China: Past, Present and Future
Historical Roulette

- 3000 BC, Kingdom of Egypt
- 2500 BC, The Greek Civilization
- 2000 BC, Shang Dynasty in China
- 500 BC, The Roman Empire
- Middle Ages: China, Aztec in Mexico and the Incas of Peru
- 1500 AD, Spanish Adventurers
- 1700-1900 AD, British Empire
- 1900 AD - ?, The United States of America
Bronze Vessel, Shang Dynasty, China
Metallurgy technology increased rapidly during the Shang Dynasty (1766?-1027? BC) to meet increased demand for bronze ritual vessels.
The World in 1820

• China was No. 1. in economic production and population.
• China imposed its wishes in Asia and the emperor was the son of Heaven.
• Chinese middle class enjoyed nice life.
• But the world was changing.
A lifestyle of luxury and pleasure
The World in 2002

• China has fallen way behind in economic and is poor country with a large population.
• US is the only superpower and China does not seem to matter.
• Huge social-economic problems.
• How come?
Falling Behind
Per Capita Income (US$000)

<table>
<thead>
<tr>
<th>Country</th>
<th>1820</th>
<th>1992</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Japan</td>
<td>3.1</td>
<td>0.7</td>
</tr>
<tr>
<td>UK</td>
<td>1.7</td>
<td>16.3</td>
</tr>
<tr>
<td>US</td>
<td>1.3</td>
<td>22.3</td>
</tr>
</tbody>
</table>
The Depressing Performance of Xerox Stocks

(Billion)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DELL</td>
<td>$0.13</td>
<td>$1.43</td>
<td>$106.70</td>
<td></td>
</tr>
<tr>
<td>CISCO</td>
<td>$7.16</td>
<td>$222.90</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Xerox</td>
<td>$5.13</td>
<td>$5.97</td>
<td>$11.27</td>
<td>$27.81</td>
</tr>
<tr>
<td>MS</td>
<td>$3.73</td>
<td>$32.32</td>
<td>$462.22</td>
<td></td>
</tr>
</tbody>
</table>

Xerox PARC invented PC, Mouse, icon, network, email, and operating system.
Turning Point I: Opium War

- Closed Door Policy
- Huge trade surplus with British, Gold inflow
- The extremely profitable opium business
- Opium Ban and confiscation in 1839
- Opium War, China lost
- China gave Hong Kong island to British.
- Humiliation from loss of Opium War II (burn down of Summer Palace)
- Loss to Japan.
British Sales of Opium to China (Thousand Chests)
Figure 2.3  An “opium den” in China.
Turning Point II: Treaty of Versailles

- Over threw the emperor but little democracy.
- China was on the good side of WW I.
- Western powers sacrificed Chinese interests.
- Wilson disappointed the Chinese!
- Chinese intellectuals move to the left.
- Communist Party was established.
- Break up of China and chaos (warlords).
Turning Point III: Japanese Invasion

- The rising sun
- Lack of resources
- Sino-Japanese War
- Lost Taiwan
- Invasion of Manchuria
- The Japan saved the Communists.
The Unfortunate Generalissimo

- Educated in Japan
- Married US educated wife
- On the cover of “Time”
- Lost Civil War
- Martial Law in Taiwan
- Economic Takeoff
- Foundation for Democracy
Why Mao Succeeded?

• Born in a Middle Class Peasant Family
• Never received western education
• Had three marriages and numerous mistresses, the last one a second rate actress
• Never brushes his teeth
• A brilliant Chinese historian and ruler
Civil War: Why Chiang Lost?

- Less ruthless.
- Bad marketing strategy (peasants).
- Bad macro-economic policy.
- Too much opposition within KMT.
- Historical tides.
- From Authoritarian regime to democracy.
Turning Point IV: PRC Established

- Nationalized Private Companies
- Abolished foot binding
- Offered women working and education rights.
- Pushed for industrialization
- Totalitarian Regime
- Prolonged political turmoil
- Draconian Population policy
Turning Point V: Cultural Revolution

- Power Struggle at the top and at every level of government.
- University closed.
- Factory closed.
- Stated Objective: Get rid of capitalists and establish socialist paradise - a fantasy
- The nightmare ended in 1976.
Nixon’s 1972 Historical Visit To China

US:
- Vietnam
- Election
- Balance Russia

China:
- Balance Russia
- Prestige
- New Direction
The Legacy of “Great” Chairman Mao

- Winning Civil War
- The Anti-rightist Movement
- Great Leap Forward (Irrational Exuberance?)
- One Billion People
- Break up with USSR
- Cultural Revolution
- Sino-US Relationship
The Remarkable Deng

- French visiting student
- Veteran of Long March
- “Capitalist-Running Dog”
- Return to power
- Second fall
- Paramount leader
- Economic reform
- Tienanman Tragedy
Turning Point VI: Deng’s Reform

• To Get Rich is Glorious!
• Over the last 20 years, China has experienced an economic growth unprecedented in human history.
• China’s overall economy is expected to catch up with the U.S. in 30 years, but will still be much less affluent than the U.S.
• Economic Reform has fundamentally changed the structure of China’s Economy.
Annual Real GDP Growth 1987-1996

China: 9.9%
Tiger Cubs: 8.5%
Four Tigers: 7.7%
India: 5.1%
Latin America: 3.1%
Japan: 3.0%
United States: 2.3%
Effective Corporate Tax Rates
Data Source: Goldman Sachs
## World Labor Costs in U.S. Dollars per Hour
### Manufacturing Sector

<table>
<thead>
<tr>
<th>Country</th>
<th>1995 Cost (US $)</th>
<th>1997 Cost (US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>31.88</td>
<td>27.80</td>
</tr>
<tr>
<td>Japan</td>
<td>23.56</td>
<td>19.08</td>
</tr>
<tr>
<td>France</td>
<td>19.34</td>
<td>16.91</td>
</tr>
<tr>
<td>United States</td>
<td>17.20</td>
<td>18.17</td>
</tr>
<tr>
<td>Italy</td>
<td>16.48</td>
<td>15.81</td>
</tr>
<tr>
<td>Canada</td>
<td>16.03</td>
<td>16.24</td>
</tr>
<tr>
<td>Britain</td>
<td>13.77</td>
<td>14.08</td>
</tr>
<tr>
<td>Spain</td>
<td>12.70</td>
<td>n/a</td>
</tr>
<tr>
<td>South Korea</td>
<td>7.40</td>
<td>4.29</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.28</td>
<td>7.05</td>
</tr>
<tr>
<td>Taiwan</td>
<td>5.82</td>
<td>4.98</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>4.82</td>
<td>5.31</td>
</tr>
<tr>
<td>Brazil</td>
<td>4.28</td>
<td>n/a</td>
</tr>
<tr>
<td>Chile</td>
<td>3.63</td>
<td>n/a</td>
</tr>
<tr>
<td>Poland</td>
<td>2.09</td>
<td>n/a</td>
</tr>
<tr>
<td>Argentina</td>
<td>1.67</td>
<td>n/a</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1.59</td>
<td>1.81</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.51</td>
<td>n/a</td>
</tr>
<tr>
<td>Czech</td>
<td>1.30</td>
<td>n/a</td>
</tr>
<tr>
<td>Russia</td>
<td>0.60</td>
<td>n/a</td>
</tr>
<tr>
<td>Thailand</td>
<td>0.46</td>
<td>0.39</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0.30</td>
<td>0.22</td>
</tr>
<tr>
<td>China</td>
<td>0.25</td>
<td>0.33</td>
</tr>
<tr>
<td>India</td>
<td>0.25</td>
<td>0.26</td>
</tr>
</tbody>
</table>

Source: Morgan Stanley Research (End of Year Estimates)
China’s Economic Relationship with the World

- Foreign Investment is pouring into China.
- China has become largely a trading nation.
- U.S. is running a huge trade deficit with China.
- But China has used a large chunk of that trade surplus to buy U.S. Debt.
Figure 1-8: Foreign Direct Investment (FDI, US$ Billion)

- 1986: $1.9
- 1988: $2.3
- 1990: $3.1
- 1992: $3.4
- 1994: $11.2
- 1996: $42.3

- 1986: $27.5
- 1988: $33.8
- 1990: $37.8
- 1992: $42.3
Figure 1-7: Industrial Growth Comparison among Different Sectors (1995)
Average Living Space Per Person for City Residents (square meters per person)
Figure 4-1: Mean Annual Capital Appreciation on Real Estate (in US Dollars) 1988-1994
China Has Changed in Many Other ways

• China is run by technocrats instead of revolutionaries.
• The collapse of the Soviet Union gave the leadership a strong shock.
• Organized political dissent still not tolerated, but the system is much more open than before.
• People’s values are changing.
<table>
<thead>
<tr>
<th></th>
<th>1976</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Where leaders' children were educated</td>
<td>University of Moscow (Chairman Mao's son)</td>
<td>Drexel University (Jiang Zemin's son)</td>
</tr>
<tr>
<td>Political indoctrination</td>
<td>Several times a week</td>
<td>Almost none, people are busy making money</td>
</tr>
<tr>
<td>Private ownership</td>
<td>Not allowed</td>
<td>Encouraged</td>
</tr>
<tr>
<td>Popular clothing</td>
<td>Blue or green Mao jacket</td>
<td>Polo shirts, Levi Strauss jeans</td>
</tr>
<tr>
<td>Cosmetics</td>
<td>How dare you wear them!</td>
<td>Avon, Revlon, Lancôme</td>
</tr>
<tr>
<td>Power lunch</td>
<td>Chow Mein</td>
<td>Big Mac</td>
</tr>
<tr>
<td>Blockbuster movie</td>
<td>Shining Red Star</td>
<td>The Lion King</td>
</tr>
<tr>
<td>Favorite music</td>
<td>The East is Red</td>
<td>Rock 'n roll, heavy metal</td>
</tr>
<tr>
<td>Status drink</td>
<td>Mao Tai</td>
<td>Cognac XO</td>
</tr>
</tbody>
</table>
Which Country is Socialist?

- Minimum wage
- Lifetime employment
- Unemployment coverage
- Social security
- Health care
- Government influence in business
- Government bailout of weak companies
The Third Generation

College Education
Speak English
US-educated sons
Outstanding performance in 1989
Tough problems to solve
What Jiang Has Achieved and Left Over

- A good economy
- Market reform made significant progress
- Kept promises in HK&Macao
- Increase prestige in the world
- First orderly transition of power, so far

- State enterprises still lose tons of money
- Farmers are not benefiting as much
- Corruption wide-spread
- Shaky financial institutions
- Little progress in political reform
The Fourth Generation

• Tsinghua University Graduates
• Has a son currently pursuing EMBA degree
• A person with nice low-key personality
• Pursued a conciliatory policy when visiting US
• Cares about the disadvantaged
• Will he lead?
China’s Stated Socio-economic Objective for the 21st Century

- To continue its fast economic growth
- To maintain political stability
- To recover Taiwan
- To become a modern industrialized country
China’s Main Conflict with the U.S.

- Trade surpluses
- International arms sales
- Taiwan
- Human rights & Religious Freedom
The Future Stability of China

- Rapidly rising population and pressing demand for jobs
- The growing economic disparity between Chinese farmers and city dwellers and the possibility for peasant unrest;
- Corruption that may cause widespread resentment among those who are left behind in the economic race;
- Weak Financial Sector
- China is too big for the world to have Chaos.
The Growing Chinese Urban Population (million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Population (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1986</td>
<td>263</td>
</tr>
<tr>
<td>1987</td>
<td>276</td>
</tr>
<tr>
<td>1988</td>
<td>286</td>
</tr>
<tr>
<td>1989</td>
<td>295</td>
</tr>
<tr>
<td>1990</td>
<td>301</td>
</tr>
<tr>
<td>1991</td>
<td>305</td>
</tr>
<tr>
<td>1992</td>
<td>323</td>
</tr>
<tr>
<td>1993</td>
<td>333</td>
</tr>
<tr>
<td>1994</td>
<td>343</td>
</tr>
<tr>
<td>1995</td>
<td>351</td>
</tr>
</tbody>
</table>
Projection of Dependent Populations
China: 1970 - 2050

- Percent under 15
- Percent over 64
Turning Point VIII: WTO

- Play by the rules
- Attract more foreign capital and technology
- Avoid annual congressional debate on MFN (NTN)
- Have access to world markets
- Develop legal Infrastructure for sustainable development
China’s Future

- Prosperity leads to Democracy
- US & European educated officials are taking over
- Elections at township level
- Media activism

- Dramatic changes get out of control
- International pressure become counter-productive
- A war with Taiwan
- Economic and Political Disintegration