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CHINA AND THE NEW WORLD ORDER

GEORGE ZHIBIN GU

# CHINA

## AND THE NEW WORLD ORDER

HOW ENTREPRENEURSHIP, GLOBALIZATION, AND BORDERLESS BUSINESS ARE *RESHAPING* CHINA AND THE WORLD



GEORGE ZHIBIN GU

AUTHOR OF *CHINA'S GLOBAL REACH* AND *MADE IN CHINA*

WILLIAM RATLIFF

(FOREWORD)



# China and the New World Order

How Entrepreneurship, Globalization, and Borderless Business  
Are Reshaping China and the World

by

George Zhibin Gu

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# Foreword.

## Fast-Moving China and Global Development

by William Ratliff

China has traveled light years during the past three decades. After Mao Zedong died in 1976 and the Chinese people step by step became freer to cultivate their entrepreneurial inclinations to improve their lives, China has seemed to be a film spinning ahead in fast-forward. Images flash before the eyes, but before you can really focus they have been replaced by others and yet others.

### Vast Changes in China

On his last visit to China in 2003, Cuba's dictator Fidel Castro blinked and openly wondered where he had landed, things were so different from his previous trip several years earlier. But others too have found the images of the changing China a challenge to assimilate and interpret. Outsiders often look toward the Middle Kingdom and ask, what is going on? What does it all mean? Is all of this good for the Chinese people, and for the rest of us?

The China Deng Xiaoping took over in the late 1970s was staggering and moribund at home and a pariah worldwide in the wake of the nation-devouring recriminations and outrages of the Cultural Revolution. Whether from conviction or panic to preserve the discredited Communist Party, or both, Deng opened the door to some truly revolutionary economic change, and the spin-off over time has gone far beyond the economic field.

One critical step in his campaign occurred in 1980 when he created several Special Economic Zones (SEZs), which are geographically confined laboratory-cities for experimenting with market-oriented economic reforms as well as engagement with the outside world. The most important of these SEZs was down south, just across the border from the then-British-controlled Hong Kong, a place Nobel laureate economist Milton Friedman has often called the freest market in the world. The name of the overnight city that sprang up was Shenzhen.

No tiny region on earth has ever attracted so much foreign direct

investment in such a short time as Shenzhen, over U.S.\$60 billion. Never has any city in so short a time attracted so many people who were not just fleeing hard times in rural regions but actually all fired up to succeed.

The city has grown an average of about 27% annually since it became a SEZ, and many of the 12 million who now live there have prospered. Many others, often in their teens and twenties, have worked very long hours under miserable conditions and barely survived, though they usually earned a little more than they ever had back home in their villages. Thus Shenzhen is China writ small, though conditions are at very different stages throughout the vast country.

George Zhibin Gu was one of over 12 million Chinese to move to Shenzhen, the epicenter of change. He was born in Xian, the heartland of vast expanses of Chinese history and governments, and got his university training in Nanjing and the United States. He proceeded to move into the most anti-Maoist of all professions, namely investment banking and business consulting.

### A Unique Guide

No one I know of has come so close to capturing the spirit and meaning of an explosively changing China as Gu. When you read about Shenzhen and the other topics of this book, ranging from bank and stock market reform to new Chinese multinationals on the world stage to the need for a federation of the mainland and Taiwan, you are as good as parachuting into Chinese cities, businesses, sweatshops, and policy discussions. You become immersed in the tiny but persistent realities of individual and group successes and failures, in the battles over reform, money, and power, and you feel the elation and frustration of the Chinese people in their widely varying human conditions.

You also encounter the global issues raised by China's rise that affect people worldwide almost as much as they do the Chinese themselves. Even people around the world who can hardly find China on the map know that the civilization has a very long history and ancient traditions. Many know that it has not done well in recent decades, even centuries, but that things are changing.

An old joke used to be that the only poor Chinese in the world were the Chinese who lived in China because their government repression sapped them of the will and opportunity to really better their lives and thus the conditions and prospects of the country. This is no longer true, though many remain poor. Today, upward mobility is becoming a reality inside the nation.

## China and the New World Order

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But the outside world has more direct experience with the overseas Chinese. Chinese who moved or escaped abroad, whether to Hong Kong or Singapore, to the United States or Panama, were often highly successful in small and large businesses and other professions demanding a dedication to education, hard work, and raising one's status in life. Throughout the English-speaking world today, and in some respects this includes China itself, we find Chinese students working 18-hour days and excelling in every field they enter.

### Key Challenges Ahead

Despite China's astonishing and continuous progress from the end of the Mao era to today, major challenges remain. Gu often focuses on bureaucracies, which, as he asserts, essentially frame China's politics, society, business, and economy.

China has relied on bureaucracies for millennia, and Mao picked up where the earlier emperors had left off. He created the largest bureaucracy in the history of humankind and one that took control of every aspect of every person's life everywhere in the country. And though during the Cultural Revolution Mao and the Gang of Four killed hundreds of thousands and demolished much of what the Communist government up to then had created, the bureaucracy, in modified form, persists in power to this day.

Gu argues that even though government leaders have permitted great change, which originally flowed from the initiative of some peasants and others shortly after Mao's death, this bureaucracy is the chief impediment to completing the revolution. It seeks to retain power, setting up one of the ironies of the Mao legacy.

The Great Helmsman used to urge people to strive tirelessly to overcome seemingly insurmountable odds by referring to the ancient Chinese fable of the Foolish Old Man Who Removed the Mountains.

Now the mountain that stands in the way of completing the current and real revolution in China, Gu argues, is above all the corrupt and self-serving bureaucracy. Though the government has allowed economic reforms, it still tries to be both "player" and "referee" in the marketplace.

Seen through the lenses of Chinese history, truly revolutionary change is indeed under way throughout the country, but it can be completed only through a drastic curtailment of the continuing power of the government over so many aspects of national and daily life. The change now must come through ever-greater individual private initiative, an increasingly open society, and international involvement.

## George Zhibin Gu

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Over the past quarter century China has awakened and, as Napoleon warned, it is and will continue shaking the world. But is this a good thing for China, and for the world?

Gu argues that this phenomenal growth of China, this awakening, is not something for the world to fear, but rather an opportunity and also a challenge. He argues that progress in the modern world is not patented by the currently developed countries, but available to all peoples who are willing and able to work hard for it. The developed world itself will benefit from the advancement of the late developers.

If you want to immerse yourself in the awakening of modern China, take George Gu with you as your guide. With him along you are not leaping dizzily into the frames of the fast-forwarding story, for you have an experienced and articulate guide who fills in facts and at least as importantly adds insights into what is happening, why it matters, and what it feels like to be there in the middle of it all.

I have traveled extensively in China for many years and I relive many things that I have seen and heard and felt over the decades in every page of Gu's book. And I learn a lot that is new to me too.

*William Ratliff  
Fellow and Curator  
Hoover Institution  
Stanford University*

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# Introduction.

## A New World Order in the Making?

Is a new world order in the making? The answer: yes. Up to now, only about 20% of the world's people have attained solid development, growth, and modernity. Now the rest are catching up at an unprecedented speed. This sudden surge in so many late developers suggests a brave new world in the making.

What has promoted this new life? It is entrepreneurial work above all. For a long time, the United States has been a haven for entrepreneurs; today, entrepreneurs are emerging everywhere. China alone has some 40 million entrepreneurs. Never before has the world seen so vast an army of entrepreneurs in pursuit of prosperity at the same time.

Equally significant, record-breaking flows of capital, humans, goods, ideas, and technology are in place. Things are happening with a much greater speed and scale.

One other basic change is that the late-emerging nations like China, India, Vietnam, and Mexico have increasingly become manufacturing and business centers, though on the low end at this time. Increasingly, the developed world, as in the United States and Western Europe, is becoming a service and high-tech economy while the developing world focuses more on manufacturing.

In fact, the world has entered a new era, that of a convergence of global civilizations. All nations increasingly rely on one another in countless ways. Despite all the worries and conflicts, this trend will only strengthen. In short, from very divergent movements in the past, the world now embraces a convergent movement for the first time in human history.

### The Residence of Fortunes

One great puzzle of all time is this: Fortunes never stay in one place for long. Rather, different regions have moved ahead at different times. Europe was in poverty for thousands of years while China enjoyed an advanced life characterized by abundant goodies, technological progress, and prosperity.

For ages, a typical Chinese had more material things to enjoy in life than his or her European counterpart. The great Chinese cities far

## China and the New World Order

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exceeded European cities in comfort and prosperity. The vast volumes of Chinese poetry, philosophy, and writing on the arts of living had no equal in the world until recent times. Some 500 years ago, European farmers used wooden sticks to plow the land while Chinese farmers employed steel tools as well as fertilizers.

When Marco Polo (1254-1324) came to China, he was amazed by the riches of the East, though China was at relatively a low point at the time. Even very simple things such as the fact that the Chinese had chairs, tables, and plenty of meat to eat impressed Polo in no small way, as such things were uncommon in the old Europe. His fantastic tales about a prosperous East stirred up the poor Europeans like thunder. Two centuries later, men like Columbus sailed off to get to the riches of the East.

This great European openness and sense of discovery turned fortunes toward the West for centuries. The industrial revolution produced more wealth than ever before. As a result, the global production map was altered in favor of the West.

By the 19th century, the British islands dominated global politics and commerce, with the biggest and best industries as well as maritime fleets that explored the world. Traditional farming societies like China and India had little advantage in competition with this new power. As a result, these nations simply chose to close their doors to fend off Western expansionists.

In turn, for the last 100 years or so, the United States has had the biggest influence. The United States has become a haven for upward mobility as well as a vast middle class. Its enormous wealth has become the marvel of the world.

Is the wind of fortune changing now? No one can truly foretell the future, but the quick upward movement in numerous late-developing nations is indicative of a major shift in the making. Above all, this fast-expanding pie offers the world unprecedented opportunities.

### Several Key Changes

Huge changes are happening, within a vastly expanded sphere for all people and nations. We can identify four in particular.

First, wealth making through industrialization and commercialization has become a universal thing. For a long time, products made in the United Kingdom, the United States, and Germany dominated global markets. Today, products made in China, Mexico, Vietnam, and Indonesia, among other developing nations, are increasingly flooding the world, changing the global production map again.

Behind this changing map, interestingly, many poor nations have rapidly taken on active roles in the global economy. But their biggest weapon remains low-cost labor, which provides a working platform for cooperation and sharing between the rich and poor nations.

Today, most developing nations are extremely limited in resources and strengths. Hence, for them, this cost gap is a survival gap. In fact, other than cheap labor and hard work, they have few advantages. However, it turns out that low labor cost and hard work do make a difference.

For now, manufacturing activities, especially in the low end of the value chains, increasingly shift to the poor nations, while the developed nations focus more and more on a service and high-tech-oriented economy. This giant change, though only beginning, will impact the future world economy even more.

Second, all regional markets are connected to each other. Interdependence is opening up the old national boundaries dramatically. Most profoundly, the flows of capital, technology, goods, and people have reached a new level. Moving from survival of the fittest to rational collaboration and sharing, life on the earth will never be the same again.

Third, wealth making has gained a record-high status. Consequently, old ideology is lost to the new economic waves. This is a truly golden age for capitalists anywhere, who can reach all corners of the world for the first time in human history.

Multinationals are gaining unprecedented power in shaping global life. Their share of trade approaches 50% and is still on the rise. Actually, they are warmly courted by all nations, rich or poor. Courting them has become a high art for all governments. The new picture is this: Incentives move the world—not politics, not ideology, not empty words.

Fourth, hundreds of millions of ordinary people everywhere have joined the entrepreneurial army. Starting a business is no longer for the privileged few as in the past, especially in the developing nations. Furthermore, individual private initiatives are undermining state domination especially in many less developed nations. This is hugely significant especially given that traditional bureaucratic powers in many developing nations have been strong and abusive.

Above all, such changes have happened within a short time, which is possible only in an increasingly globalized world. Naturally, more consequences will follow.

## Interdependence and Beyond

The sudden surge in late developers is bound to create ripple effects. Since well over 5 billion people are involved, development in these countries will be much more influential than ever before.

But this new growth for most late developers started from extremely low levels. As a result, achieving full development, growth, and modernity will take a long time. At present, China and many other late developers are still bogged down by countless mighty problems, which make transitions very painful to say the least.

### The Role of the Developed World

Still, there is no way to overestimate the role of the developed world in what is happening. After all, the existing world order is centered on the developed nations. They collectively control most wealth and the biggest markets. As the pie expands, the few rich nations are the biggest beneficiaries. What is more, they continue to act as an engine of growth as well as a catalyst for change. Without doubt, the developed nations will continue to exert the biggest influences as time passes.

All things considered, the late developers should continue to learn from the developed countries, whose experiences and lessons are relevant in countless ways. After all, development is a human issue. In many ways, what is happening inside the developing nations simply follows the growth trails of the developed world.

For a long time, the idea of learning from the early developers did not get enough attention or even was rejected. Now, more people realize that development experiences are of universal value; this represents a basic change. It is this new spirit of learning that has directly promoted quick growth in many late developers. China is one example of making progress through learning.

### Challenges

Challenges are plentiful as well. The vast development gaps remain a key challenge. New conflicts emerge everywhere. As one example, trade friction has increased sharply even though record-breaking trade has brought unprecedented opportunities and prosperity. To handle trade disputes, nationalistic protectionist measures are still widely used, and there is still a strong Cold War mentality.

Furthermore, the vast economic gaps have produced more adverse consequences. In particular, some extremists wish to address their woes by employing violence. The terrorist acts in New York City and London took place largely in this environment, showing, among other things,

the urgent need to close development gaps.

Only after the underdeveloped nations gain reasonable growth and prosperity will the world walk out of the old traps of poverty and conflict. As a Chinese saying goes, “The way to protect the rich to the fullest is to help the poor gain a better life.” Indeed, with a more progressive mindset, the developed world would be able to make more contributions to global development in the next stage.

Despite all the imperfections, the convergent movement of global civilizations cannot be reversed. A new world power balance will have to replace the old one. Furthermore, this new world order will emerge gradually and most likely indirectly. This is so simply because military conflicts in the old style will no longer do nations any good. Indeed, as more developing nations achieve progress, life on this planet will be more peaceful and rational.

## China’s New Lessons

China is moving, finally! The most significant change is that the nation’s new development has taken place in an open, globalized world. By now, China has become a new global theater. As if overnight, this ancient land has taken on numerous new roles—as the biggest frontier market and a manufacturing hub, as well as a top trading nation and a top destination for foreign capital.

What is behind all the changes? To me, three new lessons are highly relevant.

### First Lesson

*China’s first new lesson is that a truly meaningful development must depend on individual private initiative and entrepreneurial work, not government officialdom at all. China’s new growth comes directly from a new entrepreneurial force, which makes a stunning contrast to the frozen life of the Mao era.*

In the old days, the bureaucratic power had completely penetrated into all aspects of life. It totally controlled all businesses and all organizations. Furthermore, it arranged all people’s lives according to its own needs. Even marriage or travel required official approvals. China’s society and people suffocated in all sorts of ways (see Ch. 13 and 14).

This bureaucratic crusade destroyed human flourishing for decades. What is behind this bureaucratic wilderness? By its nature, China’s self-appointed bureaucracy stands against the society and people. Squeezing has been its very purpose of existence.

For a long time, the bureaucratic aim was to get all the fish in the

pond. To get the job done, it chose to pump out the water. Naturally, the dry pond failed to provide more fish. This greed led to vast destructions of all good things in life.

But one thing could not be destroyed—the entrepreneurial spirit. After 1978 a new environment emerged. The creative spirit immediately blossomed, which has led to vast changes in the nation and beyond.

By now there are some 40 million Chinese entrepreneurs. This private sector employs about 25% of the urban workforce and contributes about one third of the nation's economic output. Its further growth is all needed in order for China to escape the traps that kept the nation and people in the mud for long.

### Second Lesson

*The second lesson is that rational development must take place in an open society, the more open the better.* Openness is the biggest enemy of bureaucratic power, but it does people and society all good. Above all, an open society frees people from all sorts of man-made barriers. Under openness, people can change their lives through their own efforts. In this era, upward mobility has gradually become possible. All this leads to a meaningful and productive society.

In the Mao era, China lived in a tightly closed society in which wild bureaucratic power squeezed hard on people. People had no rights to travel or to select a profession or place of residence, not to mention political rights. In this closed society, serving the bureaucracy was the only way of life. Poverty was the only consequence. In fact, tens of millions of people starved to death, not to mention about vast killings, which was a daily event in the Mao era.

In this era, an ever-increasing openness has changed countless things. Popular desires for prosperity have quickly proliferated. In an increasingly open environment, people's power is on the rise. Today, the Chinese people are much more productive, happier, and more confident than in the Mao era. Interestingly, in this new environment, a large burdensome population is turning into a creative and productive force. Though this development is still at a very early stage, it is bound to grow.

Development through openness is nothing new in world history. Old Europe was stuck in the mud for thousands of years under a rigid, closed society dominated by church-state. Upward mobility was impossible: Serfs remained serfs and aristocrats remained aristocrats. All this changed as openness was gradually embraced. Through this openness, and the resultant free flow of people, capital, and goods, Europe was able to decisively move away from the Dark Ages. After all

the struggles, old Europe transformed itself into a progressive place.

Japan offers another kind of example. In the past half century or so, Japan has had huge outward economic expansion around the globe, but has kept its society and economy closed. The latter has backfired in the past two decades or so. As a result, Japan has lost much of its competitive edge. Today Japan is struggling toward more openness, which is badly needed in order for it to land on the growth path again.

### Third Lesson

*The third lesson is that a rational, sustainable development must involve the entire world.* Evidently, nations with greater international participation see faster and healthier development, as is shown by China and India today. Without outside involvement, the water in the pond is dead and little happens. What is more, no sustainable development can take place without global involvement.

The United States is the biggest example of progress through global participation. Fundamentally, world involvement is behind the U.S. strength. For well over a century, the United States has outperformed the rest. This outstanding performance has relied on the entire world, which has supplied much of the requisite capital, labor, talent, natural resources, and technology.

Moreover, the United States remains the biggest destination for foreign direct investment now. In particular, foreign nations now hold many trillions of assets and debts in the United States. Increasingly the late-developing nations bring fresh capital into the U.S. market.

For example, China alone has some \$300 billion invested in the U.S. debt and general market. This foreign capital is partly behind the prosperous lifestyle in the United States. Being an open society for the US attracts huge outside investments. If less foreign capital went into the United States, there would be vast negative effects.

Furthermore, the prosperity of the United States has relied on global markets. Today, the United States has the biggest crowd of multinationals, which have had the biggest influence around the world as a group. As a result, the U.S. economy has long led all others.

Today, China is just beginning to follow this path. An ever-increasingly open land is attracting more and more global talent, professional skills, capital, and goods. This foreign involvement is a necessity for China's development.

By early 2006, more than \$640 billion in foreign direct capital had arrived in the nation. More than 560,000 overseas companies are established, which has helped to make China a top trading nation as well as a leading manufacturing center. In the Mao era, China's trade

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was next to nothing, but as of 2005 it had reached \$1.42 trillion. What a difference!

Moreover, over 24 million Chinese work for overseas employers today. This massive foreign presence has impacted Chinese life in all sorts of ways. By now, the old state sector has been reduced to one-third of market share, while the domestic private sector and the overseas sector each take about another third. The foreign share is growing the fastest today and will very likely reach 50% of China's economy within a decade.

Furthermore, development feeds on development. A fast-developing China is attracting more international involvement. In turn, this helps to make China more open and dynamic. One can say that the new China is being transformed into a *Global China*. In short, the Chinese market, society, and life are already part of global life in spirit and practice.

In many ways, today's China is already more open than Japan. This greater openness will carry China forward positively. Though the reform started in business and economic areas, it now extends to political, institutional, and social areas as well. With this openness, the Chinese people are able to quickly walk out the deadly bureaucratic traps. Moreover, the nation is becoming a full and equal member in the global community, for the first time in history.

### Restoring Old Wealth?

Some people take the view that China's new growth is a way to restore its old wealth. But what is happening goes well beyond restoring old wealth. True, China was one of the richest nations in the world for thousands of years, but the nation now aims to go beyond the past way of life completely. There are many reasons.

First, old China was an agrarian society, but now it is being transformed into a modern commercial and industrial nation. This means that China has stepped into a new sphere.

Second, whereas China's old life was self-contained and mostly independent of other nations, its development today is taking place in a global context. Hence, becoming an equal and full member of the global community is the top desire for the Chinese. Fully embracing global development is a basic goal.

Third, old China was always ruled by a self-appointed, ruthlessly overextended government. As a self-appointed body, it must constantly squeeze on the society and people. This squeezing role reached a new height in the Mao era.

Even today, this bureaucratic squeezing continues, which causes hellish problems still. As such, a new, modern China must completely get rid of this untamed bureaucratic power. Replacing this traditional bureaucracy by modern law and institutions is a must for China to become a modern nation.

In all these ways, China is leaving the old way of life and embracing a completely new one. And it is happening in an open, globalized context.

## This Small Book

This book examines China's new lessons and their implications for the world. The aim is to identify the key factors that will promote more positive changes for China and for peoples everywhere.

Despite all the changes, China's fundamental weakness is still the overextended, self-appointed bureaucracy, which is inherently self-serving. Moreover, countless government officials employ the unchallenged state power to enrich themselves. In the past five years alone, some 200,000 corrupt officials have been arrested. Unlimited bureaucratic power is the mother of corruption.

To abolish this massive bureaucracy remains the number one task for the Chinese civilization. To move ahead, China must rebuild its government, society, and economy completely. So far, China has taken the very first step, the most significant one, in this brave new direction. Getting the job done remains a might task.

When I wrote this book, I had two convictions. The first was that studying China's new development in relation to global development might help one better understand our changing world as well as opportunities and challenges in the new century. The second conviction was that the lessons from China are universally meaningful, for they concern people's lives as well as development issues. Above all, development is a global issue that affects lives everywhere.

This book consists of 26 chapters, which are organized into eight parts:

- I. China's New Role in the World
- II. The Yuan, Trade, and Investment
- III. China's Fast-Changing Society, Politics, and Economy
- IV. China's Banking, Insurance, and Stock Market Reforms
- V. Chinese Multinationals vs. Global giants
- VI. The Taiwan Issue: Current Affairs and Trends
- VII. India Versus China: Moving Ahead at the Same Time; and
- VIII. The Japan-China Issue: Evolving Relations in Light of History

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Many materials contained here were originally published by various newspapers and magazines. Here I have added new materials to make the discussion more specifically relevant to the overall aim of the book.

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