

# China's Transformation and Its Global Implications

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*The Canon Institute  
for Global Studies*

*Tokyo, Japan*

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# Outline

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- I. **The Development Model of China since 1978**
- II. **Contributing Factors to and Myths or Misconceptions about the “Chinese Way”**
- III. **A Historical Perspective on the Transformation of China**

# I. The Development Model Since 1978

## China's Unprecedented Transformation and Increasingly Dominant Role in the Global Economy

GDP: **US\$8.34 trillion in 2012**  
(surpassed Japan **in 2010** to become #2)

Average annual growth rate of about **10%** during the past 30 years (unprecedented)

Biggest contributor to global economic growth from 2008 onward

#1 in foreign currency reserves (**\$3.31 trillion at the end of 2012**)

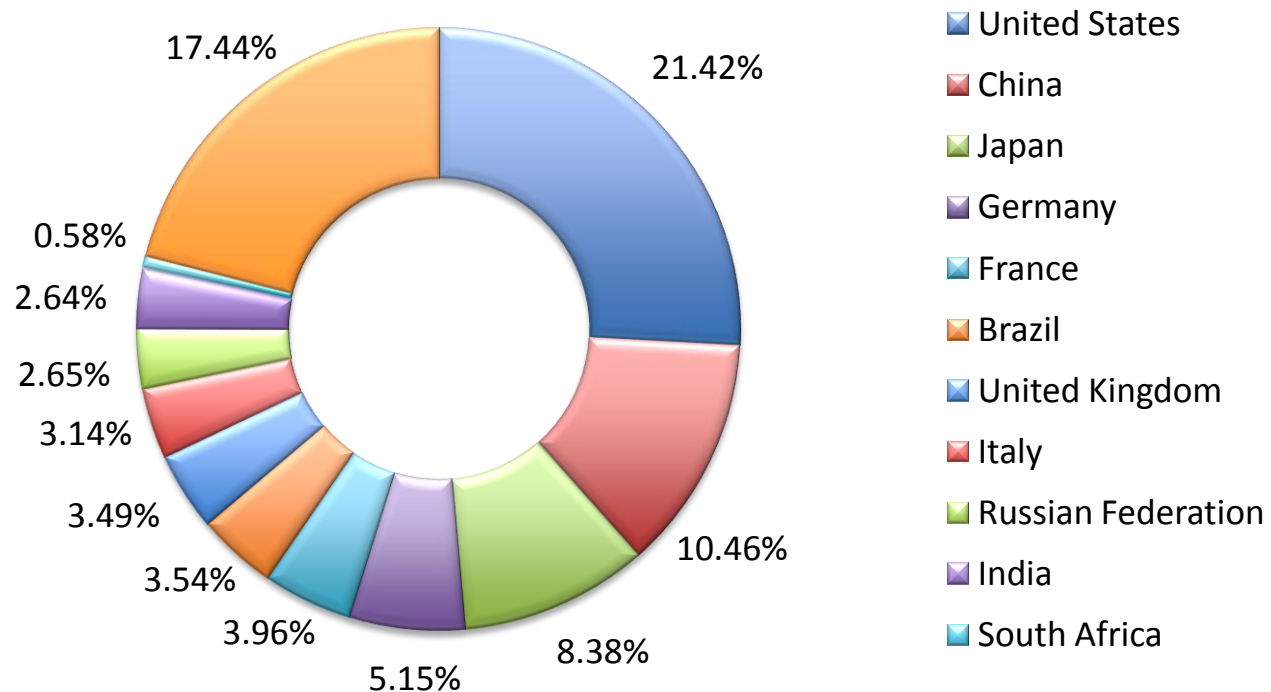
#1 foreign holder of US debt (**\$1.2 trillion at the end of 2012**)

Merchandise exports: **US\$2.05 trillion in 2012**  
Largest exporting nation (overtook Germany in 2009)

Largest market for many products/sectors (autos, smartphones, PCs, luxury products...)

# I. The Development Model Since 1978: Economic Growth

Chart 1 : The World's GDP in 2011



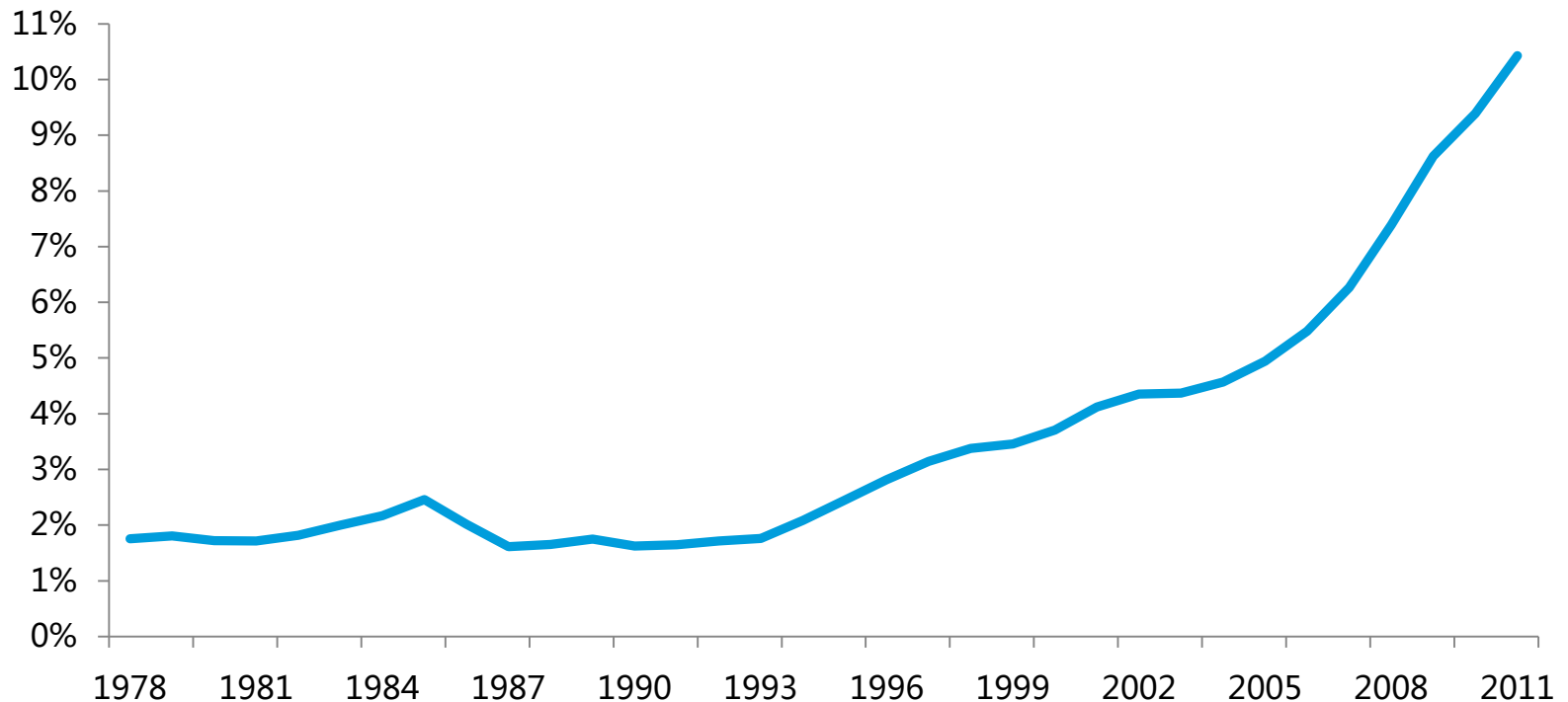
# I. The Development Model Since 1978: Economic Growth

Chart 2: National GDPs as % of Global GDP

	2000	2007	2010	2011	2011 Rank
USA	30.73%	25.08%	23.13%	21.57%	1
<b>China</b>	<b>3.72%</b>	<b>6.26%</b>	<b>9.39%</b>	<b>10.43%</b>	<b>2</b>
Japan	14.49%	7.85%	8.72%	8.39%	3
Germany	5.90%	5.97%	5.25%	5.10%	4
France	4.12%	4.63%	4.06%	3.96%	5
Brazil	2.00%	2.45%	3.31%	3.54%	6
UK	4.59%	5.04%	3.56%	3.48%	7
Italy	3.41%	3.81%	3.24%	3.14%	8
Russia	0.81%	2.33%	2.35%	2.66%	9
India	1.43%	2.23%	2.74%	2.64%	10
South Africa	0.41%	0.51%	0.58%	0.58%	28

# I. The Development Model Since 1978: Economic Growth

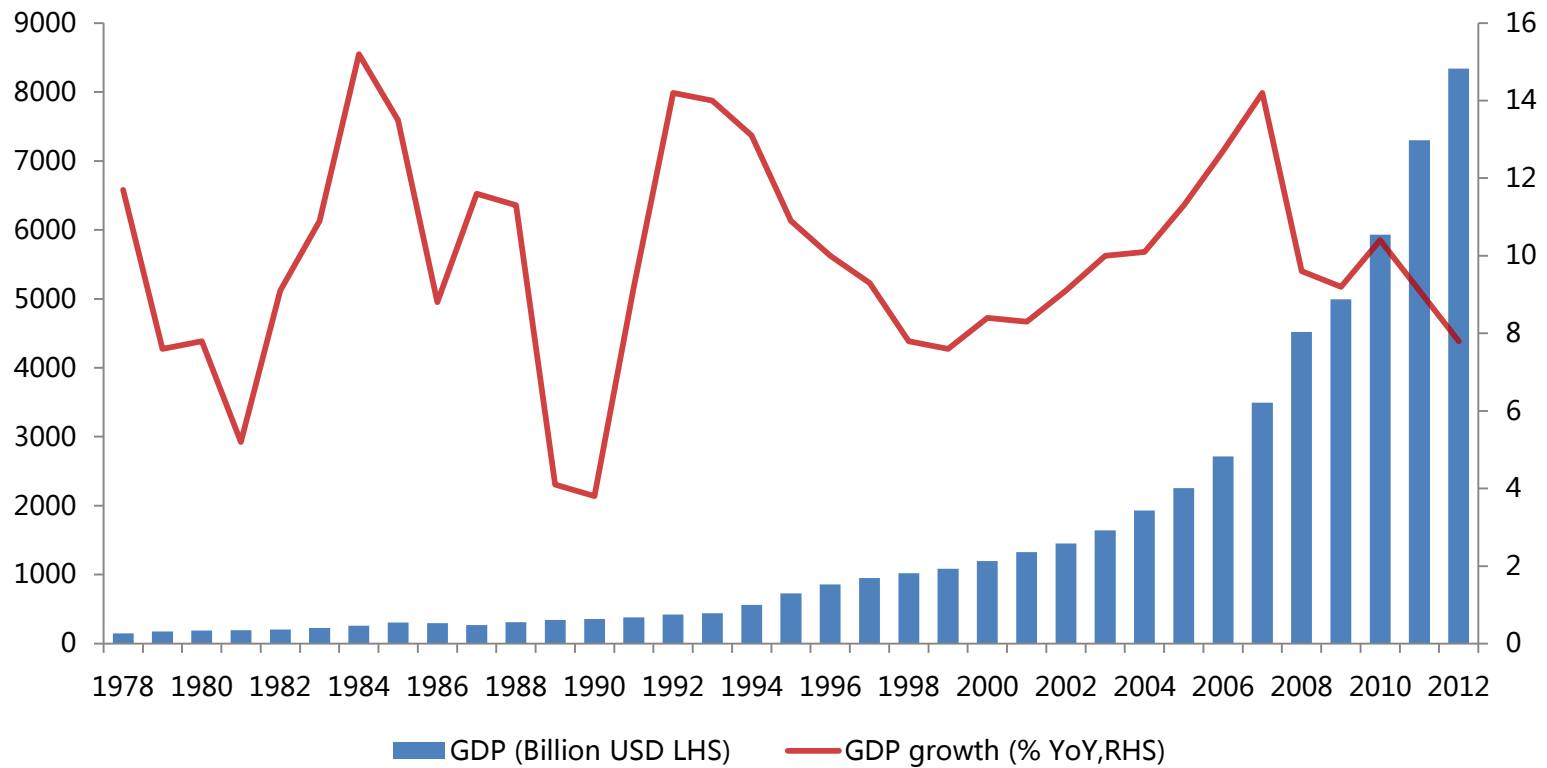
Chart 3: China's GDP as % of the Global Economy



Source: World Bank

# I. The Development Model Since 1978: Economic Growth

Chart 4: China's GDP and YoY Growth Rate (1978-2012)



# I. The Development Model Since 1978: Economic Growth

## Chart 5: China's Contributions to World Economic Growth

Year	Contribution to World Economy (%)
2000	7.04
2001	19.19
2002	18.48
2003	15.91
2004	11.26
2005	15.28
2006	16.32
2007	20.20
2008	39.50
2009	-
2010	18.08
2011	20.77

Note: Contribution = China's GDP Increase / World's GDP Increase

In 2009, world economic growth was -1.1%, while China's economic growth was 8.7%, so China's contribution to the world economy is not applicable for 2009.



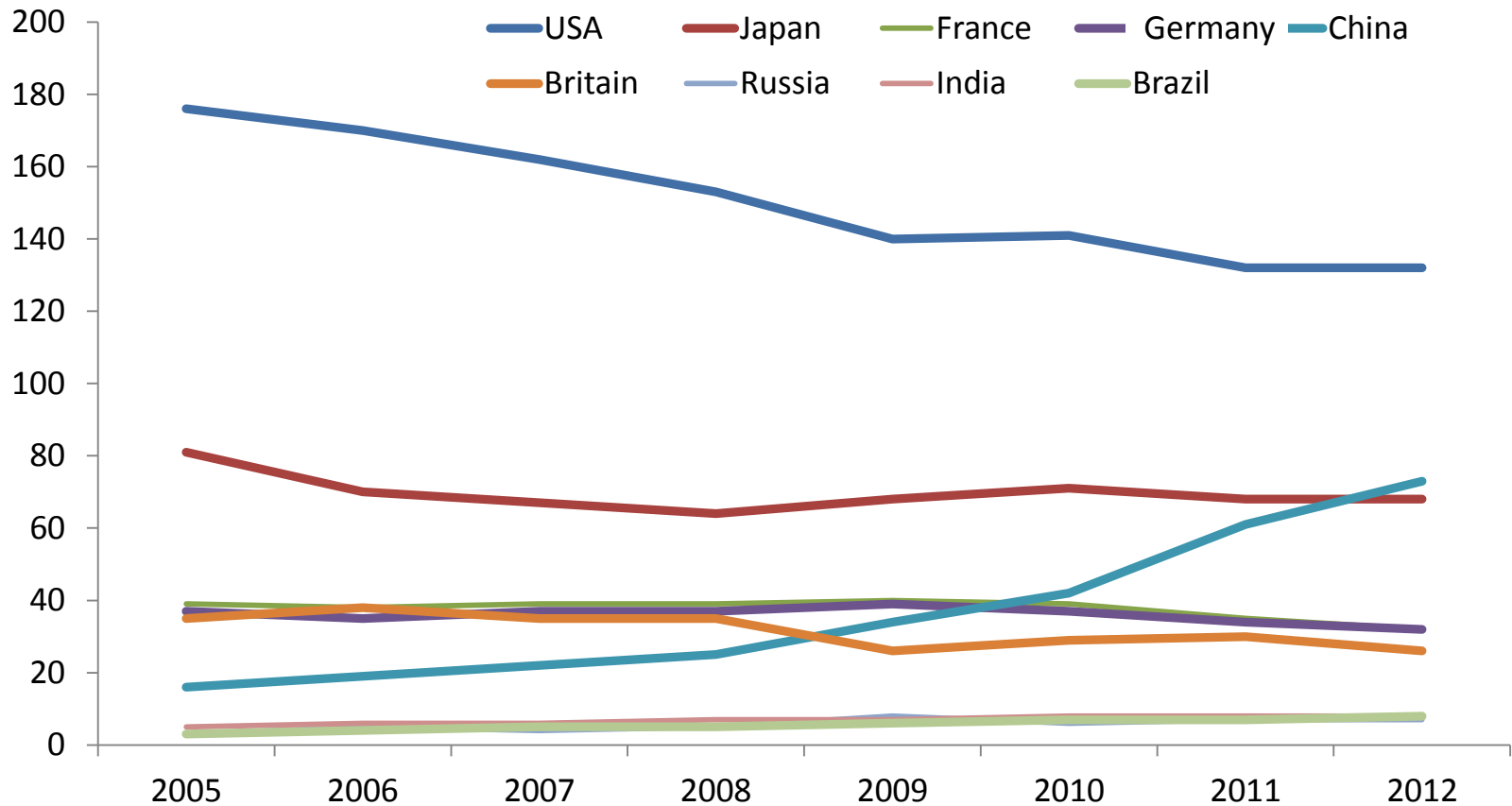
# I. The Development Model Since 1978: Economic Growth

Chart 6: GDP Growth of Selected Economies

	2008	2009	2010	2011
<b>China</b>	<b>9.60%</b>	<b>9.20%</b>	<b>10.40%</b>	<b>9.10%</b>
India	3.89%	8.24%	9.55%	6.86%
Russia	5.25%	-7.83%	4.30%	4.30%
South Africa	3.62%	-1.54%	2.89%	3.12%
Germany	1.08%	-5.13%	3.69%	3.00%
Brazil	5.17%	-0.33%	7.53%	2.73%
USA	-0.36%	-3.53%	3.02%	1.70%
EU	0.26%	-4.41%	2.19%	1.52%
UK	-1.10%	-4.37%	2.09%	0.65%
Japan	-1.04%	-5.53%	4.44%	-0.70%

# I. The Development Model Since 1978: Fortune 500 Companies

## Chart 7: Fortune 500 Companies

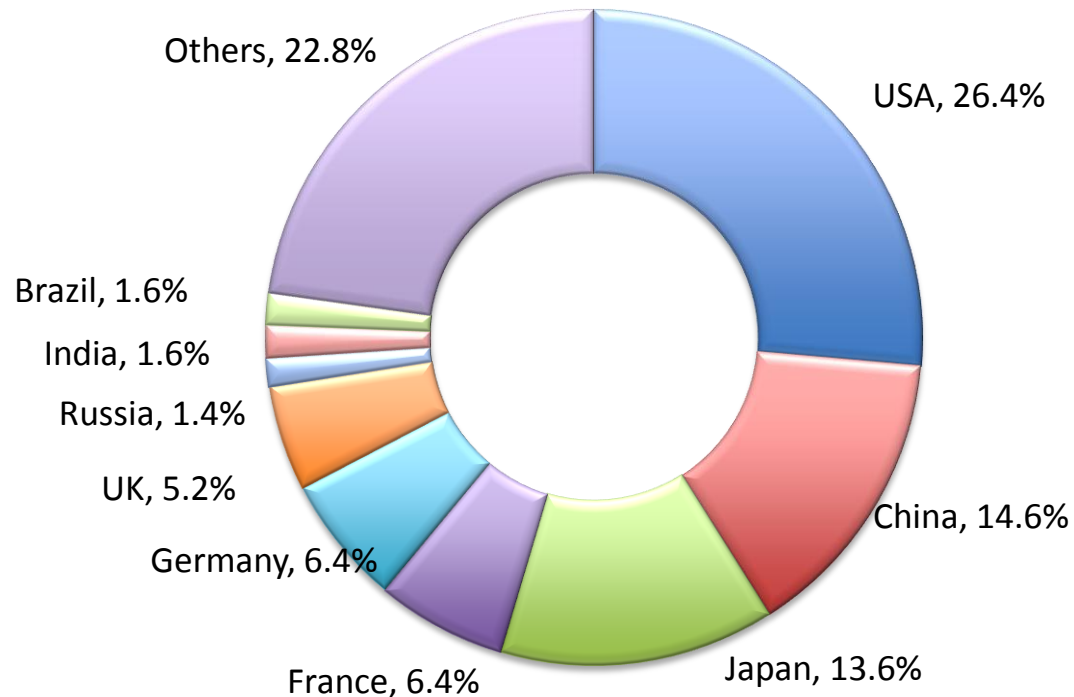


Note: Mainland and Hong Kong companies are included

Source: CKGSB Center for the Study of Globalization, based on Fortune data

# I. The Development Model Since 1978: Fortune 500 Companies

Chart 8: 2012 Fortune 500 (China overtook Japan for second place)



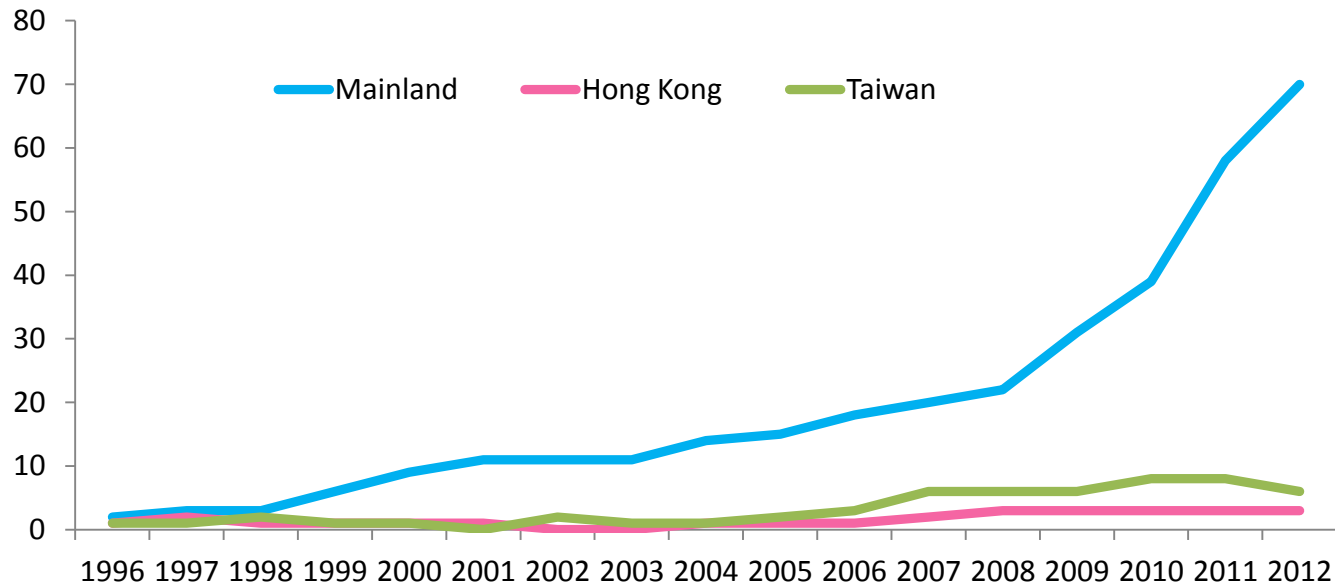
Note: China include Mainland and Hong Kong (China)

Source: CKGSB Center for the Study of Globalization, based on Fortune data

# I. The Development Model Since 1978: Fortune 500 Companies

## Chart 9: Fortune 500 Companies from Greater China

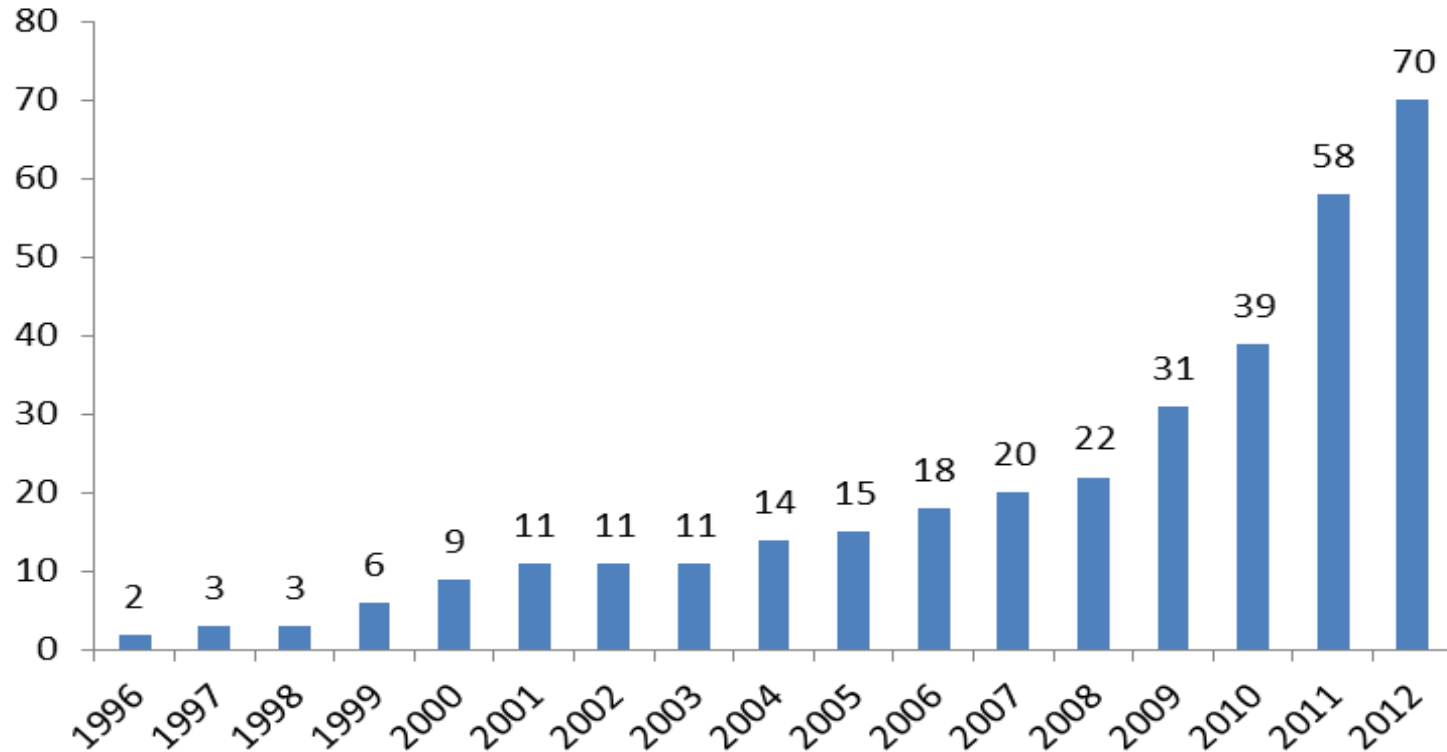
Number of Companies



Source: Fortune

# I. The Development Model Since 1978: Fortune 500 Companies

Chart 10: Mainland China's Fortune 500 Companies



Note: Only Mainland China companies are included

Source: CKGSB Center for the Study of Globalization, based on Fortune.com data

# I. The Development Model Since 1978: Fortune 500 Companies

Chart 11 : Top 10 Mainland China Fortune 500 Companies (2011 and 2012)

Rank in China	2012 Rank	2011 Rank	Company Name	2012 Revenue (Billion USD)
1	5	5	SINOPEC GROUP	375.2
2	6	6	CHINA NATIONAL PETROLEUM	352.3
3	7	7	STATE GRID	259.1
4	54	77	INDUSTRIAL & COMMERCIAL BANK OF CHINA	109.0
5	77	108	CHINA CONSTRUCTION BANK	89.6
6	81	87	CHINA MOBILE COMMUNICATIONS	87.5
7	84	127	AGRICULTURAL BANK OF CHINA	84.8
8	93	132	BANK OF CHINA	80.2
9	100	--	CHINA STATE CONSTRUCTION ENGINEERING CORPORATION	76.0
10	101	162	CHINA NATIONAL OFFSHORE OIL	75.5

Source: Fortune

# I. The Development Model Since 1978: Fortune 500 Companies (Non-state)

Chart 12: China's Non-State-Owned Fortune 500 Companies (2012)

2012 Rank	2011 Rank	Company Name	2012 Revenue (Billion USD)
242	328	PING AN INSURANCE	42.1
346	367	JIANGSU SHAGANG GROUP	32.1
351	352	HUAWEI INVESTMENT & HOLDING	31.5
370	450	LENOVO GROUP	29.6
440	--	SHANDONG WEIQIAO PIONEERING GROUP	24.9
475	688	ZHEJIANG GEELY HOLDING GROUP	23.4

Source: Fortune

# I. The Development Model Since 1978: Income and wealth disparities

Chart 13: Income Disparity in Developed Countries

Country	Gini Coefficient
USA	0.475
United Kingdom	0.330
Germany	0.293
France	0.298
Italy	0.312
Norway	0.236
Denmark	0.269
Sweden	0.241
EU(27)	0.305
Japan	0.311

## • U.S.(2010)

- 1% of the population earns 17.42% of national income (7.95% in 1978)
- 46.3% of income goes to the top 10% of earners (32.44% in 1978)

## • U.K.(2010)

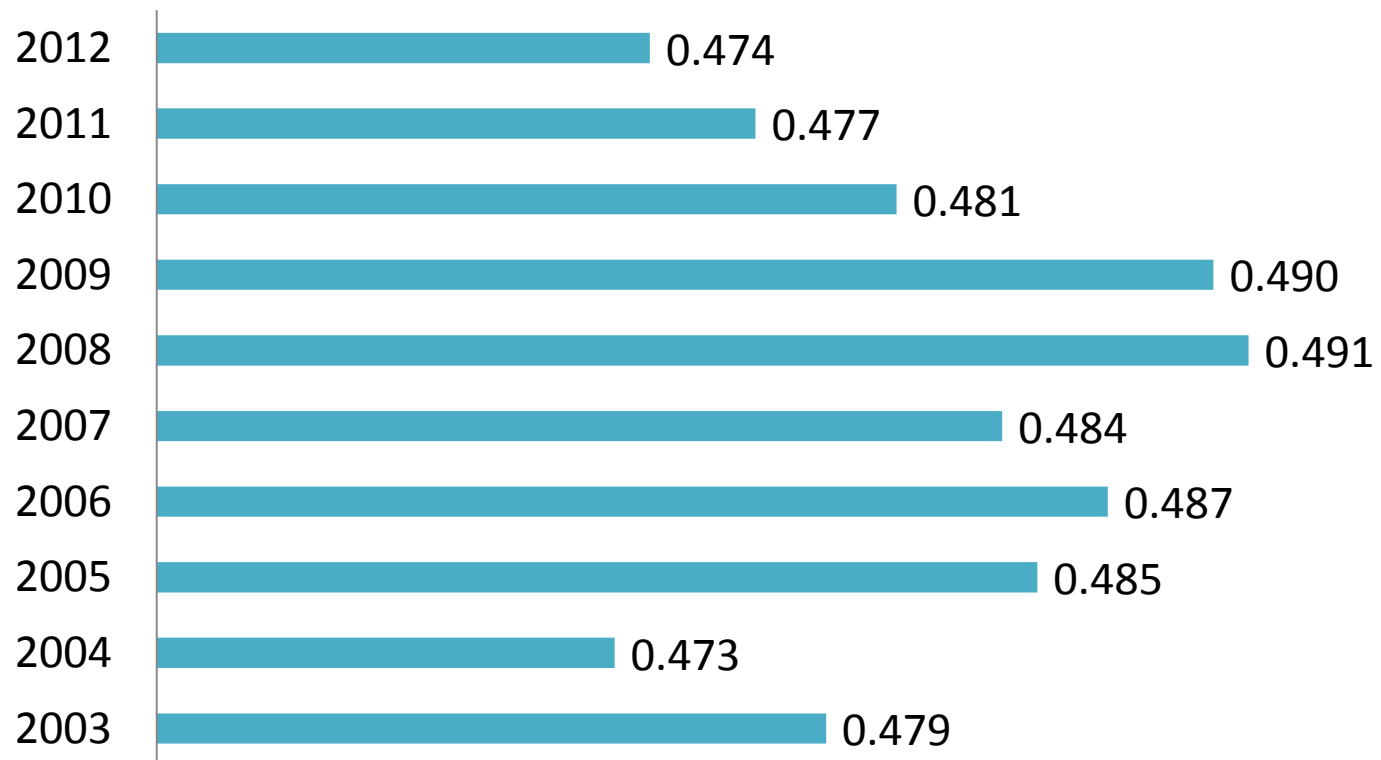
- 10% of households occupies 44% of national wealth
- 50% of households in the bottom only have 9% of national wealth

Source: USA(2011), BusinessWeek  
EU(2010), Eurostat  
Japan(2008), World Bank



# I. The Development Model Since 1978: Income and wealth disparities

Chart 14: China's Gini Coefficient



# I. The Development Model Since 1978: Capturing Value

Chart 15: iPhone 4 Cost Structure



	Costs (\$)	Cost as a % of Sale Price
Japan	60.60	12.1%
Korea	22.96	4.6%
Germany	30.15	6.0%
United States	10.75	2.2%
Chinese Manuf. Cost	6.50	1.3%
Major Suppliers	124.46	24.9%
Rest of Bill of Materials	48.00	9.6%
Total Costs	178.96	35.8%
Mark-up	321.04	64.2%
Sales Price	500.00	100%

Source: BofA Merrill Lynch Global Research

# I. The Development Model Since 1978: Capturing Value

## The Cost Structure of a Barbie Doll



Retail price: \$ 9.90 (Wal-Mart )

Purchasing cost: \$ 2

- Chinese manufacturers: 35 cents
- Imports of raw materials: 65 cents
- Other cost: \$ 1

# I. The Development Model Since 1978: The lack of great business organizations

Chart 16: World's Largest Companies by Market Cap. (07/26/2012)

Rank	Company Name	Market Cap (Billion USD)	Rank	Company Name	Market Cap (Billion USD)
1	APPLE INC	534.2228	16	NESTLE SA-REG	193.488
2	EXXON MOBIL CORP	404.5818	17	WELLS FARGO & CO	178.1868
3	PETROCHINA CO-H	251.2518	18	COCA-COLA CO/THE	177.4883
4	WAL-MART STORES	249.2655	19	PROCTER & GAMBLE	176.9012
5	MICROSOFT CORP	244.4598	20	PFIZER INC	175.8589
6	CHINA MOBILE	228.775	21	BHP BILLITON LTD	165.0443
7	IBM	223.7183	22	BHP BILLITON PLC	164.8407
8	GENERAL ELECTRIC	217.8396	23	CHINA CONST BA-H	159.894
9	ROYAL DUTCH SH-A	215.6283	24	SAMSUNG ELECTRON	158.271
10	CHEVRON CORP	213.5814	25	NOVARTIS AG-REG	156.4193
11	AT&T INC	210.7215	26	PHILIP MORRIS IN	151.1129
12	BERKSHIRE HATH-A	209.8512	27	HSBC HLDGS PLC	150.4673
13	JOHNSON&JOHNSON	202.8044	28	ROCHE HLDG-GENUS	149.2282
14	GOOGLE INC-CL A	199.9593	29	ORACLE CORP	146.4752
15	IND & COMM BK-A	199.6341	30	VODAFONE GROUP	138.6994

# I. The Development Model Since 1978: The lack of Innovations

Chart 17: 2012 Most Innovative Companies in the World

Rank	Fast Company		Forbes		Fortune		Technology Review (Not Ranked)	
	Company Name	Country	Company Name	Country	Company Name	Country	Company Name	Country
1	Apple	USA	Salesforce.com	USA	Apple	USA	IBM	USA
2	Facebook	USA	Amazon.com	USA	Google	USA	Facebook	USA
3	Google	USA	Intuitive Surgical	USA	Amazon.com	USA	Apple	USA
4	Amazon	USA	Tencent Holdings	China	Coca-Cola	USA	Twitter	USA
5	Square	USA	Apple	USA	IBM	USA	Zynga	USA
6	Twitter	USA	Hindustan Unilever	India	FedEx	USA	Samsung	Korea
7	Occupy Movement	USA	Google	USA	Berkshire Hathaway	USA	Shell	Netherlands
8	Tencent	China	Natura Cosméticos	Brazil	Starbucks	USA	Qualcomm	USA
9	Life Technologies	USA	Bharat Heavy Electricals	India	Procter & Gamble	USA	SpaceX	USA
10	SolarCity	USA	Monsanto	USA	Southwest Airlines	USA	First Solar	USA

Source: Fast Company, Forbes, Fortune and Technology Review

# I. The Development Model Since 1978: The lack of Innovations

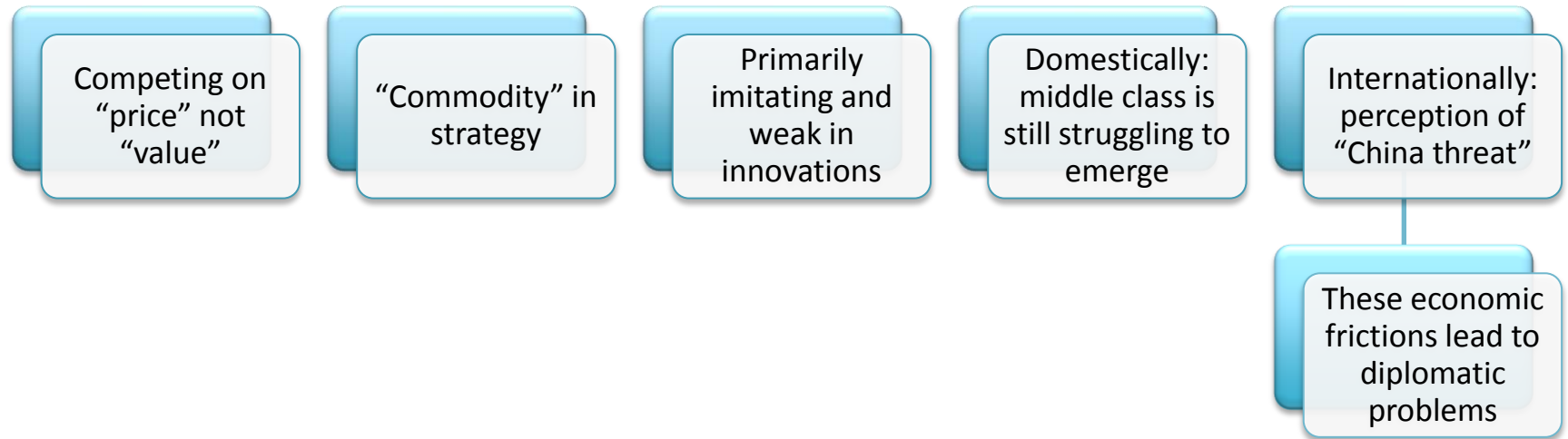
Chart 18: 2012 Most Innovative Companies in the World (Cont'd)

Rank	Fast Company		Forbes		Fortune		Technology Review (Not Ranked)	
	Company Name	Country	Company Name	Country	Company Name	Country	Company Name	Country
11	HBO	USA	Reckitt Benckiser Group	UK	McDonald's	USA	Suntech	China
12	Southern New Hampshire University	USA	Celgene	USA	Johnson & Johnson	USA	GE	USA
13	Tesla Motors	USA	Nidec	Japan	Walt Disney	USA	Google	USA
14	Patagonia	USA	Terumo	Japan	BMW	Germany	Intel	USA
15	NFL	USA	Infosys	India	General Electric	USA	Dropbox	USA
16	National Marrow Donor Program	USA	Pernod Ricard	France	American Express	USA	Roche	Switzerland
17	Greenbox	China	Keyence	Japan	Microsoft	USA	Tabula	USA
18	Jawbone	USA	FMC Technologies	USA	3M	USA	Onlive	USA
19	Airbnb	USA	Starbucks	USA	Caterpillar	USA	Siemens	Germany
20	72andSunny	USA	Nintendo	USA	Costco Wholesale	USA	Taiwan Semiconductor	Taiwan

Source: Fast Company, Forbes, Fortune and Technology Review

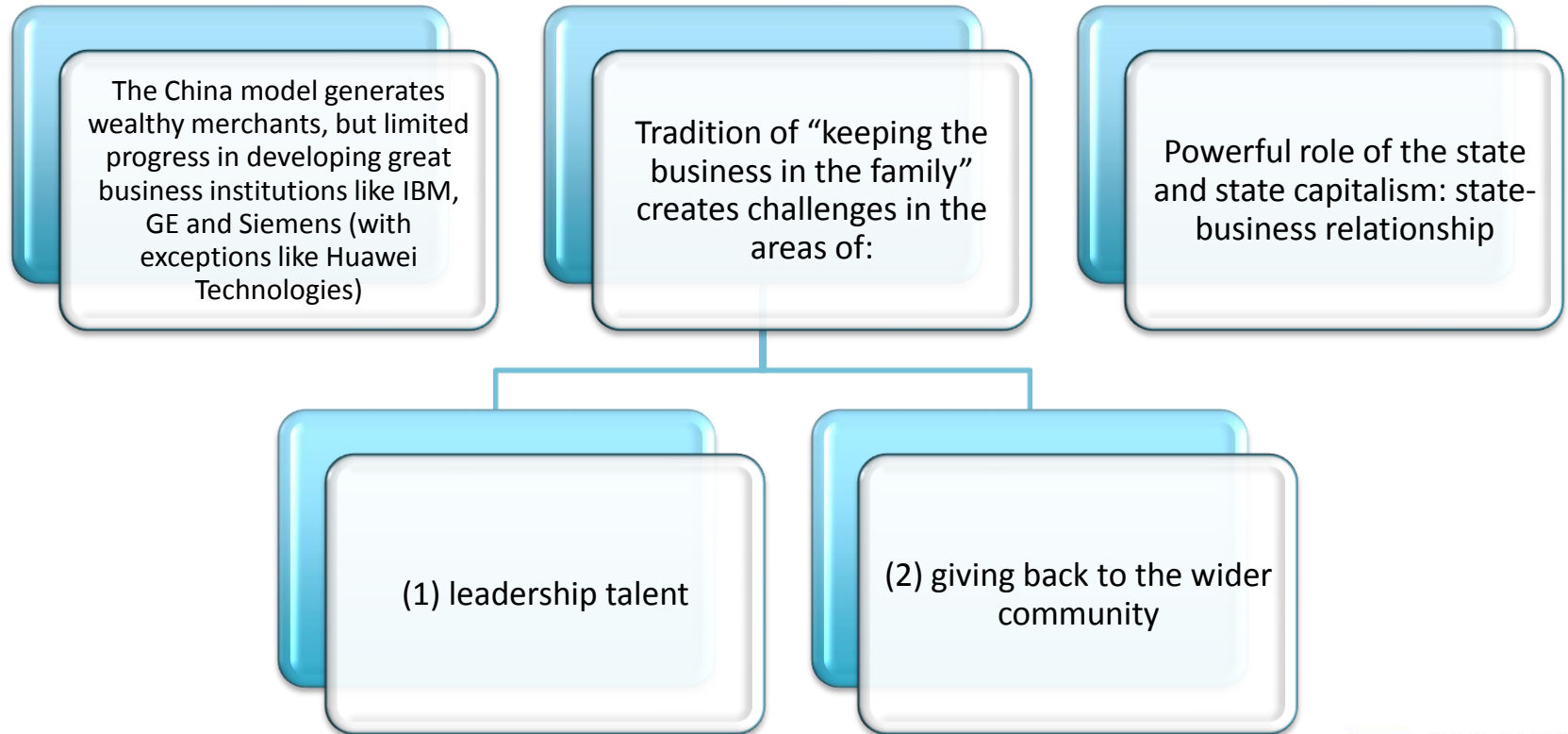
# I. The Development Model Since 1978: Limitations of the China Model

Not Be Sustainable / Exportable



# I. The Development Model Since 1978: Limitations of the China Model

## The Model May Not Be Sustainable / Exportable



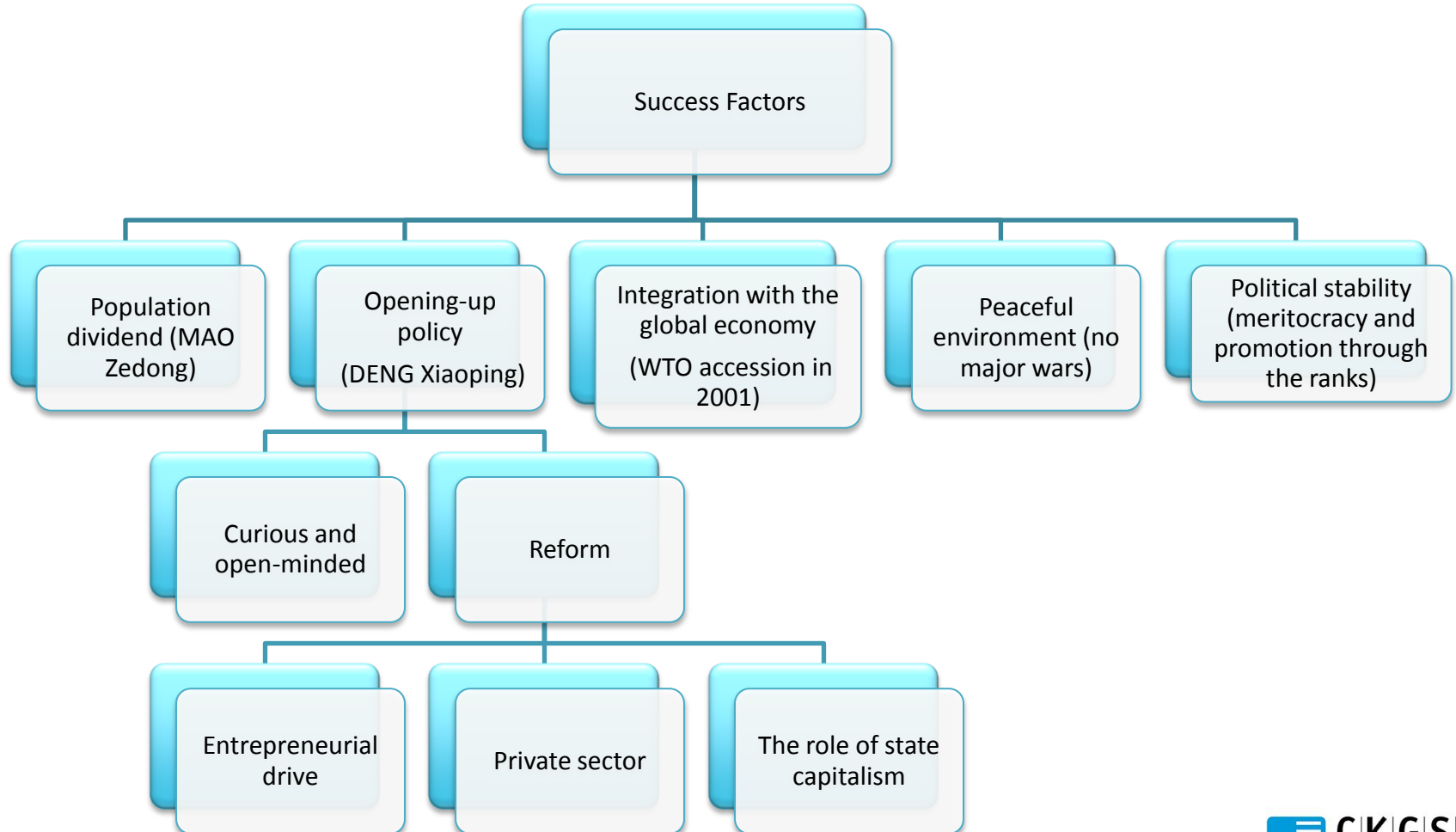


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- I. The Development Model of China since 1978
- II. **Contributing Factors to and Myths or Misconceptions about the “Chinese Way”**
- III. A Historical Perspective on the Transformation of China

## II. Contributing Factors to China's Success: An Overview



## II. Contributing Factors: MAO Zedong (Dec. 26, 1893 - Sept. 9, 1976)



MAO Zedong  
(1893-1976)



## II. Contributing Factors: Reform and opening-up policy

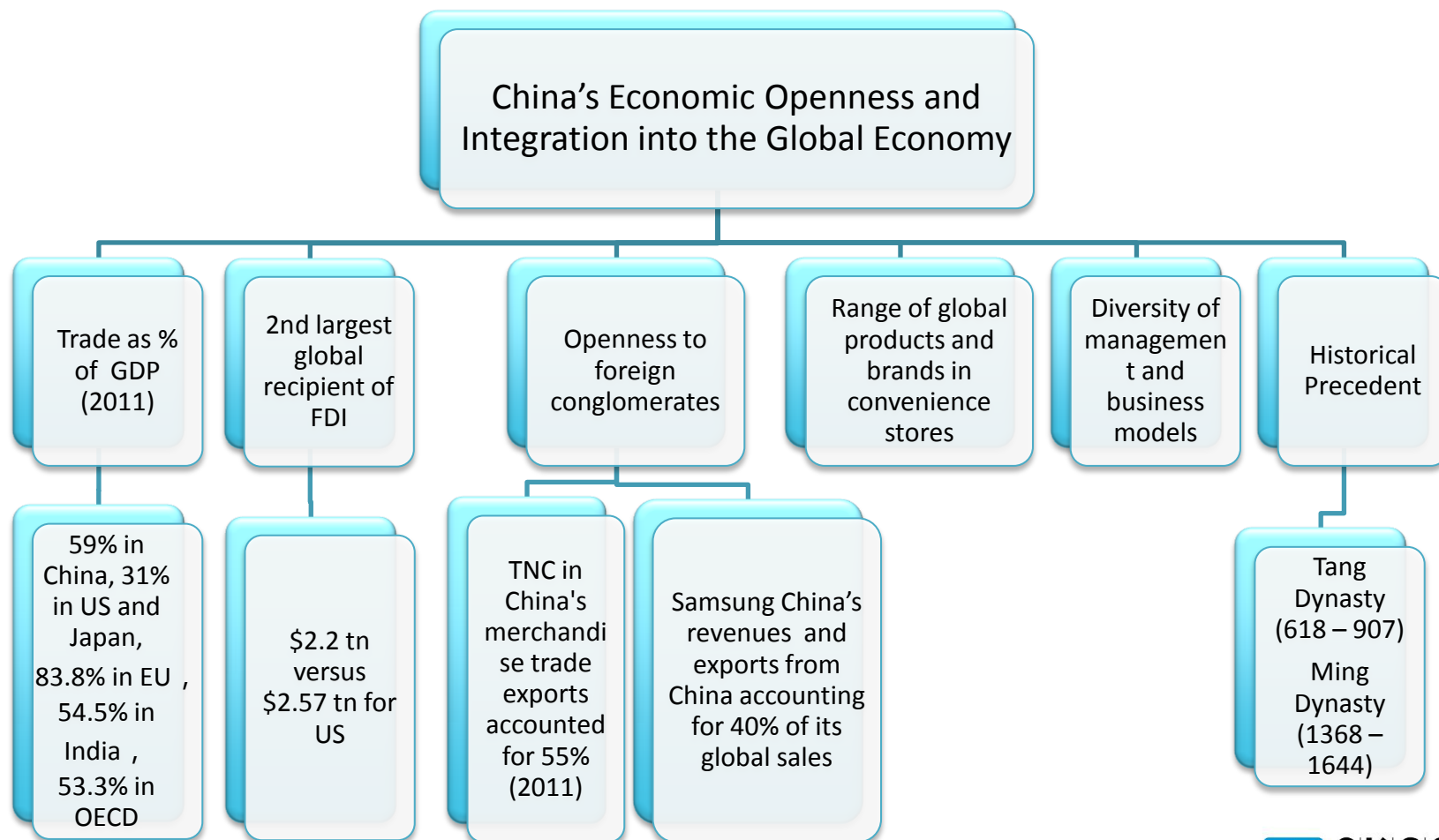
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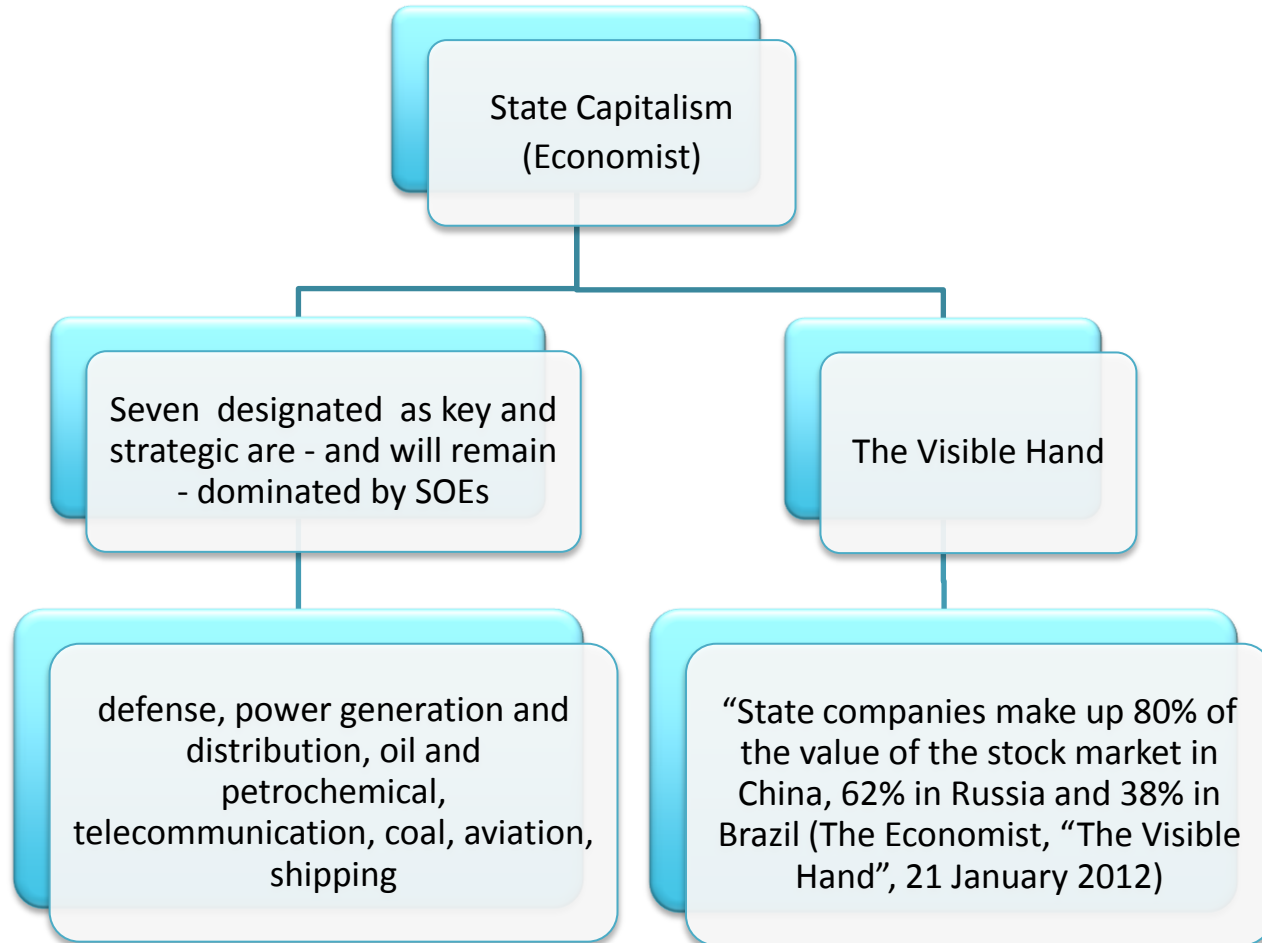
DENG Xiaoping  
(1904-1997)



## II. Contributing Factors: Reform and opening-up policy



## II. Contributing Factors: The Role of the State Sector



## II. Contributing Factors: The Private Sector

The central element of China's success in economic transformation: the private sector has overcome a wide range of discriminations and become a dominating force in China's economic transformation

Private sector

over 50% of GDP,  
80% of  
employment and  
90% of new jobs

Service sector  
accounted for 43%  
of China's GDP in  
2011 (as compared  
with 82% for the  
U.S.): potential for  
private sector and  
foreign participation

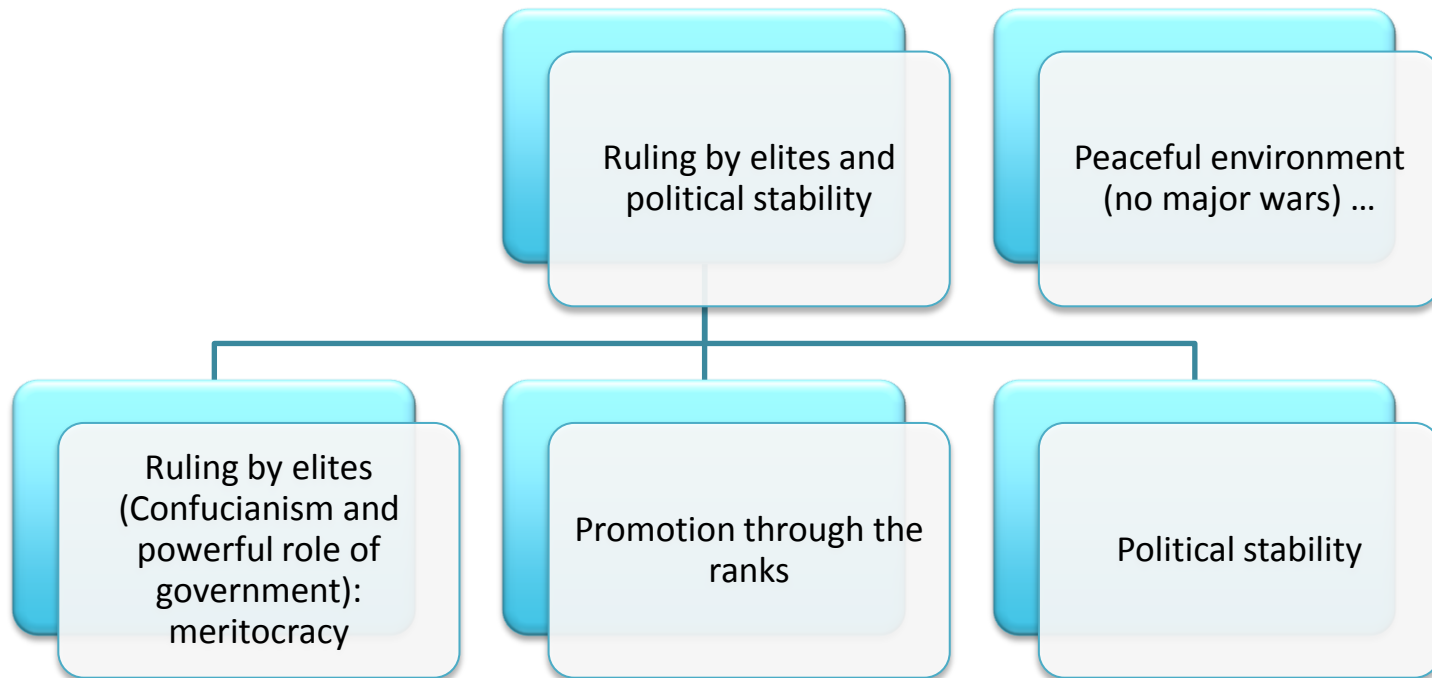
Large-scale private  
enterprise

Five of the Fortune 500 (2012) companies from China may be considered private: Jiangsu Shagang (US\$32.1 bn); Huawei (US\$31.5 bn); Lenovo (US\$29.6 bn); Shandong Weiqiao Pioneering Group (US\$24.9 bn); Geely Group (US\$23.4 bn)

China may already be more  
"capitalistic" than many  
developed countries (and  
most developing economies)

## II. Contributing Factors: Political System

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# III. Chinese History: Major Dynasties



Qin (221BC-201BC)



Han (206BC-220AD)



Wei; Jin; Southern & Northern(220-588)

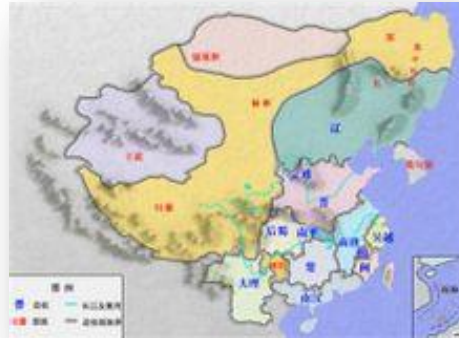


Sui(580-618)

# III. Chinese History: Major Dynasties (Cont'd)



Tang (618-907)



Five Dynasties and Ten States (907-979)



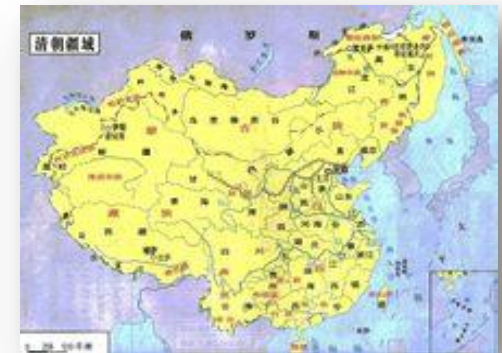
Song (960-1279)



Yuan (1279-1368)



Ming (1368-1644)



Qing (1644-1911)

### III. Chinese History: (1) Opium War and Treaty of Nanking and (2) First Sino-Japanese War and Treaty of Shimonoseki



Opium War (June 1840-August 1842)



Treaty of Nanking of 1842



历史图片：致远撞击吉野

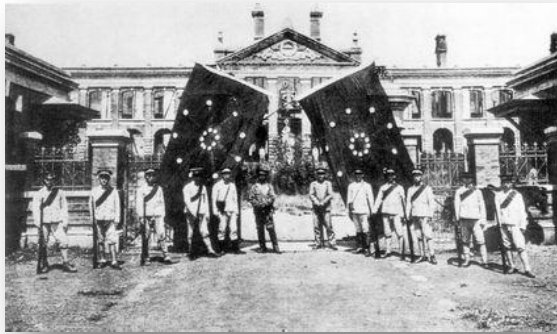
Sino-Japanese War of 1894



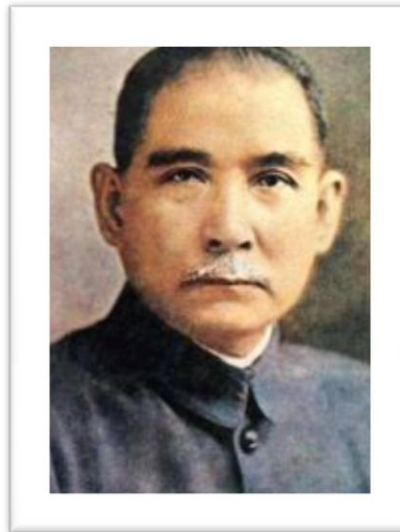
Treaty of Shimonoseki of 1895



# III. Chinese History: Monarchy Abolished in China and 2<sup>nd</sup> Sino-Japanese War



Monarchy abolished on Feb. 12, 1912



First President of the republic of China in 1912 and 1921-1925



Establishment of P.R. China on Oct. 1, 1949



The second Sino-Japanese War (July 7 1937 and August 15 1945)



Civil war between the Nationalist and Communist of China (1945-1949)

# III. Chinese History: People's Republic of China: 1949-Present



MAO Zedong  
(1949-1976)



DENG Xiaoping  
(1978-89)



JIANG Zemin  
(1989-2002)

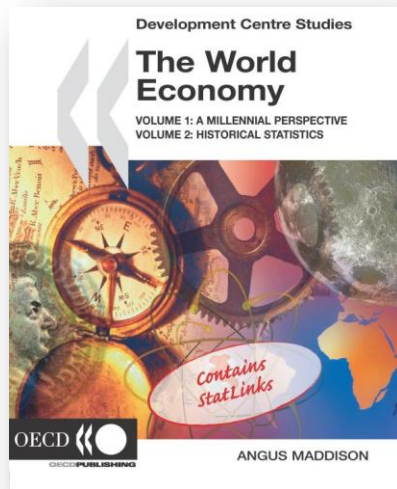


HU Jintao  
(2002-2012)



XI Jinping  
(2012- )

# III. China's Re-emergence: Historical Perspective on China's Transformation



Angus Maddison

*“The World Economy: A  
Millennial Perspective”  
(2006, OECD)*

- China was the greatest contributor to global GDP in most of the last twenty centuries. As of late 1820, China produced 30% of world GDP.
- China's rise is merely a return to its status as an economic superpower.

# III. China's Re-emergence: Historical Perspective on China's Transformation



Henry Kissinger  
*"On China" (2012)*

## China's "leadership" approach: which is characterized by non-interventionist and non-expansionist behavior

- In the early Song Dynasty (960-1271), with its dominance in nautical technology, "China's fleet could have carried the empire into an era of conquest and exploration. Yet China acquired no overseas colonies and showed relatively little interest in the countries beyond its coast. It developed no rationale for venturing abroad to convert the barbarians to Confucian principles or Buddhist virtues."
- Early years of the Ming Dynasty, between 1405 and 1433, seven voyages lead by Admiral ZHENG He, in terms of size, sophistication, and number of its vessels (100 to 300 ships carrying up to 27,000 men), "it dwarfed the Spanish Armada (which was still 150 years away)." No conquests were contemplated, no colonies planned, and no evidence of territorial ambition.



# THANK YOU!

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