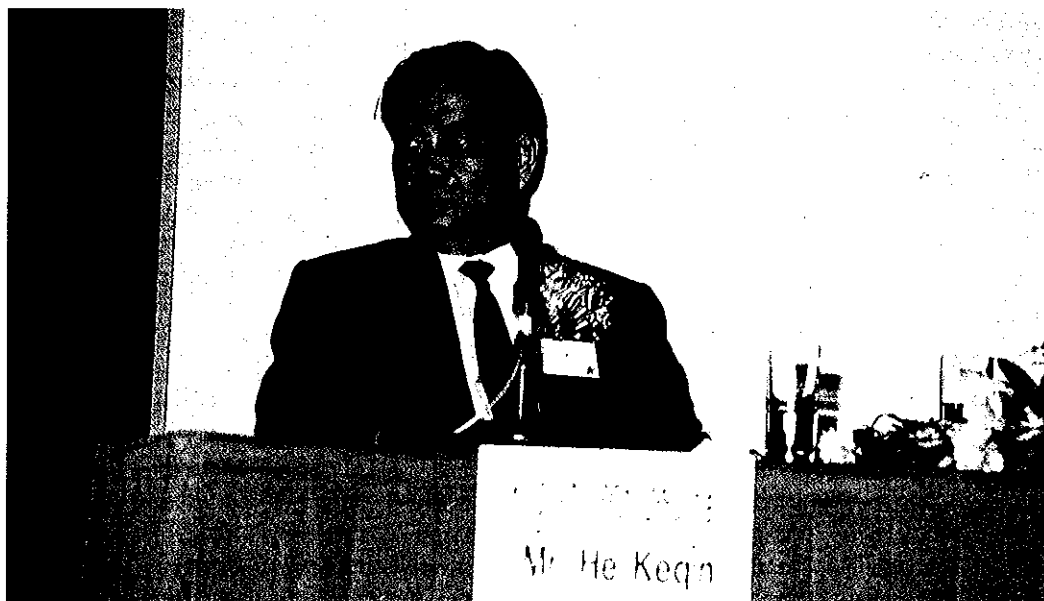




The Pearl River Delta – Forging Ahead under China's Open-Door Policy

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I would like to express my gratitude to the organisers of this Convention for giving me the opportunity to report the latest developments in the Pearl River Delta area in Guangdong province under China's reform and opening-up.

Guangdong, a coastal province in southern China, has a total area of 178,000 sq km and a population of 65.25 million. The Pearl River Delta – formed by alluvial deposits at the Pearl River estuary – covers 31 cities and counties including Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Jiangmen, Nanhai, Shunde, Panyu, Zhongshan and Xinhui. The Pearl River Delta area constitutes 25% of Guangdong's total land area and 30% of its population. Since China introduced reform and opened up more than 10 years ago, the province has been the foremost experimental zone, with double-digit average annual growth in GDP. The Pearl River Delta has been growing even more rapidly. Its economic performance from 1980 to 1992 has been outstanding, with gross social product increasing by an annual average of 25% from RMB¥ 26.1 billion to RMB¥ 380.1 billion, and national income rising by an annual average of 21.8% from RMB ¥ 11 billion to RMB ¥ 118 billion. Nine counties

in the area have been among the top 10 county-level localities in Guangdong in terms of intergrated economic strength. In the same assessment, 17 out of the top 22 were located in the Delta area. In 1992, six of Guangdong's major economic performance indicators topped the national league. The Pearl River Delta area was the key contributor to these "Six Firsts". For gross domestic product and total retail sales of social commodities, the area accounted for two-thirds of the province's total; for exports, its share was 80%; fiscal revenue, 70%. The area also ranked first in Guangdong in terms of fixed assets investment by state-owned units and incremental value of the tertiary sector. These figures amply demonstrate the importance of the Pearl River Delta area to the economic development of Guangdong, and indeed of the whole of China.

The Pearl River Delta's economic growth over the past decade or so has outpaced even the fastest growth rates achieved by the "Four Asian Dragons" during the 1960s and 1970s. In terms of GDP growth during the 20 years from 1960 to 1980, South Korea's economy expanded 4.8 times, Taiwan 5.2 times, Hong Kong 7.8 times, and Singapore 4.5 times,



compared to the Pearl River Delta's 6.1 times in the 10 years from 1980 to 1990. In other words, it only took the area 10 years to achieve the economic take-off which took the "Four Asian Dragons" 20 years. The Pearl River Delta's enormous changes and developments have caught the attention of the whole world.

Although the Pearl River Delta still faces developmental constraints which have to be resolved urgently, foreign visitors touring the area are always astonished by its rapid growth. For example overseas Chinese who left their hometowns at an early age are often surprised and excited by the complete transformation of the area and see a place that is booming and heading towards higher goals. I shall try and describe to you these astonishing changes and hope that through understanding them, you may grasp the meaning of the reforms in China today.

- Thriving markets. The Pearl River Delta area was the first in China to introduce reforms in the pricing and circulation of goods. State- and collectively-owned enterprises and individual businesses have been competing with each other in running all kinds of specialised markets, warehouses and trading centres. Enterprises from other provinces were encouraged to set up shop, quickly turning the area into the centre of an extensive distribution network. Street-side stalls, selling such products as furniture, building materials and fabrics, stretch for several kilometres. They have become well-known across the country, and trading is brisk. Furthermore, due to its excellent geographic location, the Pearl River Delta serves as China's gateway to Hong Kong and Macau. There are at present more than 30,000 foreign-funded enterprises (that is, Sino-foreign co-operative joint ventures, equity joint ventures and solely foreign-owned enterprises) and outward processing set-ups (processing and assembly with supplied materials, samples and designs, and compensation trade) in the area. It is also a commercial hub housing numerous offices and sales offices set up by large enterprises from across the country. It is a centre

for exchange - with other provinces and with the outside world. Daily road usage exceeds 20,000 car-times, and every year more than 30 million arrivals are recorded at its borders. The area has become a hot spot for trading, shopping, tourism and inspection tours for both domestic and foreign businessmen. More than 95% of the industrial goods produced locally are sold. Exports have been growing at an average annual 27.88%, and retail sales of social commodities 20%.

- Proliferation of new towns. China's reforms began in the countryside. With the introduction of the household responsibility system, a large pool of surplus farm labour was unleashed and quickly diverted to rural enterprises. This provided an impetus to the industrialisation of the countryside, which in turn was a prerequisite for the emergence of new towns. Open-door and reform have accelerated the urbanisation of the countryside and the industrial modernisation of urban areas by using as a base the original industries in the urban areas and integrating them with the fledgling rural enterprises. Foreign funds have been utilised through joint ventures, outward processing, compensation trade, and so on. New enterprises were formed, existing ones expanded, and ailing ones upgraded technologically. Today, there are factory buildings in all of the 400-plus towns in the Pearl River Delta area, with more than 20 million residents who work and spend most of their day in the towns. Towns are now just as self-contained as the big cities, with complete facilities that include electricity supply, transport and communications, and various living, shopping, cultural and entertainment services. The countryside is no longer a predominantly farming-oriented community; its industrial structure is being diversified into manufacturing, agriculture, technology and trading. New cities have emerged in growing numbers, averaging one city for every 70 square kilometres. The area's industrial output value accounts for 90% of the combined industrial and agricultural output value. The ratio among primary,



secondary and tertiary industries is 12:50:38.

- Rapidly improving infrastructure. The Pearl River Delta originally lied on an estuary. Its poor infrastructure had been a hindrance to economic development. Over the years, the people came to realise "there is money to be made when transport links are improved". Therefore, new "market" methods were introduced. For instance, users pay for using the facilities: "roads funded by road-building", "bridges funded bridge-building" and so forth. Sole reliance on government funding to construct infrastructure facilities has given way to multi-tier, multi-channel financing. Sources of funds include government, collectives, individuals and foreign investors. This development not only wins time, but it also brings enormous benefits. Today, land, sea and air transport has come a long way in the Pearl River Delta area. There are six airports, more than thirty 10,000-ton-class deep-water berths, nearly 20,000 km of roads, and some 1,000 bridges and flyovers in the area. All major trunk lines have no crossings, and sections of the newly completed Sanshui-Maoming and Guangzhou-Meizhou-Shantou railways are now open for traffic. The area is well served by improving transport links. Meanwhile, a 500 km highway network is being constructed linking up Guangzhou in the centre with Shenzhen and Zhuhai. The Guangzhou - Foshan and Guangzhou - Huaxian Highways, and sections of the Guangzhou - Shenzhen - Zhuhai highway, have been completed and opened for traffic. In post and telecommunications, the Pearl River Delta area ranks first in China in terms of capacity of telecommunications lines, per capita telephone ownership, coverage of international communications, and other related communications facilities. In particular, private telephones, mobile telephones, pagers, faxes, and express courier services have expanded rapidly and improved steadily. The post and telecommunications sector has grown 40 times since 1980, at an average of 40% a year. The same is true for the power generation capacity of the Delta. The new state-financed Daya Bay

nuclear power plant, and the Shajiao A and B plants will form the cornerstone of the power industry, supplemented by facilities of all scales and types - nuclear, coal-fired, and hydroelectric. Between 1979 and 1992, Guangdong's electricity output tripled, and installed generation capacity increased to 10 million kW. An additional 1.15 million kW will come on stream every year over the next five years. This expansion should basically satisfy the growing demand brought on by the rapid economic development of the area. Currently, a large number of infrastructure projects are under construction, including power plants, highways, railways and underground mass transit, ports and airports. The area's investment environment is set to be further enhanced.

- Outward-oriented economy surges ahead. Taking advantage of its excellent geographic location, the Pearl River Delta adopted a development strategy emphasising the expansion of its foreign economic relations and trade, and utilising foreign funds to achieve high economic growth rates. I'll mention here three sets of statistics. First, by the end of 1992, the Pearl River Delta had utilised US\$13.5 billion, or 70% of the province's total of US\$19 billion. More than one million sets of production equipment were introduced to some 20,000 factories which had reached a certain level of production. Today, one-third of all products manufactured in Guangdong are exported. Second, at the end of 1992, there were 12,200 foreign-funded enterprises that had been set up in the Pearl River Delta, employing 1.716 million workers. Their exports totalled US\$8.1 billion, making up 44% of the province's total. There were 20,000 set-ups involved in outward processing and compensation trade, with processing fees exceeding US\$1 billion a year. Third, exports by the Pearl River Delta area were valued at US\$15 billion in 1992, accounting for 81% of the province's total. The outward-oriented portion of the area's economy stands at 52.52%. The sources and scale of foreign



investment continue to increase. Investment structure has been further rationalised, and the scope of investment expanded. There has been greater investor interest in infrastructure, high and new technology, and tertiary projects. The Pearl River Delta's outward-oriented economy is set to further expand.

- Improved living conditions. In order to develop production forces, boost economic strength, and improve living conditions, efforts have to be focused on economic construction. This was the consensus of the population in the Delta area. Between 1980 and 1992, the cash income of the area's residents increased by 19% annually, and savings deposits grew by 39.23%. Their living conditions have improved considerably. The area's per capita GDP of RMB¥12,519 in 1992 was the highest in the province and indeed in the whole country. Advances have been made in such areas as culture, education, hygiene, sports, science and technology, and social welfare. The people's spiritual lives have also been enhanced. Their standard of living can now be classified as "relatively well-off". At the same time, the area's fiscal revenues have grown significantly. From 1980 to 1992, Guangdong's contribution to the state coffers increased more than 8 times, of which the majority came from the Pearl River Delta.

- Change in people's attitude. The people's changing attitude is by far the most important of all changes in the Pearl River Delta area. Otherwise, other changes would not have been possible. Today, people take a more pragmatic approach to things, and support the nation's move towards a socialist market economy centred around economic construction. The changes to people's attitude carries on down the economic ladder—steadfastly carrying out instructions from their superiors, grassroots cadres in the Pearl River Delta see to it that appropriate measures are made in accordance with the local conditions so that greater benefits are achieved. They believe things should be done in the best interests of the state, and of the locality, and do not need

constant prompting from the authorities. Besides, they recognise the importance of talent and know-how in fending off competition. They have abandoned the principles of seniority in personnel management. Instead, they place great emphasis on know-how, talent, and on searching for and training the right people. Through co-operation with foreign investors, they have absorbed advanced technologies, marketing and sales techniques, as well as management expertise. Furthermore, they dare smash the so-called iron rice bowl and iron chair; they are determined to push their enterprises into the marketplace, becoming more competitive, risk-taking, and learning to operate with debt liabilities. Many of these enterprises have become bigger and more modernised with the competition, and their products distributed across the country. These include water from the Pearl River, grains from Guangdong, Huabao air-conditioners, Weili washing machines, Rongsheng refrigerators, Wanjiale stoves, and so on.

All of the above show that the Pearl River Delta has fulfilled its role in spearheading China's reform and open-door policies. Its experiments in setting up special economic zones and promoting and outward-oriented economy are being tried in coastal areas, along the Yangtze River and along the national border. The Pearl River Delta's success in implementing a socialist market economic system and integrated reform measures is being duplicated in the inland provinces. More people throughout China have come to adopt the new concepts and thinking arising from the Pearl River Delta area's accelerated economic development. Mr Deng Xiaoping's two Guangdong tours, in 1984 and 1992, were ample reassurance of the province's successful reforms. The Guangdong experience helped liberate people's thinking in other parts of the country, and speeded up the development of a socialist market economy.

One major reason for the Pearl River Delta's success in social and economic development has been its knowledgeable



implementation of the incentive policies and flexible measures granted by the central government under the reform and open-door policies. The Delta's success in carrying out these policies hinged on various factors, which were, as the ancient Chinese saying goes, "Right timing, good geographical location, and harmonious human relationships".

The timing was right because China was united and stable on the political front, making reform and open-door its basic policy, while the global industrial structure was undergoing major adjustments since the 1980s. All these were favourable to the economic growth of the Pearl River Delta. In 1979, China launched the reform and open-door policy and allowed Guangdong and Fujian to set up four special economic zones (SEZs) on a trial basis. Three of the SEZs were located in Guangdong, of which two were in the Pearl River Delta area. The international economic situation was also changing and the industrial structures of many western countries were being adjusted, prompting the eastward shift of the focus of world economic development. The Pearl River Delta - situated on the western rim of the Pacific Ocean - offered preferential and flexible policies, inexpensive land and labour resources, and a stable political environment. The area opened its doors to the outside world, attracting huge sums of foreign investment as well as human talent and technology. This inflow has greatly facilitated the economic take-off of the Pearl River Delta and its fast-paced growth in foreign economic relations and trade.

As for harmonious human relationships, first and foremost is the people's full support for the government's reform and open-door policy. The people are determined to break away from the constraints of the old system, and are working towards the establishment of a socialist market economy. This policy is strongly supported by many overseas Chinese, compatriots from Hong Kong, Macau and Taiwan, as well as foreign friends. Large numbers of Chinese from overseas, Hong Kong and Macau, are Guangdong natives who are

patriotic and concerned about developments in their hometowns. Over the years, they have actively supported their hometowns through various channels such as investments, donations, and sharing of technology and information. It is estimated that donations by overseas Chinese and Hong Kong and Macau compatriots to Guangdong totalled more than RMB¥ 14 billion since the start of the reform and open-door policy. Their donations have helped set up numerous education, technology, cultural, transport, medical and other social and charitable amenities in towns and villages throughout the province. Overseas Chinese investors, and compatriots from Hong Kong, Macau and Taiwan, together accounted for more than two-thirds of all direct foreign investment in Guangdong from 1979 up till the first half of 1993. Their active support is inseparable from the rapid growth of Guangdong's outward-oriented economy, and in particular the Pearl River Delta.

As for geographic location, the Pearl River Delta occupies an excellent position neighbouring Hong Kong and Macau. As an international trade, finance and information centre, and a Far Eastern shipping centre, Hong Kong serves as a springboard to the international markets for the Pearl River Delta. The territory is also a conduit for financing, technology, information, markets, management expertise and market economy concepts, all of which are conducive to the reform, and ultimately, the economic development of the Pearl River Delta area. Because of a host of incentives, low operating costs, good market potential and transport links, the Pearl River Delta has become the most favoured location for investors from Hong Kong and Macau. Together, Hong Kong and Macau account for more than two-thirds of direct foreign investment, over 80% of foreign trade, and 70% of the 30,000-plus foreign-funded enterprises and outward processing and compensation trade set-ups in the Pearl River Delta. Today, this co-operation is deeper and wider in scope. It has shifted from one of complementary to that of a



higher level, structural economic co-operation. From a "shop in front and factory at the back" operation; now the two sides complement each other as a base and market, and co-operation covers industry, agriculture, trade, finance, transport, energy, property, technology, law and information, among others. Their economies have become one and the same.

Admittedly, the Pearl River Delta still lags far behind the developed countries in the West, and from the "Four Asian Dragons", economically. More efforts need to be made to raise the technological level, train the people, improve the investment environment and strengthen the legal system of the area. People in the Delta continue to benefit from its advantages to create an even better future. They will continue to support the open-door policy and help push the reforms so that the area will continue to offer new advantages. I think the two key features of the various plans and new policies are ownership and market. First, the ownership of state and collective enterprises will be made transferable to foreign investors and the people. Second, the domestic market will become more open to products of foreign-funded enterprises. The domestic sales ratios for joint venture products will increase in accordance with relevant regulations. In so doing, more funds will be attracted from foreign investors and from society to speed up the construction of infrastructure facilities, improve the industrial structure, and promote the development of capital - and technology-intensive industries. The overall productivity and

competitiveness of the Pearl River Delta will be enhanced, its economy more modernised, and better equipped for global competition. At the same time this will facilitate the change of operation mechanisms in state enterprises and the improvement of ties between enterprise and government departments, which can in turn better service and promote the area's economic development. As Guangdong province's economic organisation in Hong Kong, the Guangdong Enterprises (Holdings) continues to work closely and co-operate with Chinese investors from Hong Kong, Macau, Taiwan and overseas, in investing in the Pearl River Delta area. Together, we can expect a better tomorrow.

Dear guests, enormous changes have taken place in the Pearl River Delta, in Guangdong province, and in the whole of China over the past decade or so. Today, I only covered the Pearl River Delta, hoping that through these you will better understand the changes in China. Yet, many details may still be missing. As the ancient Chinese saying goes, "Seeing is believing". Tomorrow, according to the Convention's schedule, visits will be arranged to different places in the Pearl River Delta area. Your hosts will be telling you more about the area, and hopefully cover what I may have left out in my speech today. I do hope that, after seeing and hearing about Guangdong and the Pearl River Delta, you will let us know your comments and suggestions.

Thank you.