization of its economic structure and business culture; we can expect China to continue with her centuries-old “*rule of man*” culture for a very long time to come. By “*rule of man*,” development patterns was always tied with the leadership at the helm, it has been like this for the past several thousands of years; and judging by what happened in the last quarter century in efforts to build a new China; the cultural DNA did not change; the same pattern was obvious. In this case, the past guides the future for China, and one way to view the past trends in China’s development is to tie the development pattern with the leadership of the day. Each generation of leadership has their own priorities and regional focus set in the context of the overall development.

China is an enormous country; it is in fact a nation with many regions. The famous flying-geese formation described by Japanese economist Kaname Akamatsu about the shifting of FDI in Asia is now being played out in the Chinese mainland. The shift is from south to north along the coastal region; the Chinese public is now referring to these robust economic growth regions generally as the gold coast. This shift can be summarized as follows:

1 | DENG XIAO PING & THE PEARL RIVER DELTA (PRD)

Modern China’s economic reform began in 1978 in the southern most tip city, Shenzhen when Paramount leader Deng Xiao Ping declared, “development is the only path forward.” When Deng was at the helm in the 80’s, the region that was given the most liberalization for growth and development was the region, centered on the **Pearl River Delta (PRD)**¹.

The PRD became a massive manufacturing center. This is the first concentration point of foreign direct investment, very large inflows came from Hong Kong businesses, which used the region surrounding Shenzhen and southern Guangzhou as their backyard for labor intensive industries; making watches, Christmas decorations, plastic goods and toys etc. Then came the Taiwanese, who took their labor-intensive operations to the region; making the southern region a powerhouse for shoes, textiles and electronic components. Shenzhen was built from a humble fishing village to today’s sprawling city of 7 million people, with the highest per capita income in China. 11 cities in the Pearl River Delta had their fair share of attention and were given focus in development; with the Canton Trade Fair serving as a window, the China Export machine was built. The southern region was recording double digit growth rate, far exceeded the national average of 8%, giving rise to the first group of middle class consumers in China; making Shenzhen the most affluent city in China².

¹ The PRD covers eight prefectures of the Guangdong Province, namely Guangzhou, Shenzhen, Zhuhai, Dongguan, Zhongshan, Foshan, Huizhou and Jiangmen, and the Special Administrative Regions of Hong Kong and Macao.

² The PRD has become the world’s workshop and is a major manufacturing base for products such as electronics (such as watches and clocks), toys, garments and textiles, plastic products and a range of other goods. Much of this output came from foreign invested enterprises production bases for export. The PRD Economic Zone accounts for approximately one third of China’s trade value.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

2 | JIANG ZEMIN AND THE YANGTZE RIVER DELTA (YRD)

The 90s belong to the **Yangtze River Delta (YRD)**³. During the 90s, regions further up north with their own set of competitive advantages joined the reform and opening efforts. The Asian financial crisis of 1997 and greater competition within China forced industries to move up the value chain where they search for higher level skill and competence, this prompted industries to move further up northwards. This period also coincided with the reign of President Jiang Zemin, whose home base was Shanghai and many members of his team hailed from Jiangnan, or south of the Yangtze River. Shanghai received a lot of attention and liberalization, and the Pudong New Area became the showcase window project of this era. A whole new development area, measuring some 522.8 sq km was created, a modern state of the art financial district Lujiazui emerged out of once humble paddy fields; today many of China's most outstanding architecture are to be found in the Pudong New Area. Shanghai is now vying to become the new financial hub of China, and claiming the title of the dragonhead of China's development. FDI followed this shift in attention to the north, resulting in the 15 cities in the Yangtze delta being opened up, and received various levels of attention and foreign investment. Today, the Yangtze River Delta has become the most robust region in the entire new Chinese economy. Shanghai went through a rapid renaissance and rebuilding, it became the hottest destination for technology-intensive FDI and higher knowledge-content economic activities. The Zhejiang province recorded the most successful transformation in the privatization of domestic Chinese businesses, while Jiangsu Province went through a series of liberalization that has made

many of its cities such as Suzhou, Wuxi, Nanjing a stronghold for computer and electronics manufacturer. Taiwanese investment also moves north from the south, set in motion an internal restructuring of industries in response to change of leadership and policies.⁴

3 | HU JINTAO AND WEN JIABAO AND THE BOHAI ECONOMIC RING

Judging from the development of events, under the present Hu-Wen leadership the center of growth will move to the **Bohai Economic Ring (BER)**, which is known widely in China as the Third economic pole in China. Sometime also known as the Bohai Ring, this region includes Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia, Liaoning and Shandong (see map) . The region occupies 12% of China's land and holding 20% of its population. Since the late 1990s, and especially after the 14th Central Consultative People's Committee (CCPC) Meeting, this area has accelerated its development and opening up and has become the hotspot and focus of both domestic and overseas attention. Within this Ring, state owned enterprises in the heavy industries sector dominate.

³ The PRD has become the world's workshop and is a major manufacturing base for products such as electronics (such as watches and clocks), toys, garments and textiles, plastic products and a range of other goods. Much of this output came from foreign invested enterprises production bases for export. The PRD Economic Zone accounts for approximately one third of China's trade value.

⁴ **Emergence of the PRD Economy:** The PRD has been the most economically dynamic region of the People's Republic of China since the launch of China's reform programs in 1979. The region's Gross Domestic Product (GDP) grew from just over US\$8 billion in 1980 to more than US\$89 billion in the year 2000. During that period, the average real rate of GDP growth in the PRD exceeded 16 percent, well above the national figure of 10%. In 1991, almost 50% of foreign investment in China was in Guangdong, and 40% in the PRD. By 2001 its GDP rose to just over US\$100 billion and it was experiencing an annual growth rate more than 3 percent points above the national growth rate. The abundance of employment opportunities created a pool of wealth, middle-income, professional consumers with an annual per capita income that puts them among China's wealthiest. According to a survey conducted in 2000, the region has 40.8 million people (3.2% of total population), 0.4% of the land area, but accounts for 8.7% of GDP, 32.8 percent of total trade and 29.2 percent of utilized foreign investment in 2001.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

CATHING UP: ACHIEVEMENTS OF THE PERIOD 1979-2008

- China ranks No 1 in foreign reserve holdings in the world, No 1 in attracting foreign direct investment (FDI).
- China ranks No 2 in global oil consumption, after the USA.
- China ranks No 3 in world trade.
- China ranks No 4 in global GDP production.
- China is a 24 hour construction site: it has constructed more than 800,000 km of highways in the last 15 years; it is building 300 new cities; with Chongjing topping as the world's largest city with 30 million populations, railroads, bridges and post modern infrastructure are rising in China to welcome the Olympics.
- In Less than 10 years, China built the world's largest mobile telecommunication network; with over 300 million mobile phone users and over 100 million internet subscribers. Important to note: The Chinese Internet and Mobile SMS talk in Hanyu (Chinese)

THE CHINA BOOM IN PERSPECTIVE:

- China Rising is Miracle and Mirage, both hype and real. The creation of wealth has been unprecedented and the emerging Chinese consumer market holds enormous potential. The emerging Chinese consumer market will integrate with those Chinese in the greater China region.
- A World Bank study said, "The growth outcome (referring to GDP), while high in comparison with other countries, is not commensurate with the input of resources." During their high growth phases, both Japan and Korea grew faster than China today, with a lower level of investment. The growth in China is driven by levels of savings and investment the world has never seen in a market economy; mobilization of capital, labor and raw materials provide the bulk of its growth, not productivity gains. There is a lot of wastage and structural bottlenecks abound.
- Export-led and fixed investment driven growth will have their limits. Half of the Export-sector economy is contributed by foreign-owned firms; the Chinese economy today is still dominated by state-owned enterprises. The Small Medium Industries (SMI) sector faces tremendous constraints to funding and support for innovation and market development.
- China has an enormous energy challenge. It has less than 2% of the world's oil reserves; but is already the world's second consumer of petroleum, accounting for some 25% of world trade in oil. With such a gap in domestic supply and demand, energy is being recognized as a core national interest among China's national security apparatus. Energy security is not only economically vital, but has enormous political, diplomatic and military implications. Energy-related diplomacy with oil producing regions will feature high on the Chinese agenda. In the meantime, driven by necessity, tremendous potential exists in opportunities to develop sustainable energy sources and products for the Chinese market.
- Shortage of adequate talent to support development. In spite of the large numbers of university students graduating every year, companies in China compete to hire the talent with skills compatible with the changing market economy. There is also a "disconnect" in the supply chain of human resources to support the modernization, With the One Child policy and the desire for upward mobility, Chinese parents want their children to be schooled in the best universities and disdain the nurturing of vocational or technical skills. The shortage for competent professionals and technicians threaten to derail the China boom.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

The MEGATRENDS & The Remaking of the Chinese Civilization in the 21st Century

1. *From Paramount leader to Paramount Party:*

A big step forward in China's thousands of years of traditions; the "rule of one man" is giving way to "party rule", albeit a one party rule. Recent political events demonstrated for the first time government officials get sacked for incompetence and not for ideological differences. Smooth transition of power at the top is watershed events in the history of politics in China. To manage China's vast country and maintain a balance among its complex challenges; many Chinese believe that without a strong economic foundation and a culture for rule of law, only a centralized "paternalistic" oriented governing style could help China navigate the course of modernization.

2. *From Villages to Cities.* Of the 1.3 billion people in China, 900 million live in rural areas, the current urbanization rate is 38%, and official target is to increase this rate to 50% by 2010. Average urbanization rate during the 24 years since 1979 has more than doubled compared with the previous 30 years. The structure of the economy has not sufficiently transformed to support a large urban population, urbanized labor faces serious employment challenges. Basic infrastructure in sanitation, transport, health and education too has not kept pace with this rapid migration of people from rural to urban areas. The real estate bubble in the cities is severe, the national average of real estate investment to national fixed asset investment is 18%, and has reached 55% in some cities. Rapid urbanization is also aggravating the environmental degradation challenge. Some 100-150 million surplus rural workers are adrift between the villages and the cities.

3. *From Communes to Middle Class:* The real opportunity in China's market is in the emerging middle class, whose spending power will grow in the next 20 years among 600 cities.

The educated middle class is elitist. Like the experience of other parts of Asia; many of its members went from the educated elite who led

reforms and change to become the vested interest upholding the rule of the day whereby many of them do not want further change. Half of those on the Forbes 100 China Millionaires list made their wealth from real estate and "if unrest like 1989 occurs again, much of the middle class would be on the government's side," an observation made by Professor Jonathan Unger of the Australian National University and head of the Contemporary China Center. This observation is shared by many Chinese intellectuals. The prosperous shoppers and residents of gated high-rises include businesspeople, members of the party elite, public servants, academics, high school teachers, doctors, engineers and white collar staffs of state-owned enterprises. These people are setting the tone and tastes of respectable urban society. Moving as many people in the country towards xiaokang (middle class) is an much publicized official policy of the Chinese government.

4. *From Low-Tech Low Cost to High-Tech Low Cost*

When China was LowTech-Low Cost, the world's manufacturing companies celebrate the opportunity to relocate their operation to China. With improved education, and more and more Chinese companies accumulating their experiences from decades of acting as contract-manufacturers, Western companies through 'copy-exact' taught the Chinese the know how. In manufacturing, the Taiwanese firms especially have perfected the operation process and are masters of production efficiency or costing-down. When Chinese engineers, researchers, professionals, in their search for better jobs and in their migration to the cities begin to take on service and professional jobs, more and more high tech jobs could be produced at low cost in China. Already China's export of cars (mainly trucks for commercial use to developing countries) have exceeded imports. The Chinese network company Huawei could be entire telecommunication networks at very competitive prices for Huawei is already winning jobs in Europe and other developing countries.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

5. *From the Good Life to caring for the Good Earth.* While Louis Vuitton stores in Shanghai sells the latest range of haute couture and the new rich party in the trendy lifestyle restaurants feasting on imported wine and bottled water, 600 million in China live on contaminated water. Official awareness of the environmental challenge is high, talks of Green GDP sound urgent, and approaches to tackle the problems have varied results in different regions. Frost & Sullivan, a consultancy estimates that China would need 10,000 wastewater treatment plants costing some US\$48 billion just to achieve a 50% treatment rate of its used water. The air is not much better, former Prime Minister Zhu Rongji once said if he worked and lived in Beijing, his life would be shortened by at least 5 years. According to the World Bank, China has 16 of the world's 20 most polluted cities.
6. *From Export-led to Domestic Driven*

The success of China's formidable export machine is breeding challenges on China's relationship with the world; with complaints on the trade surplus, the strength of the Renminbi and the pain it causes to higher cost producers elsewhere. Since 1978, China's trade with the world has increased 70-fold and trade's share of GDP has risen five fold; China's share in world trade has increased from less than 1% (0.8%) to today's 7.7%. Much of this trade were generated by the foreign-invested enterprises in China, accounting for 58% of China's exports. Going forward, China need to upgrade income of a large majority of its middle class to provide the driving force for a domestic driven economy. The affluent urban consumers, hardly 1% of Chinese population but have a combined purchasing power of 500 billion RMB are already making many MNCs reaping tremendous profit from their China operation. A McKinsey research forecast that 77% of urban Chinese households living on less than RMB 25,000 a year will drop to less than 10% by 2020. This would mean that Chinese urban population will have a spending power of 20 trillion Renminbi, almost the size of Japan's consumer market.
7. *The Overseas Chinese Network at work in China:* It may be more important to find out who are the real dynamic players in the Chinese economy today. Those who are harnessing the China advantage for global competitiveness are overseas Chinese groups; those who are prospering from the rising consumer market in China appreciate Chinese taste and needs. In this respect, the Taiwanese and Singapore companies are worth watching. The Overseas Chinese network, not by design, could be bringing about a major wealth restructuring and relocation within the global economy by effectively harnessing Chinese advantages with knowledge of the international marketplace.
8. *From A Developing Economy to a Culture in Renaissance:* Many observers express that China is not developing world-famous brands, and there is little innovation. Perhaps not so in the traditional industrial sectors but the huge domestic market in China will spawn innovations and renaissance in a range of cultural goods including cuisine and design offerings. The world needs to be reminded that although China is a developing economy, culturally-wise, it has a huge reservoir of knowledge and creativity. At work are some of the most creative talents from around the world, creating interesting offerings of China Chic.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

CHINA STRATEGY: Many agree that you ignore China at your own peril. But succeeding in China is not easy. Consider the following while formulating a China strategy:

1. **A KEY SOMEONE NEEDS TO BE ON THE GROUND:** Invest in a key anchor staff and he or she spend a year living and working with the Chinese in China to learn the uniqueness of the Chinese world, before you even attempt to start the project. You must adjust yourself to accept that China is different from the western world you are familiar with, and that it is not going to change any time soon. To deal with China, you need to learn the Chinese way, while maintaining your balance. (If you are not willing to do that, just co-invest with others who are willing to do so) Learn Mandarin, have a grasp of Chinese history and keep an eye on the policy directions. Guanxi and government relations is not about friendship and goodwill, but whether your project is desirable and on the priority list of the Chinese development agenda.
2. **ACCEPT THAT CHINA IS DIFFERENT:** While China is trying to build the market economy, it has a different understanding of its definition as well it has a different desire on how it looks like. The Chinese has declared that they are building a “market economy with Chinese characteristics”, these characters are yet to be defined and they are still feeling the stone underneath the water. It is therefore of paramount importance to key a keen eye on Chinese policy directions. The foundations for the market economy are still being laid. China, in spite all the right talks of modernization and integration with the world, still remains very much a “state-run” society.
3. **PAST EXPERIENCE & MODEL NOT DIRECTLY RELEVANT:** The physical state of affairs and the dynamics are changing so rapidly that makes knowledge and experiences gained elsewhere not directly relevant in China. A humble and learning attitude is key to getting a grip of reality.
4. **A GLOBAL-LOCAL TEAM:** Build a team whose members have mastery of the language and the culture. This knowledge is essential to help you decode and get inside the psyche of the Chinese people, to help you understand how things work in China. Chinese society is open and receptive to new ideas. There are opportunities to build new brands, many local brands abound, but you need talents with the culture-fluency to deliver an effective communication program. On your team, it is essential to include the most motivated and passionate Chinese young persons that you can find. The future of your company is built upon building these young Chinese managers and leaders.
5. **CHINA IS A MIXED PICTURE:** Appreciate that China is a mixed picture, there is both hype and substance, and paradoxes that exist in the system are abundant. China’s growth is sustainable and unsustainable depending on locality, industry and sector. One needs to stay vigilant on this on-going sorting out process. Learn to cope with the diversity but have a sharp focus on a particular niche and location could yield better results.
6. **YOUR POCKET NEEDS TO BE SUFFICIENTLY DEEP and YOUR PATIENCE QUOTIENT NEEDS TO BE HIGH:** Budget sufficiently, for the gestation period could take much longer than you expect, and never underestimate the need to provide for building government relations at all levels. China may have more than a billion people, and to get into their hearts takes time and effective communication and distribution network. As proven to those who are successful and patient, the rewards are worthy of the effort. Patience is a real virtue and quality that you want to look in your China team.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS &
THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)

ABOUT THE AUTHOR



FOONG WAI FONG

Ms. Foong is an entrepreneur, a much sought-after speaker and advisor to multinational companies and institutions on Asian trends. Besides her full time role in The GEM Group and Megatrends Asia, She serves on the advisory Board of many international organizations including the Center for Strategic and International Studies (CSIS) Global Women Leadership Forum, Washington, the State of the World Forum, San Francisco, and the International Advisor Board for the Economic Development Board of the Port of Rotterdam. Wai Fong is named Top 50 most influential women leader in Malaysia by Cittabella Magazine Malaysia in 2005.

Well-traveled and versatile in key Asian languages, she regularly contributes to regional economic and business publications. She has 3 best-selling books to her credit; “The New Asian Way”, “We have to talk, Mr. Prime Minister” and “Culture is Good Business” (Voted Top 10 best books in Taiwan in 2003 by the Influential leading Magazine Commonwealth). The much-acclaimed publication “Culture Is Good Business” set in motion a robust discussion and trickled many initiatives towards the development of Creative and Cultural Industries in Asia, Wai Fong is the first scholar to bring forth this subject into the public/private space. She has spoken widely in China, Taiwan, Hong Kong and other parts of Asia on the subject and is engaged by governments, corporations and trade organizations on the subject in the region. Her earlier work included the founding of Megatrends Asia, a trend research organization focuses on Asian trends in partnership with US Futurist and author of best-selling book Megatrends John Naisbitt. The research of the best-selling book Megatrends Asia, co-author with John Naisbitt, was directed by Wai Fong from her bases in Kuala Lumpur, Hong Kong and Shanghai. Wai Fong holds an economics degree from the University of Malaya, a third generation overseas Chinese, she has worked in Asia, Europe and the United States.

Ms Foong has extensive business experience, having built a successful business in Asia and received the Top Women Entrepreneur Award from the Malaysian Government. Ms Foong now heads a preparatory committee on founding a Center for the management of Cultural Resources and Creative Industries for Asia. She is also a noted expert on Contemporary China and modern Chinese lifestyle trends. Since 1997, She has moved her base to Shanghai/Suzhou to co-develop the GEM Group’s education project and to develop The Global Hanyu & Culture College.

The Return of China to the Global Economy

Implications and Observations on CHINA MEGATRENDS & THE REMAKING OF THE CHINESE CIVILIZATION in the 21st century (cont'd)



ABOUT THE GEM GROUP (get-ed.com): Global EduTech Management Group (GEM) is an educational investment holding and management group dedicated to developing education ventures in China and Southeast Asia. The investors of the group comprise high net worth professionals and owners of public companies from China and Southeast Asia. GEM is committed to building a network of third generation institutions of higher learning in China.



Global Hanyu®
全球汉语

The Global Hanyu & Culture College (globalhanyu.com) GEM's Flagship College in Hanyu and Culture provides opportunities to foreigners to study Chinese language and culture in China. The intensive immersion programs allow learners to live and study in China while mastering the language and understanding Chinese culture. Its flag-ship "Close-up on the New China" program, is an intensive residential program which help foreign executives and MBA students to gain first-hand knowledge of the going-on in modern China, the program is being used by business schools as their international program to help executives to gain global exposure. The programs include:

- **Intercultural Courses:** A series of inter-cultural courses, tailored made to the needs of your groups, to help you understand why the Chinese behave in a certain way, and how to be effective with them.
- **Close Up On The New China:** This is a fully residential program designed for MBA, Executives and CEOs to give them an up-close view of contemporary China. There is a basic program of 4.5 days to a much longer and comprehensive program for those who want a deeper contextual experience as well as time to build networks in China. GEM invites companies, university business schools and MBA/EMBA schools as well as management associations, institutes and government training institutions to work in partnership and use the Close Up on The New China program in part to strengthen their global skills.

Contact Details:

Program Director: Rosey Peng • rpeng@get-ed.com

Program Administrator: Wong Wanting • twang@get-ed.com