

The background of the top half of the cover is a photograph of the Bird's Nest Stadium in Beijing, China, during the 2008 Summer Olympics. The stadium's unique, woven steel structure is prominent, with the city skyline visible in the distance under a blue sky with light clouds.

C1978-2008 CHINA EMERGING

How Thinking about
Business Changed

WU XIAOBO

Translated by Martha Avery

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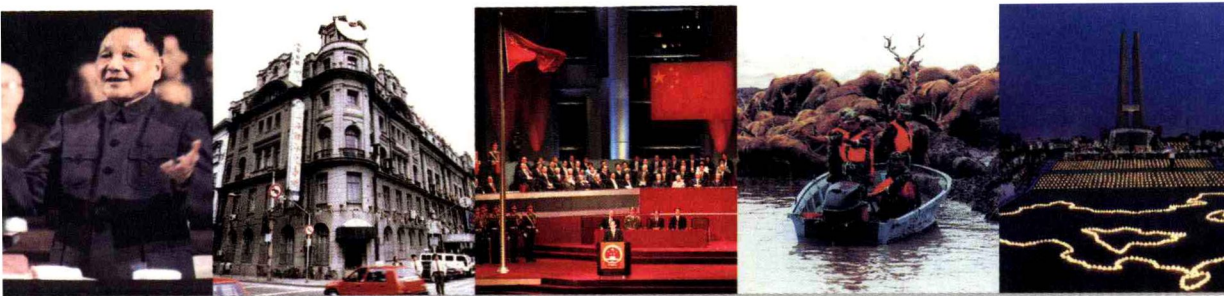
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PREFACE

I am always amazed by the power of perceptions, that is, by the power of what people perceive things to be. History is a succession of mental images linked by time. Years later, when people recall an era, what float to mind are those images, those classic moments.

My intent in writing this book has been to extract certain moments and present them as key to what happened over this past thirty years in China. Over the last four years I have written two volumes that narrate China's evolving reality from a business or commercial perspective. This book is a condensed version of those two volumes—I have reduced 700,000 words down to 60,000 and added 250 photographs.

The thirty years from 1978 to 2008 have marked a period of rapid economic ascent for China. China's abrupt emergence may indeed be the most notable phenomenon in global economics for these decades. Today, as I thumb through the photographs, I am yet again astonished at the changes in China—the photos tell the story no less starkly than the text. I say to myself, "Is this really the same China? Did we really do this?" From the photo of blood-red fingerprints of farmers at Xiaogang Village, pressed onto a document declaring their determination, I read the distress and the resolve of ordinary people. From the image of students at Tian'anmen unfurling a banner that says with such gladness, "Hello Xiaoping!" I can almost hear the welcoming shout of history. From a very indistinct photo of Zhang Ruimin smashing refrigerators—for my assistant and I could not find any better copy—I see with



absolute clarity the moment when the bones of young Chinese entrepreneurs started growing. And from the crazily happy smile on people's faces, I wonder at the phenomenal force behind change.

A Japanese photographer whom I admire, Ogawa Shin-suke, has said that when the most explosive events of history erupt, individuals are always propelling those events behind the scenes. This catches the reality underlying China's recent thirty years. China's changes have been the work of individual people, and have been based on "the freedom-inspired creativity of the Chinese people." The person attesting to this has been none other than China's current Premier, Wen Jiabao.

Oswald Spengler too noted, in *The Decline of the West*, that individuals perform the duties arranged by the inevitable forces of history. Those who are willing participants lead the way; those who are not willing are simply dragged along.

The past thirty years in China have this inherent quality of being inevitable. Events might have suffered some chance interruption, but the underlying necessity persisted, like an in-extinguishable spirit.

Today, we call that spirit a "market economy."

Wu Xiaobo
2008, Hangzhou

PART ONE



The Beginning

1978–1983





Photograph of students of the class of '7811' of the Beijing Post and Telecommunications Institute.

Deng Opens the Door to the World

The winter of 1978 was particularly cold. A thin light came through the grayness of Beijing as a Xinhua News correspondent, using the most oblique innuendo, noted that the political situation was beginning to change. "A hint of sun is finally breaking through the coldness, bringing a small measure of warmth to people's lives. In this huge city, with its crowded apartments, its narrow checkerboard streets, the masses of people can begin to feel some relief."

1978 marked the start of China's momentous change. In this year China began to respond to the call of a different destiny. Ten years of the spasms of the Cultural Revolution and more than twenty years of a "planned economy" had put the country on the verge of collapse. There was exactly one bank in all of China. There was no insurance company, there were no financial institutions. Total reserves in the country came to RMB 108.99 billion, including those of State-owned enterprises and the central treasury. All of this was deposited in the one bank, making up 83.8% of the country's total sum of money. Fixed assets in any State-owned enterprise were paid for with "allocations" from the bank. Working capital came from loans from the bank.

In the twenty years between 1958 and 1978, the average income per year of people in towns and cities increased by less than RMB 4. The average income per year of farmers increased by less than RMB 2.6. To avoid exposing heavy industry to bombing in the event of war, China's industries had been put, not in the economically advantageous position along the coast, but far in the interior, the "rear defense" of the country. Contrary to any kind of rational economic decision-making, important industry was placed in mountainous regions where transport costs were high. Intentionally dispersed at a great distance from each other, factories forfeited any advantage from proximity or economies of scale. Efficiency was extremely low in all industries but light industry in particular was crippled. People used State-issued coupons for grain and daily necessities.

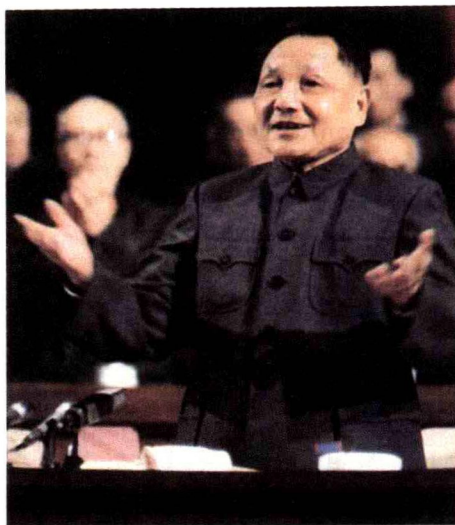
Left: The train station at Yongdingmen in Beijing in 1981.

Right: In the late 1970s and early 1980s, young couples could receive a voucher to purchase furniture when they registered to get married. With this in hand, they had to wait all night in line in order to buy one piece of furniture. This photograph, taken in the summer of 1980, shows a newly married couple returning home with their furniture.

The situation could scarcely continue. Prospects for the country were extremely grim. In 1978, a tiny giant of a man, Deng Xiaoping, stepped onto the stage of history for a second time. He began to guide China's reconstruction and to pick up the baton as he steered the country in the direction of wholesale change. He had astonishing determination, extreme political astuteness, and absolute decisiveness.

Deng Xiaoping was elected Chairman of the CPPCC, or Chinese People's Political Consultative Conference, in March of 1978 at the first meeting of its fifth session. Shortly afterwards, he convened a "National Science Conference"





Deng Xiaoping was made Chairman of the Chinese People's Political Consultative Conference in March 1978. This implied his formal rehabilitation.

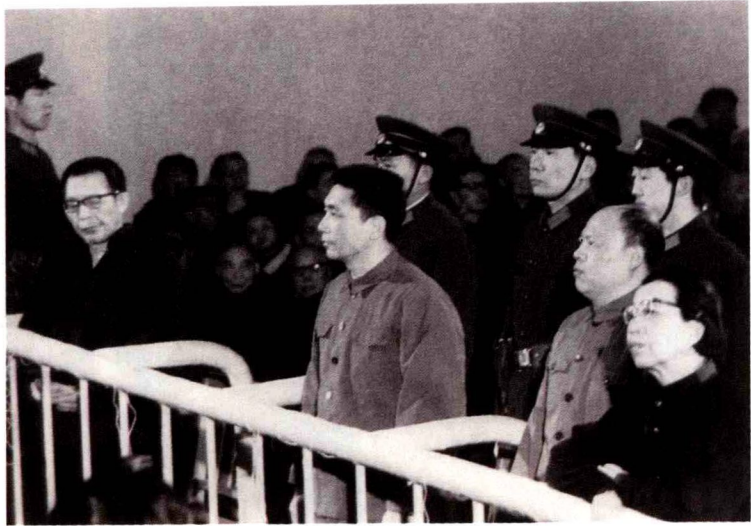
at which 6,000 attendees were astonished and delighted to hear him say that “science and technology are the primary productive force,” and that “intellectuals too are part of the workers’ class.” This was unheard of in a country where, two years earlier, intellectuals were still being persecuted. At this meeting, the leaders of the country acknowledged that China was fifteen to twenty years behind the rest of the world in many areas. They now proposed a stirring plan for the development of science. By the end of the twentieth century, Chinese science was to “catch up with and overtake” the level of science in the rest of the world. This unfeasible goal was not realized, but it served the purpose of arousing the entire country. All Chinese now heard the unmistakable screech of a train switching tracks.

Any major change in history must be preceded by a change in people’s conceptual framework. After a full ten years of the Cultural Revolution, all normal functioning of the country had been destroyed, including people’s ability to think creatively and clearly.



An awarded certificate issued by the National Science Conference, which showed that ‘the springtime of science’ had arrived.

The trial of the 'Gang of Four,' on November 20, 1980. From left, Zhang Chunqiao, Wang Hongweng, Yao Wenyan, and Jiang Qing.



People's minds were in the rigid grip of what was called "extreme leftist thinking." For many years, the country had been closed to outside information, "locked up," which affected the psychological makeup of its population. This now began to change as official indications of the shift in policy appeared in newspapers. On May 11, the *Guangming Daily* published a "special editorial" entitled, "Actual Experience Is the Only Standard for Judging Truth." This was then picked up and republished by the government's Xinhua News Agency. On the following day the official Communist Party organ, the *People's Daily*, published the full text. The author of the piece stated that "any theory that supercedes reality and declares itself to be inviolable and not open to questioning is not scientific, and is not truly Marxism-Leninism, or Maoist Thought. Instead, it is obscurantism, blind idealism, cultural authoritarianism." The article caused a national sensation. Several days later, Deng Xiaoping officially confirmed the new line by saying that the thinking was in line with Marxism and Leninism. He called upon everyone to "cast off the shackles that bind our spirit," and said, "We need to bring about a great emancipation in our way of thinking."

This new approach to the standard by which one evaluates truth was to permeate the entire course of China's reform.



1



2



3

It obliterated the old political principal known in shorthand as the “two all of’s.” The new thinking was quite different. In terms of economics, it aimed to set up a whole new conceptual framework and attitude toward business. This attitude toward the “ethics” or acceptability of doing business strongly influences China’s reforms to this day.

By summer 1978, people witnessed another powerful indication of the momentum for change. The college entrance examination system had been partially restored in 1977, but the first comprehensive exam in over ten years was held in 1978. Over 6.1 million people rushed to qualify for a position in a school. Many were no longer young. In the 1960s and 1970s, many had been forced to take part in a political movement that sent them out to towns and villages in the countryside to work on a long-term and indeed indefinite basis. This movement was a result of lack of employment in cities and represented the government’s attempt to disperse a large urban labor pool to the countryside. People were now frantic to leave farming communities and have a new chance in life. Out of the millions taking the exam, only 400,000 were selected to enter schools. The fates of those

1. Deng Xiaoping visited Japan in 1978, and took a ride on the Shinkansen high-speed train.

2. China reinstituted the exam for entry into institutions of higher education in 1977. This photograph shows an examination hall in Beijing. The slogan behind says, ‘In order to realize the Four Modernizations...’

3. Deng Xiaoping among college students.

GLOSSARY

Two all of’s

After the “Gang of Four” was “pulverized” as the Chinese put it in October 1976, a man named Hua Guofeng became the highest leader in the country and he immediately declared his support for this “two all of’s” principle. It stood for the following motto: “All of Chairman Mao’s policies are correct and we will resolutely follow them; all of Chairman Mao’s instructions are correct and we will be unwavering in obeying them.”

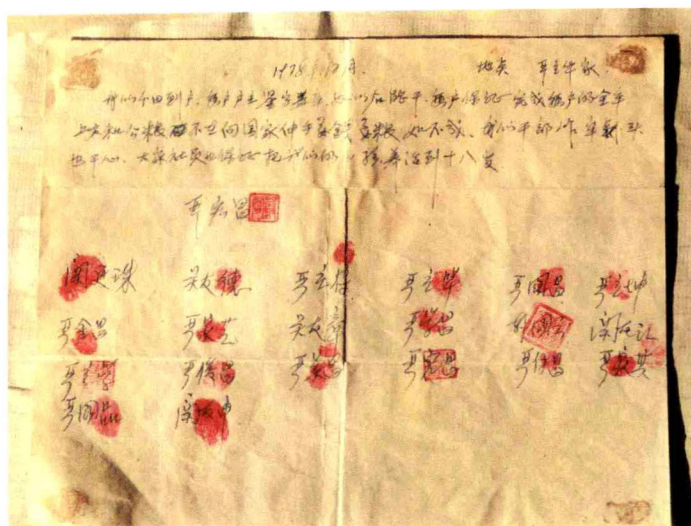
Deng Xiaoping and President Carter, waving from the terrace of the White House on January 31, 1979.



who were chosen changed radically. Today, many of the outstanding students from that initial class are senior government officials and China's premier businessmen.

After successfully initiating a national debate about this "standard for judging truth," Deng Xiaoping made a historic trip to Japan. Deng had studied abroad in France in his youth, and had worked in a printing plant. For over half a century, however, he had not set foot inside a "capitalist" factory. He left China on October 22, and traveled first to Tokyo where he toured steel and automobile factories, then made a special trip to see Matsushita Electric where he met with the 83-year-old Konosuke Matsushita, founder of the company. The former Japanese Ambassador to China, Nakae Yosuke, who was present, recalled the occasion. Matsushita asked Deng Xiaoping what he might find of interest in Japan. Deng Xiaoping replied that Chinese winters were extremely cold, and people had to burn coal briquets to stay warm with the result that they often fell prey to carbon monoxide poisoning. He wondered if Japan had briquets that did not produce carbon monoxide.

Other momentous changes occurred in 1978. One that is often overlooked is that the Chinese government stopped its aid to Vietnam on July 3, 1978. Thirteen days later, China went on to announce that it was canceling all economic and technical



assistance to Albania. On October 23, the Sino-Japanese Peace Accords formally went into effect, and on December 16, 1978, a Sino-American Communiqué was issued, establishing normal diplomatic relations. Many more subtle changes in foreign policy indicated that China had begun to disengage from ideological considerations and put its national policy focus squarely on economic development.

All of these major political changes were centered on Beijing, but in fact the most significant economic event of 1978 occurred not in a city but in an extremely backwards, isolated, and impoverished village. On the evening of November 24, a group of twenty-one yellow-skinned, gaunt farmers crouched around the dim light of a kerosene lamp in a small thatch-roofed hut. They met in secret, in a village called the Xiaogang Production Brigade of Fengyang County, Anhui Province. Their faces were haggard, they wore old rags, but they were solemn and dignified as they pressed their fingers into red ink and then placed their fingerprints on a document before them. Each man swore that he would rather go to jail or be killed than carry on under the existing system. They agreed to split up the fields by household and cultivate the plots on their own. This agreement was later to be placed in the Museum of Chinese Revolution (now part of the National Museum of China) for safekeeping. It

Left: On November 24, 1978, a group of farmers in the Xiaogang Production Brigade in Fengyang County, Anhui Province, secretly signed their 'handprints' to a document committing them to a 'cheng-bao' responsibility system as a way of farming their collective land. This system allowed individuals to farm plots of land separately and to keep what was left over after allocations to the State. 'We hand over to the State the required allocation, the collective retains what has been produced beyond the allocation, and the individual is allowed to keep what is left over.'

Right: The first group of farmers to undertake individual tending of their own plots. China's agricultural reforms were said to be 'born out of their hands.' They are Yan Junchang, Yan Lixue, and Yan Likun, standing before the plots on which they practised the 'cheng-bao' or contract system.

The bountiful harvest in 1982 after the 'da-bao-gan' system was put into effect.



is considered the “first shot” in China’s agricultural reform.

Before 1978, the People’s Commune System had tied farmers securely to the ground for more than twenty years. The shortcomings of a system that mandated “one big pot for everyone” were grimly apparent. As a result, the productivity of agriculture fell to a point where farmers were simply no longer able to survive. Xiaogang Village was known as a “village of three dependencies:” it depended on government subsidies of grain for food, on financial assistance for common necessities, and on loans for inputs into ongoing production. Practically every family in the village had to go out into neighboring regions to beg for food after every fall harvest. Drought conditions in the spring of 1978 greatly reduced that year’s grain harvests. With no alternative, the farmers of Xiaogang Village

took matters into their own hands. They instituted a system, ‘da-bao-gan,’ whereby each family became responsible for its own part of the village production. Some payment came in crops and some in cash. In the next year, Xiaogang produced a bumper harvest and for the first time handed “public grain” on up to the government as well as paid off some of its debt. With the strong support of Wan Li, the First Secretary of Anhui Provincial Party Committee at

GLOSSARY

Da-guo-fan

Or “one big pot.” Under the “one big pot” system, everyone received the same amount irrespective of the benefits that his work created. Everyone ate from the same “big pot” of the State.

the time, the example of Xiaogang Village was then promoted throughout Anhui as the model to follow. This system, named the “Household Contract Responsibility System,” is generally acknowledged as having been the precipitating event for change in villages throughout China.

Looking back over the course of China’s thirty years of reform, we discover that often the most important changes were instigated by the people themselves. Policy makers have found that their task was to understand how to “go with the flow” and enhance the end result. In addition to having the necessary courage and spirit, they simply had to figure out how to channel the people’s own creativity along the correct path.

Another remarkable discovery, in looking back thirty years, is the recognition of just how far removed China was from the rest of the world and how far it had to go to catch up. At a time when the penetration rate of televisions in the US market was over 70%, in China it was near zero. Only in July of 1978 did the *People’s Daily* allow the first advertisement in its pages; from August onward, the paper would occasionally publish the very limited television programming schedule. The government still encouraged extreme frugality among people, especially with regard to old cement bags—they were to be reused and never thrown away. In 1978, a person from Beijing traveled to Shanghai and saw that in a bookstore window they were touting their “open-shelf” system: people could actually go in and browse for books instead of buying them at a distance with a broad counter and a forbidding employee in between. As someone was later to say, “If we had known just

Left: Chinese tourists in the summer of 1980. The foreigners are the main attraction, not the Summer Palace or the national treasures. In 1978, a tourist group in Lanzhou was surrounded and stared at by 100,000 astonished Lanzhou residents.

Right: Pierre Cardin walked down Chang’an Street in Beijing in March of 1978. Cardin was the first world-class fashion designer to come to China.

