THE SEJONG INSTITUTE

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Implications for the Pacific Rim and Korea

Edited by Denis F. Simon
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Published by the Sejong Institute
CPO Box 8102, Seoul, Korea 100-681

The Sejong Institute is an independent, non-profit organization devoted to research on international affairs, national security, and Korean unification.

Printed in the Republic of Korea by the Kwangil Printing Co., Seoul, Korea.

ISBN 89-7429-322-6 93340

Introduction

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Major Changes have taken place in China's economy since the onset of the four modernizations program in the late 1970s. These changes have included the introduction of significant economic reforms, fundamental changes in the structure and operation of the Science and Technology system, and inauguration of an "open door" policy designed to facilitate foreign investment and technology transfer to China. While there have been several false starts to each of these programs, and each has experienced a number of difficulties in terms of political opposition and financial shortfalls, the fact is that substantial progress has been made in moving China a way from reliance on the Maoist socialist model that dominated China's thinking about economics and technology since 1949.

Today, China is making its impact felt in a number of key areas in the global economy and the Pacific Rim regional economy. China's trade with the outside world, for example, has grown tremendously over the last ten years. In 1980, China was the 26th largest exporter in the world economy; by 1993, it had become the 11th largest exporter. Once a country that followed the principles of "self reliance," China is currently one of the most active nations in terms of trade activity in product markets ranging from commodities such as wool and petroleum to manufactured goods such as color TVs, clothing, shoes, and toys. The composition of China's trade has gone from being focused on primary goods (50.2% of China's trade in 1980 was accounted for by primary goods) to being heavily oriented towards manufactured products (in 1993, manufactured products made up 81.8% of China's exports). Chinese leaders have made known their intention to gain membership in the World Trade Organization for their country as part of an effort to offset trade disputes that China currently faces with the US and the EC. The OECD nations see Chinese membership as part of a process of harmonization, with the expectation that the rules and regulations governing China's trade regime will become both more transparent and more free market oriented.

In the field of foreign investment and technology transfer, many large multinational firms have responded to China's outward looking policies. Major companies such as NEC, Fujitsu, Xerox, IBM, Motorola, Siemens, Philips, Daewoo and Samsung have set up operations in China – some oriented towards the domestic market and some oriented towards exporting into other parts of Asia or the world. China has become the playing field for the playing out of global competition in industries ranging from telecommunications to auto mobiles. Peter Drucker, the noted management guru, once suggested that to be a global corporation, a firm had to have roots in three markets: the USA, western Europe and Japan. Today, without exaggeration, that statement requires modification; to be a true global player, firms must have a stragic presence in China. It is no accident, for example, that dynamic corporate leaders such as Bob Allen of AT&T, Jack Welch of General Electric, and Lee Kun-hee of Samsung, have noted the tremendous importance of China as one of the world's three "mega-markets" for the 21st century. The market of 1.2 billion that for so long had been thought to be simply a myth has now become a reality.

In 1991, two years after the turmoil of the Tiananmen incident, foreign investment into China seemed to take off, perhaps in response to the growing opportunities and perhaps in response to the growing belief that the violence in Tiananmen Square of June 4th 1989 was simply an aberration. A similar picture emerges regarding the import of foreign technology. China has spared little effort in encouraging foreign firms to transfer critical technologies, especially in key fields such as semiconductors, computers and peripherals, etc. The importation of foreign technology is designed to act as a catalyst to stimulate domestic technological upgrading, especially, in relation to the promotion of high technolgy industries. It also is designed to strengthen China's indigenous capacity to better meet its own technological needs over time.

In the midst of China's economic push both forward and outward, the Chinese economy has built stronger linkages with many of the key Pacific Rim economies, including South Korea and Taiwan. As the papers by Zhou Yuan and Lee Lai-to indicate, China's intra-regional trade has been growing quite fast as its neighbors in both Northeast and Southeast Asia seek to take advantage of the market of one billion plus. The role of ASEAN in China's foreign trade and foreign investment, in particular, appears to be growing quite rapidly. Foreign investment has grown as well as Korea in the north and Taiwan, Hong Kong, and Singapore in the south seek to harness China's increasingly skilled, low wage work force. China's leadership seems to have taken a greater interest in regional political and military affairs as well, perhaps in response to its perception of the present security environment and perhaps in response to its self-felt need to play a more central role in structuring the post Cold War regional order in the Pacific Rim – especially with the presence of the US and the former USSR having diminished significantly.

Yet, as the paper by Jin-young Suh indicates, the full consequences of China's larger regional posture portends a mixed picture. In contrast to the picture painted by Suh of a China best with succession and social problems, it is clear that China's willingness to assert itself as a more active participant in regional affairs has made some of the countries in the region quite apprehensive. A stronger, more self-confident China, suggest some observers, could become acerbic insofar as outstanding regional issues are concerned. Even putting aside the military dimensions of a more provocative Chinese foreign policy, the potential for there to emerge a more aggressive China in the economic and technology realm also worries some of the economies in the Pacific Rim. For example, what will China's role in APEC be? Will China play a constructive role in creating a new regional architecture for trade, investment, tourism, telecommunications, etc. or will China serve as a disruptive force? These are important regional issues that remain to be addressed as China's modernization proceeds ahead.

At the same time that China has revealed a stronger interest and willingness to participate in regional affairs, it also has begun to assert itself more actively in global economic and technology affairs. The paper by Denis Fred Simon indicates that China is steadily, albeit gradually, being tied into the evolving global economic system. While Hong Kong and Macao may be the largest source of foreign investment, for example, Philips of Holland is the largest foreign investor in China. Similarly, American firms continue to surpass Japanese firms in terms of the total value of foreign investment in the PRC – though as the paper by Roy Grow suggests, the Japanese account for more projects overall. He also suggests that Japanese influence within the Chinese economy should not be under-estimated. While Simon acknowledges the importance of the links with Japan, however, he strongly argues that the Chinese economy is being "globalized" in the sense that local industry is becoming increasingly enmeshed in the global sourcing networks of large MNCs, many of whom are anxious to utilize raw materials, labor, and distribution points in the PRC. While William Fischer argues that Chinese manufacturing and R&D capabilities are still 5-10 years behind that of Japan and the US, and China remains a reactive player rather than a driving force in the game of global competition, it still cannot be denied that Chinese economic influence is growing in importance.

In assessing the future position of the Chinese economy in overseas markets, two additional issues seem to stand out. The first is the disposition of China's so-called "third line" industries. These industries constitute the core of the PRC's military industrial complex. As the paper by Ding Jingping shows, many of the factories and research institutes in the defense sector have been converted to civilian production – some more successfully than others. The good news in this regard is that China's defense sector has always been advantaged insofar as personnel, financial and technological assets are concerned. If China can harness some of these defense assets and refocus them onto profitable civilian production and R&D tasks, the Chinese economy could receive a great big boost. It is not surprising, for example, to see companies such as NORINCO or San Qiu vying to establish business contacts with the world's leading automobile producers or manufacturers of wireless telecommunications devices.

Along with the conversion of military facilities to civilian production purposes, another key issue is the status of China's programs for promoting high technology industries. As the paper by Richard Suttmeier indicates, China is using a combination of plan and market to push ahead with the launching of a number of high technology sectors. As with the military conversion effort, some of these programs have been more successful than others. Some also have experienced more efficient coordination and management from the center than others. Budget limitations, personnel shortages, and equipment problems all plagues the effort to establish a solid foundation for high technology in China. While the abolition of COCOM and the relaxation of export controls by the US government has indeed given China greater access to advanced technology and equipment, the assimilation and digestion processes remain very uneven. Nonetheless, as Suttmeier implies, the Chinese should not be counted out as substantial progress in various fields has been made in a relatively brief period of time.

One of the more interesting aspects of China's expanded global and regional links is the fact that these linkages are growing at the same time that the internal dynamics and structure of the PRC economy are changing. More specifically, the forces of regionalism within China are becoming stronger, driven by both Beijing's lack of funding to support the modernization needs of every province and municipality in China and the growing driven for autonomy by localities via-a-vis the central government. In many ways, Chinese economic policymakers are looking to define and "bound" their economic tasks into smaller, geographically delimited, regional entities to make the task of resource allocation that much more manageable. Today, it is not uncommon to hear leaders in Beijing speak about China in terms of so-called "natural" economic regions. These would include 1) Southwestern China, including Sichuan and Yunnan; 2) Northeast China, including Liaoning and Heilongjiang; 3) East/central China, including Shanghai, Wuxi, and Hangzhou; and 4) South China, including Guangdong, Fujian, Hainan, and the so-called four "special economic zones" set up in the early 1980s.

Several factors give this trend towards regionalism a great deal of importance in terms of China's overall development pattern. Internally, this emphasis on a regional approach raises a number of critical questions about the relationship among the various regions in terms of specialization, allocation of resources by the central government, and domestic market development. The drive towards the development of a fully integrated domestic market could be undermined by excessive emphasis on economically and politically bounded regions. For example, what will happen to the efforts to create a national automobile industry or a national consumer electronics industry? Will regional blockades – which now constitute a serious problem – become even more difficult to handle if regional boundaries become formalized? Relatedly, what will be the relationship between the regions and Beijing? This is an especially sensitive question in terms of tax revenues and other fees collected by the center to cover the operating costs of the central government and to provide some discretionary funding to assist China's poorer areas. Moreover, as the paper by Keun Lee demonstrates, a weakened central government, financially or politically, will be in no position to address the issue of the future viability of the country's state-owned enterprises – one of the most critical bottlenecks to future reform and economic competitiveness.

From an external perspective, the questions are just as challenging and significant. If regional development does acquire momentum, how will this affect the way China interacts with the outside world? Will it be "regions" that are the units of action or will Beijing still have to give approval for various large projects and investment? Is it reasonable to expect a series of "natural" economic regions to incorporate a number of preferred foreign country partners? In some respects, this has already happened in Southern China with respect to the role of Hong Kong and Taiwan in the development of the Pearl River delta. As the paper by Hong Pyo Lee suggests, the creation of "Greater China" does promise to have a tremendous impact on the pace and path of development in the South – with Hong Kong and Taiwan helping to link this region of China into the world economy in a very effective and efficient fashion. Will it happen with the Japanese in Northeast China in places such as Shenyang and Dalian, with the Koreans in Shandong, and with the United States and Europe in Shanghai, Jiangsu, etc.? If this were to happen, would it mean the re-creation of "spheres of influence" as existed in the early years of the 20th century? While none of the authors seem to believe that this will happen in an explicit sense, the paper by Grow seems anxious to sensitize us to the fact, at a minimum, that many of the economic trades and forces that were in place in the early 20th century seem to once again have reared their head in the context of the Sino-Japanese relationship.

Obviously, there are a number of push and pull forces leading to more or less economic integration in China. The drive towards a more regionally-oriented development strategy in China need not mean economic disintegration; it is entirely possible that a well-orchestrated and coordinated effort on the part of Beijing could facilitate the overall modernization of the country by minimizing the complexity that accompanies any effort to deal with China as a whole. Yet, given the competition for scarce resources among organizations in China, combined with the historical desire for greater independence of action, the results could prove to be problematic – leading to an exacerbation of existing problems regarding policy coordination, reduction of duplication of equipment and technology imports, etc. The paper by Hieyeon Keum, for example, details the opportunities for commercial intercourse that are available to foreign firms in Southwest China – a region not widely known in the West. However, it remains to be seen whether foreign companies will seek out these opportunities in the face of that region's much less developed infrastructure and less cosmopolitan character.

Some experts have even gone so far as to argue that the post-Deng era in China will give rise to extensive tensions between the central government and the local provinces – fueled and exacerbated by the growing influence of foreign corporations, international organizations, etc. The paper by David Zweig tries to address some of the questions by putting forth a number of alternative scenarios that could lie ahead for China. One of these scenarios, Zweig suggests, could lead to the collapse of the Chinese economy and the eventual break-up of China. While such scenarios are indeed provocative and worthy of investigation over time, particularly as they might lead us to understand a new internal balance of power within China, the fact remains that China does not seem on the verge of either being dismembered by foreign commercial or political force. Nor do there appear to be radical secessionist forces with growing influence and power appearing on the scene. In fact, for the first time in its history, China will have a nationally integrated communications system, with each province, municipality and town being able to communicate with each other in ways never previously possible. The so-called "three goldens" project, which is China's version of the super-information highway, promises to expand national level credit card and banking, data, customs, and tax networks to facilitate commercial transactions across the country as well as strengthen the government's ability to understand just what is actually occurring in the economy on a nation-wide basis. Add to this the building a thousands of miles of roads, the expanded electrification of railways, and the modernization of the country's power grid and it all seems as if we are on the verge of one of the largest experiments in re-engineering in human history.

This volume examines the assorted dimensions and multiple consequences of globalization and regionalization for China's economic development, while at the same time exploring the overall interrelationship – real and potential – between domestic regional development schemes and China's integration into the Pacific Rim and global economic systems. The papers will assess the degree to which economic fragmentation has or will become a problem for China's economy in the years ahead. Moreover, they will also evaluate the viability of the current regionally – oriented economic strategy – one that has focused on the Eastern coast in the hope that the benefits of rapid growth growth would quickly "trickle-down" into the interior. As the paper by Ik Soo Kim highlights, this strategy has raised a series of critical questions insofar as growing regional disparities have become a source of new concern at the highest political levels in China. Finally, the papers examine the consequences of regionalization and globalization in terms of the role China has and will play in key industries such as textiles, electronics, petroleum, etc. This aspect of the volume holds special importance for countries such as US and Korea. For the US, as the paper by Donald Klein points out, growing economic interdependence with China, offers some substantial benefits; unfortunately, suggests Klein, there also are lots of minefields that could stand in the way of the improved relationship over the long-term. For Korea, if Korean firms, for example, can forge strong relations with key Chinese enterprises, this could help to provide greater access to the domestic market as well as provide access to key production resources for exports into the world economy. As Zhou Yuan stresses in his paper, this helps to explain China's growing interest in Northeast Asia and vice versa. On the other hand, the rapid development of certain Chinese industries could have a negative impact on the competitive position of Korean firms. While it is too soon to tell which of these scenarios will emerge, the fact is that it is essential for policymakers in Korea as well as the other Pacific Rim economies to understand China's economic capabilities, policy intentions, and technological strengths and weaknesses.

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