

# **TWO DECADES OF INTERNATIONAL INVESTMENT IN THE PEOPLE'S REPUBLIC OF CHINA (中国)<sup>1</sup>**

**Notes on the current issues of Chinese economy, society and habitat**

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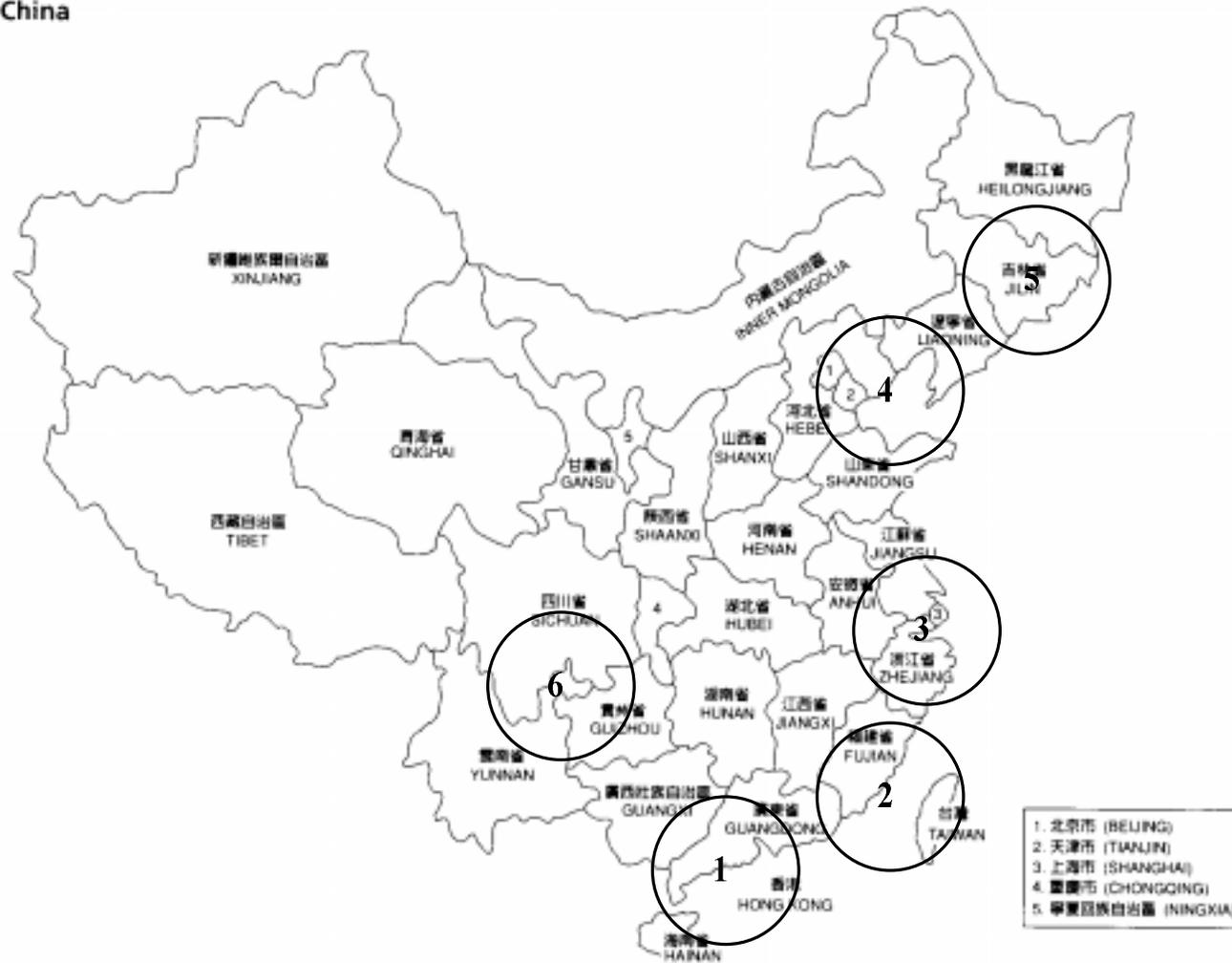
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# People's Republic of China

# MAIN AREAS OF INTERNATIONAL INVESTMENT

Provinces of China



## **1. Why China ? Understanding the factors and values underlying international investment in the People's Republic of China**

### **1.1. The great Chinese bazaar, the dream market...**

China is the most populated country and one of the finest and senior-most human civilizations. According to the conventional modern-Western "success" parameters (i.e., quantitative development in economy and qualitative progress in technology) China is a "developing" country; implying that it is 'not yet fully developed'. In the past years, China has been ahead of many other "developing" big countries that attracted huge foreign investment (Brazil, India, Russia, Indonesia, Mexico, Argentina, South Africa...). More than 290.000 projects with the involvement of foreign capital and technological resources have been officially launched in China between 1978 and 1996 (Asian Development Bank, 1996; State Statistical Bureau of the People's Republic of China, 1997)<sup>3</sup>. This amounts to be one of the largest international investment ever attracted, in a time-span of less than two decades, by any single nation-state system outside the West<sup>4</sup>.

No big company feels enough global if it has no presence in China. And many small and medium enterprises view China as the most promising land of opportunities to produce at a (relatively) low cost and then to sell to a huge consumer world. China is the 'dream market' for business-persons all around the world.

The almost 50 million-strong Overseas Chinese community (often called "Chinese Diaspora") remains the most powerful source of small and medium-size foreign investment in China. Wealthy businessmen of Chinese descent in South-east Asia and rest of the world remain concerned about their ancestral homeland. They are business investors, philanthropic donors and influential role-model (of progress and prosperity) for the Chinese society. Even the second or third generation of living abroad show concern and pride while referring to China. The investment from the Chinese residing in Hong Kong (former British colony, now re-annexed to China as "Special Administrative Region", substantially maintaining its autonomy) and Macao (planned to be re-annexed to China before 2000 in a similar way), counted for more than half of all foreign investment in China in the last two decades. The other Overseas Chinese investment - from Taiwan, Singapore and the rest of South-east Asia) - counted for more than 25 % of all international investment directed to China in the last two decades (Campbell, 1988; Dobbs-Higginson, 1995). Most of the joint ventures of the Overseas Chinese are small and medium-size projects, concentrated in the south-eastern coast and surrounding backyards, where their

forefathers came from. The rest is made up by others, including big Western multinational companies.

Similar situation is to be found in the international trade. The Overseas Chinese are the main actors in China's trade with the rest of world. Prospects of fielding competitive (imported design, acceptable quality, low price) "Made in China" products in the world market have stimulated a good part of investment in the manufacturing sector. The huge foreign direct investment has transformed China's external trade. International investment was involved in over 47% of foreign trade in 1996, compared with the meagre 5.6% of a decade earlier. The business generated by the international investment (foreign enterprise branches, joint ventures and trading companies) and by the international trade directly absorbs more than 17 million people, equivalent to one-tenth of China's urban workforce (cf. SSB/PRC...; Maddison, 1998). In 1978, in the beginning of Deng Xiao-ping's reforms, China held the 34th position in terms of the total volume of commercial transactions with the rest of world. After a decade and half, by the end of 1992, China was positioned as the 11th top trading nation (cf. ADB, SSB/PRC...; Weber, 1995). The over all trends in China's trade with the rest of the world and the foreign involvement in Chinese economy unmistakably point towards further expansion and diversification.

The Overseas Chinese business operators have proved to be the most active agents in international trade since the opening of Chinese economy. Westerners and other non-Chinese foreign investors view the Overseas Chinese community as a strong and vital network connecting the whole Asia-Pacific and linking China with the rest of the world. Gaining a foothold in China is important also for the future business *in* and *through* the developed markets of Hong Kong, Macao, Taiwan, Singapore and with the wealthy Chinese minorities in Indonesia, Malaysia, Thailand and elsewhere.

Even a little share in the huge Chinese economy<sup>5</sup> looks very rewarding also to the ethnically non-Chinese foreign business operators. The sheer size of the Chinese economy outweighs many doubts about doing business with China. It is true that many business projects have never been fully implemented, and the cost and burden of doing business in China have become increasingly higher. It is also unclear whether many foreign-involved businesses are creating profit at all. Almost half of the total internationally funded enterprises are said to be just hanging around, waiting for the good days (Dobbs-Higginson, 1995; Starr, 1997).

The list of problems for international investors is long : the rising costs, burdens, the recent slow-down, continuing intransparency of the Chinese political and administrative system, weak judiciary, lack of a well-trained manpower, insufficient infrastructures, the recent Asian financial crisis and, most important of all, difficulties in communications (problems of inter-system/inter-cultural dialogue, language...)

Nevertheless, to most foreigners and Chinese, China's economic progress seems irreversible. It is less costly to produce in China, compared to other industrialized countries of Europe and America. It is cheaper than in most newly industrialized and relatively more affluent countries of the Asia-Pacific region (Malaysia, Singapore, South Korea, Taiwan, Thailand...). At the same time, it is also quite safer to do business in China, compared to most other equally cheap (or even cheaper) developing countries of Africa and parts of Central and South America. Today's China looks quite dynamic and much safer compared to other transitional economies and emerging markets of former Socialist block like Russia and Central/East Europe, Central Asia (former Soviet Republics) and Latin America. China's expanding and relatively educated middle class seems a very consistent consumer society. China represents the great promised land of opportunities, the dream market, for the foreign businesspeople.

The other 'dream markets' are represented by India, Brazil, South Africa and, to some extent, perhaps, Russia. China surpasses all of them for the volume of trade and for the variety and size of investment. The economic scope is certainly the main reason. But there seem to be also some non-economic aspects of the People's Republic of China that might have shaped investors' choice.

## **1.2. Stability *versus* democracy**

Most foreign investors, particularly the Westerners, view the people of China as supine absorbers of the authorities' command, instruction and propaganda. The image of Chinese society is that of a huge mass, tightly controlled and successfully driven by a tiny power élite. This image does not fully correspond to the reality, for the Chinese civil society has shown its capacity to disobey and the Chinese consumers are capable to mount pressure on power hierarchy and market. The Chinese are also a creative and hard-working people. But the stereotype of the Chinese people in foreign imagery is that of a subdued population. The foreigners (particularly the Westerners) view China as a quasi-dictatorial system. However, for most businesspeople, anywhere in the world, the political freedom that a people enjoy in their country has little importance, compared to the government's economic policies. And China's economic policies in the past two decades (1978-1998) have been clearly in favour of trade and investment.

China enjoys the status of "Most Favoured Nation" (MFN) for trade with the USA and, consequently, good standing for trade and investment relations with other capital-rich countries. At a certain point, around 1992-'93, some re-thinking in USA's China policy seemed to occur in the aftermath of leadership change<sup>6</sup>. But the big business circles pressed hard in favour of China. The big investors (e.g., AT & T, General Motors, Ford, Hughes Aerospace, some companies of Texas and Louisiana specialized in oil drilling and exploration equipments, and a number of

other large-to-medium sized companies) successfully persuaded the US government and parliament to be more accomodating with China. As a consequence, the human rights issues have been de-linked from trade/investment discussions (except for strategically sensitive technology and military hardware). China's MFN status has continued to be renewed amid some hues and cries by some politicians and human rights organizations (Hsu, 1995). US, most West European and East Asian foreign-policy makers have displayed supreme concern to business convenience.

After a temporary silence ("wait-and-see" approach) following the Tien-an-men Square incident of Beijing in June 1989, when pro-democracy demonstrators were dispersed by the use of military force, most foreign investors went increasingly vocal in their appeal (to their respective governments and to the public opinion) for economic realism and for not wasting time and energy in the controversies of political freedom and human rights.

More or less around the same period (i. e. 1990-'91, soon after the Tien-an-men Square incident in China), India, another Asian giant and another 'dream market', had begun to liberalize and open up its economy. There was a substantially positive response from the international investors to India's opening. India tried hard to represent itself as a viable investment alternative to China through its consolidated advantages : qualified manpower, more sophisticated financial infrastructures (banking, insurance, stock market...), widespread use of English language for business communications, independent judiciary and, above all, well-established "democratic" (according to the modern Western criteria) norms and institutions. But, despite the advantages in financial institutions, English language and "democracy", India could not match China. The level of respect, attention and investment China enjoyed in the international business circles (particularly in the multinational corporations), and among the governments of capital-rich countries, remained very high compared to the respect, attention and investment enjoyed by India.

In the past two decades, the policy-makers of East Asian (except, perhaps, Japan which has been constantly upgrading its links with India), West European (except, perhaps, the Scandinavians), Australian and North American governments nurtured more carefully their diplomatic and strategic links with China while comparatively snubbing India. The international government and business circles might have considered that it is easier and quicker to deal with a commanding and centralized "hard" state like China than with a consensus-seeking, decentralized and "soft" state like India.

Many Western observers (as reflected through the Western media reports) regret that China is not a "democracy" in the modern-Western, conventional terms. But the "non-democracy" of China has been useful for the government, people and business in China. It has created a substantially responsible, literate and stable society in the People's Republic of China (PRC). Even the poor political image of PRC - i.e., centralized, monolithic and non-democratic system -

has helped China. It has been a factor in favour of the foreign companies' engagement. Any threat of disruption to the *status quo* looks simply too risky and, therefore, the foreign investors (particularly the multinational companies) urge the politicians to appreciate the "stability" of China's system and to help China to perpetuate it. "Stability" is the key-concept that China uses to persuade the foreign investors and governments. It is also the main point to dissuade the internal dissidence and to foster self-legitimacy. Foreigners and locals both are continuously reminded by the Chinese authorities that ongoing improvements in Chinese people's purchasing power and business freedom have been possible only through political stability. So far the events in other societies and economies of transition (e.g. Russia) have proved that they are substantially right in doing so.

Both the Chinese government and the foreign businesses seem to believe that open economic policies (liberal attitude *vis-à-vis* foreign capital, business freedom) combined with tight political control (un-liberal attitude *vis-à-vis* internal forces) are the necessary pre-conditions for spectacular economic development; at least, in the initial phase. They believe that, in the past three decades, the economies of newly industrialized and industrializing countries of Asia-Pacific region could flourish thanks to tight social and political control.

The examples :

Singapore under the paternal-authoritarian leadership of Mr. Lee Kwan Yew (now a senior advisor to many East Asian governments including China)

Taiwan under the *de facto* one-party rule of Kuomintang nationalists (still the ruling party) of General Chiang Kai-shek ; late *generalissimo* Chiang is almost a saint-patron figure for many Taiwanese, particularly for those who fled the mainland on the eve of communist victory

South Korea under the military dictatorship of General Chun Doo Hwa and, later, under his fellow and second-man (another army general) Roh Tae Woh, elected President after the constitutional reform. Now both men are in disgrace for corruption charges, and South Korea is an almost normal democracy struggling to recover economic health after the recent Asian financial crisis and slump.

Indonesia under the oligarchy of Suharto family and friends. Mr. Suharto (another leader with a military background) is gone, after three decades of power, under the pressure of street demonstrations; the economy is a shambles and political turmoil continues under Mr. Habibie, formerly Suharto's heir-apparent and cabinet minister, now the interim president.

Malaysia under long (16 years), paternalistic and authoritarian presidency of Dr. Mahathir Mohammad (ongoing, but beginning to face some challenges by the opposition)

Thailand under the generals-turned-politicians - officially "elected" and/or unofficially appointed and approved by the armed forces...

Even Hong Kong, under British governance, has never been a truly democratic place in the Western sense. For international trade and finance it was a liberal free-port, the local people have always been politically subdued. The British government, through the colony's British-appointed (never elected by the Hong Kong people) governor Mr. Chris Patten, hastened to build a somehow democratic political framework when the hand-over to People's Republic of China became certain and imminent.

In the past three decades, the 'business freedom minus political rights' formula triumphed almost everywhere in all East Asia (except Japan and India), including the British-governed Hong Kong. The powerful communists in China and the resourceful capitalists abroad seem to converge on the appropriateness of the 20th century's neo-Confucian formula (i.e., political authoritarianism + social control + economic boom) for China's development.

After the big financial crisis of 1997 some sections of East Asian societies seem to have begun re-thinking about the sustainability of their development model. The East Asian governments are increasingly, albeit silently (without declarations), establishing the freedom of research and expression in arts, literature and sciences. The environmental concern is slowly becoming a part of the learned public opinion. In the last two years, many small groups and networks have been formed in the Chinese universities to discuss environmental problems and to share information and opinions. The Western-style democracy may not yet be fully acceptable to many Asians (particularly, for those in power). However, the longing for a relaxed civil atmosphere and for a substantial respect to the citizenry (particularly, relief from the bureaucratic complexities and arrogance) are widespread in the People's Republic of China and in the rest of East Asia. And the respect to citizenry and relaxed civic atmosphere are well-known traits of political culture also in the East, even long before the Western influences.

### **1.3. Matter, mind and money : the modern Chinese paradigm**

Compared with most other Asians, today's Chinese display a strikingly more mundane and economically rampant character. Traditionally and historically, we find the Chinese people to be quite pragmatic and aesthetic in their outlook (Chinghua Tang, 1996; Raju, 1962). But they have never been truly materialist and totally "this-worldly" before the advent of communism (Du Feibao & Hong Su, 1994; Granet, 1951).

One of the basic traits of today's Chinese state ideology and socio-cultural mainstream is 'materialism'. Materialism affirms that matter (i.e. tangible, manifest reality) alone is the true

reality. For materialism, consciousness is a by-product of matter. "This-life-in-this-world" is the only truth, otherworldly belief is pure nonsense. The rest of Asia, including the most "industrialized" Japan and the most "democratic" (as per the Western standards of democracy) India, is very different in this regard. Apart from North Korea, a hard-line communist state, and a few modernized (Western-inspired) urbanites, materialism has no respectable place in the Asian socio-cultural mainstreams. It is only in China where materialism gained such a respectable position and where it has been able to permeate the thoughts and actions of the majority. The phenomenon of materialism is one of the key elements in order to comprehend fully the Chinese economic boom and international investors' preference for China.

Since 1949, the communist governments of China have been, to a great extent, successful in reducing the massive poverty and to provide basic infrastructures and universalized primary and secondary education. These achievements are attributed to the appropriateness of materialist social philosophy, based on "Marxist scientific socialism", re-defined and integrated by Mao Zhe-dong to suit the Chinese characteristics (Hu Sheng, 1997). In the communist view, the old traditions with spiritual outlook caused an unworthy, timid ignorance obstructing the Chinese people's progress. The Chinese official education-system tries to inculcate this view right from the early schooling. The systematic official attack against any form of transcendental or spiritual belief-practice in China reached a climax during the "Cultural Revolution" (late 1960s and early '70s) carried forward directly under Chairman Mao's guidance. The revolution was a process of pressing forward with scientific and materialistic attitude, purifying the Chinese minds of all other-worldly beliefs and superstitions.

For the post-Mao China, guided by Deng Xiao-ping, the material prosperity was the only way towards social happiness and national dignity. Despite some divergence on method and procedure Deng's successors and other powerful personalities of today's China seem to converge on the fundamental philosophy of materialism despite their differences in opinion and method. Mao's communism exalted an idealistic (revolutionary-theoretical) materialism for the collective good based on immanent, anti-transcendental world-view as universal truth. For Mao and his comrades, the people and the country could be served only by materialism, by freeing them from their magico-religious traditions. But Maoism despised the pragmatic-practical materialism of the West that underscored wealth-creation, consumism and accumulation for private good. According to Maoism, all that is individualist and hedonistic, bourgeois and reactionary. Deng's "reformed" communism viewed pragmatic-practical materialism of the Western type as the sole driving force to establish the theoretical supremacy of the materialistic philosophy and of the Chinese system (Deng's famous slogans of late 1970s and 1980s : "economics in command", "seek the truth from the facts", "to get rich is glorious" ...). But it also warned the people against

"cultural pollution" (the Chinese official jargon for the imitation of Western habits). The Chinese people were supposed to remain "Chinese" in their habits, maintain their social system and be loyal to the Chinese Communist Party while being aggressively wealth-pursuing like the Westerners and other rich Asians.

The Chinese communists always displayed pride in being the heirs of one of the oldest civilizations (according to them, *the* oldest). The volume, length and material achievements of the past are considered a richness. While the core value-system, *weltanschauung*, the traditional élites, networks and patterns that generated and animated those contingencies are considered backward. In other words, the Chinese communists have always been proud of their 'history', but shameful of the 'tradition'. Mao's communism was not totally successful in destroying the spiritual traditions of China, for China is a huge and complex country. But it was successful in seriously interrupting the traditional continuity among the Chinese majority (the *Han*)<sup>7</sup> inhabiting more accessible areas. Maoism seriously damaged the religious élites, institutions and networks, and firmly established 'materialism' as the only valid social philosophy in the *Han*-Chinese heartland.

In the early years of Mao's revolution (and, even before) there was already a tiny section of the urban, Western-educated élite that had cheerfully embraced modern materialism. The first liberal and revolutionary forces in the beginning of this century were already heading towards rationalism and materialism. But the vast majority was still traditional. During the "Cultural Revolution" (in the 1960s and the first half of 1970s) China's religious traditions<sup>8</sup> were seriously interrupted. Many Chinese (then young, now mature adults) had their minds "purified" by Chairman Mao's doctrines. And those born after the end of the peak revolutionary times (say, today's teenagers and young adults) find themselves in a vacuum of tradition. The vertical path towards the spiritual goals (i.e. the Supreme Being called *Sang-di*, the Supreme Way called *Tao* or *Dao*, better re-incarnation, cosmic dissolution leading to immortality and freedom, *Nirvana* etc. ) has been summarily dismissed as superstition. The spiritual goals are irrelevant, even ridiculous, for today's Chinese. Chinese people's energy (*Qi*, or *Chhi*, the Chinese traditional concept of "vital force" in all things and beings) and frustrations (delusions) could not be channelled (sublimated) to the "other-worldly" affairs.

After 1978, when Deng Xiao-ping started to liberalize the economy and open the doors to foreign investors and traders, he also incited the people to earn and enjoy, to produce and consume goods and services. "To be rich is glorious", his famous dictum. In other words, Deng tried to release horizontally the Chinese people's *Qi* (or *Chhi*, the vital force), so far stopped (by Maoism) to proceed towards vertical path (spiritual, other-worldly). The social response to Deng's call to gold-rush has been overwhelming. Chinese people's energy (*Qi* or *Chhi*) had found

an avenue to redirect itself, towards "this-life/this-world". Even a cursory and superficial look at the contemporary Chinese society reveals that wealth (and its flashy display), comfort and pleasure are important values in China. Mao Zhe-dong's success in "mind purification" of the yeasty years paved the way for Deng Xiao-ping's success in inciting the Chinese to earn and enjoy. Not only in China but throughout the ex-communist countries the pursuit of wealth, comfort and pleasure looks more rampant and unscrupulous than in the established capitalist societies of the West itself. Paradoxically, the triumph of capitalist-style consumism and hedonism of today has been made possible by the decades of anti-capitalism and austere communism. Free-market capitalism and command-state socialism differed only in method and system, not in paradigm. Both shared the same paradigm : the supremacy of "matter" and the subaltern and secondary position of the "consciousness".

For the foreign traders and investors, the materialists of China are wonderful consumers and, when properly trained, good business and industry workers. For the foreign investors, particularly for the Westerners, the economically excited and mundane Chinese are far more preferable to the tradition-conscious and enigmatic Indians and Japanese. They are more preferable also to the stubborn and conservative Middle Easterners (mostly Moslem), traditional and generous clients of USA and West Europe. On the other side, contemporary business-minded Chinese prefer the Westerners to do business with and to learn from, rather than Japanese, Indians or other Easterners.

## **2. Assessing two decades of foreign involvement in the Chinese economy**

### **2.1. The open doors and the remote backyards : China's unequal regions**

The establishment of China's "special economic zones" (SEZ)<sup>9</sup> is perhaps the most important component of China's economic reforms and its openings (the famous "open door" policy launched by Deng Xiao-ping) to international investment. In the old, "pure" revolutionary times of Mao Zhe-dong the central government adopted a somehow egalitarian approach to regional development, taking funds from the wealthier provinces and cities (mostly along the eastern and southern coastline) to redistribute to the poorer ones. Mao's communist regime was markedly pro-rural for it had gathered most of its strength from the rural masses in the 1920s and '30s, and had launched its long march to victory (1949) from the rural backyards.

In due course of time, this regional egalitarian approach produced urban frustration. The most forward-looking contexts remained dormant. Deng Xiao-ping understood the urban frustration

and believed that the best-endowed regions were prevented to realize their potential, and all that caused slow national economic growth. For Deng and his followers certain areas had to be incentivated through well-tailored economic policies to be applied locally in order to attract investment, to boost the trade (mostly export) and to create territorial role-models in wealth creation. Eventually, the territorial role-models would have trickle-down effect upon the surrounding backward hinterland creating many little dynamic districts. And, finally, the advanced and dynamic contexts would serve as the locomotive to many backward areas while maintaining their specific industrial and commercial vocation and international links (Shangquan & Fulin, 1997). To a great extent, all this has been translated into reality.

The "open door" policy has a very important territorial dimension. The policy was formulated with a strategic vision of the intimate links that the thriving Overseas Chinese communities have with China's coastal areas. Driven out of their native places in the south-eastern China by poverty the emigrants were to become the most successful business community in South-east Asia. They left China in droves stricken by famines and turmoils<sup>10</sup> in the past. By the late 1970s, some of them, wealthy and well-educated, were re-visiting their native areas with sympathy and concern. The Overseas Chinese always maintained links with their native contexts. The post-revolutionary, pragmatic leadership of China planned to cash these links. The Beijing government believed that it could tap a great amount of the foreign-based ethnic Chinese business resources by creating some well-controlled "open doors" ('safe havens' for business) in the Chinese economy in the areas that are easily accessible to, and near-by their ancestral areas. Beijing leaders believed that Overseas Chinese could also serve as commercial and cultural bridge between the Western (and other non-Chinese) business world and the People's Republic of China. The economic developments of the past two decades have proved that their strategic vision was well-founded.

The people of Hong Kong speak the same variety of the *Han*-Chinese language-base (*Han-yu*), widely known as 'Cantonese', as the majority of the people of Guangdong province. Taiwanese-Chinese language and culture is contiguous with the Fujinanes-Chinese. Separated only by political systems and armed forces' control, the peoples of the two sides kept on trading and exchanging even during the hard-closed revolutionary period. The pragmatic leaders in Beijing understood that they could gain commercially, financially and technologically by legalizing and maximizing the exchanges. Some well-guarded "open doors", just in the areas where the exchanges have always been taking places, could serve the purpose of attracting capital and technology from the relatively prosperous and advanced Hong Kong, Taiwan and other parts of South-east Asia. In fact, the major investors in Shenzhen (across Hong Kong) and Zhuhai (across Macao) SEZs in Guangdong are from Hong Kong and Macao. And the major

investors in the Xiamen SEZ (Fujian) as well as sponsors of cultural relics and social programmes in Fujian province are from Taiwan, just across the sea.

The special business sites in the remote corners of Heilongjiang and Inner Mongolia are promoted for their close trade links with Russian Far East. Those ones in Jilin, Liaoning and Shandong are encouraged to promote their old links with Korea and Japan. All the coastal SEZs are part of a grand strategy to cash their geographical position and traditional links with a specific foreign investment source and foreign market. These linkages and the concentration of foreign investment in specific areas have reminded some observers the old colonial pattern of the "spheres of influences" into which foreign (Western) powers carved China a century ago (Starr, 1997).

From a broad socio-economic viewpoint the total national territory of the People's Republic of China can be classified in three major 'area-types' :

- \* the **coastal area** (coastline and contiguous areas)
- \* the **vast interior** (mostly rural backyards)
- \* the **remote area** (remote pastures, barren lands, borderlands, no-man's-lands...).

The coastal China<sup>11</sup>, most urbanized and densely populated, has absorbed the largest share in foreign direct investment and, therefore, Chinese government's attention in infrastructures, facilities and services. This has aggravated the already existing regional imbalance amongst the coastal, interior and remote areas. The 13 top-ranking provinces in terms of international investment, economic output and per capita income, are all along China's eastern and southern coastline (cf. SSB/PRC...; Starr, 1997). China's total coastline is almost 32,000 km. of which 18,000 km is made up by the mainland shore. China claims sovereignty over some 5,400 islands off its coast (3,870,000 sq.km. of surface and 14,000 km of shore-line). Socially and economically, these islands can be viewed as part of the coastal China. The immediate interior, at the back of the coast, supplies agro-business items, labour and other raw materials to the coastline. So it is an inseparable component of the coastal society and economy. A single socio-economic area-type (i.e., the coastal China) is constituted by the pre-coastal inland, the mainland shore and the off-shore atolls.

The Chinese interior<sup>12</sup> is made up by the vast rural backyards that have been lagging behind the coastal areas since the colonial times (the 19th and early 20th century). The establishment of SEZs and the concentration of facilities and infrastructures in the coastal region has further widened the gap between the coastal area and the interior. The original birthplace of the *Han*-Chinese civilization is in the interior, in the middle and lower reaches of Hunag He (Yellow) river basin. Many archaeological sites in the interior witness the past grandeur and glory of China. To some extent, the interior has been the test-field of both communist revolution and the post-

communist liberal reforms. Mao organized his revolutionary campaign and long marches from the rural interior. The agrarian liberalization of Sichuan (the largest interior province) in the late 1970s preceded general economic liberalization of China in the early 1980s. Sichuan's Communist Party leader Zhao Ziyang rose to the central power (to the position of General Secretary of the Communist Party of China) due to his nationwide reputation as successful pioneer in agricultural economic reform known as the "household-responsibility system" (since 1989 he has fallen from grace for his sympathy to the demonstrators of the Tien-an-men Square, Beijing).

During the boom years of late 1980s and early 1990s, a few urban centres of the interior (e.g. Chengdu, Chongqing, Wuhan, Zhengzhou...) have scored partial success in attracting investment for manufacturing, trade, infrastructures, facilities and services and thus creating some jobs and growth. Some provinces in the south-west (Yunnan, Sichuan...) have also developed viable infrastructures, facilities and service business for tourism. But altogether the interior provinces still remain far behind the coastal provinces in every respect. And the gap does not seem to be narrowing despite some efforts. Generally speaking, the vast Chinese interior is being incorporated in the Chinese economic landscape as the poor periphery that supplies unskilled (and underpaid) labour and cheap raw material to the booming coastal business districts. Continued international investment in the coast and, therefore, more attention to the infrastructures and services have worked to magnify the coast *versus* interior inequalities. As greater amount of resources are allocated, the public officials and executives in the coastal area are under close scrutiny of the central authorities, public opinion and international business circles. Therefore, political accountability is fairly higher in the coastal areas compared to the interior and remote areas governed by the local officials (in many cases, as their fiefdoms). In the last two years, the interior of China has witnessed much public protests and some frictions between the local and central authorities. The interior of China is silently developing as the breeding ground of rural popular discontent.

The remote areas of China are one of the remotest and toughest regions in Asia, perhaps, in the world. They comprise high mountains and vast deserts in the far west and south-western borderlands, rugged plateaus and high and low pastures in the western half of the country, extensive grasslands (steppes) in the northern borderlands<sup>13</sup>. Except for some highly protected strategic sectors (natural gas and oil, mining and refining, energy, military hardware, satellites and missiles launching station, nuclear test site...) the remote areas do not receive enough economic attention. Their rugged topography and harsh ecosystems and their distance from the *Han*-Chinese heartland create natural obstacles to investment and growth. Some areas (in Xinjiang) are being geared for investment in mineral resources and natural gas. There is some

potential for the business of tourism in Tibet, Qinghai and Gansu which is being carefully developed, in a controlled manner though.

The remote areas also contain some of the disputed border territories of China (e. g. the borderline along the Himalayan range) The homelands for some of the most stubborn ethnic groups (e.g. Tibetans, Uyghurs, Kazakhs...), who resist their amalgamation into the *Han*-Chinese socio-cultural mainstream, are in the remote areas. Beijing authorities are very sensible to the issues of territorial integrity and national security. Naturally, they do not see any point in opening too wide doors and encouraging massive international involvement in such areas.

After Deng's reforms, in the past two decades, the market forces are competing with the central planning in the investment in Chinese economy Two logically consecutive phases, creating a self-fulfilling cycle, can be observed in the intensification of regional imbalances in China. First, the reform policies encouraged international investment in certain areas. Later, the government has found itself compelled to provide more incentives and increase its investments in the facilities and services for those areas where international investors have already consolidated their presence and where more and more young people from the interior are approaching to find job and fortune. This regional imbalance in resource allocation and economic development is creating some serious social and environmental side-effects. By one side, the backward interior is ejecting unskilled and semi-skilled manpower (lured to the coastal and urban areas), thus aggravating further its own capital and human resource base and the chances of investment inflow. By the other, the coastal towns are feeling enormous pressure on their space, infrastructures, services, job market and in the law and order situation.

## **2.2. The crisis of soil, water, air and landscape : Chinese habitat under pressure**

The massive floods of August 1998 brusquely reminded the Chinese authorities of the perils of mindless land-use and the formidable environmental challenges ahead. The most serious economic challenges pertaining to the environmental crisis that China faces are soil degradation and the shortage of cropland and fresh water. The Chinese population (1.223.890.000, cf. SSB/PRC, 1997) amounts to be more than 22% of the world population. While China's cultivable surface is less than 7% of the total cultivable areas of Earth's surface. Almost two-thirds of the country is covered by inhospitable and barren regions. The rest is densely populated and over-exploited area supporting more than a billion people. Roughly, 15-20% of the fertile land surface faces the burden of supplying farm-food (staple, fruits, animal products and horticultural items) to the whole country. After the "household responsibility system" (cultivable land-plots leased to the households, free to produce following the market demand) and

improvements in irrigation and agricultural inputs the farm production has actually risen. But the vulnerability remains, the risk is always there. Animal products and sea-food are important items for Chinese diet and economy. But the main area of wide-scale animal husbandry, i.e., the remote area, is too harsh and too far away. And the coastal waters are littered and polluted. China's fresh-water supply and forest-covered surface count respectively around 7% and 3% of the world total (Worldwatch Report, 1995).

Scarce farmlands are lost as the long-term consequences of de-forestation in the middle and upper reaches of the rivers. In the rural and remote areas wood and plant stalks are used as the main construction and fuel items. The depletion of trees have caused increased water run-off, soil erosion and frequent flooding in the plains where every year precious croplands are lost. The thinning of China's forests have also weakened the natural barriers that protect the farmlands from sandstorms blowing from the vast deserts of north-west. According to a rough estimate (cf. Worldwatch; Starr, 1997) nearly 16 million acres (1 acre = 0.405 ha.) of farmland have been lost due to desertification since 1949, and some 40 m. acres are at the risk. Nearly 300 m. acres of the farmland have been already lost over the last four decades due to the combined effects of desertification, flood and soil erosion. China's cropland surface area per person is one of the smallest in the world, and it is further shrinking (Brown, 1995).

The combination of domestic demand and international investment has put further pressure on the vegetational mantle and croplands of China. In two different but interrelated ways, the international investment-led economic growth is affecting China's land-use pattern. First, there is an acceleration in the conversion of farmlands and potentially arable lands into non-farm uses (infrastructures, buildings, industrial and commercial sites...) since almost all of the international investment is directed to non-farm sectors. Second, the rising wages in the non-farm sectors, where most international investment is directed, is pulling away the people from agriculture and land-care. The ever increasing number of floating population (rural youngsters and adults seasonally migrating for non-farm jobs) in China is a direct consequence of the regional (coast *versus* interior, rural *vs.* urban) as well as sectoral (farm *vs.* non-farm) imbalances. No wonder then if the land used for crops shrank significantly (-5.6%) in four years time-span, during 1990-'94. In the same time-span, 59 million babies were born in China (+4.9%). According to the experts the human-cropland ratio in China is heading towards dangerous deficit (cf. Brown, Worldwatch...).

International investment has turned more and more skilled and semi-skilled people towards the Chinese cities despite the restrictions in residential changes. Consumption of water in China's cities has increased by five times in the past 15 years (Starr, 1997), the years of maximum international investment and urban growth. The big cities of north (including Beijing and Tianjin)

and the vast rural areas of the northern provinces face severe water shortage for they receive less summer monsoon winds compared to the sub-tropical southern provinces. Lately, even the southern towns are said to have recurrent water problems, most probably, because of inefficient (leaky) infrastructure and careless handling. Some controversial grand projects have been drawn up by the Chinese authorities to solve the water crisis<sup>14</sup>. Since 1994, the farmers in the rural hinterland of Beijing and Tianjin (province of Hebei) are facing stiff restrictions to use the water (for farm purposes) from the overground reservoirs. In many parts of China, the scarce overground water reserves are being primarily used by the cities and industrial sites. With the changing urban-like life-style (more people involved in industry, business, service and administration) an average Chinese family is expected to be using 2 to 3 times more water than usual.

With a large and still growing population to feed, China has intensified (with some success) the agricultural production. So more water is polluted (by agro-chemical inputs) and more water is needed (for irrigation). Compared to many developing countries, China has an extensive surface water irrigation system. Not always adequate and not evenly distributed, though. But the scarcity of overground water in most periods and the disasters to the irrigation infrastructures caused by occasional floods and river outpourings have induced the farmers to rely on pumping technology. Excessive pumping is impoverishing the underground aquifers. In the northern parts of the country the underground water levels are reported to be dangerously below the minimum required. Water is still being provided at a unacceptably low, subsidized price (in many cases, free of charge) to the Chinese people. So there is no incentive to conserve it. At present, in the time of slowdown and unemployment, pricing the water could be politically fatal for the Chinese rulers. The possibility of a proper (adequate) water pricing is still remote. In the last two decades of international trade and investment boom, the industrial and residential sectors have surpassed agriculture for water-use. More than 300 cities and towns of China have serious problems in water supply, and drastic measures are urgently required to keep the minimum supply level. The urbo-industrial boom has created problems not only in the quantity (supply) but also in the quality of water. Only in the year 1995, China's urban-industrial sites are said to have discharged more than 37 billion tons of sewage and wastes, severely polluting the underground, inland run-off and coastal waters (Starr, 1997).

Air pollution has become a serious problem in the urban China<sup>15</sup>. The main culprit has been individuated in the soft coal that most Chinese use for fuel. Chinese authorities have taken some steps in this regard by making the cooking gas more easily available, mostly in the urban areas. The problem of efficiency in general fuel-use is far from resolved. China's industrial plants currently use 5 times the amount of energy per \$ of the GNP compared to that used by the plants

of Japan and 2.5 times more than that of the United States (Starr, 1997). To meet the challenges of water-supply, energy and irrigation as well as to control the flooding in the lower basin of Yangtze river China has embarked upon a grand project, known as the Three Gorges Dam Project, in the middle reaches of Yangtze river, between the cities of Chongqing (Sichuan) and Wuhan (Hubei). Many ecological, technological and economic aspects of the this ambitious project are shrouded by controversies<sup>16</sup>.

The increasing number of motor vehicles is already a problem for navigability, noise and air pollution in China's towns. In 1970, there were 613.000 vehicles, mostly public, in China. In 1990, there were more than 5.8 million, mostly private (cf. Brown/Worldwatch, 1995). A number of international investment projects in automobile production have been approved to meet the increasing demand of private vehicles in the coastal/urban areas, the venue of major international investment.. Annual production is planned to increase from around 1.3 million in 1993 to 3 million by the year 2000 (cf. Worldwatch..). Given China's numbers the air pollution by vehicles is causing concern, for China is said to be already the world's fourth largest source of greenhouse gases emission in the atmosphere (cf. Worldwatch...).

The widespread motorization combined with housing demand is resulting in serious alterations in land-use, building style and social interactions. Old, peculiarly Chinese, culturally shaped landscape is being replaced by new, anonymous spaces of asphalt and by white tile-walled, concrete and glass (of dark blue or greenish colour) buildings everywhere in China. Nowhere in the world can one find such a homogeneous townscape as in today's China. It is difficult to find reliable data on China's fastly deteriorating environment; some fear ecological catastrophe in the not-so-far future (Bochun, 1991). Most common Chinese seem to believe that China must get quickly rich (no matter if it gets a bit dirty in the process) and then spend some of its richness for cleaning up. The authorities have shown concern, but have failed to deliver<sup>17</sup>. First development and then only environment ?

### **2.3. The crisis of system : Chinese government under pressure**

The Chinese authorities are in a difficult situation. They face a huge challenge of harmonizing the growth-oriented economics with a sound environmental resource management. Only draconian environmental policy-making and rigorous enforcement would save China's fastly deteriorating ecological health, but that will certainly slow the economy. Chinese authorities fully understand the environmental crisis, as reflected by their policy announcements and laws. But they can not afford to enforce rigorously the policies and laws. That would cause further limits, more time and higher cost for the business people, already disappointed with the normal Chinese

bureaucracy. To monitor the policy and law enforcement the huge Chinese bureaucracy should firmly be under political control and scrutiny (please guess if the bureaucrats, not only in China, love this prospect).

Avoiding the bureaucracy is a common, quotidian pursuit of all ordinary Chinese. Avoiding the official procedure or accelerating the normal administrative process through grafts and gifts are said to be a common practice in China. Productive and creative forces are thus under *economic* (and not *political*, as many outsiders believe) pressure. One has to "grease" and wait too many and too often, to get too little and too late, in order to concretize his/her ideas. From outside, China looks virtually a monolithic party-state. In reality, the power grid in China is very complex, quite intransparent and not properly unified. Many powerhouses complement and contend each other :

- \* the executive, central government ministries and commissions
- \* the Communist Party with its national grass-roots level organization
- \* the People's Liberation Army (PLA) with its regional commands and networks in politics and business (recently, the armed forces are said to be withdrawing from business following the government's reversal of policies and stern warnings)
- \* the local and regional party and government officials, their personal networks
- \* the huge bureaucracy (a *Mandala* of offices) in all administrative organizations and state-guided industries.

Unlike in many other countries China does not have an organized, widespread religious ecclesia (Christian church or Moslem *ulema*) that might exercise some pressure and, naturally, further complicate the nation's business. Like in most other developing and some developed countries (e.g. Italy), China too has strong bureaucratic fiefdoms, developed at the expense of the unified government institution and public openness. The central government of China is still one of the best available in the so called "Third World". But it is much softer and more confused than many outsiders' imagination. The real power is distributed unevenly along three lines of hierarchy :

- \* Territorial hierarchy : Commune, County, Municipality, Province, SEZ, regional military commands, Centre
- \* Segmental power hierarchy : the government ministries, the Party, the PLA, the top management of state-guided industries...)
- \* Networks hierarchy : from the basic Communist Party work-units (*dan-wei*) to the National People's Congress, the Chinese parliament, through provincial and national committees and polit bureau

The different layers of the three hierarchy lines criss-cross and give rise to some particularly well-knit patchworks of information and power, unforeseen by the intentional power hierarchy and not programmed in the institutional arrangement. These informal power patchworks often overlap the official networks of power. Contrary to most outsider's imagination, the central power in China is multi-dimensional and internally strife-ridden and, therefore, far less incisive than expected. The evidences come from the central government's tax collecting ability. It is decreasing. Tax revenues were 30% of GDP in 1989, they were 12% in 1998 (cf. *The Economist*, October 24th 1998). Environment-related tax and fines are difficult to impose upon the society and market, already irritated by the administrative apparatus. For foreign investors China would become less competitive as a manufacturing place to produce and as a market to sell. All that would cause economic slowdown at best and, at worst, financial crash-landing to the ground of realities like in Mexico, some time ago, and in Brazil recently.

Slowing economy would mean less industries, less investment, less trade and less wealth-circulation. The urbo-centered consumption pattern has already penetrated China, mixing up with the Chinese hierarchical models. Young Chinese villagers try to be like those of the big towns. Those ones of the big town try to emulate a wealthy *Nanyang* (Overseas Chinese of South-east Asia) or, sometimes, a wealthy American. The Commune and County officials emulate the powerful officials of capital, big towns and provincial head quarters. And those ones of big towns and centres behave and consume like the wealthy and well-protected foreigners. Ultimately, the Chinese are emulating the modern-Western (more American, less European in style) model of development. Very little typically 'Chinese' elements in China's environment, landscape and townscape have survived here and there (two nice exceptions : Kaifeng in Henan province, Tai'an in Shandong province, both with almost zero international investment). For now, the old-style Chinese towns are considered "under-developed" by the natives themselves. Today's China has wide asphalt spaces and the high-rise, multi-floor concrete buildings. The life-style of the privileged class is very similar to that of their foreign counterparts. There is no really original Chinese model of development. It is all basically modern-Western stuff with some Chinese *kitsch* decoration.

The privileges of the ruling groups have been the source of irritation in the contemporary Chinese society (the Tian-an-men square demonstrators' slogans were basically against the privilege, nepotism and corruption). The high authorities of China can not afford to take stiff and massive action against the abuse of privileges and power, but only some show-piece trials against a few very corrupt ones (e.g. the ex-mayor of Beijing, now in jail) to save the minimum moral legitimacy of the government. The privileged, the powerful and their kins constitute the basic supporters of *status quo*. Disrupting the *status quo* (and creating uncertainties) is out of question

for the Beijing authorities. Meanwhile, the Chinese people are more and more disillusioned and distrustful to all persons of power. After years of domestic consensus (for the sake of prosperity) and foreign investment (for stability) the Communist Party-led power establishment of China is facing a tough time. In the actual context of regional (Asia-Pacific) crisis and global fear, magnified by the information and communications technology, even a slight hint of political uncertainty would drive away many foreign investors.

There is already some concern among the foreign investors and observers that China's economy may be entering a period of sluggish growth following the slowdown in most East Asian economies, the market for Chinese goods and the major source of foreign investment in China. The devaluation of most East Asian currencies have further complicated the matter. In order to contain the inflation and to maintain business credibility the Chinese government has been defending the national currency *Yuan (Ren-min-bi, the "people's money")* and participating generously in the Hong Kong stock market during and after the Asian financial crisis. Chinese exports are facing tough competition from the relatively more fanciful and (now, after 1997 devaluation) cheaper products from the rest of Asia. China's growth has already fallen from an annual peak of 13.4% in the period during 1992-'94 to the 7.2% of 1997-'98 and the prospects are even bleaker, according to some foreign sources, around 3-4% a year for 1998-'99 (E.I.U., 1998). The slowdown is dangerous for China, for it undermines the very stability of the political and social system of the most populated country of the world. In the past two decades, economic growth has been the platform of consensus and the source of legitimacy for China's one-party system.

Job crisis is the most serious social outcome of economic slowdown faced by China's government. Economic slowdown threatens China's ability to generate new jobs for 10-15 million of young people who enter the labour market every year (Rocca, 1999; Golub, 1999). Some 150 million rural workers are estimated to be floating around the areas of international investment (urban/coastal areas) in search of new non-farm jobs (cf. Rocca...). The off-farm jobs are in high demand due to increasing mechanization of agriculture, shrinking croplands, poor pay, physical burdens, heavy local taxes and, presumably, due to the corruption of the local officials. Foreign investment and exposure to the outside world has virtually made China's coastal area a part of the international business network and modern urbanite culture, leaving the vast interior far behind. The television (omnipresent in today's China) has accentuated urbo-centered bias in people's economic behaviour and social mobility through the glittering glimpses of urban life. More and more youngsters of the rural interior are moving to the coastal towns and cities. Many of the un-authorized migrants who are in the towns and surrounding are not counted officially for any service or taxation. So they may not be listed officially as "unemployed" persons. According

to the official estimates, the unemployed represent 3.1% of the adult urban workforce (Xinhua broadcast, cf. Rocca, 1999). Reality could be worse than official estimates.

In the Chinese context, all form of unemployment and under-employment have critical political relevance. The moral and rational authority of the rulers (comparable to the old, traditional Chinese concept of the "Mandate of Heaven") in China depends upon their ability in averting or mitigating the social misery and natural calamities, and *not* upon their open-mindedness in conceding political rights and freedoms to the people. In the political front, and from the Western perspective, the Chinese system looks oppressive. In reality, the Chinese system is much more consensus-seeking than imagined by the West. The Chinese authorities are doing their best to avoid massive and abrupt workers lay-off from the huge, loss-making state enterprises. By the end of 1996 (cf. Rocca), there were more than 10 million of workers laid-off with some (reduced) continuous salary, known as *Xiagang*. In the mean time, the number of *Xiagang* has increased rapidly.

Many workers, still in their late 40s and early 50s, are encouraged to take an early retirement, known as *ti-qian tuixiu*. The life-style is increasingly modern-urbanite, life is getting expensive in China. There are many new needs, and more cash is needed to satisfy them. *Xiagang* and other redundant workers are creating a parallel, uncontrolled labour market full of unsafe and underpaid conditions. It is almost impossible to get a clear picture (through hard facts and figures) of the parallel labour and business, for such uncomfortable situations are not object of intense and open research and debate. Usually, the foreign-invested enterprises tend to be sufficiently correct in their industrial relations, yet the areas most hard-hit by the parallel labour market are the immediate surrounding of the foreign investment sites. The foreigners believe (perhaps rightly) that controlling the practice of many local sub-contractors and suppliers is not their business, but that of local authorities. They tend to forget (perhaps conveniently) that they went to China looking for cheap labour and easy ride. They have brought into China not only capital and technology but also a value (i.e., wealth is the sole criterion to measure a person's worth) and a particular life-style (intensively consumeristic), probably unsustainable for China.

The Chinese authorities are caught in a terrible dilemma. There are many social and economic contexts out of their institutional control which undermines their moral authority as rulers. In absence of a viable alternative, a serious crack-down would certainly earn only hostility. Similarly, the Chinese authorities are hard-pressed by the dilemma of loss-making public enterprises (PU). In absence of a viable alternative of income-generation for many, they are forced to keep some PU alive (or to prolong their life as far as possible), to keep on making loss. Politically it is too dangerous to shut down all the loss-making companies or to trim down the bureaucracy. Meanwhile, the loss is hurting and the investors' confidence in the Chinese system

is eroding<sup>18</sup>. The Chinese system is under heavy pressure, there are signs of nervousness in the Chinese power centre<sup>19</sup>.

#### **2.4. Values and visions in contemporary China**

In the popular-traditional Chinese belief, three superhuman entities are particularly important : the Luck Star (*Phu Xing*), the Life Star (*Sou Xing*) and the Wealth or Success God (*Chh'ae Shen*). The contemporary Chinese continue referring to them. They just do not perform many rituals as before. Many monotheists (Jews, Christians and Moslems) believe that the Chinese never had the concept of a Supreme Being (like Jahve, God or Allah). The Chinese do have a concept of the formless supreme divine principle (*Shang-Di*). It is closer to the concept of *Tao* or *Dao* (the ultimate way), or to Hindu's *Nirakara Brahma* (the shapeless, uncountable essence) or Buddhists' *Shunyata* (the shapeless, uncountable flux). It is quite different from the active and personal Almighty, dispensing life, values and justice (as for the Jews, Christians and Moslems). For the Chinese (like Shintoists, Hindus and Buddhists, unlike Westerners) the Supreme Being is the 'subject' of meditation and not an 'object' of homage and veneration. Homage and veneration goes to the little gods, goddesses, stars, spirits and ancestors that preside over the cyclic (earthly and cosmic) functions. The majority of contemporary common Chinese do not worship the cosmic and earthly deities as before, nor many of them meditate upon the divine principle any more. But their earth-oriented mind-set remains intact. The Chinese have always been a pragmatic people, now a majority of them is also materialist.

In the old traditional Chinese view, a person's ideal state of being would be described as a state of wide-heartedness and inner calm that makes you feel in total harmony with the fellow human beings, with the community of living and sentient beings and, eventually, with the entire universe. The sages like Lao Tzu, Confucius, the Enlightened (Buddha) and the Compassionate beings (Bodhisatva) are believed to have reached that state. In Chinese, *Wu-wei*. In contemporary China, the concept of *Wu-wei* has continued under a different guise : it is the comfortable and no-worry state guaranteed by the wealth. In the traditional view, 'wealth' in the strict sense was something inferior, not worthy of being discussed loudly, nor to be pursued wholeheartedly. The contemporary Chinese pursue wealth but would not like to show that they are passionate about it. Most contemporary Chinese put a lot of ceremonial talks around the money matters even in the serious international business negotiation. They dislike to make hard and frank American-style business discussion. Formally and socially, an openly passionate attitude to wealth (*thon tsau chi*)<sup>20</sup> is considered frivolous. It could also be an affront to the elders and could cause jealousy and antagonism among the others. The face value is very important in China.

'Face' in China (*mian-zi*) means formal prestige and dignity. It is not important to make mistakes (and then to correct or continue). But it is too bad to accept one's own mistakes, to be exposed or made accountable for it. The contemporary Chinese try their best to avoid facing direct responsibility. Many foreign investors have found that it is impossible to pin-point a single individual's responsibilities in doing business with the Chinese - as partners and as workers. They have also discovered that most Chinese interlocutors or collaborators would never try to find creative solutions on their own. They would always tend to avoid the risk of taking direct responsibility. Similarly, the social whispering (*tuo-shah*) about a person and his/her family by the community is a serious concern of the common Chinese. The 'face' must be saved. And it is best saved by cultivating carefully the networks of relationship.

The family, community and business networks are intermingled and they play a great role in Chinese society and economy. Trust and confidence is realized only when the concerned people and partners feel that the loss of one's prestige means loss for the others too. Only a close interpersonal relationship built up by long-term interactions guarantees fair play. The relationships (*guanxi*) are the basic elements of business and politics in China. They are based on reciprocity in respect, favour and obligation.

China as a nation-state behaves in the international community in the same fashion as the contemporary average Chinese adults behave in their community. The government does not like to admit openly the policy blunders and management failures; it only stresses the necessity of further correcting some imperfections and deviations. It does not like opposition but only constructive suggestions and consensus. Accepting opposition means accepting failures and blunders. Accepting failures and blunders means losing face.

A good example of the "face phenomenon" is to be found in the movement of the Taiwanese in China. The Chinese continue telling everybody that Taiwan is a part of China, it has no separate and sovereign existence. In reality, the PRC authorities know perfectly that Taiwan is separate and independent and even increasingly assertive, though not recognized formally as a sovereign state by many nation-states and the United Nations. Taiwan is an economic power. Commercial exchanges (with appropriate mutual face-saving agreement) with Taiwan are intense. The Taiwanese investors and traders are welcomed but they can not board a ship or an aircraft on their island to land directly on the mainland China. Direct traffic would mean direct acceptance of Taiwan as a separate entity. The commercial traffic is obliged to pass through Hong Kong (or Macao), or a "different" third territory. All this is done in order to save the face. In policy as well as in business, the Chinese seem obsessed with the "face".

1999 is a year of anniversaries in China : the 50th anniversary of the People's Republic of China; the 80th anniversary of the May 4th student movement in Beijing; the 10th anniversary of

the Tian-an-men square demonstration. Both the giant Communist Party of China and its few opponents (an elephant and a few ants) know very well that the world is watching and the system is rotting. In a country where the stage for political debate is so limited, anniversaries become very meaningful. 1999 could also be a year of surprises or, at least, the beginning of a new process.

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## Notes

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<sup>2</sup> The present working paper is just a part of the research output. More articles and papers by the same author on various aspects of Chinese habitat, society and economy are expected in the near future.

<sup>3</sup> According to the official economic sources just half of the total number of business project with foreign connections have been actually operative and only 177 billion US dollars out of the total projected 468 billion US\$ have actually been poured into the economy by 1997 (Comba & Scapin, 1997). The foreign investment are approved in partial as well as full foreign capital involvement. The specific forms of foreign involvement are 'Cooperative Joint Venture', Equity Joint Venture', lately also 'Wholly Foreign Owned Enterprise', and through various forms of business representative office, subsidiary or branch...

<sup>4</sup> In the Asian perspective, the notion of 'West' implies a cultural distinction, and not just geography. The three fundamental elements of the 'West' are the Judaic-Christian (Semitic) tradition, the Graeco-Roman (Hellenic) aesthetics and institutional background, and, the pre-industrial, popular culture substratum of Europe. Europe (including Western Russia, Baltics, Ukraine and the Balkans), USA, Canada, Australia and New Zealand form the core-zone of the "Western World". Latin America (from Mexico to Chile) could be viewed as the first outer layer, as peri-Western sphere. Parts of the Christianized, urban contexts in Africa and Oceania constitute the second outer layer of the 'West'. Asia, the Islamic contexts and the tribal microcosms scattered around the world are outside the cultural orbit of the 'West'. The Western influences in the institutional frameworks, education, economy and material culture have been the most powerful factor of change in many parts of the non-Western world for the last three centuries. In the past five decades the extent and incisiveness of Western influences seem to have been so much increased that for most Asians (including the Chinese) and other non-Western peoples the notion of "globalization" is synonymous to 'Westernization'.

<sup>5</sup> On the basis of "purchasing-power parity" (the PPP criterion), the World Bank puts China's economy as the second largest in the world, just after the United States of America and ahead of Japan (cf. World Development Report, 1997). According to World Bank's PPP criterion, China's gross domestic output (GDP) is around US \$ 3.8 trillion. In 1993-'94, China ranked 10th according to the conventional total economic output criterion, the Gross National Product (GNP). There is a widely shared (World Bank, International Monetary Fund, Asian Development Bank...) projection that China's economy could be the largest in the world by the year 2020 A.D..

<sup>6</sup> In the 1992 USA presidential elections, incumbent President Mr. George Bush of the Republican Party was defeated by the challenger, Mr. William (Bill) Clinton of Democratic Party. Mr. Bush was an enthusiastic China supporter. In the past, he headed the US Central Intelligence Agency (CIA) and, most probably, had established good contacts with the anti-USSR regimes and forces around the world including the Chinese govt., the most anti-USSR among non-Western powers since late 1960s. Mr. Bush was also US ambassador to China and his party (Republican) favoured stronger links with China as a counterweight against the Soviet Union's influence in the Asia-Pacific rim and against India (leading nation of the Non-Aligned Movement and a major commercial and strategic partner of the USSR at that time) in South East Asia-Indian Ocean region. The first US President to visit the People's Republic of China (in 1972) was also a Republican Party leader, Mr. Richard Nixon. Mr. Clinton came to power criticizing Republican Party's benevolence to undemocratic regimes and indifference to the issues of political freedom and human rights. Once in power, Mr. Clinton displayed measured and pragmatic approach to Sino-US ties, somehow favouring the business interests. Sino-US ties received a boost by Mr. Clinton's China visit in the summer 1998. But in the beginning of 1999, Sino-US relations suffered severe jolts following USA's refusal to endorse China's entry in the World Trade Organization (WTO). Some strange stories regarding unauthorized transfer (to China) of classified information regarding the US nuclear research and development appeared in the US media during Chinese premier Zhu Rong-ji's US visit in April 1999. Chinese Embassy suffered some loss of person and property due to

NATO (US & West European allies) air bombing in early May 1999. As a reaction, noisy protests were staged in front of US diplomatic missions in China, during the second week of May. The vehemence of the public protests and the strong statements issued by the Chinese authorities clearly indicate that powerful anti-US and anti-Western undercurrents persist in the Chinese state and society despite two decades of trade, investment and strategic links.

<sup>7</sup> The terms 'Chinese' and *Han* are almost synonymous. Politically, all the inhabitants of the territory of People's Republic of China are called "Chinese" despite their racial, linguistic and cultural differences (e.g. Uyghurs, Tibetans, Mongols, Koreans, Uzbek, Kyrgyz, Miao, Gaoshan...). Culturally and linguistically speaking, the proper Chinese or *Han* constitute 93.30% of the PRC population. They speak many varieties of the same language-base (*Han-yu*). The *Han*-Chinese languages (Cantonese, Fujianese, Sichuanese etc.) are closely interrelated but almost independent languages (like Dutch, German, Danish etc. of the Germanic language-base or French, Spanish, Portuguese, Italian of the Romanic language-base). In the official Chinese view they are just dialectical variations of a single 'national' language (linguistic nationalism is a strong feature of the Chinese regimes both in PRC and in Taiwan). The national language of the People's Republic of China is a standardized version (based on the old imperial courts' language and Beijing dialect) widely known as the "common language" (*Putonghua* or "Mandarin"). The traditional core-settlement areas of the *Han*-Chinese are situated in the eastern parts of the country extending from the middle and lower basins of Yellow River, Yangtze and Pearl River to the Pacific coast. The most fertile farmlands of China are to be found in this area. The ancient Chinese tried to shield this area by erecting the great wall in the north to harass the marauding nomads of Mongolian steppes. The *Han* heartland represents roughly one-third of the PRC national territory. The rest is very thinly populated, quite barren and rugged. It is home to some 55 non-*Han* ethnic minorities representing less than 7% of the Chinese population.

<sup>8</sup> The traditional popular Chinese religion is a wonderful blending of three of the great mainstreams of human thought (Taoism, Confucianism and Buddhism) with the elements from archaic primordial traditions (e.g. shamanism, ancestor worship, nature cults etc.). Many ethnic minorities of south-west interior and Manchurian forests are still following their tribal traditions, quite diluted and fragmented though. Taoism or *Dao-jiao* is quite other-worldly and mystical; it advocates personal perfections, social harmony and inner freedom. Confucianism or *Rujia sixiang* is relatively more this-worldly, oriented to collective harmony and personal perfections through the obedience to the traditions and authorities. Buddhism or *Fo-jiao* is very other-worldly, transcendental and mystical. Buddhism originally came from India but it also underwent a very fine Chinese elaboration which in turn spread to other parts of Asia from China. In due course of time, a distinct Chinese Buddhism (also known as Han Buddhism) developed and spread also to Vietnam, Korea and Japan. Islam is fully alive in northern and western parts of China, among the Uyghur, Kazakh, Kirghiz, Tajik and other Central Asian ethnic minorities. There are also ethnically quasi-*Han* Moslems (the *Hui*). It is difficult to distinguish them from the rest of *Han*-Chinese for language and culture. As the undersigned could personally and directly observe during the travel across China, Chinese Buddhism is enjoying a renewed attention by the educated people. Some commoners are also turning back to some of the most common popular religious practices of pre-communist China (e.g. praying and burning the incense sticks, pilgrimage, offering to the sanctuaries, almsgiving to the monks...). There are also some tiny Christian minority groups (both Catholic and Protestant), mostly in the urban centres and coastal areas. After 1978, following Deng's liberal reforms, the religious sites have been restored. As part of tourism development strategy and due to closer ties with the Overseas Chinese, increasingly aware of their cultural roots and generous sponsors of the Chinese cultural revival, the sites of religious traditions in China are enjoying care and conservation. Today, the people of the indigeneous "little" traditions (the non-*Han* ethnic minorities) as well as the Islamic and Christian minorities enjoy a fairly reasonable amount of freedom to practice their religion in the People's Republic of China. Proselytism by foreign churches and missionaries is discouraged though.

<sup>9</sup> The first "special economic zones", show-cases of the success of Deng's reform, were founded in August 1980 in the provinces of Guangdong, Fujian and Hainan. They were located in Guangdong province's Shenzhen (just across the Hong Kong border), Zhuhai (across the Macao border) and Shantou (a port city on the Guangdong-Fujian main route); in Fujian province's Xiamen (a port city facing the Taiwanese coast); and, in Hainan, China's largest island off the southern coast. In 1984, other "Special Economic Zones" were created in Quinhuaugdao and Dalian (in Liaoning province), Yantai

and Qingdao (Shandong province), in Lianyungang and Nantong (Jiangsu province), Ningbo and Wenzhou (Zhejiang province), Guangzhou (Canton) and Zhanjiang (Guangdong province), Beihai (Guanxi province) and in Tianjin and Shanghai municipalities. All these special areas are located along the eastern and southern coastline. In 1992, other special trade and investment areas were established in Heihe and Suifenhe (Heilongjiang province), in Hunchun (Jilin province) and Manzhouli (Inner Mongolia). Besides, there are some special economic and technical development sites in the proximity of big towns and commercial ports (e.g. Pudong district near Shanghai; around Tianjin and Beijing...) where the central and local governments are trying to lure financial and technological resources from abroad.

<sup>10</sup> The Overseas Chinese were generally called *Nanyang hua ch'iao* ("people of the South China Sea"); now, simply *Nanyang*. The largest wave of migration took place around the middle of the 19th century when, after a long period of relative peace, China's population grew tremendously. The famines of 1846, 1849 and 1877 are said to have killed more than 2 million people in China. Gradual weakening of the imperial power (Qing dynasty of Manchu origins) and its inability to cope with the hunger and poverty had also led to widespread rebellion and regional breakdowns. In the successive periods, migration continued as the links and channels between migrants and their kins back home were well established. During the civil wars and the peak revolutionary times, many left their homelands in the coastal areas. In the 1970s, many left for Hong Kong, Taiwan and other places of south-eastern Asia to join their predecessors. Chinese of the coastal areas continue to migrate, albeit in much lesser scale, even today (e.g. most of the new Chinese arrivals in Italy and Western Europe in the past years are from Wenzhou area in the east coast between Fujian and Shanghai). Through their hardwork and networking the Chinese migrants have turned to be successful small and medium business operators and, in some cases, wealthy tycoons in many parts of the Southeast Asia and in the rest of world. They have proved to be the most valuable source of foreign investment in China. The mainlanders (citizens of PRC) admire and envy the Overseas Chinese, and try to imitate their ways.

<sup>11</sup> The **coastal area** comprises the provinces of Fujian (facing the Taiwan Straits, South China Sea), Guangdong (including Hong Kong and Macao), parts of Guangxi (near Vietnam border, facing South China Sea), Hainan (island in the South China Sea, off the Guangxi coast), Hebei (surroundings of Beijing and Tianjin), Heilongjiang (bordering the Vladivostok region of Russia and near North Korea border), Jiangsu (surrounding of Nanjing, facing East China Sea), Jilin (near North Korea border, with a tiny waterfront facing Sea of Japan), Liaoning (near North Korea border, facing Bohai Sea and Korea Bay in the Yellow Sea), Shandong (facing South Korea across Bohai Sea, Yellow Sea), Zhejiang (facing East China Sea), and the municipal areas of Beijing, Shanghai and Tianjin. The coastal area is the most densely populated part of *Han*-Chinese heartland.

<sup>12</sup> The **interior** comprises the provinces of Anhui, Henan, Hubei, Hunan, Jiangxi, Shaanxi, Shanxi and Sichuan. This area is characterized by relatively mild topography formed by rivers basins, and the vast majority of the people, of *Han* ethnicity, are engaged in primary sector (agro-pastoral) and related trade and services.

<sup>13</sup> The **remote area** comprises following regions : Xinjiang (mostly desertic, bordering central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan and Pakistan) in the far north-west; Gansu, Ningxia and Inner Mongolia (deserts, plateaus and steppes - bordering Mongolia and Russia) in the north and north-east; Xizang or Tibet (high plateau and northern declives of the Himalayas - bordering India, Bhutan and Nepal) and Qinghai (high plateau and mountains) in the west; most parts of Guangxi (bordering Vietnam), Yunnan (bordering Myanmar, Laos and Vietnam) Guizhou and some areas of Sichuan (highlands, rugged territories inhabited by many ethnic minorities) in the south-west. China's remote areas are inhabited by pastoral nomads and some agro-pastoral settled population of non-*Han* ethnic minorities. In this area, *Han*-Chinese constitute a tiny minority confined to urban centres. The off-farm economic opportunities for the people in this area is made up by some seasonal tourism, trade, public administration and armed forces. Most of these off-farm activities are done by the *Han*-Chinese.

<sup>14</sup> The most famous of such projects is the South to North Water Diversion Project in which a 1400 km. long aqueduct is planned to move water from the Han river (a tributary of Yangtze) to the reservoirs near Beijing and Tianjin. The project is estimated to cost nearly US\$ 5 billion and to complete in 6-7 years.

<sup>15</sup> Some elderly Beijing residents say that in the last 10 years the sky over their city has become increasingly greyer and an overlay of smog prevents them to watch the Beijing sky once famous for its crisp blue colour.

<sup>16</sup> The idea of a dam on Yangtze near the scenic Three Gorges was initially proposed by Dr. Sun Yat-sen, the Republican leader, in 1923. But war and turmoils prevented a serious attention to this idea. In the mid-1950s, Chairman Mao revived the idea but it was shelved in the chaos of the "Great Proletarian Cultural Revolution". In 1979, the idea was revived again. Finally, the project was approved by the National People's Congress (China's Parliament) amid fierce debate (166 against and 664 abstained, out of some 2,600 delegates), a parliamentary dissent without precedent in the history of communist China. In 1993, the works were launched to build a 200 mt. high dam to be completed in 16 years. The current financing plan is based on an official budget of US\$ 11.5 billion. Initially the World bank showed interest in the project. But China has been reluctant, presumably (according to the Western media) for all the technical and ecological cross-checking that might imply World Bank's involvement. It is estimated that nearly 1.13 million people will have to be relocated. Given the conflicting interests of the centre and provinces, the costs and controversies are rising each successive year. It may be quite difficult to complete the project by 2009 A.D., as initially programmed.

<sup>17</sup> The problem of pollution was already voiced in 1973, i.e., 5 years before the Deng's economic reforms. In 1979, National People's Congress passed the Environmental Protection Law. In 1984, the National Environmental Protection Agency (NEPA) was formed. In 1989, the law was revised and it was added that all projects require environmental impact studies and approval by the Environment Protection Bureau (EPB). Stiff penalties are foreseen for those violating the laws. Research and training in environment are being developed. China spends nearly 1% of its annual GNP on environmental protection, far below the necessary amount to clean up the past errors, to keep up and to prevent, but still more than the amount allocated by many other countries of the world. It is widely believed that the environmental laws are systematically ignored by many local authorities in order to make it easier for some businesses to go ahead.

<sup>18</sup> In January-February 1999, the public offering in the Hong Kong stockmarket of a Chinese public company (Shandong International Power Development) was a big flop, third in a row of share market attempts; it was eventually withdrawn from the list. Another big public company of the southern coast, Guangdong International Trust and Investment Corporation (GITIC) had declared bankruptcy few weeks earlier. Some months ago, Heilongjiang Agriculture and Zhejiang Steel Pipe were floated in the share market, both were flops. The foreign investors' confidence in the Chinese companies seems quite low, although there has not been any substantial withdrawal by any Western and other non-PRC investor from the ongoing and/or announced projects. The international investors simply do not seem to have enough confidence in the PRC management.

<sup>19</sup> According to Hong Kong and Western media, police actions (searching or confiscating papers, fax machines, personal computers...) and judicial sentences against the dissident Chinese increased in number and harshness since October 1998. A well-known dissident Mr. Xu Wenli, who had already spent 10 yrs. in prison, was re-arrested and detained in custody in late 1998. The Chinese foreign ministry warned other countries not to interfere in its domestic affairs. The USA promptly did it officially, calling Mr. Xu's arrest "a step in wrong direction" (cf. *The Economist*, Dec. 5th, 1998).

<sup>20</sup> *Thon tsau* literally means the smell of a rotten copper (coin money). In the old Chinese tradition, it is a derogatory term used for those who are merely in pursuit of material wealth