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Guangdong Visions: A Talk with Wang Yang

Guangdong Party Secretary Wang Yang talks about the economic crisis, its impact on China, and the future role of the region he represents

By [Robert Lawrence Kuhn](#)



With the global financial crisis choking off exports and squeezing the economy, China's leaders have voiced different views on what best to do: Some have called for the government to support the cheap-labor export sector, others have said the state should focus on helping newer industries grow. At the same time, there's a debate among Chinese leaders about whether to concentrate on the wealthier coastal provinces or less developed interior regions. Recently, I spent a week in southern China's Guangdong province, the cradle of China's reform and engine of the country's historic transformation. (If the province were an independent country, its gross domestic product would be among the top 20 in the world.) I met with Wang Yang, Guangdong's Communist Party secretary and a rising star in Chinese politics. In this first of a two-part exclusive report, Wang, a member of the Politburo, speaks candidly about his views of the economic crisis and its impact on China.

Even though [China's economy](#) is suffering, Wang Yang (like other Chinese leaders) rightly believes that the country is now stronger in comparison with the U.S., Europe, and Japan. According to Wang, the West needs to know "the real, changing China" and realize how the Communist Party "has been advancing with the times." China, he said, is "on its way to modernization and therefore is gradually obtaining the capability of communicating with the West," but, he added, if "the West still doesn't understand China, it is neither good for the West itself nor conducive for establishing a 'harmonious world.'" Displaying a new aggressiveness in asserting China's rising relative position, he called for the West to interact with China on an equal basis. "The West must really understand

China." And when it comes to understanding China, he stressed, "a good place to start is in Guangdong."

Indeed, Guangdong is the epicenter of three megatrends that, I told the Party secretary, are hitting China today. First is the need to move away from [low-end manufacturing](#) and toward knowledge, technology, and brand-based industries, much as Japan did in the 1970s and South Korea did in the 1990s. Second is the need to shrink widening gaps between classes and areas, especially income disparities between urban and rural residents. Third is the need to mitigate the devastating impact of the global economy's downturn, which has caused widespread company failures and massive layoffs and has threatened social stability.

URBAN-RURAL IMBALANCES

Agreeing with my analysis, Wang stressed that "economic transformation and industrial restructuring must be based on the 'Scientific Perspective on Development,' " President Hu Jintao's principle of focusing not just on maximizing economic growth but also on addressing urban-rural imbalances and [environmental pollution](#). (To appreciate the power of Party slogans such as "Science Perspective on Development," designed to drive Party coherence under the senior leader, is to understand how Chinese officials think in formulating and implementing policy.) Thirty years after Deng Xiaoping launched the reforms that turned Guangdong into an economic powerhouse, Wang noted, "while its historical achievements cannot be denied," the financial crisis is now exposing some of the province's problems. "The drawbacks of the model are gradually emerging," he said. "Our growth model of 30 years, which enriched us rapidly, has come to the end of its cycle."

The Party secretary explained some of the issues. "First, rapid growth generally neglects the costs of resources, the environment, and worker health. Rapid growth has caused environmental damage. Air quality is almost intolerably poor; unprocessed water cannot be drunk. Second, the traditional model is excessively dependent on international demand, which in the current crisis threatens our economy."

The Guangdong model has made the area a magnet for migrants from other parts of China. Guangdong has become China's most populous province, with 95 million permanent residents and about 20 million more migrant workers. The influx has contributed to social problems: A public security study found that more than 70% of suspects detained by police in 2007-2008 were migrants. Of Guangdong's migrants, "almost 70% have an educational level of middle school or below," he said. "Our province has not fully taken up the responsibility of providing education, health, housing, and other basic public services to these people."

"AN UNBEARABLE BURDEN"

Under Wang's leadership, the local government has taken steps to address the imbalance between locals and migrants. In March, for instance, Guangdong moved to replace "temporary residential licenses" with "residential licenses" for migrants—giving

them access to social insurance, vocational training, legal aid, and other services. Defending earlier Guangdong leaders, Wang insisted that "if we had treated migrants the same as those with Guangdong residence, it would have been an unbearable burden." In fact, he noted, previous provincial leadership and some scholars recognized years ago "that the traditional Guangdong model was unsustainable. But with the global demand for cheap, high-quality, Guangdong-made products still very high, it was not the right time to change."

By providing a catalyst for change, Wang said, the economic downturn is therefore helping the province make difficult changes. "So in this sense, Guangdong should thank the financial crisis," he said. "During the economic downturn, we've reached consensus on the need to transform our developmental model."

However, Wang conceded that readjustment would not be easy. He insisted "the road map is clear" but acknowledged it was necessary to "liberate our mindset," and overcome significant obstacles, to implement such change. "Thirty years ago, when we changed from class struggle to economic development, the main challenges were ideological," he said. "Now the main challenges lie in vested interests."

Such interests, Wang suggested, include large numbers of Guangdong residents who had become wealthy by renting or selling land, factories, and houses to [cheap-labor manufacturers](#). "Farmers have become landowners," Wang stated. "They enjoy lucrative incomes without doing anything. That's why they oppose changing the model. If we withdraw from low-end assembly, processing, and trade, these farmers, and the rural [officials] who live off these rentals, are the people whose lifestyles are affected first."

Achieving industrial upgrading and structural transformation requires tackling such vested interests, Wang explained. "Our mission is a tough one. We must convince them that we must change. The old ways of consuming resources and importing labor will not work. Even if we wanted to continue with it, we would be unable to do so—we are running out of resources and environmental capacity."

ROAD MAP FOR REFORM

Wang stressed the government sought "to minimize the pain of the transformation." Following President Hu's directive for leaders to address the environment and inequality as well as maintain economic growth, Guangdong has developed a road map for reform in the Pearl River Delta. Approved by the State Council, this master plan aims to enhance independent innovation, transform traditional industry, and establish modern industrial systems. Wang's government has allocated \$150 million to upgrade production at 1,000 local enterprises. "Once again, Guangdong is the pilot project for China," said Wang. "We must seize the opportunity of the financial crisis to shift our industrial structure." Doing so, he said, "will open wider markets."

According to Wang, Guangdong's restructuring would also benefit other regions of China. "For three decades, vast numbers of migrant workers from central and western

regions have come to work in Guangdong, and it's thanks to their contributions that Guangdong has achieved rapid growth," he said. "So when designing the new strategy for Guangdong's transformation, of course we took into account these contributions."

Guangdong's approach, Wang said, involves what he called "dual transfer." As the Guangdong government promotes the upgrading of local industry, it will encourage enterprises to transfer low-cost manufacturing to inland provinces. "This will reduce labor costs and improve the competitiveness of Chinese products in world markets," he said. "Equally important, workers will find jobs in or near their hometowns, reducing the social costs of not being able to take care of their families (as well as transportation costs), and bringing a huge improvement in their lifestyles." Such "transfers" would benefit Guangdong, he said, "by reducing the population."

He drew an analogy of Hong Kong's relationship with Guangdong. "For 30 years," he said, the relationship between Hong Kong and Guangdong "could be described as 'the-shop-in-the-front-and-the-factory-in-the-back.' Hong Kong was 'the shop' and Guangdong was 'the factory.'" Now, Wang said, "Guangdong aims to be 'the shop' and hopes central and western regions can be 'the factory.'" Guangdong should move to both ends of the industrial chain: concentrating on R&D, design, marketing, and sales at the commencement and logistics at the culmination." But, he stressed, the new relationship between Guangdong and inland provinces is not "a simplistic copycat" of past links between Hong Kong and Guangdong, saying "it should be an industrial division of labor on a higher level...which, given another 30 years, will engender a very bright future with everyone sharing the benefits."

ENVIRONMENTAL AGENDA

Such a transfer policy is not without challenges. One industry to be relocated is the heavily polluting production of ceramics, which has long been centered in Guangdong's city of Foshan. Wang warned that "the new home must prioritize environmental protection from the outset, or else they will only repeat the old [polluting] model." And, based on the experience of industries that had already moved inland, he acknowledged, "some provinces pay more attention to environmental protection, while others only duplicate what the relocated enterprises had in Guangdong."

Still, Wang stressed that China's central and western provinces welcomed the transfer strategy: "In 2008 most of them sent delegations to Guangdong to promote business and investments," he said. "Guangdong officials are also traveling there to seek their advice on regional cooperation."

Another big challenge: Moving manufacturing to central and western areas is not easy, but it can be facilitated by government incentives. Transforming Guangdong into an innovation center, on the other hand, is more complex and less manageable, because in attempting to create value one has to face the chaos and capriciousness of the marketplace. Wang acknowledged this difficulty. "In fact," he said, "it relates to the larger issue that we must first solve the problem of whether we need to change our

developmental model, and then, second, figure out how to do it through building Guangdong into a center of independent innovation."

There was no doubt, he said, that "independent innovation has risks and cost; it is always harder than the cookie-cutting businesses of assembly, processing, and trade." However, he added, Guangdong could "be grateful to the financial crisis for making our enterprises recognize the importance of independent innovation. Such awareness is more effective than all our efforts. The first companies that went down," he explained, "were the cheap-labor OEM manufacturers." The companies that have their own design capabilities have been able to sustain themselves, despite the downturn. And those that have independent innovation strengths now have even more opportunities. "We're not interested in 'face-lifts,'" he emphasized. "After the financial crisis, we want a new Guangdong, not an expansion of the old one!"

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Part I: Guangdong Visions: A Talk with Wang Yang

http://www.businessweek.com/globalbiz/content/jun2009/gb2009065_691758.htm

Part II: Guangdong Visions: Responding to the Crisis

http://www.businessweek.com/globalbiz/content/jun2009/gb20090615_393806.htm?chan=top+news_top+news+index+-+temp_global+business

Part III: Guangdong Visions: Reenvisioning Guangzhou

http://www.businessweek.com/globalbiz/content/jul2009/gb2009076_009429.htm

Part IV: Guangdong Visions: Forging China's Future

http://www.businessweek.com/globalbiz/content/aug2009/gb2009084_539590.htm?site=cbs&campaign_id=djm

Part V: Guangdong Visions: The Way Forward

http://www.businessweek.com/globalbiz/content/oct2009/gb2009101_302976.htm?chan=globalbiz_asia+index+page_top+stories

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