

Partnership With China

Sino-Foreign Joint Ventures
in Historical Perspective

David G. Brown

中外合資展望

包大衛



Westview Special Studies
on China and East Asia

Partnership With China

Sino-Foreign Joint Ventures
in Historical Perspective

David G. Brown

包大衛

中外合資展望

Westview Press / Boulder and London

Westview Special Studies on China and East Asia

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopy, recording, or any information storage and retrieval system without permission in writing from the publisher.

Copyright © 1986 by Westview Press, Inc.

Published in 1986 in the United States of America by Westview Press, Inc.; Frederick A. Praeger, Publisher; 5500 Central Avenue, Boulder, Colorado 80301

Library of Congress Cataloging in Publication Data

Brown, David G., 1942-

Partnership with China.

(A Westview Special Study on China and East Asia)

Includes bibliographies and Index.

1. China--Commercial policy--History. 2. Joint ventures--China--History. 3. Investments, Foreign--China--History. I. Title.

HF1604.B76 1986

338.8'8851

84-19543

ISBN 0-86531-891-3

Composition for this book was provided by the author.

This book was produced without formal editing by the publisher.

Printed and bound in the United States of America



The paper used in this publication meets the minimum requirements of the American National Standard for Permanence of Paper for Printed Library Materials Z39.48-1984.

Acknowledgments

This study had as its genesis my thesis research for my MBA program at George Washington University. I am greatly indebted to my thesis adviser, Professor Richard Y. C. Yin, and reader, Professor Y. S. Park, for their assistance and their encouragement to continue and to expand my work into publishable form. Professor Yin, in particular, has played a major role in guiding my efforts and has been very helpful in commenting upon the successive drafts which have resulted.

An early and much briefer version of this work was published as "Sino-Foreign Joint Ventures: Contemporary Developments and Historical Perspective," Journal of Northeast Asian Studies 1.4 (December 1982): 25-55, and I am grateful for permission to use portions of that article in this book.

My heartfelt thanks go to Professor Yin, Mrs. Frances Lee, Mr. Pat Quinn, and my wife Yunni for their help in reviewing the manuscript, and to Dr. Ferdinand Hui for his assistance in gathering my research materials. In addition, I appreciate the support and encouragement which I have received from Westview Press staff, in particular from Ms. Krista Hayenga.

In a lighter vein, I really should express my appreciation to the makers of dental floss, which, draped across my display terminal, helped me do (left margin) battle with my rather primitive word processor. (Nor should I forget my long-suffering neighbors who must have wondered whether or not I would ever go out and mow the lawn.)

Finally, my largest debt is to my own family--to my own Chinese joint-venture partner, Yunni, and to our three sons, Matthew, Timothy, and Christopher. They have been very supportive of this effort, even though it has taken so much of my time away from them.

David G. Brown

Contents

List of Tables	viii
Acknowledgments	ix
 1 INTRODUCTION	 1
2 THE HISTORICAL EXPERIENCE	7
Introduction	7
Ancient China Up to 1368 A.D.	8
Ming and Early Qing Dynasty China, 1368-1842	14
Late Qing Dynasty China, 1842-1911	22
Republican China, 1912-1949	49
Communist China Under Mao, 1949-1976	55
3 CONTEMPORARY DEVELOPMENTS	75
Introduction	75
Innovations in Trade	80
Joint Ventures	88
Institutional Framework	108
4 CONCLUSIONS AND PROSPECTS	131
Sino-Foreign Joint-Venture Experience	131
Historical Themes in Today's China	135
Future Prospects	140
Bibliography	149
Index	167

Tables

2.1	New Chinese and Sino-foreign enterprises in mining and manufacturing, 1872-1911	39
2.2	Nationality, industry, location, size of initial capitalization of foreign and Sino-foreign manufacturing and mining firms established in China, 1895-1913 . . .	40
3.1	China's external trade, 1950-1984	77
3.2	Recently concluded Sino-foreign compensation-trade, assembly, coproduction, and licensing agreements	83
3.3	Recently concluded Sino-foreign joint-venture agreements	90

1

Introduction

Partnership of any form with China would have seemed at best whimsical a decade ago or less, but it is now a firm reality. Where previously little-red-book waving red guards and shrill Maoist rhetoric shaped our perception of implacable animosity, we now have grown accustomed to smiling images of Deng Xiaoping with John Denver and the Harlem Globetrotters seeking increased cooperation with the West. The passing of Mao and the subsequent ascendancy of Deng and his brand of Chinese pragmatism have brought dramatic changes to China. In place of Mao's stern dictum of Chinese self-reliance, Deng called for a new "open door" policy, ending nearly two decades of economic isolation and beginning a new chapter in the history of foreign interaction with China. Partnership, in the sense of close economic cooperation in the modernization of China, has grown and matured into one of the key elements of Chinese economic policy.

The pace of change has been truly remarkable. Agrarian reform has revitalized the nation's agricultural sector, and the entire Chinese economy is being restructured to stress the role of market forces and to reward individual initiative. Even Marxism itself has seemed to be called into question.¹ China's opening to the outside world has similarly made tremendous progress. Foreign trade has more than tripled over the past decade, and foreign investment has grown from practically nothing to several billion dollars. Compensation trade, joint ventures, and many other forms of cooperation have come to link the Chinese economy with that of the outside world. A joint-venture law and a long series of related regulations have been developed in order to set up, virtually from scratch, a legal framework for the conduct of Sino-foreign economic relations. Four special economic zones (SEZs) were created specifically to attract foreign investment; fourteen coastal cities and Hainan Island were selected to offer added investment incentives; and all of China's provinces are openly

ving for their share of the foreign investment dollar. China's desire for modernization has led to an unshackling of the nation's economy and to an opening to the outside world of historic proportions.

These changes have led to a blossoming of many forms of Sino-foreign economic cooperation and engendered tremendous interest in foreign investment in China. Shared equity joint ventures have received particular emphasis and are the paradigm for these contemporary forms of cooperation, because of the stress which the Chinese have placed upon them and because of the closeness of the economic relationship they entail. They therefore serve as the center of focus for this book. Direct investment, coproduction, countertrade, and various forms of loan and aid arrangements all play an important role in the drama of Sino-foreign economic relations, however, and are also included here under the general "joint-venture" rubric. All of these forms of Sino-foreign commercial interaction have as a common element the more or less intimate foreign involvement in the economic development of China.

In evaluating the significance of this boom in Sino-foreign economic activity, or perhaps even more directly, in deciding whether or not to participate in it, several key questions are of immediate interest: How has this opening of China to the outside world come about? What are its current dimensions? What are its prospects for the future? In this book I will address each of these questions at some length, but with particular emphasis on the historical evolution of Sino-foreign cooperation. Chapter 2 examines the historical experience in this area and provides the basis for the detailed description of the contemporary situation given in Chapter 3. Finally, in Chapter 4 the relevance of the historical experience to that of the present will be discussed and the future prospects for Sino-foreign joint ventures examined.

The heavy emphasis on the historical roots for such a strikingly dynamic process may appear misplaced; however, it provides the context of past patterns of Sino-foreign commercial cooperation within which present developments should be viewed. In the popular seventeenth century Chinese novel Monkey, the monkey king is born by bursting forth from out of a boulder.² The sudden appearance of joint-venture and other cooperative arrangements may appear similarly dramatic; however, it can be traced to much more natural ancestry. Consideration of the historical experience yields a valuable perspective from which to view the current situation: many of the same elements affecting Sino-foreign cooperation in the nineteenth and early twentieth centuries--and even much earlier--appear significant today.

Some of these similarities are immediately obvious. Headlines announcing the opening of new ports along the South China coast or on its major waterways seem like a replay of the previous century. For example, "China's Seven New International Inland Ports" could just as well have appeared in the 1880s as in the China Business Review of the 1980s.³ Similarly, the importance of Guangzhou (Canton), the role of the overseas Chinese, the significance of foreign capital in developing the nation's energy resources, and many other aspects, all hark back to the previous "open door" policy of a century ago. Admittedly the environment within which Sino-foreign relationships have operated has changed radically since that time. The enfeebled government, feudal economy, and encroaching foreign powers of the late Qing dynasty, for example, are far different from the centralized control and rapid industrialization of contemporary China. However, many of the fundamental constraints of that environment, including those of natural resources, geopolitics, and psychology, have remained remarkably constant. Thus, many of the same elements affecting Sino-foreign cooperation in the past are still operating today--and even evoking similar responses.

The rich early history of close Sino-foreign ties is not as well known as that of the nineteenth century. The extent of the commercial contacts that developed between the Roman Empire and Han dynasty China around two thousand years ago and the flourishing trade which existed sporadically thereafter are not widely appreciated. Great caravans trekked across the land routes of the "silk road," and Indians, Iranians, Jews, Arabs, and Chinese all plied the sea lanes connecting the coast of southern China with the Middle East. A telling (if decidedly grizzly) indication of the extent of these commercial relations can be seen in the report that "many thousands of foreigners were massacred," in Guangzhou in 879 A.D. "by a rebel army led by a certain Huang Ch'ao."⁴ The Sino-foreign experience has a long, if checkered, past with a richness and variety deserving further exposition.

The great burst of activity we are now experiencing in the development of close Sino-foreign economic ties, which I have characterized as attaining the status of a form of partnership in the modernization of China, is therefore neither unique nor fortuitous. There is a substantial history of Sino-foreign "joint-venture" activity in the past, and there are fundamental similarities between that past and the present. The contemporary situation may be viewed in many ways as a natural continuation of this historical experience. That is not to say that it follows in a fixed and predetermined manner: there is certainly at least an

equally strong strain of cultural hauteur and xenophobia which has characterized China's relations with the "barbarians" surrounding her. Past Sino-foreign commercial ties form, however, a strong foundation in their own right which help to underpin our understanding of the present situation.

As alluded to earlier, definition of the term "joint venture," as used in this study, requires further comment. A common textbook definition for a joint venture, "foreign-local joint venture," is as follows: "... a corporate entity or partnership created under local law between the [foreign] parent and local interests."⁵ It is distinguished from portfolio investment, which involves ownership (normally less than 10 percent) but not managerial responsibility, and from licensing agreements or technical assistance agreements, for which managerial services may be involved but not ownership. Therefore, the joint venture technically must involve a business in a particular country (China), a local (Chinese) partner, a foreign partner, and shared managerial responsibility for and ownership of the business entity by the two partners. For the most part, the above definition will be used in this study; however, that wider range of business relationships noted above will also be included in some instances under the joint-venture heading. In particular, the test of sharing of profits and losses will be substituted for ownership to justify inclusion of some ventures. In order to describe the degree of Sino-foreign cooperation in the environment in which joint ventures take place and the forms of activity to which they trace their origin, other arrangements, such as compensation trade, will also be discussed.

A significant limitation on this work is exclusion of those parts of China which as of 1985 lie beyond the authority of the People's Republic of China (PRC). These are Hongkong, Macao, and Taiwan. In view of the great emphasis which the PRC has placed on reclaiming these areas and of their importance, particularly that of Hongkong, to the Chinese economy, their exclusion leaves a sizable gap in coverage.⁶ Since their foreign relationships, economic and otherwise, are so different from those of the PRC, they were felt to be beyond the scope of the present study.

A final introductory note concerns the Chinese Romanization scheme being employed. The current standard "pinyin" as developed and favored by the Chinese themselves will be used in most places. This has become so widely accepted that we have grown accustomed to seeing "Beijing" on the evening news in place of the "Peking" of our youths. It is hardly a perfect pronunciation guide, with "qi" for the aspirated

"chi" sound (as in Qing (Ch'ing) dynasty) and "xi" for the palatal "sy" sound (as in Deng Xiaoping); however, whatever its linguistic defects, it is now the standard form of Romanization. Note, however, that in most pre-1970 quoted material the earlier Wade Giles system is employed. In addition, some names are commonly given in nonstandard form, e.g., "Canton" for "Guangzhou" (pinyin) or "Kwangchou" (Wade Giles), and will also appear in that way within quoted material. Exceptions have been made for a few of the most durable nonstandard forms. Hongkong (Xianggang), Macao (Aomen), the Anglicized names of overseas Chinese, and the names of a few well known Chinese historical figures are not transcribed into pinyin in the text.

NOTES

1. This is in reference to a quotation in Peoples Daily, December 7, 1984: "There were many things that Marx and Engels, even Lenin, had no experience of. We cannot expect the works of Marx and Lenin in their day to solve the problems of today," which caused a brief furor in the foreign press at the time but which was subsequently amended to ". . . solve all the problems of today." Reported in D. Bonavia, "The Marx bothers," Far Eastern Economic Review, December 20, 1984, pp. 38,39, which, however, goes on to declare that this is "only the furthest development so far of the Deng group's desire to root out blind dogmatism."

2. C. E. Wu [Wu Chengen], Xi You Ji (Taipei: San Min Shu Ju, 1972), p. 2. A more literal translation of the title is "A Journey to the West," "Monkey" was that used by A. Waley in an abridged translation: Monkey (New York: John Day, 1943).

3. "China's Seven New International Inland Ports," China Business Review, March-April 1980, p. 13.

4. G. F. Hudson, "The Medieval Trade of China," in Islam and the Trade of Asia: A Colloquium, ed. by D. S. Richards, Papers on Islamic History, no. 2 (Oxford: The Near Eastern History Group, Oxford and the Near East Center, University of Pennsylvania, 1970), p. 162.

5. R. Vernon and L. T. Wells, Jr., Manager in the International Economy, 4th ed. (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1981), p. 24.

6. That "great emphasis" and the recognition of Hongkong's critical importance to China's economy were demonstrated by the innovative provision of "special administrative region" (SAR) status for Hongkong after Hongkong passes to PRC control in 1997 (Sino-British

joint declaration signed December 19, 1984, ref., e.g., M. Lee and E. Lau, "The world is witness," Far Eastern Economic Review, January 3, 1985, p. 10). Under the concept of "one country, two systems," Hongkong will retain considerable economic and cultural autonomy and hence, it is hoped, its capitalist, free market vitality. See in this regard coverage of Deng Xiaoping's speech "An Idea of Great Significance," reported as "Deng Xiaoping speech on one country, two systems," Zhongguo Xinwen She (Beijing), in Chinese, October 14, 1984, in Foreign Broadcast Information Service Daily Report: China, October 15, 1984, p. K1. Macao is expected to revert to China on the same time scale, leaving the question of Taiwan for future resolution.

2

The Historical Experience

INTRODUCTION

The earliest precursors of today's Sino-foreign joint-venture activity can be traced far back in the history of ancient foreign trade and commerce. Toynbee, for example, notes that as early as the fifth century B.C. a tenuous trade route, the "Scythian Trail,"¹ connected the Chinese Warring States with Europe, and even before that time, goods passed across the Eurasian land mass by a process of diffusion, as each migrant tribe bartered with its neighbors. It was not until many years later, however, that economic relations of any great intimacy were to develop.

The goal of this chapter is to explore the scope and character of these relations, especially as they embody the varying forms of Sino-foreign cooperation achieved and as they reveal the development of Chinese attitudes toward foreign commerce which have remained in evidence to the present time. This will form the background against which the contemporary situation will be viewed in the following chapter.

For the purposes of this study, the historical analysis is divided into five periods:

1. Ancient China up to 1368 A.D.--inception and growth of foreign commercial intercourse up to the establishment of the Ming dynasty. During this period thriving trade relationships were developed with the outside world.
2. Ming and early Qing dynasty China, 1368-1842 --implementation of restrictive Chinese economic policy and beginning of commerce with the nations of modern Europe, up to the Treaty of Nanjing and opening of the first treaty ports. Commercial relations with foreigners were tightly controlled and Chinese ventures abroad prohibited.
3. Late Qing dynasty China, 1842-1911--expansion

of commerce and rapid economic penetration by the foreign powers up to the fall of the Qing dynasty. A new treaty-port culture spawned close Sino-foreign ties, including the first modern joint ventures against the background of Chinese political humiliation and the first "open door" policy.

4. Republican China, 1912-1949--modernization of the economy during a time of political chaos and general warfare. Sino-foreign commercial cooperation remained important, with an increasingly significant role played by the Chinese government, until war, and finally Communist victory, ended the period.

5. Communist China under Mao, 1949-1976 --development of the economy and relative isolation under the Communist regime up until the death of Mao. Only a few isolated examples remained of the earlier Sino-foreign joint-venture activities.

Certainly, the scheme of periodization is to a large extent arbitrary; however, the above divisions seem to correspond fairly well to significant changes in the environment in which Sino-foreign economic relations were carried on.

ANCIENT CHINA UP TO 1368 A.D.

Over the centuries preceding the establishment of the Ming Dynasty (1368-1644), China not only developed a thriving commerce with foreign lands, particularly with the adjoining barbarian tribes of the north and her neighbors in Southeast Asia, but also with the Middle East and Europe. The advanced state of Chinese "technology" was a driving force behind this trade. Silk, for example, occupied a particularly important position. It was a highly sought after luxury good which until the sixth century A.D. could only be obtained from China, and for which China remained the primary source until the twentieth century. The very caravan routes over which traders were drawn in search of Chinese goods came to be known as the "Silk Road." Overland trade via the Silk Road and sea trade from the ports of southern China formed vigorous connecting links between East and West long before modern times.

The Chinese attitude from very early times, however, was marked by a feeling of superiority over the foreign "barbarians" whom she encountered and official indifference to the benefits derived from commercial relations with them. Colin Simkin, in his engrossing book The Traditional Trade of Asia, describes

China as "a strong magnet for trade," being itself "inactive over foreign trade, leaving most of the initiative to those who prized its wares."² China's trade, extensive though it became, largely remained within a framework which fed on and served to demonstrate the superiority of the Chinese.

The caravan trade of the Silk Road ebbed and flowed depending on the degree of political unity imposed at any given time on the Eurasian land mass. During the Han dynasty (206 B.C.-220 A.D.), with the relatively stable partition of the ancient world into the Han, Kushan, Parthian, and Roman empires, it was first established on a firm footing--the crossing of the Tarim Basin (in Xinjiang) by the first through caravan from Lanzhou taking place in 106 B.C.³ In the first and second centuries A.D., a thriving commerce was taking place all the way through to the Roman Empire. In fact, Rome "had to export so much gold in payment for Asian wares that Tiberius (A.D. 14-37) tried to restrain his subjects from wearing silk."⁴ Chinese demand was primarily for the jade and horses of central Asia, whereas Rome desired Chinese silks; so, even from these early times there were "balance-of-trade" problems for the Western trade, and it took on a triangular character--Western goods to China's natural Asian trading partners in exchange for Chinese goods. The nature of this early trade, and a strong indication of a Chinese protomercantilist bias, can be seen in the following remarks by the Chinese Lord Grand Secretary in 81 B.C.:

Ju Han gold and other insignificant articles of tribute are means of inveigling foreign countries and snaring the treasures of the Ch'iang and the Hu. Thus, a piece of Chinese plain silk can be exchanged with the Hsiung-Nu for articles worth several pieces of gold and thereby reduce the resources of our enemy. Mules, donkeys and camels enter the frontier in unbroken lines; horses, dapples and bays and prancing mounts, come into our possession. The furs of sables, marmots, foxes and badgers, colored rugs and decorated carpets fill the imperial treasury, while jade and auspicious stones, corals and crystals become national treasures. That is to say, foreign products keep flowing in, while our wealth is not dissipated. Novelties flowing in, the government has plenty. National wealth not being dispersed abroad, the people enjoy abundance.⁵

The Silk Road was also particularly active during the Tang and Yuan dynasties. During the Tang dynasty (618-907), Chinese control over the Tarim coincided

with Arab control of Syria and Iran. Simkin notes that "both new empires were keenly interested in trade, and exchanged embassies to promote good relations."⁶ Changan, the capital of the empire, "became . . . a great cosmopolitan city where Syrians, Arabs, Persians, Tartars, Tibetans, Koreans, Japanese and Tonkinese [Vietnamese] and other peoples of widely divergent races and faiths lived side by side." Among the developments at this time were the emergence of tea and porcelain as export commodities. Under the Mongol Khans of Yuan times (1271-1368), the Silk Road similarly prospered. This was the route used by Marco Polo in his travels to China. It was maintained with unparalleled security, so that according to one account "a maiden bearing a nugget of gold could wander safely throughout the realm."⁸ The importance of the Silk Road was in decline by this time, however, because of competition from the sea routes to the south.

Sea trade came to play an increasingly important role in China's ancient foreign commerce. Under the fifth Han emperor, Wudi (140-87 B.C.), southern China was first subdued, and while "Chinese mariners do not appear to have ventured on the high seas before the fourth century A.D. Indian ships . . . began sailing to South China in the first century A.D., and a few may have reached it earlier." Later the Arabs came to play a major role in this trade, reaching Southeast Asia between the sixth and seventh centuries. In the eighth century "Arab traders began to visit Chinese ports more and more frequently and to found settlements there."¹⁰ The extent of these settlements was alluded to in the introduction, with the report of a massacre of thousands of foreigners in Guangzhou during a local uprising which temporarily interrupted these thriving commercial relations.¹¹

The great flowering of Chinese commerce came a thousand years ago during the Song dynasty (960-1279). Whereas previously the sea trade had been largely under the control of foreigners, the Chinese now came to the fore: "Koreans, using Shantung [Shandong], had largely monopolized the trade of the Yellow Sea, and Iranians, then Arabs, that of South China. Under the Sung [Song], however, China captured the coastal lanes and took over the route to India from the Arabs."¹² Foreign sea commerce continued to thrive under the Yuan. There are glowing accounts by foreign travelers of the wealth of the southern Chinese ports of that time. The largest of these was Quanzhou in Fujian. Marco Polo referred to it by the Arab name of Zayton:

At this city you must know is the Haven of Zayton, frequented by all the ships of India, which bring thither spicery and all other kinds of costly

wares. It is the port also that is frequented by all the merchants of Manzi [southern China], for hither is imported the most astonishing quantity of goods and of precious stones and pearls, and from this they are distributed all over Manzi. And I assure you that for one shipload of pepper that goes to Alexandria or elsewhere, destined for Christendom, there come a hundred such, aye and more too, to this haven of Zayton; for it is one of the two greatest havens in the world for commerce.

The Great Kaan derives a very large revenue from the duties paid in this city and haven; for you must know that on all the merchandize imported, including precious stones and pearls, he levies a duty of ten per cent., or in other words takes tithe of everything. Then again the ship's charge for freight on small wares is 30 per cent., on pepper 44 per cent., and on linaloes, sandalwood, and other bulky goods 40 per cent., so that between freight and the Kaan's duties the merchant has to pay a good half the value of his investment (though on the other half he makes such a profit that he is always glad to come back with a new supply of merchandize).¹³

Chinese junks frequented the ports of Southeast Asia and India, "all of whose major ports had many resident Chinese traders."¹⁴

Through foreign trade China gained raw material for her artisans (e.g., jade), horses for her national defense, furs and cotton cloth for her comfort, and spices for her palate. There were other important benefits. The earliest of these included wheat from the Near East, water buffalo and domestic fowl from India, and cultivation of wet rice and the lacquer tree from Southeast Asia; while during the Han dynasty the soybean, grape, and superior breeds of horses were introduced; and later such plants as the almond, broadbean, cucumber, date, fig, garden pea, and onion were added.¹⁵ As far as "technology transfer" is concerned, however, transmission was almost entirely one-sided, with China as the innovator. Needham writes that "Chinese technological inventions poured into Europe in a continuous stream during the first thirteen centuries of the Christian era, just as later on the technological current flowed the other way."¹⁶ Buddhism is the obvious example of cultural borrowing by the Chinese; however, that must have seemed of dubious benefit to Confucian officialdom. Some foreign innovations in commerce may have been copied by the Chinese (e.g., the Arabs apparently introduced the abacus); however, commercial endeavor was largely (culturally) despised. Thus, most of what China