



STRUCTURING MODELS FOR INDUSTRY China case

**Presented by Jim Enters, China Consultants, Shanghai
At the 9th INDUSTRY CONGRESS AND INNOVATION
EXHIBITION**

**ORGANIZED BY THE ISTANBUL CHAMBER OF
INDUSTRY**

7- 8 December, 2010



Driving Forces

1. Realization by the leadership of the Chinese Communist Party of the need for drastic change
2. Strong, united leadership with **power** and **vision**, and a “**champion**” who had popular support to drive the change (Deng Xiao Ping)
3. Readiness for change and an acceptance of the change by the population and
4. Unleashing initiative, enthusiasm and creativity at all levels of the administration and the population
5. Hard work and total dedication



Objectives of the “Reform & Opening Up” policy

- Transform China’s stagnant and impoverished planned economy into a market economy
- Capable of generating economic growth and
- Improving the well-being of the Chinese citizens

Deng Xiao Ping’s quotes:

- “Poverty is not socialism”
- “Modernization is a socialist development”



The Four modernizations

1. Expanding rural income also by providing incentives to the peasants
2. Encouraging experiments in enterprise autonomy
3. Reducing central planning
4. Establishing foreign direct investment (FDI)



Priorities

- Agriculture
- Industry
- Science and Technology
- The Military

Deng Xiao Ping's quote:
“only development makes sense”





HOW

- **Decentralization**
- **Planned, centralized management of the macro economy**
- **In micro economic terms there was a move towards the market economy**
- **Local municipalities and provinces were allowed to invest in industries**
- **Opening up to the outside world**
- **EXPORT - LED GROWTH**

Deng Xiao Ping's quote:

"Socialism with Chinese characteristics"



Change

Change took place in a gradual manner, on a trial and error basis.

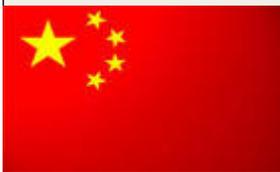
Deng called this

“Crossing the river by feeling the stones”



Special Economic Zones (SEZ's)

- **Shenzhen Economic Development Zone**, a multipurpose zone
- **Zhuhai**, Guangdong Province, a multi-purpose zone
- **Xiamen City**, Fujian province; main industry is processing for export with tourism as an ancillary source of income
- **Shantou**, Guangdong Province; main industry is processing for export with tourism as an ancillary source of income



Categories of Areas That Were Opened for FDI

1. Special Economic Zones (1980)
2. Open Coastal Cities (1984)
3. Open Economic Zones (early 1985)
4. Economic and Technological Development Zones(1984-1986)
5. Pudong New Area (March 1990)
6. New and High Technology Development Zones (Sci-tech industrial parks) (1988)
7. Bonded Zones
8. Export Processing Zones (EPZ's); national level export processing zones approved by the State Council on 27 April, 2000
9. On 2000-09-11 the government approved 7 - 11 State-level Economic and Technology Development Zones in central and western area

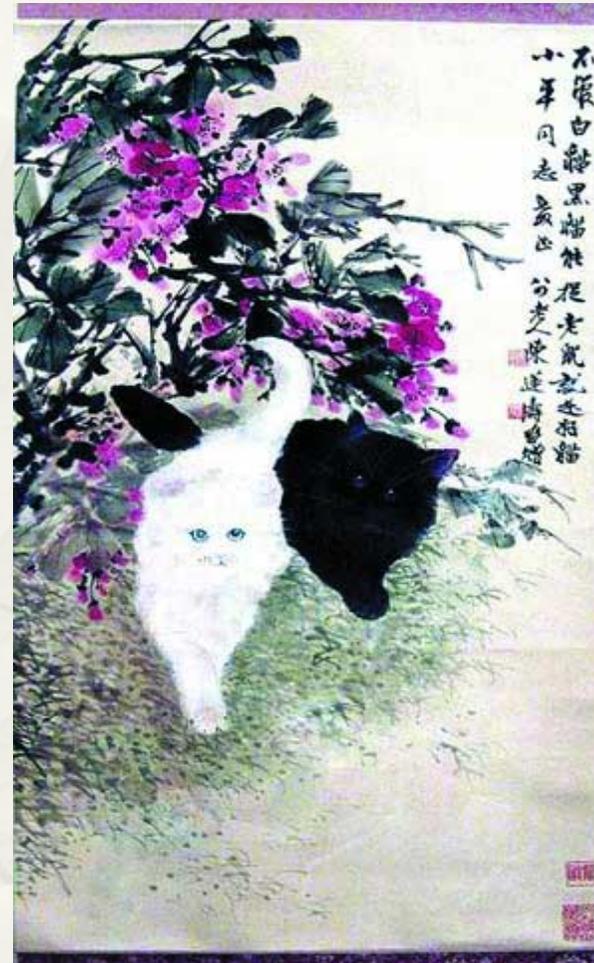


Quotes by Deng Xiao Ping During His Southern Trip

“To get rich is glorious”

“Some areas must get rich before others”

“It doesn't matter whether the cat is white or black, as long as it catches mice”





Shifting Requirements While Offering Abundant and Low Cost Labour

- Attract western technology
- Learn western management
- Attract FDI

Gradually shifting to

- High technology
- Establishing foreign funded R&D centers in China



The Western Development Strategy

- Increasing farmers' income
- Stepping up agricultural and rural development
- Protecting the environment, a.o. by returning farmland to forest and pasture
- Accelerating construction of infrastructure facilities.
- Readjusting the industrial structures and
- Speeding up the development of public health, culture and education



China Map



-  the Provinces of Gansu, Guizhou, Qinghai, Shaanxi, Sichuan and Yunnan
-  5 autonomous regions of Guangxi, Inner Mongolia, Ningxia, Tibet and Xinjiang
-  municipality: Chongqing



Currency-issues

- The Chinese currency (RMB=RenMinBi or Yuan) is convertible on the current account, which includes trade
- The RMB is only partly convertible on the capital account, which covers portfolio investment and foreign direct investment
- China has no timetable for making its currency fully convertible on the capital account



Conclusions

- A centrally planned market economy
- Establishment of Economic Development Zones
- Attract overseas Chinese to invest in these EDZ's
- Get access to advanced western technology and western management skills
- Set requirements for these FDI's to export a percentage of local production
- Export-driven policy



Conclusions- con'

- Reduce the number of State Owned Enterprises (SOE's) and transfer their assets to private enterprises
- 5-year planning; try and error and continuous adaptation of the rules of the game
- When successful, establish same in other parts of China
- Gradual shift from low cost/labour intensive industries to technology intensive Industry and to high-tech industry
- Establishment of Regional HQ's in Beijing and Shanghai and regional R&D Centers
- Open up the west policy



Value of China's Import and Exports From and To Turkey (Year 2008)

x \$ 10.000

TOTAL	Exports to Turkey	Imports from Turkey
1.256.925	1.060.631	196.293
100%	84.4%	15.6%





End of Presentation

Thank You !