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China's Economic Development and Export Promotion Strategy: Can Bangladesh Learn?

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Abstract: As much by luck as by design, China stumbled onto an export and foreign investment that has proved remarkably successful, helping the economy move quickly to a market-based system. China has employed some principal economic instruments to promote foreign investment and an export culture since 1978. In 1979, after three decades of inward-oriented trade and foreign investment policies, China switched course and launched an open-door policy. Economically, China has proved themselves the most successful regions of the south and southeast taking the advantage of their particular local circumstances. During 1980 to 1990, GDP of China grew annually by 9.5% while export grew at an annual rate of 11%. The growth continues and in 1999-2000, GDP growth was 7.3%. The discussion of the issue here is to identify the key trade and foreign investment policies that have led to this dramatic growth. And what lessons can Bangladesh derive from China's experience?

Key words: Export, promotion, strategy

INTRODUCTION

Trade and foreign investment have constituted an important engine of Chinese economic growth since 1978[1]. Before 1978 in China, the economic institutions for agriculture and industry operated essentially under a centrally planned system[2]. In December 1978, the Third Plenary Session of the Eleventh Central Committee of Chinese Communist Party under the leadership of Deng Xiaoping made a historic decision toward economic reforms and shift the emphasis of the State's work onto the construction of socialist modernisation[3]. The so-called four modernizations aimed to achieve modernization in agriculture, industry, defence and technology. China launched an open-door policy and stumbled onto an export-oriented trade and foreign investment strategy that has proved remarkably successful, helping the economy move quickly to a market-based system[4]. On the other hand, the greater integration of coastal areas into the international economy dates back from the mid-nineteenth century and probably earlier, but has been greatly accelerated since 1978 as a consequence of policy decisions that led to the creation of five Special Economic Zones (SEZs) in the Southeastern coastal provinces. In addition, China's development strategies include a strong role for foreign which have played an important role in diversifying and internationalising its economy since 1980. Further, Chines local government in urban areas, townships, or villages, enjoy a high degree of autonomy in their operations and have been very successful in taking advantage of the outward-oriented strategy.

Pricipal economic instruments employed by china: Sustaining economic has been of paramount of importance for securing social stability in China while the economic system has been undergoing fundamental transformation[5]. In order to promote foreign investment and an export culture, China deployed following economic instruments since 1978.

Socialist modernisation and abolition of state planning: In late 1978 the Chinese government made a significant break with the past and introduced what in terms 'market socialism', the purpose of which is to modernise the economy and improve the standard of living of its peoples[6]. In addition, all state planning of production and trade has been abolished. Further, central planning has been replaced greater reliance on the market, including growing international trade and foreign investment and a more efficient allocation of resources in most sectors of the economy[7].

Freeing up of prices: The most important policy change introduced by the Chinese government at the beginning of the reforms was adjustment of procurement prices for major crops[8]. In addition, the resolution of the 12th Central Committee of the Chinese Communist Party at its Third Plenary Session during 1984 allowed prices of more products to be determined by the forces of demand and supply rather than central control[9].

Privatisation of agriculture: After 1978 the return to family farming under the Responsibility System, the abandonment of the Commune system and the use of the market mechanism initially improved productivity in agriculture[10]. In addition, the household responsibility system allowed the land, draught animals and farm tools of the Commune divide up and lease to farming families in return for a fixed share of their products[11].

Internationalisation of economy: The internationalisation of Chinese economy has been a major outcome of the economic reforms to the extent that China has developed an increasing interdependence with world trade and investment[12]. In addition, internationalisation of economy marked an extraordinary expansion of foreign trade increased from US$ 20.64 billion in 1978 to U S$ 325.06 billion in 1997, with an average growth rate of 14.8 per annum[13].

Establishment of stock exchange: As part of economic reform, internationalisation and greater reliance on market with growing international trade and foreign investment, China established stock exchanges[14]. Further, the China Securities Regulatory Commission (CSRC) is contemplating a number of proposals including opening up the A-share market to foreign companies or other joint ventures[15].

Reform of the banking system: According to Courtenay[16], the reform of the banking system started in 1984 with the establishment of the People's Bank of China (PBC) as central bank and its commercial banking functions transferred to four specialist banks. Firstly, the Industrial and Commercial Bank of China caters for urban enterprises and residents. Secondly, the Agricultural Bank of China serves rural enterprises and residents. Thirdly, the People's Construction Bank of China mainly caters for construction enterprises. Finally, the Bank of China specialises in foreign exchange business.

Reform in the industrial sector: Before 1978 industrial policy in China was broadly one of import substitution, emphasising heavy industry and utilising labour-intensive methods wherever possible[17]. However, there has been some shift away from the centralised system and private industrial enterprises are now allowed. In addition, there is re-orientation towards light industry, agricultural and consumer goods, international ties and reinstatement of markets[18].

State enterprises autonomy and local policies: During March 1993 Chinese government decided that government is no longer involved in the administration of state enterprises[19]. The state-owned enterprises are now managing their own purchase of raw materials, production, sales and prices. Further, provincial authorities are now responsible for policy implementation and in the first growing provinces, provincial and local officials have been deeply involved in the development process in general and export promotion in particular[20].

Open-door policy: After three decades of inward-oriented trade and foreign investment policies, China launched an open-door policy in 1979[21]. As a result China emerges as a major trading nation; other developing countries that export labour-intensive manufactured products are likely to find the competition intense[22]. Further, with the beginning of open-door policy, the central government employed a variety of instruments to promote an export culture: firstly, geographical targeting; secondly, sectoral targeting; thirdly, an open foreign investment regime and finally, duty exemptions[23].

Geographical targeting: As a policy reform the first four Special Economic Zones (SEZs) named Shenzhen, Zhuhai, Shantoce and Xiamen were established in the southeastern provinces of Guangdong and Fujian in 1980 and the fifth in Hainan Island in 1988[24]. In addition, the SEZs enjoy considerable administrative autonomy in investment, pricing, taxation, housing, labour and land-management policies not available in the inland provinces[25]. Further, the success of the SEZ strategy in Guangdong and in Fujian led to gradual economic liberalisation to other parts of Chian and fourteen Economic and Technological Development Zones (ETDZs) were set up along the coast[26].

Sectoral targeting: As part of open-door policy and export culture China has targeted certain sectors for exports namely light industrial products, textiles, machineries and electronic goods. According to Panagariya[27], the most important instruments for sectoral targeting were production networks for exports to stimulate the exports of advanced enterprises within target industries and higher foreign exchange retention rights. However, he argued that, it is difficult to judge the impact of sectoral targeting on exports based on the available data primarily because it was broad based.

Liberal foreign investment regime: The opening of China's markets in 1978 created the almost unprecedented prospect of new market and investment opportunities for the rest of the world[28]. Panagariya[29] argued that foreign investors have been lured to China for at least three reasons. Firstly, policies and procedures have been designed to facilitate foreign investment for example, joint venture status, various tax incentives, no limit for foreign equity investment etc. Secondly, employment, wage and pricing policies for joint ventures are flexible except pricing of few product categories. Finally, joint ventures in the SEZs and Open Cities enjoy exemption from state subsidies paid to employees; priority in obtaining Bank of China loans; tax exemption on profit remitted abroad; longer holidays from corporate income tax; extra tax benefit on profit reinvested in export oriented projects and reduced land-use fees.

Duty exemptions: As part of open-door policy and export promotion China has introduced an elaborated system of duty exemption on imported inputs used in export-oriented industries. Total exports associated with the concessional import arrangements account for 64 percent of China's manufactured exports and doubled between 1988 and 1991[30].

LOCAL ADVANTAGES OF SOUTH AND SOUTHEAST REGIONS

According to Courtenay[31], all China's regions have participated in the nation's economic growth; however, the coastal provinces have been much more successful than the other. He also noticed that per capita income in the coastal provinces has been doubled than that of hinterland since the mid-1970s and the gap is widening. In addition, Chinese governments special policy treatment for coastal regions facilitate market orientation in the fastest growing south and southeast coastal regions[32].

Integration of coastal areas: The greater integration of the coastal areas into international economy has been greatly accelerated since 1978 as a consequence of policy reforms[33]. In addition, the creation of five Special Economic Zones (SEZs) fourteen Open Cities and six Open Coastal Areas as mentioned before were located on the south and southeast regions that has proved remarkably successful and the fastest growing region in the world[34]. However, these SEZs were seen as experimental laboratories for testing market-oriented reforms in isolation from the rest of the China's economy[35]. According to Courtenay[36], these south and southeast regions of China especially Guangdong, Fujian provinces and Hainan Island have a long history of immigration to Hong Kong, Taiwan and the countries of Southeast Asia and thus have strong family links with the overseas Chinese business communities. He farther argued that, the provincial governments of Guangdong, Fujian and Hainan were granted higher levels of economic decision-making than the provinces in the rest of China.

Taiwan and hong kong connection: Domestically Taiwan is known as the Republic of China (RC) and Hong Kong is designated by China as a Special Administrative Region (SAR) within the People's Republic of China. Geographically south and southeast provinces of China are closer to Hong Kong and Taiwan. Thus Hong Kong and Taiwan connection of south and southeast brought successful use of their particular circumstances. In addition, the level of investment flows from Hong Kong and Taiwan to southeast China provides a measure of the growing economic integration of the region[37]. Further, Shenzhen, the border town in southern Guangdong province adjoining the New Territories of Hong Kong connected by road and rail[38].

According to Hodder[39], it is important to recognise that wealthy Hong Kong and Taiwan have become integrated economically with their respective continental hinterlands Guangdong and Fujian for a number of regions. Firstly, labour costs five times as much in Hong Kong as in Shenzhen, the SEZ just across the border and ten times as much as elsewhere in Guangdong. Secondly, in Guangdong land costs are only 2 to 3 percent of costs in Hong Kong and in Fujian land costs are about one-tenth of what they are in Taiwan. Thirdly, the productivity of workers in southeastern China is comparable with that in Hong Kong and Taiwan. Finally, small amount of bureaucratic interference, especially in Guangdong and all these factors have contributed rapid and successful development of south and southeast China.

The pearl river delta region: According to Courtenay[40], the Pearl River Delta region of Guangdong having investment from Hong Kong and Macau and the natural complementarity of Hong Kong's capital and entrepreneurship with the Delta's abundant land and labour resources are motivating and driving the rapid development of the region and its integration into the world economy. He also added that beside Pearl River Delta and lower Yangtze region, the area around the shores of the Bo Hai, the gulf of the Yellow sea full of natural resources including coal, copper, zinc and oil and its strategic location in relation to Japan rapidly developed export-oriented and service industries.

Local advantages: During and after 1978, the Newly Industrialised Economies in Asia were shifting their economic outlook from labour-intensive to service-oriented industries. They were looking for comparative cost advantages for export-oriented labour-intensive industries. Along with some Southeast Asian countries, south and southeast regions of China took the advantage of their strategic location especially because of Hong Kong and Taiwan connection. Geopolitical environment and strategic location helped the south and southeast regions of China to become economically most successful by taking advantages of their particular local circumstances.

Lessons for bangladesh: The most important lessons to be learned from the Chinese experience – consistent with the experience of other East Asian countries, such as the Republic of Korea, Singapore, Taiwan Province of China and now Taiwan – is that exports are the key to high GDP growth rates. Successful export expansion, in turn, depends on the policy package, which conveys a message in no uncertain terms that the country will give priority to export-oriented activities rather than shelter import-competing industries.

Creating a liberal and flexible economic environment: Creating a liberal, flexible economic environment along the lines of Export Processing Zones in Bangladesh would stimulate greater foreign investment. Beginning with a smaller number of cities-e.g., Chittagong, Khulna, Narayangong – as in China, local governments could be given full authority to approve foreign investment up to a certain limit. Most important, rules of entry and exit in the zones could be made more flexible. Because these zones would be introduced in limited areas, the necessary political consensus might be relatively easy to obtain, even if creating them required new legislation. Currently, Bangladesh does have export processing zones. However, the geographical area over which such zones operate is far too limited to allow for the full play of liberal policies and make them focal points of investment actively.

Provision of infrastructure facilities: Developing infrastructure facilities through active participation of local authorities in the reform process is critical. In China's fast-growing provinces, local governments-especially city mayors-have been deeply involved in the development process. They try to ensure that investors get speedy clearance for land use, as well as both adequate supply of electricity and water and access to other necessary facilities. In Bangladesh, so far, it seems that the enthusiasm for reform has not filtered down to local governments. All incentives and reforms initiated at the central level can be rendered ineffective if the local authorities do not cooperate.

Production structure: The production structure needs to shift toward more labour-intensive industries. An important strategy in this regard is targeting a few sectors, especially for exports. What is needed is reduction of tariffs on capital goods, which will help the economy, move toward more labour-intensive goods. The country will not be able to take advantage of low wages unless potential investors are sure that they can operate year round without fear of recurrent labour disputes. This fear has been behind the highly capital-intensive technologies chosen by investors in recent years.

Political stability: Political stability and cooperation among the political parties are one of the pre-requisites for successful economic development. Political unrest, violence, corruption disrupts smooth flow of foreign capital into a country. Sound investment climate can only be created if there is political harmony among the political parties. Party in power and party in opposition should have common goal for the economic development and crating a sound base for foreign investment.

Duty exemptions: Duty exemptions for assembly type operations, combined with rapid processing of imported inputs and materials by customs authorities, made significant contribution to China's export growth. In Bangladesh, duty exemptions for exporters exist, but an improvement in their administration and speedy processing by customs will help boost exports.

Welcoming foreign investments: China welcomed foreign investment for both domestic and foreign markets. Most of the incentives – tax holidays, lower fees on land use, labour flexibility – were available to all foreign investors. For export-oriented joint ventures, some extra incentives were provided. The lesson here is that fears of tariff-jumping types of foreign investment should not lead to the erection of barriers. Instead, if the regime is to be titled in favour of export oriented foreign investments, it should be done thorough positive incentives.

Bangali and muslim connections: A final point concerns the importance of a 'Hong Kong connection' in case of Bangladesh; there are no geographic neighbours that are economic dynamic as Hong Kong or Taiwan Province of China. Consequently, the most Bangladesh can do is to attract investments, through cultural ties, from Bangladeshis and Muslims around the world. It may be argued that, to meet the East Asian challenge, investors in the USA and Europe will be increasingly looking for sources of cheap labour. With its vast pool of relatively cheap, unskilled, to middle-level skilled labour, Bangladesh clearly fulfils this requirements. What is needed are more open policies, greater transparency and improved infrastructure. If these objectives can be accomplished, Bangladesh may well be the primary export base for USA and Europe in the 21st century.

CONCLUSION

The discussions of the principal economic instruments employed by China to promote foreign investment and en export culture since 1978 conclude that promotion of foreign investment and export orientation was part of China's policy reform. At first China prepared a solid and rational ground for this through socialist modernisation, abolishing state planning, freeing up prices, agricultural privatisation and establishing stock exchanges. In addition, it also reform its banking and industrial sector, giving provincial governments more autonomy, declaring open-door policy especially geographical targeting, sectoral targeting, liberalising foreign investment, duty exemptions and internationalising the economy which ultimately promoted China's foreign investment in general and exports in particular. On the other hand, south and southeast regions of china were economically most successful because of their geopolitical and strategic locations. Further Taiwan and Hong Kong connection specifically overseas Chinese business communities, cheaper and capable workforces, communication facilities and government determination helped the south and southeast regions to become most successful. China benefited greatly from the clear signals sent by its policy reform. Once the policy reforms began, there was rarely any doubt about its direction. Therefore, China's experience could be an important lesson for Bangladesh to be learned.

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