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Greater China: The Next Economic Superpower?

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Greater China: The Next Economic Superpower?

Murray Weidenbaum

Preoccupied with political challenges in Europe and the Middle East and with economic competition from Japan, most Americans are ignoring a powerful longer-term trend in Southeast Asia: the rise of the greater China economy. Paced by a rapid rate of investment and given the abundance of trained human capital, the Asian rim has become the fastest growing part of the world, averaging over five percent a year in real economic growth. That trend is generally expected to continue at least for the rest of this decade and perhaps well into the twenty-first century.[1]

Without underestimating the strategic role of the Japanese economy in the Asian rim, there is another way of looking at economic developments in this key region. Over the years, scholars in the United States have referred to the Chinas as a multiple — two Chinas, three Chinas, and more. They have in mind the fact that several of the major economies of this region have a predominantly Chinese population and an unusual degree of interaction is evident. In addition to mainland China, the overall Chinese economy includes such other rapidly growing areas as Taiwan, Hong Kong, Macao, and Singapore. This category also includes other key locations where business executives, traders, and financiers of Chinese background make important economic contributions. According to some estimates, Chinese companies

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in Malaysia, Thailand, Indonesia, and the Philippines make up about 70 percent of the private sector in those countries.[2]

The "Chinese-based economy" has resisted the global recession which in recent years has plagued virtually every advanced industrial nation. This informal economy is currently the world leader in terms of economic growth, industrial expansion, and exports. It contains an array of potential consumers that far exceeds the markets in Europe or the Western Hemisphere.

Within the Asian rim, this dynamic pattern contrasts with the recent slowdown in the pace of Japanese economic and financial activity. Japan's foreign direct investment flows reached a peak of $67 billion in 1989 and have been declining since. The 1991 total came to a modest $41 billion, lower than the 1988 rate. Japanese direct investment in Asia declined simultaneously, from a peak of a little over $8 billion in 1989 to less than $6 billion in 1991. Moreover, Japanese banks have tended to reduce their participation in the international banking market. The $53 billion reduction in their foreign banking assets in the second quarter of 1992 was the largest recorded to date.[3] Of course, in absolute terms, Japan continues to be the dominant economy in Asia and will continue to hold that position for many years.

The Nature of the Chinese-Based Economy

Despite the current Japanese dominance of the region, the Chinese-based economy of Asia is rapidly emerging as a new epicenter for industry, commerce, and finance. This strategic area contains substantial amounts of technology and manufacturing capability (Taiwan), outstanding entrepreneurial, marketing, and services acumen (Hong Kong), a fine communications network (Singapore), a tremendous pool of financial capital (all three), and very large endowments of land, resources, and labor (mainland China). A talking doll, to take a modest example, may be designed in Hong Kong, contain a computer chip made in Taiwan, and be assembled in China.

Transnational networks are the backbone of the East Asian economy.

The informal Chinese economy differs from the more official economies which usually are dominated by large multinational firms. Of the world's 500 leading industrial companies in the world in 1991, only one, Chinese Petroleum, was part of the greater China economy (it is Taiwanese, and is in 166th place). In comparison, 13 Korean companies make the list; the largest, Samsung, is the 18th largest industrial firm listed in the *Fortune* tabulation.

The Chinese-based economy consists in large measure of midsize family-run firms, rather than the huge corporations characteristic of Japan, Western Europe, and the United States. Transnational networks seem to be the natural accompaniment of the Chinese trading tradition. These channels for the movement of information, finance, goods, and capital help to explain the relative flexibility and efficiency of the numerous ongoing informal agreements and transactions that bind together the various parts of the Chinese-based trading area.

From Guangzhou to Singapore, from Kuala Lumpur to Manila, this influential network — often based on extensions of the traditional clans — has been described as the backbone of the East Asian economy. A substantial amount of cross-investment and trade takes place, often on a family basis. Frequently, these business ties involve "overseas" Chinese who are dealing with people in the province of China from which they or their ancestors migrated (*tongbao* or compatriots).[4]

To be sure, government is often heavily involved in the ownership if not the operation of many specific enterprises. In Taiwan, the KMT (the Nationalist Party or Kuomintang) is the largest property owner, with widespread business interests. In mainland China, in addition to numerous private ventures (often in collaboration with foreign investors), government owns a great variety of enterprises. These range from the central government's giant steel mills to local government factories. The trading companies, which engage in a variety of commercial, banking, and manufacturing activities, are owned by governmental units, ranging from the army to a local county.[5]

Three-fifths of all foreign investment in China has been made by Hong Kong's Chinese entrepreneurs.

The close connection between public and private sectors and the greater China economy is illustrated by the operations of the Shanghai Far East Container Company. This joint venture between Shanghai, Hong Kong, and Taiwan involves enterprises in all three areas to produce steel containers in Shanghai. An even greater extension of capitalism occurred in June 1992, when the city of Wuhan allowed Hongtex Development Company, a Hong Kong firm, to buy a 51 percent share of Wuhan No. 2 Printing and Dyeing Company. This transaction marked the first time a "foreign" company was allowed to acquire a majority stake in a state-owned enterprise in China, albeit an ailing one.

In contrast, the city of Qiaotori, in Zhejiang province, has no state-owned enterprises. This metropolitan area has recently become the button-making capital of China. Seven Hong Kong and Taiwan companies have set up joint ventures to produce buttons for China's growing textile industry.[6]

The Close Connections

Several economic indicators, ranging from modest to basic, illustrate the close connection among the "Chinas." Eight years ago, the special economic zone of Xiamen in mainland China booked 10 telephone calls a month to Taiwan. Currently, such calls are averaging 60,000 a month and the number continues to rise. In 1987, fewer than 7,000 Taiwanese visited the mainland. The current rate is approximately 1 million a year. Bilateral trade, which can legally be conducted only through third countries, was about $1.5 billion in 1987. The current figure is about $6 billion, a fourfold increase. In addition, about 4,000 Taiwan enterprises have set up factories in China, mainly in the south. In the aggregate, more than 5,000 Taiwanese companies have invested approximately $5 billion in the China mainland.[7]

The current state of interdependence between mainland China and Hong Kong is even more striking. Each is the other's largest trading partner and largest source of external investment. Three-fifths of all foreign investment in China has been made by Hong Kong's Chinese entrepreneurs.[8]

A recent example of this development is the $60 million project on the part of Hong Kong-based Tian An China Group to construct a large commercial and office building in the heart of Changzhou, an industrial city in Jiangsu province. Similar is the teaming up of Hong Kong's Kwah International Holdings with a variety of partners in China to develop a commercial office tower in Shanghai. The partners include the Hwang Pu District Resettlement unit, the People's Bank of China, the Shanghai Land Development Company, and the Hwang Pu district government.[9]

The People's Republic of China has reportedly invested approximately $11 billion in Hong Kong trade, real estate, transport, and financial enterprises. One result is that the Bank of China is now the second biggest bank in the colony, as measured by volume of deposits. In the other direction, 80 percent of Hong Kong's manufacturing companies have branches in China, employing more than three million workers. Apparently there were far more people working in China for businesses owned by Hong Kong or on orders received from them than the entire manufacturing work force of Hong Kong itself (in a reported ratio of 4 to 1).[10]

Approximately 50,000 managers and professionals commute daily from Hong Kong to the nearby Guangdong province. About 60 percent of China's exports go through Hong Kong. These reexports, in turn, account for the greater part of Hong Kong's exports. The data support the conclusion of William Purves, chairman of the Hong Kong Bank Group, that "Investment and expertise channeled from Hong Kong have turned southern China into one of the industrial powerhouses of Asia."[11] In fact, what some observers call the greater "Hong Kong enclave" is likely soon to enjoy a gross domestic product as large as that of France.

Macao, a neighbor of Hong Kong, is also undergoing a period of rapid growth. Although under nominal Portuguese sovereignty until 1999, this island economy is developing its ties with the rest of the greater China economy. The new airport being built on the island has the strong support of mainland China (which differs from the case of the controversial new airport being planned for Hong Kong). China's Chung Luen consortium holds an 8.67 percent interest in the company which is building and is also scheduled to operate the facility.[12]

At the more macroeconomic level, some private analysts, adding up the foreign exchange reserves of the various Chinas, come to a present total of $200 billion. That amount is far in excess of the foreign exchange holdings of any other economic power worldwide. It surely is an impressive financial aggregation with considerable potential for influencing the direction of future economic developments.

Indeed, in 1991 Taiwan alone was the largest single foreign investor in Malaysia and also in Vietnam. Cumulative foreign direct investment from the newly industrialized economies of Taiwan, Hong Kong, and Singapore is beginning to surpass that of both Japan and the United States in Indonesia, Malaysia, and Thailand. Not too surprising, the rapidly developing Asian rim countries are turning to new suppliers within their own region for their imports. These newly developing countries now buy 33 percent of their imports from other nations within the region compared to less than 24 percent as recently as 1985.[13]

The economy of mainland China may exceed that of Japan by the year 2000, if not sooner.

The trend toward the internationalization of production within the greater Chinese area is not generally viewed, however, as motivated by the desire to integrate trade. Rather, the end objective often is to export final products to third countries in Western Europe and North America. Thus, trade data for Southeast Asia must be interpreted with this tendency in mind.

A Look to the Future

Former World Bank president Robert McNamara has provided an upbeat long-term appraisal of the economic prospects of mainland China. He states that, if China achieves its economic goals for the year 2000 and then moves forward at satisfactory but not spectacular growth rates, that nation's per capita income in 2050 may be roughly equal to that of the United Kingdom in 1965. The total size of its economy would approximate that of the United States or Western Europe.[14] One U.S.

economist estimates that the economy of mainland China alone may exceed that of Japan by the year 2000, if not sooner.[15]

When we add to these forecasts the other parts of the greater China economy, the economic implications of the extension of current trends into the twenty-first century becomes awe-inspiring. This study leaves the subject of potential political unification to others. We must take note, of course, of the severe strains in mainland China which are arising as an economically backward, communist-led nation attempts to move to a capitalist regime. Almost by definition, adoption of a private enterprise system, however halting and incomplete, means the broadening of the society's power base and considerable decentralization of decisionmaking. The existing power structure is not likely to respond to these changes passively.

Moreover, recent purchases of advanced military aircraft by Taiwan have raised levels of tension in the area. However, this study focuses on the economic aspects of the developments of the Greater China economy. The implicit assumption here is that the pervasive attractions of rapid economic development will, at least in the long run, overcome political animosities. The tragic events in Lebanon, however, show the limitations of this assumption. In that case, the great economic potential of the country was virtually destroyed by unreconcilable political antagonism.

Surely the more complete industrialization of Southeast Asia is a prospect that Western analysts have not fully examined. Nevertheless, a few already are referring to a forthcoming "Chinese Century." The "Chinese Productivity Triangle" is another, and more modest, description that is in use. With the opening of China and capital flows to it, Greater China is rapidly becoming one of the world's most vibrant economies. It is no exaggeration to state that Greater China is a potential economic superpower.

A historical parallel comes to mind: the key role in international commerce of the Hanseatic League. For many centuries during the late middle ages, the League tied together first the merchants and then many of the cities of northern Germany and the Baltic area. Historians stress the fact that the Hanse cities did not set up a joint or unified government. Rather, the business and government leaders cooperated on matters of mutual economic and financial interest. A shifting array of participants can be identified over the centuries. Some of the large German cities in the qualifying area did not participate at all, and many entered into the cooperative arrangements for only limited periods of time.[16]

Greater China is rapidly becoming one of the world's most vibrant economies.

Unlike the European Community or the North American Free Trade Agreement, the Hanseatic League was not a compact among sovereign powers, nor did it constitute a supergovernment. Individual members continued to owe their traditional allegiance to the specific political power that controlled the part of the region in which they resided. Technically, the League was an amorphous organization, lacking legal status and possessing neither finances of its own nor an independent army or navy.

Nevertheless, the Hanse merchants cooperated in many important ways, providing mutual support in times of danger. They constituted an identifiable economic grouping which competed with businesses in Holland, Italy, and on different occasions, many of the nations facing the Baltic Sea. Despite the obvious limitations of a nongovernmental organization spread over considerable distances — Bergen in Norway was an important Hanse location as was Novgorod in Russia — for almost five centuries the Hanseatic League was an economic power to be reckoned with.

No analyst can forecast with any degree of assurance the future nature of economic relationships in Eastern Asia. Will a modern version of the Hanseatic League be created? Will a counterpart to the European Community arise? Will the more modest arrangements being developed in North America be the precedent that will be followed? Or will the present informal relationships be relied on in view of their substantial success?

Whatever the answer, trends rarely move in a straight line for an extended period of time. In the recent past, setbacks have occurred in the economic and political development of Southeast Asia and future detours are likely. Some experts offer a more pessimistic assessment than presented in this report. Ross Terrill of the East Asian Research Center of Harvard University believes that China can never truly prosper while the Communist Party retains its monopoly of power. Any gains resulting from piecemeal economic reforms, in this view, will merely benefit the Communists by pacifying the citizenry. Other visitors to China report that their dominant impression of the new economic zones, such as Guangdong, is one of official favoritism, inside deals, and outright bribery. As economic journalist Dan Cordtz recently wrote after an extensive visit, China remains a poor, developing nation by Western standards: "At best, it is a bicycle society moving up to motor scooters."[17]

Great uncertainty surely attaches to the future of the Chinese economy. The People's Republic is making it clear that it wants to participate actively in determining the future direction of the economy of Hong Kong. But there is little clarity as to the nature of that participation and the desired direction of change. Likewise, the relations between Peking and Taipei at best can be described as ambiguous. The political ties between China and the rest of the Chinese trading area, notably Singapore, range from loose to nonexistent. The notion of political integration does not now appear as a realistic short-term prospect. However, what does seem likely is

continuing informal integration, perhaps leading to a de facto Chinese Common Market.

Nevertheless, forces of economic and business development seem likely to dominate, especially in the long run. As in Eastern Europe, communism did not fall primarily because the people rejected the ideology of Marx (if they ever understood it). Rather, they saw the vastly greater benefits of democracy and private enterprise. Whichever specific course is followed in Southeast Asia, it is reasonable to expect some type of response to the economic unification that is now occurring in the two other major competitive areas, Western Europe and North America.

In Eastern Europe, communism did not fall because the people rejected the ideology of Marx.

Conclusion

The rise of the greater China economy must be viewed in the context of the increasing globalization of economic enterprise. Despite the many efforts of government to restrain or at least redirect trade and investment, individual businesses are succeeding in overcoming these obstacles to private decisionmaking. The mobility of enterprises — of their people, capital, and information — is reducing the power of government. Public sector decisionmakers increasingly are being forced to understand that they now have to become internationally competitive in the economic policies they devise. In this era of computers, telephones, and fax machines, enterprises are extremely mobile.[18] The most striking examples of that mobility are the recent experiences of Chinese entrepreneurs.

Even in the face of official hostility, many Taiwanese firms and a great number of Taiwanese individuals are succeeding in establishing their business presence in China. As we have seen in the case of Hong Kong and the mainland, the mutual economic interpenetration is even more striking. The formal power of government is not to be discounted — and its destructive ability has been vividly demonstrated in innumerable wars. Nevertheless, the continuing desire of people to respond to the power of economic incentives and technological advance surely seems pervasive.

Looking ahead to the twenty-first century, the Chinese economic and trading area might well reach across the Pacific (some early manifestations are already evident in the Silicon Valley in California). Such a development would form a major part of the economic and Pacific equivalent of NATO, the North Atlantic Treaty Organization. But, unlike NATO and like the Hanseatic League of old, that area would not be dominated by a single government unit or depend on a military or political pact. On the contrary, it would be both contributor to and beneficiary of the world's largest and most open commercial region. Barring a major political setback in the intervening period, the Chinese economic area has the potential of providing a principal engine of world growth in the early twenty-first century.

Notes

1. This paper draws from Murray Weidenbaum, "The Shifting Roles of Business and Government in the World Economy," *Challenge*, January/February 1993, pp. 1-6.

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4. "The Overseas Chinese," *The Economist*, July 18, 1992, pp. 21-24; Joel Kotkin, *Global Tribes: Understanding the New Economic Paradigm* (Denver: Center for the New West, 1992); Joel Kotkin, "China Dawn: A Rising Economic Power Is on the Horizon," *Washington Post Weekly*, October 12, 1992, p. 23.

5. I am indebted to Professor William C. Jones of the Washington University School of Law for this point.

6. "Shanghai Joint Venture," *China Morning Post*, December 11, 1992, p. HS 1; Paul Mooney, "At China's Crossroads," *Far Eastern Economic Review*, November 19, 1992, p. 66; Nicholas D. Kristof, "Poor Chinese Town Bets Its Shirt on Making Buttons," *The New York Times*, January 18, 1993, p. A6.

7. Angus Foster, "Bitter Enemies Become Grudging Partners," *Financial Times*, November 13, 1992, p. 17; Sheila Tefft, "Taiwan Vote Signals Growing Support for Independence," *Christian Science Monitor*, December 22, 1992, p. 6.

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9. Eric Chan, "Tian An Signs Deal for Changzhou Project," *Hong Kong Standard*, December 10, 1992, p. 20; Sandy Li, "K Wah Links for $980 million Mainland Development," *Hong Kong Standard*, December 10, 1992, p. 19.

10. Lan, "Hong Kong," p. 6; Kevin Rafferty, "A Serious Case of Mainland Fever," *Emerging Markets*, September 23, 1992, p. 50.

11. Quoted in Louis Kraar, "A New China Without Borders," *Fortune*, October 5, 1992, pp. 124-125.

12. Harold Bruning, "Macao to Hold 51 pc Stake in Airport," *Hong Kong Standard*, December 10, 1992, p. 19.

13. Olin L. Wethington, *Capital Flows, Investment, and Growth*, A Presentation to the Pacific Economic Cooperation Council, San Francisco, California, September 24, 1992, p. 2.

14. Robert S. McNamara, "A New International Order and Its Implications," A Paper presented to the Tokyo Conference on Arms Reduction and Economic Development in the Post-Cold War Era, United Nations University, Tokyo, Japan, November 4, 1992, p. 4.

15. Charles Wolf, "Why Asia-Pacific Holds the Cards," *The New York Times*, January 17, 1993, p. F-13. Wolf is director of economic research at the Rand National Defense Research Institute.

16. This section draws heavily from Philippe Dollinger, *The German Hansa* (Stanford: Stanford University Press, 1970).

17. Dan Cordtz and Richard Meyer, "Inside China Today," *Financial World*, December 8, 1992, pp. 36-51.

18. Richard McKenzie and Dwight Lee, *Capital Mobility: Challenges for Business and Government* (St. Louis: Washington University, Center for the Study of American Business, 1991).