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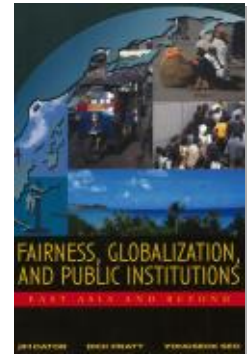
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# **Globalization, Fairness, and Public Institutions**

A Chinese Perspective

JINGPING DING

## **Societal Challenges to China's Public Institutions Due to Globalization**

From the Chinese perspective there are at least three big differences between earlier forms of globalization and its present stage. First, there is a huge amount of short-term capital moving around the world facilitated by information technology, providing investors with greater flexibility. Large quantities of information flow in the world through various means, such as the Internet, intranet, media, e-commerce, and so on, providing investors with many choices.

Second, there are many restrictions on the free movement of regular labor, but fewer restrictions on the movement of talented people. For instance, the United States always gives priority to talented people who want to stay in that country. Many countries in Europe, such as the United Kingdom and Germany, also have started to give citizenship to talented foreigners in recent years.

Finally, the most important and obvious difference in globalization today is the deeper and broader involvement of multinational companies (MNCs). As corporations expand their markets globally, they also try to optimize their resource allocation and production globally. As a result, production elements, including capital, highly educated people, technology, and materials, are being mobilized all over the world. To some extent, globalization can be described as the process of MNC expansion.

Why is there such concern about globalization? Loss of national sovereignty is one reason. Since it is driven by the developed countries, mainly the United States, many people believe globalization is Americanization. Signs for Starbucks, McDonald's, KFC, Baskin-Robbins, Dunkin Donuts, Levis, and many others can be seen all over the world, including China. Local cultures are threatened. People

in these countries cannot see themselves as different from others anymore. They worry about who they will become in the future.

Another worry is about the loss of original personal interests. Among the losers to globalization in China are the state-owned enterprises (SOEs), agriculture producers, and other less-competitive producers. This not only creates unemployment, but also causes a growing gap between rich and poor, with the poor becoming more marginalized, especially in the rural areas.

There also is concern about the loss of talented people. Foreign companies are more attractive to local talent than are most domestic firms. They can provide higher compensation and benefits, training opportunities abroad, and a more transparent environment for personal development. Talented people quickly move to the MNCs when they come into the Chinese market. Local firms face a talent war, and the technological gap between local businesses and MNCs widens.

Along with economic globalization, linkages between countries also become extremely tight. If one country catches cold, other countries also will cough. Asia's economic "flu" was a clear example. Today concerns about the US economy also are seriously impacting the world economy. In terms of drugs and AIDS, China has been in a serious situation since the opening of its economy during the early 1980s. Southwest China is next to the major drug production area of the so-called "Golden Triangle." Drugs pour into China, making it one of the highest drug-using countries in Asia, next to India, Thailand, and the Philippines.

AIDS also has been expanding rapidly in China since the early 1980s. China discovered its first AIDS carrier in 1985. Now it has reached the fast-growing period of the disease. The number of cases is increasing rapidly each year. In geographical terms, almost all provinces and autonomous regions have AIDS carriers. Since many do not know they are carriers or do not report to doctors, these figures show only a small part of the picture. Experts believe there are at least six hundred thousand people with AIDS in China.

More recently, SARS has become a classic case of how disease is globalized, demonstrating that the Chinese government needs to learn how to respond fairly (for the benefit of the world as well as its own people) to what once might have been seen as strictly a local/national concern.

Other issues cannot wholly be attributed to globalization, but can be partially. Globalization and other changes in society mix together. For instance, the income gap between people was bound to grow once China started to move to a market economy. However, the negative impacts from openness and MNCs cannot be ignored.

## **Globalization's Effects on Chinese Ideas of the Purpose of Public Institutions**

Globalization, information flow, the market system, and democracy are four major trends in today's world. Interactions among them are driving society into a new and rapidly changing era. They are also heavily impacting public institutions and the role of government in China.

With globalization, the scale and ways of moving commodities, services, production elements, and information freely across boundaries and around the world makes all national economies heavily reliant on one another. This complex of activities generates more and more regulations and a need for coordinating organizations to strengthen their international economic activities. The World Bank, International Monetary Fund (IMF), and General Agreement on Tariffs and Trade (GATT) created the systemic foundation for international economics and trade. The replacement of GATT by the World Trade Organization (WTO) enhanced the freedom of global trade, investment, and finance. More and more countries, including China, have become members of the WTO and thus have accepted the rules of globalization.

Under these circumstances, governments play more and more important roles in the global economic environment. Their traditional functions have to change from a primary focus on domestic issues to a focus on international issues. Various interactive activities in each country push governments to be at the forefront and to deal with each other internationally. There are more demands for negotiation and coordination among countries today than at any time before. In this sense, governments play an increasingly important role at the global level.

This is true for the Chinese government too. Because of engagement in the global economic environment, traditional government functions have to be shifted. Many governmental functions have to be transferred to other public institutions, such as industrial associations, foundations, and other nongovernmental organizations (NGOs), and ruled by law, not because these issues are less important, but because these are more efficient ways to manage them.

A fundamental change is that globalization requires more efficient ways of doing business. However, one of the major roles of government is to see that all sectors of society are treated fairly. Governments today have to continuously balance efficiency and fairness. Efficiency should always be the first priority of enterprises. But government must select fairness as its first priority.

## Globalization's Impact on the Notion of Fairness in Chinese Society

Social fairness has been a controversial topic in China throughout its long history. One of the major driving forces causing the overthrow of one dynasty and the creation of another has been the quest for “fairness.” “Fairness” in the Chinese mind always means sharing everything equally.

Before China's reforms and opening, state-owned enterprises played the major role in guaranteeing social fairness. They performed many social functions, such as providing day-care centers, schools, hospitals, and apartment buildings for all while assuring that everyone was paid a similar salary. Once the economic system changed to a market economy, these firms could not compete with others if they still had to maintain social fairness.

In a market economy, fairness has a different meaning from what it meant in a planned economy. There is now more emphasis on equal opportunities, not on equal sharing outcomes. The work of guaranteeing fairness therefore has to be taken over by the government directly, and not left to enterprises. For instance, giving everyone an opportunity to be educated, promoting more opportunities for everyone to develop him or herself, and providing special assistance to disabled people are now government responsibilities. Actually, the Chinese people accepted the new concept quickly because they received a lesson from the Cultural Revolution (1966–1976). After that, most Chinese people realized that “equal sharing fairness” could not make any sense if there is nothing for them equally to share.

Once MNCs came to China, the new meaning of fairness immediately showed itself to the Chinese people. That is, the better-educated or more skillful people had the opportunity to be hired by McDonald's. These people generally earn much higher salaries. The principle of “pay for performance” that the MNCs implemented is completely different from “pay for job” or “pay for relations” that many local companies had previously implemented.

Globalization changed the meaning of social fairness in China through job opportunities and payment. The average annual salary in different companies varies widely, especially between fully foreign-owned companies and local enterprises for the same position.

In addition, the capital market also forced China to change its fairness functions from a focus on individual enterprises to society as a whole. For instance, a company that wants to be listed publicly (whether on the foreign or domestic stock market) lists only the most valuable assets for the market, not its social facilities and related costs. If it did not do this, no one would buy its stocks. In order to utilize the capital market efficiently, a company has to first separate its

core business and non-core business. Social functions have to be taken care of by the government or other organizations.

China's acceptance into the WTO will certainly break old concepts of fairness, but it also will give new meaning to the term. In the past, all personnel in state-owned businesses could share benefits equally whether or not they met their performance goals. That cannot happen today. For the losers in a competition, this is unfair. But it will seem very fair to the winners.

### **China's Response to the Challenges of Globalization**

China's response to the challenges of globalization can be explored in three ways: in terms of its national interests, finances, and immigration policy. China's national interests should be the guiding principle for responding to challenges from globalization. Today, the first priority for China is economic development. This basic principle, made by Mr. Deng Xiaoping in 1979, is not to be changed for another century. Everything China does today should follow from this. Accordingly, China made a detailed strategic plan stating that by the end of 2000, China should reach its goal of a fourfold increase in gross domestic product (GDP). Then it would double its GDP within the next ten years, from 2000 to 2010. After that and through the end of 2020, China should achieve the goal that everyone can live a "fairly comfortable life." Finally, by the year 2050, China should reach the goal of a standard of living equal to that of middle-level developed countries.

This is a clear goal, and China now is fully utilizing all resources and efforts to achieve it. From the beginning of its opening and reform in the 1980s until now, China always has used these criteria to measure the advantages or disadvantages in both domestic and international matters. With these basic criteria, China can measure and deal with challenges actively rather than passively. Anything that can bring clear benefit to China will be adopted. Otherwise, it will be modified or rejected.

Having a clear goal is a good beginning for a long march. In order to reach the final destination, society also needs a strong government, especially a large country like China, with its huge population. It must implement the principle of "the minority obeys the majority" and of "crossing the river without touching the stones." Debate among people is always necessary, but debate cannot be a reason for stopping action. Otherwise, there will be no movement forward.

Of course, the way to realize goals is also very controversial. This requires a strong government with efficient tools. Moreover, the proper way to respond to challenges is also critical. China has adopted a progressive way rather than a radical one. Unlike the former Soviet Union, China opened its doors to the outside cautiously, and not all at once. China does not like the "shock treatment" ap-

proach, but moves gradually. Geographically, China started from some “Special Economic Zones” in the coastal areas and then expanded them to some inland areas or big cities, and only then to the rest of China.

On the industrial side, China opened its doors first to those industries that were comparatively weak, such as high-tech manufacturing and export-oriented ventures, and then expanded to infrastructure, service industries, and other relatively weaker enterprises.

In the second kind of response to globalization, the financial side, China encouraged foreign direct investment in manufacturing and services rather than more speculative and short-term indirect investment in banks, funds, or stocks. There is no way to speculate since all investment is in real production or services. Borrowing foreign loans is tightly controlled by the central government. Plus, Chinese currency is not convertible. These are the reasons China was not hurt so much by the Asian financial crises.

Finally, with its immigration policy China does not completely prohibit people from immigrating, even though it already has a large population. People with certain skills are always welcome. Every year, China invites more than ten thousand foreign experts to work in such areas as education, medicine, scientific and technological research, and many production industries. Foreign experts coming with MNCs are also welcome. These people give the Chinese modern knowledge and skills. Some of them have received “honorary citizenship” from the government since they have made a big contribution to Chinese society. They can come and stay in China anytime, or forever.

There are many related issues that China needs to deal with in order to respond to globalization fairly. The most important of these can be summarized in four areas: ensuring economic growth, establishing a modern legal system, providing a complete social security system, and improving the education system.

### **Ensuring Economic Growth**

The economy is a society’s foundation. It is also the fundamental strength from which to respond to the challenges from globalization. If there is no economic strength, there will be no capability to respond to the challenges.

Therefore, doing good homework so that China will grow stronger economically makes more sense than just arguing with others. The year 2001 was a slow one for economic growth throughout the world. The events of September 11, 2001, in the United States made the world economy even worse. The Chinese economy also was seriously impacted. However, the annual growth rate of China’s economy has remained stable and high at around a 7 percent increase annually.

China’s economic growth basically depends on expanding domestic demand. The government has invested in many huge projects to stimulate domestic mar-

ket demand. The demands for housing, vehicles, and durable consumer goods are the main drivers of economic growth.

Other good things happened in 2001 too. These included China winning the right to host the 2008 Olympic Games, its acceptance into the WTO, and its hosting of the Asia-Pacific Economic Cooperation (APEC) conference in Shanghai. All suggest a bright future for China. They were new elements that stimulated investment and people's demands.

### **A Complete, Modern Legal System**

An efficient market economy requires the support of a strong and complete legal system. Throughout its long history, Chinese society has been ruled essentially by a nonlegislative system. Policies and regulations were not transparent because an individual ruler, such as an emperor, made them. Under the planned economy, there was no need for a sophisticated legal system because all businesses belonged to the government. A big improvement occurred at the end of the Cultural Revolution. The market economy broke up single ownership, which made a modern legal system a basic condition for economic development. However, the existing legal system is still far from what a model society needs. It cannot fully support the needs of the market economy, especially after the acceptance of China into the WTO. In order to provide a fair competitive environment to all types of business owners and fair protections for domestic businesses, a complete and transparent legal system must be one of the fundamental elements for China.

The central government and all levels of local government are clearing up old policies and regulations. Many of them have been removed because they conflict with WTO requirements. For instance, the State Planning and Development Commission (SPDC) has declared that projects investing in five specific categories do not need to be approved by the SPDC in the future. These projects are city infrastructure construction; agriculture, forest, and water irrigation systems; large culture and entertainment projects; housing construction; and a trading market. Meanwhile, some new laws and regulations have been introduced. For example, a regulation on "anti-dumping" was made in the middle of December 2001 to protect domestic industries within the WTO frame.

### **Completing the Social Security System**

The social security system is very young and weak in China. There still is a long way to go in setting up a complete social benefit system that covers the entire society. Such a social security system is important for a society to gain stability and to realize social fairness. A lot of effort has been made since the early 1990s, when social functions were separated from state-owned enterprises. Since then, several



insurance systems have been built, including retirement, medical care, unemployment compensation, and accident and basic life insurance for urban areas.

### **Improving the Educational System**

Education for training and for giving more capabilities to the younger generation was originally driven by the need for national development. However, globalization stimulates even more demand for talent. Education is also a fundamental and strategic countermeasure for China's future development that cannot be ignored. Education plays a significant role in teaching people both how to think and act globally, and is of great importance in showing how to accept the new meanings of fairness, both spiritually and materially.

Changes have been made in the content of education at all levels in order to meet the demands of a competitive economic environment. A good example of changed teaching content is providing the younger generation with the ideas and the capability to live independently. Another example is the implementation of a new national examination for students who apply for college. Not everyone takes the same examination, but everyone is given the same opportunity.

Foreign-language education has become more and more critical and practical. Junior high school requires foreign-language education, but it also is expanding to primary education in the big cities. In high school, not only grammar and writing but also speaking and listening to foreign languages are now required. Computer capability also has become a basic skill at all levels of education. Along with it, knowledge of network and information technology has become a necessity for the younger generation.

### **China and the Challenges of the World Trade Organization**

Membership in the WTO was a milestone for China in dealing with the challenges of globalization. The Chinese government saw that membership in the WTO is an efficient means to improve the competitive capabilities of the nation. For many years, the entire Chinese economy was fully controlled by the state government, but a highly centralized economy has comparatively low efficiency in the long run. It cannot meet ambitious development goals. China has had to select efficiency rather than equality as its first priority. The only way to do that is to create competition within the economic area and society. The WTO as an external force can help China to strengthen real competition.

Changing the nature of state-owned businesses was necessary for China to join the WTO. Since most of the assets belong to the state, managers of state-owned firms do not really care about competition. Other personnel do not want

to change because they have gotten used to a noncompetitive environment. Meanwhile, welfare systems created under the old system, such as schools, housing, and hospitals, are burdens on the firms. The most efficient way to force the old system to change is to engage the Chinese economy with the global market. That is why the Chinese government joined the WTO.

Membership in the WTO is a two-way street. It brings real challenges to Chinese society. The biggest impact is to the Chinese government itself. It forces the government to change its functions to fit into the WTO framework. It has to reposition its roles and responsibilities within the market and individual enterprises. Under the planned economy, the government was both a direct conductor and a participant in the national economy. It made plans, allocated various resources to each enterprise, and met individual needs. The market had a very limited role to play. Enterprises were just the means for implementing the government's plans.

Within the WTO framework, the government has to be an indirect controller, such as setting up macroeconomic adjustment mechanisms based on economic and legal systems, not on administrative convenience. It must coordinate state-owned enterprises by policies and regulations, not through direct commands. And it must open most economic areas to private and other nongovernmental business. The market allocates all natural and social resources by the "invisible hand." In this environment enterprises must become responsible for their own profits and losses.

The government also should facilitate foreign trade, foreign currency exchange, and foreign economic management processes that are in accord with WTO regulations. The WTO requires transparency and nondiscrimination, which means there should be low national tariffs, a system of accessible "internal documents," and no regional trade barriers, resulting in uniform "national treatment" being given to all foreign-invested firms.

According to the commitment to the WTO, all existing Chinese laws, regulations, and policies need to be completely cleaned up to enhance their alignment and transparency and avoid hidden "internal" policies. This means that nontariff barriers, restrictions on foreign investment and local private business, the proportion of foreign investment in each project, awarding foreign investment national treatment, and protecting intellectual propriety rights all need adjustment. Administrative law to regulate governmental authorities and actions is also being developed. A law for unified and consistent administrative processes is an urgent issue for the nation. Without it there is no way to improve efficiency and transparency and to avoid corruption.

It also is necessary to create a fair, competitive environment for all types of enterprises. So far, there is substantial discrimination against local private busi-

nesses in China. For instance, in industrial sectors where SOEs are allowed to enter, it is often the case that foreign investment can be made, but private businesses are not allowed to enter.

Next, reform and restructuring of public areas and so-called “natural monopolies” such as telecommunications, power generation, petrochemicals, railroads, and civilian aviation need to be speeded up. Commercialization of these industries has been implemented in different ways. Meanwhile, restructuring state-owned businesses, especially large-scale SOEs, by making them public is becoming more and more popular. Unlike small or medium-size businesses, restructuring large SOEs needs to attract big investors with global business experience. Mergers and acquisitions done by MNCs and non-state-owned businesses are now being recommended.

Finally, the gap between rich and poor needs to be narrowed. One way to do this is to develop the western part of China. The government has been increasing the amount of investment in western China since 2000; in recent years, more than 40 percent of the central government’s annual investment has been in the west. Another way is to increase rural residents’ income by reducing prices, developing processing industries for agriculture products, promoting loans to rural areas, reducing taxes and fees for rural residents, and speeding up urbanization. Tightening personal income tax collection also has become a more and more efficient way of narrowing the income gap in recent years.

In terms of actions taken, as soon as it joined the WTO, China made much progress toward implementing its commitments. In commodity trade, since January 1, 2002, China has reduced its tariffs on more than five thousand commodities. The total rate of tariffs is down. In nontariff areas, China has abolished import licenses for many products such as grain, cotton, and chemical fertilizers.

China has published serious regulations for opening service areas to foreign investment, including law offices, telecommunication services, financial firms, securities companies, insurance companies, and new travel businesses. Foreign investment now can enter these areas according to the new regulations.

In intellectual property rights, China has set up several laws to protect these rights since 2000, including a patent law, a trademark law, a copyright law, a computer software law, an integrated circuit design protection regulation, and many more.

In foreign investment, China revised three basic laws: the joint venture law, the foreign corporation law, and the exclusive foreign investment law. The basic goal is to provide national treatment to foreign investors. Foreign investors and visitors can get the same treatment as local people in most areas. In addition, an “Industrial Guiding Category for Foreign Investment” has been published.

As far as transparency is concerned, as a result of their commitment to the WTO, China’s Ministry of Foreign Economics and Trade set up a new bureau,

the so-called Notice and Consulting Bureau. Its purpose is to provide consulting to both foreign and local firms or individuals to answer questions relating to international trade. All these efforts show that China is moving in the direction that the WTO requested.

### **Current and Future Obstacles for Public Institutions**

Nothing can be smooth on the path to development. There are many critical obstacles for China to overcome in order to implement what is desirable for social fairness. These include

- how to maintain a relatively high economic growth rate to reach the goal that China has designed for both the short and long term;
- how to create more opportunities for unemployed people;
- how to reduce income gaps;
- how to educate and retain talented people for China's development; and
- how to deal with problems of increasing corruption and crime.

Economic growth is the foundation for social fairness. There will be many difficulties for China to maintain a relatively high growth rate while the rate of the rest of the world is slowing. As mentioned before, China has to maintain a relatively high growth rate to reach its development goals. However, there are so many uncertainties in the future. These uncertainties will impact the Chinese economy, since China is going to be tightly entwined in the global economy. Dealing with global uncertainties will be a challenge for China.

The world economy remains slow, especially in developed countries such as the United States, western Europe, and Japan. There is no clear evidence of recovery in the near term. This will have negative impacts on Chinese economic growth since these are major export markets. China's economic growth still has to depend on the expansion of domestic demand. However, which factors will stimulate domestic demand is a big question. Peoples' deposits in banks have increased substantially. However, most deposits have been associated with long-term concerns, like housing, medical services, children's education, and retirement. How to bring these deposits to real consumption is another big question.

Economic restructuring still has a long way to go in China, especially for those SOEs that are losing money. Efficiency also remains a big problem. The capabilities of technology-intensive industries are still low. The knowledge-intensive economy is still far from what is desired. Patents are few; "intellectual property rights" (IPR) has low recognition.

Non-state-owned economies have much potential that has not yet been realized. Many areas have been opened to non-state-owned business, such as au-

tomobile manufacturing, infrastructure construction, and finance. Stimulating these businesses in order to let them play a more important role is also a critical challenge.

Job creation and employment are the toughest problems for China to solve fairly since it has the largest population in the world. The overall unemployment rate in 2003 was estimated at 20 percent, with unemployment and underemployment considerably higher in rural areas than in urban areas, where the rate was 9.8 percent. It is estimated that there are between 100 and 150 million surplus rural workers adrift between the villages and the cities, many subsisting through part-time, low-paying jobs.<sup>1</sup> According to ministry statistics, more than 26 million workers were laid off from state-owned enterprises between 1998 and 2002. Many are still jobless because of the number of new jobs—24 million in 2003—that would be needed to absorb them.<sup>2</sup>

The income gap directly reflects social fairness. While China is growing economically, expansion of the gap has become a critical problem. It widened in the first quarter of 2005, with 10 percent of the nation's richest people enjoying 45 percent of the country's wealth. The Xinhua News Agency cited a survey by the National Bureau of Statistics showing that China's poorest 10 percent held only 1.4 percent of the nation's wealth. China's richest 10 percent had disposable incomes 11.8 times greater than the lowest 10 percent at the end of the first quarter of 2005.<sup>3</sup> In urban areas, the gap between the poorest and richest also is expanding. The increase in the rate of the highest income group from 1997 to 1999 was 18 percent, compared to only 8 percent for the lowest income group.<sup>4</sup>

There are many people in China living on the margins of society, although the lives of most people have improved. The size of this marginal group is not as big as it was several years ago, but there still are about thirty million people with very low living standards (less than RMB200, or US\$25, per person per month). This will be a problem for China to deal with in the next few years.

Three of the most critical obstacles are related to human resources. First, China lacks talented people, especially in new competitive areas. Many of China's senior executives are not familiar with management regulations. They should understand how to play in various domestic markets. Second, China lacks high-quality personnel who are good at international business practices and foreign languages. And third, most Chinese students who have studied abroad stay abroad; only about one-third return to China. According to statistics provided in 2001 by China-InfoBank, an information Web site in China, among the two hundred thousand professional engineers working in Silicon Valley, California, sixty thousand were Chinese. Eighty two percent of the graduates from Tsinghua University and 76 percent of the graduates from Beijing University, two top universities in China, now are working in the United States.<sup>5</sup> However, America's new regulations regarding foreign workers, made in response to September 11,

has put an end to this, and most Chinese students now must go to other countries to study.

Politically, the most serious obstacles will be leadership formulation, legislation building, and anti-corruption. A large country like China needs a strong and outstanding leading team. Weak government definitely will not help a nation handle such complex tasks as avoiding an Asian economic crisis, maintaining a high growth rate, and reforming the economic system. However, selecting outstanding persons from the huge population, or from the ruling party, in order to maintain strong capability for all levels of government is an elusive problem. In other words, how China can move from a “rule of man” country to a “rule of law” country is a tough and urgent issue.

Corruption has become one of the most critical issues in China today. How to reduce corruption and supervise leadership effectively is a vital matter. The market economy needs a democratic system to supervise public managers and to protect the public’s interests. Right now, the media play an important role, but expanding to other channels and finding the most efficient way to implement democracy must be on the agenda.

Other problems like drugs, AIDS, and prostitution are also damaging society. Increasingly, crimes are threatening peoples’ lives. These are problems that China should not ignore because they are the factors causing social instability.

### **Domestic Forces Shaping the Responses of Public Institutions**

The forces that can help China create effective responses are the large Chinese conglomerates, private businesses, information and Internet technologies, the transportation system, and Chinese NGOs.

Increasing the size of conglomerates is one of the ways China can deal with globalization. Some Chinese companies have been listed among the top five hundred by *Fortune Magazine* in recent years. These include the Bank of China, the Industrial and Commercial Bank of China, PetroChina, the China National Petrochemical Corporation (SINOPEC), the China National Cereals, Oils and Foodstuffs Corporation (COFCO), and others. Besides them, there are over three hundred super-scale enterprises whose gross industrial output value (GIOV) was 35 percent of the total SOEs’ GIOV in 2000. Following that, there are 2,308 large-scale enterprises whose GIOV was 34 percent of the total SOEs’ GIOV. Together, large-scale and above SOEs account for almost 70 percent of the total GIOV.<sup>6</sup>

Booming private business is another force that can help China deal with globalization. Private businesses, which employ 24 million people, have generated about one-third of China’s GDP since 2000. Their registered capital reached RMB1.331 billion, but less than RMB100 million in loans were provided to them. Their taxes also provided 10 percent of the government’s business tax. In many

cities in south China, 80 percent of the government's tax is from private business. After twenty years (1980–2000), private business has been growing very rapidly. It plays a more and more important role in China.<sup>7</sup>

Information and Internet technologies certainly can help a developing country like China to leap over some traditional steps of industrial development. China has been the largest country in the world in terms of users of both fixed-line telephones and mobile phones. In transportation, the Chinese railroad system today is more than seventy thousand kilometers long. Paved roads, highways, and air transportation have also quickly expanded.

Development of telecommunications and transportation not only reduces the distance between people, but also increases information flow and changes people's behavior and mindset. They are efficient tools for making things more transparent, encouraging the possibility of the right types of decisions for both doing business and creating democracy.

The emergence of Chinese NGOs is another new force for facilitating the desired responses of government. China now has approximately two thousand voluntary associations. About another three hundred associations have been created by the government. Many of these shifted from being governmental bodies in recent years. For instance, in 2001 China completely restructured nine industrial ministries as associations, including the ministries of textiles, machinery, chemicals, light, electricity, and others. Besides industrial associations, there are other NGOs, such as poverty-alleviation, animal protection, and environmental protection organizations.

Formulation of large-scale, state-owned enterprises, rising non-state-owned businesses, developments in telecommunications and transportation, especially Internet networks, and the emergence of NGOs are the new forces in China. They are playing positive roles in changing China's society and in responding to the challenges brought by different aspects of globalization. It is foreseeable that within a not-too-long period Chinese society will experience even more dramatic change and will present a brand-new China to the world.

### **Critical Issues Relating to Reform in China**

Government structural reform also has been implemented from top to bottom. Since 1998 government bodies have been reduced from forty to twenty-nine at the ministry level. In each remaining ministry, 25 percent of the departments have been removed. Hundreds of administrative functions in the ministries have moved to nongovernmental institutions such as associations, NGOs, and enterprises. Half of all government employees have been laid off. From 2000 to early 2001 similar reforms expanded to the provincial level, and it is moving down to county-level government as well.

Due to the popularity of the Internet, e-government also has to be encouraged in order to meet the needs of society. In fact, it is one of the five most fundamental Internet networks being built by the government (the other four being e-commerce, long-distance education, long-distance medical treatment, and e-entertainment). In China, the government holds 80 percent of all valuable information and more than three thousand information databases. However, most of this information is not well utilized by the public. Since 1999, an e-government project has been conducted. Most of the ministries, provincial governments, and city governments have set up Web sites.

Chinese e-government projects will have three phases: setting up Web sites for each level of government and sharing information partially with the public; linking all Web sites and realizing office automation; and promoting all other related matters to be “e” and working online as much as possible.

However, government reform still has a long way to go. Direct interference with business operations, especially of state-owned businesses, is still too great. An efficient system for managing state-owned assets has not been completed yet. The inspection and approval system by government, formed in the planned-economy period, still exists in many areas. For instance, government restrictions on private business are still heavy. Fair competition between SOEs and non-SOEs is still far away.

The ability of the government to regulate and manage the market is not strong enough either. Legal systems in the business area are relatively weak, especially in the area of credit. The credit crisis is becoming a cancer that is poisoning society. Even enforcing existing laws is difficult because there are no heavy penalties. Local protection is still very strong and causes a breakdown of the unification of the national market.

### **Education, Training, and Research**

A series of issues, obstacles, and responses have been discussed in this chapter. Some are more theoretical problems while others are more immediate and practical. Public institutions undertaking education, training, and research activities must focus more on the theoretical problems for the long run of society. The problems that should be studied are

- how to distinguish between globalization, Westernization, and Americanization;
- how to recognize the trends of globalization and regionalization and their relations;
- how to retain a desired growth rate within a globalizing and competitive environment;



how to balance globalization and domestic development;  
 how to evaluate the role of MNCs in globalization;  
 how to educate and retain talented people in China;  
 how to set up an efficient political system to ensure economic goals and  
 social stability;  
 how to balance foreign culture and local culture;  
 how to balance fairness and effectiveness; and  
 how to balance the collective and the individual.

The more practical and immediate problems that need to be studied are

how to face challenges from globalization: actively or passively? Radically  
 or progressively?  
 how to make economic structural reforms and system reforms;  
 how to attract foreign investment and utilize it efficiently;  
 how to complete an effective social security system with limited resources;  
 how to retain a strong and effective leadership for a very large country like  
 China; and  
 how to deal with population problems, such as job opportunities and  
 unemployment.

These important issues should be introduced to ordinary people in order to  
 change their attitudes toward such things as competition, the WTO, human re-  
 sources, and privacy. In the meantime, since the social environment has changed  
 dramatically, some new explanations should be given for the meaning of social  
 fairness, the collective, the individual, and so on. Globalization creates many new  
 concepts that ordinary people in China do not understand. In order not to fail,  
 education, training, and research institutions should study them and give people  
 a better education while they are facing these challenges.

As an example, the Chinese people do not have much experience with com-  
 petition because China did not have a real capitalist period. For thousands of  
 years the Chinese mind was ruled by feudalism, which promoted noncompeti-  
 tion in the form of forbearance, humility, and cooperation.

The market economy system, on the other hand, needs competition. The  
 motivation for competition is personal interest. Personal interest should be put  
 in the center while competition is encouraged. Otherwise, there will be no motiva-  
 tion for people to compete with each other. The foundations of a market econ-  
 omy are totally different from a nonmarket economy. Personal interest has to be  
 recognized while the market economy is being implemented.

At the same time, there still will be need for traditional concepts like for-  
 bearance and humility. The problem is how to balance traditional and modern

concepts that are in conflict. There is no perfect system for all types of societies because of differences in history, culture, tradition, level of economic development, and education. Every country is looking for a more suitable way for itself.

No matter how these contradictory elements are weighed and balanced, one thing is clear: it is not a good idea to mix all the concepts in one arena. For example, competition should be implemented in business, but not in places where social fairness should be emphasized, namely the community and the family.

The WTO represents another new concept that provides an important milestone in modern Chinese history. China started to implement economic reform and an open-door policy in 1979. The idea was to combine the planned economy with a market economy. The planned economy was still the main base. This was the first milestone of historical change. The second milestone was when China announced its decision to implement a market economy in 1991. The principle was to let the market play the dominant role in the Chinese economy. China's acceptance into the WTO in late 2001 forces China into a complete market economy and forces it to be fully engaged with the global economy.

The WTO not only impacts the Chinese economy, but also the Chinese political and social structure. The old bureaucratic system has to be changed from its foundation. The social structure must be fundamentally changed as well. Since the economic system (the foundation of human society) has changed, other systems such as the political, legal, cultural, and educational have to be changed too. The impact will be so significant that the whole society, including lifestyles and working behavior (even ideology), will be different from that which currently exists. Unfortunately, not many Chinese realize the significance of their country's membership in the WTO.

The human resources issue also is a new concept in China. A talent war started as soon as the door began opening. China had no "human resources" concept until the middle of the 1990s; there was only manpower or labor resources. The value of talented people was not so obvious, since everything was highly controlled by the government. Meanwhile, the labor-intensive industrial structure also made it less important to be highly talented. The importance of labor seemed more obvious in a centrally controlled system.

Since more and more MNCs have come to China, two fundamental changes are happening. One is that they have brought the new concept of "human capital." Another is that they have created a talent war. Historically, China never saw human resources as "capital," but merely as a "cost." The old system very much emphasized obedience: no matter where I put you down, you should listen and work well there, like a "brick." Personal initiative was not encouraged. Today competition is breaking down the passive human resources management system. Talented people are leaving for new places where they can work more actively, such as in the open areas and non-state-owned sectors.

Collectivity and the individual, as two contradictory concepts, also have different meanings in the new environment. For thousands of years Chinese culture and ethics promoted the value of collectivity in society, not individuality. Now competition encourages individuality. If collectivism played a positive role in traditional manufacturing industries, it will have a very limited role in a “knowledge economy” that heavily depends on individual knowledge and capability. Since China intends to move its industry to “knowledge-oriented” and labor intensive, it has to give more attention to individuality. Collectivity can still play important roles in the sense of “teamwork,” but the individual’s role must dramatically change from what it was before.

Another severe problem that China should address is quality of education. Improving education, especially at the college level, so as to improve people’s capabilities in a competitive environment, is one of the most urgent issues facing China. All of the new concepts that need to be introduced into the society can be done through education. It is an efficient and fundamental process for all people—not only for the next generation, but also for all existing generations.

Over 90 percent of the graduates of primary schools enter junior high, but only about one-fourth of junior-high graduates enter senior high schools. Only about one in four graduates from senior high school enter college, according to statistics.<sup>8</sup> In 1990 only a fraction, 1,071 per 10,000, had at least a primary-school education. That rose to just 1,076 by 1999. The proportion of people with a secondary-school education was 447 in 1990, but rose to 636 by 1999. Only the proportion of college and university students rose, from 18 out of every 10,000 persons in 1990 to 32.8 in 1999.<sup>9</sup> The level of education will be a serious barrier to becoming a “New Economy” and to competing with MNCs in the future.

## Conclusion

Globalization is a multifaceted process with complex and varying impacts. It must be looked at from multiple perspectives. The key determinants of impact are, first, governmental capabilities. A strong, stable, and popular government is better able to manage the impact of globalization. Weaker leading domestic companies are at risk if their government does not have the knowledge, tools, or skills necessary to manage globalization’s impact.

Second, decisions about the positive or negative impact of globalization are not absolutes. Each society must decide for itself, based on its values and culture. One important thing learned from the Chinese experience is that a society should have a clear goal for all the people to reach. Discussing, exploring, and arguing are always necessary, but none of them should be an excuse for stopping real action. Society should allow mistakes to be made in order to find a suitable way forward. Otherwise, there will never be any improvement.

Third, it is most important that we realize that globalization (as well as regionalization) cannot really be stopped. A good society must find better ways to manage both and try to expand its own advantage by forming “win-win” partnerships with other countries.

Finally, China is one of few developing countries that seems to be benefiting by engaging globalization positively. Its experience could be a reference for others. However, there is no unique model suitable for everyone. The only way to be successful in dealing with globalization is to use one’s own talents to face and challenge globalization, and not try to avoid it.

### Notes

1. Central Intelligence Agency, available at [www.cia.gov/cia/publications/factbook/geos/ch.html](http://www.cia.gov/cia/publications/factbook/geos/ch.html).

2. “China Faces Uphill Battle to Create Jobs,” available at [www2.chinadaily.com.cn/en/doc/2003-08/26/content\\_25834.htm](http://www2.chinadaily.com.cn/en/doc/2003-08/26/content_25834.htm).

3. “Income Gap in China Widens in First Quarter,” available at [www.chinadaily.com.cn/english/doc/2006-06/19/content\\_452636.htm](http://www.chinadaily.com.cn/english/doc/2006-06/19/content_452636.htm).

4. *China Statistical Yearbook* 2000, 315.

5. China-InfoBank, available at [www.chinainfobank.com](http://www.chinainfobank.com).

6. *China Statistical Yearbook* 2001, table 13-1.

7. Available at [www.chinainfobank.com](http://www.chinainfobank.com).

8. *China Statistical Yearbook* 2000, table 5.

9. *Ibid.*, 656.