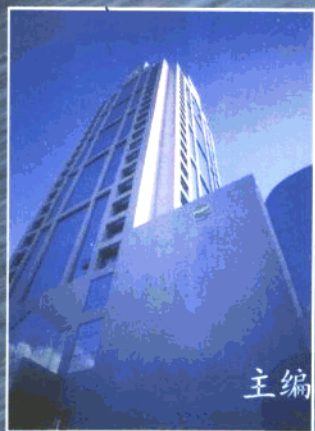


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ROCEEDINGS OF TWO
TRANSFORMATIONS IN CHINESE
ECONOMY

两个转变中的 中国经济论文集

(下册)



主编

赵铁生
维斯努·柯普兰尼

天津大学出版社

This study has been realized within the framework of the Montreal China management program which involves two Universities: Concordia University, Ecole des Hautes Etudes Commerciales. This project has been financed by Canadian International Development Agency (CIDA).

此项研究已列入中加管理教育合作项目的计划中。该项目涉及康考迪亚大学和高等商业学院两所院校,并得到了加拿大国际发展总署(CIDA)的经济资助。

FOREWORD

We are very pleased our efforts at encouraging a publication series are producing results. Concordia University Faculty of Commerce and Industry/Ecole des Hautes Etudes Commerciales (HEC) and our Canada China Management Education Programme Phase II linkage partner Tianjin University established a Research and Publication Committee in 1992. The Committee members are Professor Zhao Tiesheng, Vice Dean of School of Management, Tianjin University, Professor Gao Ziguang, Tianjin University, Dr. V. H. (Manek) Kirpalani, Professor of Marketing and International Business, Concordia University, and Dr. Alain Van Peetersen, Professor of Economics HEC, Montreal.

The task of the Committee is twofold. One is to review all research proposals received and select the better ones for appropriate funding within the budget limits. Two is to receive and select works that are for translation into Chinese and publication by Tianjin University.

Many faculty members from the Concordia University Faculty of Commerce and Administration and Ecole des Hautes Etudes Commerciales are wellknown internationally for their research output and publications. Tianjin University, named as such in 1951, and its predecessor Peiyang University, founded on October 2, 1895, have a long tradition of first rate education and scientific research. Peiyang University was the first university to be started in the history of modern Chinese education. Tianjin University is the outcome of a merger of Peiyang University with Hebei Engineering College. Tianjin University is one of the 16 key universities accredited by the Chinese Government and is directly under the China State Education Committee. Tianjin University has a Graduate School, a School of Management, other specialized Schools and 21 Depart-

ments; most of the latter confer a doctorate degree and all of them confer a Master's degree.

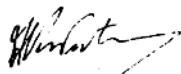
The Research and Publications Committee are particularly grateful to the Canadian International Agency (CIDA) for their funding of our linkage research and publication programme. We are also very appreciative of the enthusiasm and interest of the many faculty members from our three linkage universities who are making research proposals and publication efforts. Our Committee criteria for research and publication are high quality. In addition we have two requirements: at least one of the authors must have participated in our linkage programme, and the research and publication must have relevance to China.

Thus far a number of research proposals have been approved. Furthermore four publications have been approved. These are a glossary of business terms which are useful for Canadians in China and Chinese in Canada, a collection of articles written by Canadian academics, a collection of articles written by our Chinese counterparts, and a book written by a Canadian faculty member.

We trust you the reader will find enjoyable and useful reading from this and other publications emerging from the linkage between the Tianjin University School of Management and our two institutions.



Dr. V. H. (Manek) Kirpalani
Professor of Marketing & Intl Business
Faculty of Commerce & Administration
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Dr. Alain Van Peeterssen
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Ecole des Hautes Etudes
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前 言

我们对中加双方出版物交流活动已经取得初步成果甚感高兴。1992年,康考迪大学商业管理学院、蒙特利尔大学高等商业学院与中加管理教育项目(第二期)的合作者天津大学成立了研究与出版委员会。委员会成员包括赵铁生教授(天津大学管理学院副院长)、高紫光教授(天津大学)、维斯努·柯普兰博士(康考迪亚大学市场与国际贸易教授)和亚蓝·范·彼德逊博士(蒙特利尔大学高等商业学院经济学教授)。

委员会的任务有二:一是对收到的所有研究计划进行评审,并从中挑选出较好的计划在经费允许的情况下给予一定的经济资助;二是挑选优秀的著作,由天津大学译成中文并出版。

来自康考迪亚大学商业管理学院和蒙特利尔大学高等商业学院的许多教师们以他们的研究成果和所发表的论文在国际上享有盛誉。天津大学的前身是于1895年10月2日建立的北洋大学,是中国近代教育史上第一所大学。1951年,北洋大学与河北工学院合并后被命名为天津大学。天津大学具有一流的教育和科研实力,是国家16所重点大学之一,直属于国家教委。目前,天津大学由研究生院、管理学院、成人教育学院及21个系组成。21个系全都具有硕士学位授予权,其中大部分系同时具有博士学位授予权。

研究与出版委员会特别感谢加拿大国际发展总署(CIDA)为我们的研究与出版提供经济资助。同时,我们也非常感谢来自我们三个合作院校的教师们热情地为研究计划和出版工作所做的努力。委员会对研究计划和出版物的选择准则是高质量。此外,我们还有两个要求:必须有至少一名作者是我们合作项目中的成员;研究与出版的内容必须与中国有关。

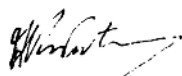
到目前为止,已有一些研究计划得到批准。另外,还有四本出版物也得到了批准:它们是一本对在中国的加拿大人和在加拿大的中国人

都很有帮助的商业词汇集；一本加拿大学者们写的论文集；一本由我们中国的合作者们写的论文集；一本由加拿大教授写的书。

我们相信，读者对由天津大学管理学院和我们两所院校合作出版的作品一定会感兴趣并从中受益。



维斯努·柯普兰尼博士
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Effective International Market Potential Assessment: China

V. H. Kirpalani Xu Kuan
(Concordia University) (MBA Concordia University)

Abstract

A comprehensive view, including changes in China's economic structure, is taken to make a meaningful assessment of market potential. A spectrum approach, outlining three scenarios in regard to China's open door policy is discussed. Focus is then placed on the changed market profile and international marketing opportunities in China's market.

0 Introduction

How should international marketers assess the market potential of a developing country like China in the mid 1980s and further? One naive approach used often has been to estimate its "demand" simply based on the population size [Stewart 1985]. Some have gone further and predicted China's market potential by population and current purchasing power [Sokoloff 1982]. But this is not enough; developing economies can change rapidly. Therefore, assessment of market potential requires an understanding of changes in the economic structure and resulting economic performance; economic policies and the business environment. In other words, a comprehensive approach is needed to make a meaningful assessment of China's market potential now and in the future.

Changes of the Chinese economic structure in the past few years have caused a tremendous impact on its economic performance and exter-

nal economic relations. For example, in the 1980-1985 period, the total product of society had an average annual growth rate of 11.3 percent and, the average annual growth rate for China's foreign trade was 10.5 percent [Beijing Review 1986]. This indicates that analyzing China's market potential from the perspective of international marketers needs insight as to the economic structure change.

This paper uses the spectrum approach to policy study. Then three scenarios in regard to China's open door policy are discussed. After that, the discussion focuses on the changed market profile and marketing opportunities in China's market.

1 Spectrum Approach to Policy Studies

In free market economies, formation of the development pattern has been a rather evolutionary process due to the nature of the system. In centralized economies policy changes can often bring about dramatic unexpected results in the development pattern.

The spectrum approach in context studies the spectrum of various possible foreign economic policies. The idea is that, in reality, for governments all open door policy options vary in degrees. There can be no simplistic categorization into either "open" or "close". Most countries position their policies somewhere in the middle range of the spectrum. If the pros and cons for each possible open door policy scenario for a country can be revealed, then the degree to which that country will retain openness to the international market can be assessed. We believe this approach is very useful for a country like China which is experiencing a policy change.

The spectrum approach already has been used for example in comparative economics. With the concept of the spectrum, economic systems can be positioned on a scale rather than in the two traditional categories, "market" and "planned". Most economies are located somewhere in the

middle range of the scale. This approach provides a way to understand the reality [Loucks 1969]. A country obviously could have different external economic policies toward different partners. But we can still identify a country-oriented general policy on the spectrum.

What we are interested in is not China's policy to any specific country, because the choice of trading partner pattern toward a specific country involves many factors which are governed by international politics and beyond international marketing. However, we believe that corresponding to China's economic strategy and economic structure, the country will have a basic stance in external economic relations which can provide information about its market potential. This is of interest to international marketing researchers.

2 Three Scenarios of China's Open Door Policy

China's open door policy can be discussed in terms of foreign trade and foreign investment. There are three possible policy scenarios. The first is the choice of fully closing the door. The second is the choice of fully opening the door. The third is the actuality of a partial and gradually opening door. The first two are extremes and will be briefly reviewed while the last will be discussed in depth.

2.1 Scenario One: A Fully Closed Door

A fully closed door is not a feature of a modern society. The evidence indicates that external economic exchange and division of labor in the increasingly integrated international economy are necessary conditions for economic development. Since the late 1970s, the Chinese leadership have rejected the closed door and have been making great efforts to reform their economy. The reform has moved away from the rigid planning economic organizational structure and altered the development pattern. The results of the reform are remarkably favorable.

After tremendous changes in China's economic organizational structure and development strategy, the open door policy has already become an inseparable part of its economic development. The total value of imports and export accounted for about 10 percent of China's national income in each year during 1950 - 1979. But in 1985 it was well above 20 percent [Guangming Daily 1986]. In 1984, China's export volume ranked 16th in the world, from 28th in 1980 [China Daily 1985]. Thus, a reversal to the first scenario of a fully closed door is highly improbable.

2.2 Scenario Two: A Fully Open Door

The second scenario is a fully open door to the international market. This is quite an unrealistic position because, while the Chinese pursue economic development, they also want to avoid the possible risks of depending on the international market for growth by opening the door too wide. The lessons of China's history and that of some other developing countries have made the Chinese fully aware how dangerous it is if a country cannot maintain a relatively high economic level on its own. Considering the population size of China, it cannot be expected that an economic miracle will happen without a strong indigenous economy which is not dependent on the help of the rich industrial countries. Moreover, in the long run, independence as one of China's goals determines that the fully open door policy will not be chosen by the Chinese in the 1980s and even beyond.

2.3 Scenario Three: A Partially and Gradually Opening Door

The rejection of the two extremes leads to consideration of the third scenario; which is a partial and gradual open door policy. Tremendous changes in market accessibility have taken place in recent years because the centralized economy is gradually integrating more of the market mechanism into the original system in order to increase economic efficiency. In today's China the development strategy heavily depends on exter-

nal economic relations to obtain funds, know-how and technology. The easier market accessibility is evident from the following facts. The Chinese government allows foreign companies, including banks to open offices in China [Quarterly Economic Review of China, North Korea, 1984].

—Decentralization has been taking place not only in the domestic economic sectors but also in the foreign trade sector [Beijing Review 1985].

—China has opened its door to foreign investment; of which very little was permitted in the past thirty years or so.

—Special economic zones in coastal cities and inland areas have been granted more authority to trade independently with foreign traders and accomodate foreign investors.

—In recent years, the Chinese domestic market has been partially opened to foreign joint ventures for manufacturing products for consumption in China. Such products originally were regulated so that they could be sold only abroad [Beijing Review 1984].

—New treaties and legislation regarding foreign economic affairs have created a relatively confident atmosphere for foreign businesses even though there is much room for improvement.

However, indications show that the Chinese authorities have been opening the door slowly and cautiously. For example, attracting foreign investment is one new and important component of China's open door practice. Tracing progress in this sector is indicative. In 1980 four special economic zones were set up in order to experiment with assembly-manufacturing and compensation trade. Then the Chinese-foreign joint venture came into use. Following the relative success of these four special economic zones, fourteen coastal cities and three of the richest coastal regions were also opened to the outside world. Later, more inland provinces and cities received the power to deal with external economic affairs independently as the policy of decentralization gathered momentum. Also new

legislation allows wholly foreign owned businesses to operate in China.

3 Causes for a Permanent Partial Open Door

The partial open door position is inevitable under the Chinese government plans. The economic growth rate stipulated by the Chinese authorities in their plans is about seven percent annually to the year 2000. On the one hand a fulfillment of this growth necessitates changes in the economic organization structure from rigid central planning to a combination of central coordination and market regulation. It also necessitates a change in the development pattern from an imbalanced strategy which advocated heavy industry to a balanced strategy. These changes are aimed at an increase in efficiency, and complementary development. The partial open door policy is an inseparable part of this whole policy package. It can bring into the country advanced technology and know-how, management knowledge and skill, capital investment and funds necessary for China's modernization program.

On the other hand, the open door policy cannot be implemented without limitation. These should be studied in particular context. The main practice of the open door policy is concentrated on foreign trade and foreign investment. The relationship of such trade and investment with the domestic economy is illustrated in Figure 1.

It can be conceptualized that national priorities and development goals, development strategy, economic structure, economic performance, economic policies, and the business environment constitute the domestic bases for external economic activities. This base determines the export capacity, borrowing pattern and investment needs. These factors further determine the level of imports and foreign investment which would mean business opportunities for international businesses. The reality is that China's export capacity, and conservative borrowing practice places some

substantial constraints on its imports. The other sector of this market, foreign investment, is often limited by the business environment.

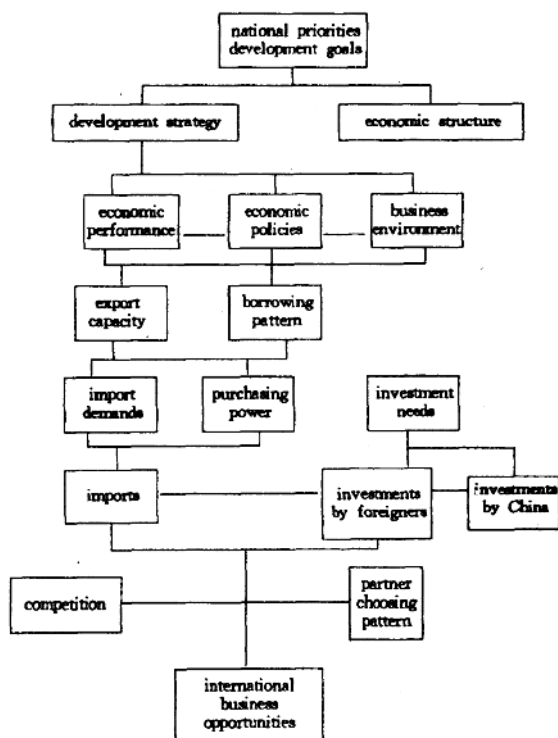


Figure 1. China's Economic Structure and International Business Opportunities

In conclusion, the third scenario, the partially and gradually opening door policy is the most feasible and appropriate choice. Being aware of the third scenario has important international marketing and business implications. Otherwise, one could easily be led to over-optimistic estimation or over-pessimistic estimation about China's market potential. Understanding the policy and corresponding background would provide a more realis-

tic basis to evaluate the Chinese market.

4 The Changed Market Profile

China is a market with a considerable potential. It has over one billion people, nearly one fourth of world population. China also possesses various mineral wealth. It has coal deposits of various types, petroleum resources with low sulphur content, widely distributed iron-ore deposits, and many non-ferrous metals [A General Survey 1984]. But China is still a developing country with per capita GNP of only US \$ 300 [World Development Report 1985]. The majority of the Chinese population are engaged in agriculture and 68% live in rural areas.

China's consumers spend almost 60% of their incomes on food, and another 10% - 15% on clothing. Housing/rent expenditures are low in urban areas due to subsidization of urban housing. Consumption of durables in terms of numbers per household is in rank order — watches, bicycles and radio sets. The attractiveness of inexpensive watches and radios is understandable; bicycles are the primary mode of passenger transportation and are also used to haul various materials. Further the television market is growing phenomenally. Already there are 85 television sets on average per 100 urban households [Taylor 1985]. Most of the above goods are domestically produced. Of China's imports close to 80% consist of producer goods. Thus, the market for imported consumer goods is limited and likely to remain so. But international marketers should know how growth in Chinese domestic market for consumer goods in turn can create demand for producer goods; thus raising import demand for the latter products.

International marketers can use this methodology for studying the effects on imports of a growth in demand for other specific consumer products that interest them.

China's potential can be released only when the economy takes off

and maintains sustained growth. Two econometric projections, one by the World Bank, show that per capita consumption will grow by at least 4.5 percent a year to 1990 [Min 1984]. According to the World Bank model such growth will remain between 4.1 and 5.3 percent a year in the period 1990-2000 AD. Realizing the economic take-off and maintaining sustained growth largely depends on high but attainable goals, appropriate economic strategy and an efficient economic structure.

During 1950s - 1970s, China adopted a relatively closed door policy. Therefore it was a very limited market for international marketers. The causes of this were the rigid economic structure, small volume of exports, non-borrowing policy, low level of economic development, the economic plans and policies, politics and ideology, and international environment. For the Chinese, the opportunity cost of the closed door policy was extremely high because they failed to benefit from economic exchanges with the international market.

The lack of incentive and motivation probably was the most crucial handicap for the Chinese economy. Decentralization and centralization took place several times between the central administration and provincial administration before economic reform was introduced in the late 1970s. It gradually became clear that changes in the economic structure should be initiated to improve the performance of the economy. At the same time, China reconfirmed the ambitious goal of modernizing the country. Later, it decided to quadruple the output value of agriculture and industry by the end of the year 2000. Also it was concluded that, without any change in the economic structure, it would be difficult to reach the goals.

The directions of the economic structure reform are to increase incentive and motivation in the system; to further decentralize the decision-making down to the enterprise level; to introduce market forces into the planned economy; and to expand economic exchanges with other countries. The reform first succeeded in rural areas. Then it was introduced to