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China: Hangzhou and Zhejiang- a beacon for the new Chinese economy?

Introduction

# The RSA Conference at Zhejiang University in November 2015 Harmonious Development, Common Prosperity and the Transformation of Cities and Regions

Was a great success. It opened a new Chapter in the work of the RSA in South East Asia and in developing economies and the BRICS and saw also the successful launch of the New Journal: Area Development and Policy. The conference gathered as the finishing touches were being made to the next Chinese Five Year Plan 2016-2020 which is being launched in March 2016 and as discussions are proceeding on priorities for the next stage of Chinese economic development and reform. The priorities under Xi Jinping continue to be transformation of the New Normal economy, with the strengthening of Chinese advanced manufacturing and the development of the service sector, further reform of State Owned Enterprises, the growth of IT and new private enterprises, reform of the banking and financial system, alongside local government financial reform and the further development of public services, including pensions reforms and development.

The new Five year plan comes at a time when the Chinese economy is slowing and there is concern about the instability in the financial sector and short term stock market falls and state intervention to correct market instabilities and concern about China's slowdown in a global context. It is easy to fixate on some of the short term financial problems and miss some of the long term goal and achievements. There is still a lack of knowledge and understand in the west about Chinese companies and Chinese regions and long term policies and programmes and the RSA conference provided an opportunity for delegates to learn about some of the significant initiatives which will impact in the next decade: The G20, which meets for the first time in September 2016 in Hangzhou under Chinese leadership; Mega Events which are increasing with planning already starting for the 19th Asian Games ,which are being hosted by Hangzhou in 2022 and the Beijing 2022 Winter Olympics also that year. The impact of previous major sports events events on Chinese cities were analysed at the Conference by George Lin from Hong Kong University, Hong Kong and was highly relevant: *Empowering the regional economy with Sceptical Space*. A comprehensive analysis was also presented by to the conference unpacking the One Belt One Road( OBOR) Silk Road initiative by Liu Weidong from the Institute of geographic Science and national research Centre at the NDRC. OBOR promises major infrastructure investment in China's near neighbours ,like Kazakhstan and Central Asia and Europe, and rail and maritime investment building Chinese links with Russia, Africa and Europe through to Poland and Germany. Many of these investments will have major significance for global regional development over the long term and all were a feature of discussion and debate at the conference. Henry Yeung gave a final

**plenary presentation from the national University of Singapore on regional development in the Global Economy and the role of South East Asia's key states.**

**Zhejiang Province and Hangzhou City region and the 'Prime driver Companies' of globalisation and technological development; A Chinese silicon Valley in the making?**

**Sadly there was not much time for delegates to examine the Hangzhou City- Region beyond the boat tour of the West Lake at the beginning of the conference which was enjoyed by many.**

**However, much has been** written about the leading role of Hangzhou City and Zhejiang province and the rapid growth and transition of the Chinese state from a socialist state to one embracing developmental and entrepreneurial state characteristics- 'actively promoting globalisation, economic development and urban growth.( see for example Ye Han, Denis Wei 2012,Wei 2005.2007,KPMG 2010). We have previously reported here on our joint British council research programme between the two universities in the UK and China since 2009 (British council PMI2, Final report) and on developments in the Hangzhou economy in regions- see for example,Shutt, J and Huifang C, 2009.

There are some key 150 enterprises that are currently driving the Zhejiang provincial economy and have a role in making Zhejiang one of the most dynamic of provinces in China.

Despite the continuing economic crisis and stock market shocks, growth in Zhejiang appears to have accelerated in 2015. Hangzhou is being held up as a leading example of the growth of the high technology sector and the ability to build advanced services and advanced manufacturing and to this extent is set to continue to lead the transformation process in China under the next Five Year plan. A thriving tourist and service sector sits alongside the high technology sector and Zhejiang has a strong private sector set of companies as well as leading State owned enterprises ( SOE's), which need to continue to adapt and transform for a more competitive role and the adoption of new technologies in the 2016-2020 plan period is critical. Rationalisation and restructuring and adaptation as outlined in the Made in China 2025 strategy published in May 2015, is a key component of the changing enterprise policy environment.

### **A silicon valley in the making?**

At the heart of the Hangzhou high technology strategy is the company 'Alibaba' which was first established in 1999 by Jack Ma, and which is one of the leaders of the Chinese e- commerce world, perhaps best known in Europe and the USA. It has developed from a B2B online trading platform into a diversified group covering the on-line sales platform (Taobao.com and Tmall.com), the third party payment platform (Alipay) to the online shopping (Etao.com) and e- commerce cloud computing (Alibaba Cloud computing). Its legend -like development in 15 years is not only attributed to that of the founder, but to open and continuous innovation and transformation spawning technology start-ups in a wide variety of new media and logistics sectors. Alibaba is at the centre of the Silicon Valley hub which is emerging in Hangzhou City region and now employs more than 30,000 on two campuses in the City.

*'There is a popular saying in Hangzhou- back in the day, girls wanted to marry boys who worked for Hangang ( the state owned Hangzhou Iron and steel group) But now they want to marry boys who work at Alibaba' (Cai Jingyou, quoted in Reuters,20<sup>th</sup> May 2015).*

*Alibaba's Group Holding Ltd now encompasses a string of investments in news organisations, social media, online video companies and now with the recent acquisition of the South China Morning Post there is much speculation about the media empire which is emerging alongside this key Chinese internet company and the search for Chinese content producers.*

### **Leading 10 Prime Mover Enterprises in Zhejiang Province ,2015**

**The Alibaba Holding Group Ltd**, Chairman Jack Ma, B2B Internet and Media company Founded 1999

**Wanxiang Group** Chairman Lu Guanqi , Auto-parts manufacturing, founded 1969

**Geely Holding Group** Chairman Li Shufu ,Car manufacturing, Founded 1984

**Transfar Group** Chairman Xu Guanju ,Chemicals, Agriculture and Logistics Founded 1986

**HikVision Ltd** ,President Chen Zong Nian, Digital Video Monitoring and Electronics Surveillance

**Hangyang Group** President Jiang Ming, Air Separation Manufacturing SOE Founded 1989

**Hailing group** Chairman Feng Hailiang ,Copper processing .Founded 1989

**Du an Group advanced** manufacturing conglomerate Chairman Yao Xinyi .Founded 1995

**Xizi UHC Group** President Wang Shuifu .Founded 1981 from a township enterprise Elevator and Construction conglomerate

**Wahaha Group**, Chairman Zing Qinghou , Beverage manufacturer Founded 1987

Source:Huifang Cheng ,Zhejiang University of Technology.

### **Regional development in context**

Since the launch of the economic reforms in 1978, China's regional development has favoured an open door policy and has been propelled by Foreign Direct Investment (FDI) in the coastal regions. In January 2000. The Chinese government embarked on its 'western development strategy' (Xibu Dai Kaifa) designed to push and steer FDI into the west and Central provinces , yet FDI does keep focusing back on the coastal provinces. The coastal belt province of Guangdong (Pearl River Delta region), Shanghai, Jiangsu and Zhejiang (Yangtze River Delta region) has continued to absorb the bulk of FDI stock. The rise of Shanghai was focused on its special relationship with central government (see, OECD, 2001) but in Jiangsu and Zhejiang Provinces the promotion and development of township and Village enterprises (TVE's) and the rise of autonomous private enterprises took hold. (Wei, 2000, 132). Entrepreneurial small and medium sized enterprises in Zhejiang developed into global conglomerates and became the pillars of the integrated top down

and bottom up regional development process. The strengthening of the Shanghai- Hangzhou ties within the context of the YRD has been facilitated by rapid infrastructure investment and a focus on the development of new sectors and clusters in financial services, creative industries, and green technology sectors. Hangzhou's FDI continued to grow in the 11<sup>th</sup> Five year plan period and at the end of 2010, the number of enterprises in Hangzhou with FDI over USD 10 million grew to 2,203, of which 82 were Global 500 companies, including GE, IBM and Siemens and now Ford and Ericsson. However, the real success has been the growth and development of a range of Zhejiang Private Companies and SOE's which are not at all that well known in the west. These include Companies such as the Wanxiang Group, Geeley Group, Transfar Group, HikVision, Hangyang Group, Hailiang Group, DunAn Group, Xixi UHC and the Wahaha group which still remain poorly branded in the west. It is this type of company that the Made in China 2025 programme will focus upon in its development and advanced manufacturing plans.

Often these companies originate through key private sector entrepreneurs who have driven their growth and development over the last thirty years and there is much interest in these Zhejiang Merchants and their futures.

### **Is a new type of Chinese Entrepreneurial state emerging?**

It is argued that in Zhejiang Province and Hangzhou city cluster policies are developing alongside the development of a strong state model of government- business relations which is developing a new type of "Entrepreneurial State" and a move to the new economy and new sectors. The experience of developing the prime mover enterprises is transforming the dynamic of Zhejiang Province and its economy and that these prime movers are at the heart of the transformation and upgrading process and need much more focus in the period 2016-2020 to focus their global competitiveness. In the west, insufficient attention has been paid to the development of these Chinese enterprises and

- The development and cultural background of the key entrepreneurs and the lessons from their enterprise journey and the implications for transforming enterprises.
- The roadmap of industrial restructuring of the Prime mover enterprises and their global response to the transformation and innovation process and the tasks required to accelerate innovation in the next plan period ahead :2016-2020.
- The lessons for higher education and business and management education. The enterprise state in Hangzhou is spawning close links between higher education and key companies which needs to be understood better and related to the cluster development process. Enterprises have close links to Universities like Zhejiang University and Zhejiang University of Technology and have developed joint research laboratories and spawns spin out companies which play a crucial role in the City- regions high tech strategy. University Science Parks approved by the Ministry of science and technology and the Ministry of Education which have been sponsored since 2000 and remain critical to the incubation process in the City.
- Examining and evaluating the role of the central government, Provincial state and the local municipal state in supporting the regional economic development process is critical and understanding the different levels and programme performance. The Chinese Enterprise

State has seen a strong role emerge for the province from the Governor and General office of the Zhejiang Provincial government and in small firms' policy as well as SOE restructuring. Nationally the Ministry of Industry and the Ministry of Information technology commission is crucial in supporting the prime mover enterprises and their upgrading programmes.

- The skills development and talent management and labour market and human resource policies of the prime movers is critical for the future of both the province and key cities. Higher level skills training and development is of critical importance but insufficient research has been paid to these activities. The knowledge economy demands a new approach to skills management and talent management combining international training and competitiveness analysis with local capacity and capability building and a strong local understanding of labour market change.

The China conference was a moment to get to know Hangzhou a little better but also to think about the development of the BRIC economies over the longer term and the implications for the global economy and the future of regional development and urbanisation, and the RSA Chinese Branch will be focusing their conference next year in Hubei province. This will allow us to develop further research and work to understand the significance of China.