

30 YEARS OF REFORM 改革開放 THE 8TH OF A SERIES ON CHINA'S TRANSFORMATION INTO AN ECONOMIC POWER TODAY: JOINT VENTURES

Maxim's seized chance to set up on the mainland

The HK venture that took off thanks to Deng

Woods Lee

Two days before Christmas in 1978, Annie Wu Suk-ching, the daughter of Maxim's founder James Tak Wu, was sitting on a train outside Wuhan (武漢) railway station, on her way to Guangzhou, when the loudspeaker above her began to play a radio address from paramount leader Deng Xiaoping (鄧小平).

The Communist Party had just wrapped up its plenary session in Beijing, where members had resolved to clear up ideological uncertainties in the wake of the Cultural Revolution and change the direction of the nation.

"In his determined and clear voice, Mr Deng said China welcomed foreign investment, including from Hong Kong, Macau and Taiwan, and I thought that some big changes were going to take place on the mainland," she said. "I had never met Deng Xiaoping but he sounded very sincere, straightforward and trustworthy in that broadcast, and I believed that this time, China meant what it said."

Here was the sort of opportunity Ms Wu had come looking for. Over the following two years, she would start up Beijing Air Catering - registered as "Sino-foreign Joint Venture 001" - using her family's experience in delivering fast, inexpensive food to people in Hong Kong to create a business supplying meals to the airlines flying out of Beijing's international airport, which was set to more than double in size.

Eight days earlier, China and the United States had announced they would normalise relations on January 1, with the western power deciding to switch diplomatic recognition away from Taipei. In the coming year, Deng would go to Washington and US vice-president Walter Mondale would visit Beijing, laying the groundwork for accords covering, among other areas, civil aviation. Regular flights would soon follow.

The Chinese side knew they needed help, however, to supply food for the airline industry. The in-flight menu at that time was no more than biscuits, boiled eggs, cold luncheon meat and washed but unpeeled fruit. Deng had muttered in dissatisfaction more than once at the thin layer of crumbs on his lap when he picked up the bread served on Chinese flights.

Ms Wu took her idea for the catering business to her father, who was hesitant. The family had little knowl-

edge about doing business in China. But she persisted and negotiations began with the Beijing management bureau of the Chinese Civil Aviation Administration.

The talks proceeded slowly. The central government had no experience of bringing in foreign companies. "The officials simply did not know how to make decisions on this unprecedented matter," Ms Wu said. "They did not have any concrete ideas about joint ventures, and we even had to talk them through the relevant clauses of Hong Kong's company law for their reference."

But they felt it would be easier to communicate with partners from Hong Kong, Macau or Taiwan than anywhere else, given the shared ancestral roots. This helped to foster mutual trust, goodwill and patience in the discussions and to an extent helped Maxim's beat three other bidders to secure the partnership.

Ms Wu bolstered her chances in the talks when her family supplied the airline meals on a state trip that communist revolutionary Li Xian-nian (李先念), then the vice-chairman of the Communist Party's Central Committee, took to the Philippines. The thoughtful service and delicate food apparently deeply impressed him and cadres from the Civil Aviation Administration on the flight.

By March 1979, all the equipment was installed and trial operations had gone smoothly. They would open in months, but Ms Wu still did not have official approval. When Deng eventually learned of this, he asked: "How are the Hong Kong partner's bread-baking skills?"

"Very good," he was told. "Then why did you not approve it?" Deng said.

With that, the final paperwork came quickly, and in 1980 China's Communist Party launched its first joint venture with a foreign company, taking a 51 per cent stake.

Despite surmounting this initial hurdle, economic reform got off to a slow start. By 1983, the first year the mainland publicly disclosed its official statistics on foreign capital influx, foreign direct investment (FDI) stood at US\$910 million. Five years later, FDI was running at more than US\$2.6 billion a year.

However, in the years following the Tiananmen Square military crackdown in 1989, the influence of party conservatives seemed to strengthen. They rekindled the ideo-

Flying high



Annie Wu, in her office in Beijing, displays the official approval for the joint venture with the Civil Aviation Administration of China

Annie Wu Suk-ching

1948 Born in Hong Kong

Education

Hong Kong Sacred Heart Canossian College; Armstrong University, Berkeley, California; International Marketing Institute course, Cambridge, Massachusetts; banking and finance course, Stanford University, California

Awards

- 1978 Hong Kong Ten Outstanding Young Persons' Award
- 1987 Hong Kong Award for Excellence in Business
- 1990 Hong Kong Young Industrialist Award
- 1999 HK SAR Silver Bauhinia Star

Feeding frenzy

Year	Meals served by Beijing Air Catering
1980	230,000
1990	2.22m
2000	8.94m
2007	19.38m

The number of airlines, foreign and domestic, served by the joint venture today is

40



Staff of Beijing Air Catering have witnessed the transformation under reforms first-hand

Up, up and away

- ★ Beijing airport opened in March 1958
- ★ Terminal 1 Opened in January 1980; older terminal used for VIPs and charter flights
- ★ Terminal 2 Opened in November 1999; Terminal 1 closed for renovation and reopened in 2004
- ★ Terminal 3 Opened in stages from February 29 to March 26, 2008



The high-speed Beijing airport rail link built in time for the Olympics won applause from visitors

Then and now

International visitors to the mainland

1978	716,000
2007	54.72m

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PHOTOS: RICKY WONG, EPA

SOURCES: WORLD TRADE CENTRES ASSOCIATION, CHINA NATIONAL TOURIST OFFICE, BEIJING CAPITAL INTERNATIONAL AIRPORT, NATIONAL BUREAU OF STATISTICS

logical debate about whether capitalism or socialism should govern China's opening up and reform efforts and warned against "peaceful evolution" - a reference to a possible western overthrow of the communist regime through economic and cultural infiltration.

The ideological situation dragged down the rate of foreign capital inflow to the mainland. From 1989 to 1991, actual FDI stayed almost unchanged, at less than US\$4 billion a year.

Foreign investment did not begin

to grow rapidly until 1992 and, once again, it was pushed by Deng.

On his famous inspection trip to southern provinces in the spring of 1992, Deng fought back with a philosophy of "no debate" on so-called ideological issues. Instead, he stressed a pragmatic definition of socialism - that which allowed anything to be considered socialist provided it boosted economic efficiency and improved the people's welfare.

Deng's clarification greatly expanded the latitude for foreign investment, and overseas capital in-

flows rose sharply. By last year, the mainland had been the biggest recipient of FDI among developing countries for 16 years in a row and had become the second-biggest recipient of FDI in the world after the United States.

Beijing has approved 653,087 foreign-funded enterprises, according to the Ministry of Commerce. All but 10 of the companies listed on the Fortune 500 list of the biggest US firms now have either branches or representative offices in the country.

Wang Yuesheng (王耀生), dean of

the international economy and trade department at Peking University, said the true impact of foreign businesses moving into the mainland was still to be felt.

"Foreign investment has brought about changes in people's outlook, the property ownership structure, corporate systems, means of controlling the economy and even the government's role in the market economy," Professor Wang said.

"This will spark further chain reactions in China's political and economic systems in the future and

is therefore more valuable if viewed from a long historical perspective."

Beijing Air Catering has witnessed the transformation and growth at first hand. When it began, Ms Wu's company was producing between 100 and 200 meals a day from a processing line squeezed into an area of less than 50 square metres.

On August 25 this year, a day after the curtain fell on the Beijing Olympics, the company had its busiest day yet. It produced 80,007 meals for tourists, athletes and state leaders leaving on 385 flights out of Beijing.

It's a deal

★ The amount of foreign direct investment on the mainland



★ The number of new foreign-funded enterprises

Perspective shifts on foreign investment amid growing nationalist sentiment

Despite the great contribution it has made to the mainland's economic growth, exports and employment, foreign investment has been the cause of increasing criticism for its negative impact on the country.

The criticism usually points to foreign investment's high concentration in the manufacturing and real estate sectors, and its indifference to the service and especially agricultural sectors; its slack enforcement of environmental protection standards on the mainland; and, most unbearable for some, its aggressive acquisition of well-known brands and leading enterprises in key industries, which is said to be jeopardising national industrial security.

Some analysts have even argued that the mainland should shut the door to foreign investment on the grounds that the country now has an abundance of capital, a far cry from the scarcity of 30 years ago. These analysts say the mainland's bulging fiscal revenues, more than 20 trillion yuan (HK\$22.7 trillion) in household savings and US\$1.9 trillion in foreign exchange

reserves, are sufficient resources not to have to surrender to foreign investment.

This position seems to be having an effect. After waiting as long as three years for approval from mainland regulators, the United States' Carlyle Group had to abandon plans to acquire a 45 per cent stake in Xugong Construction Machinery Group in July amid overwhelming accusations it was encroaching on a "key strategic industry".

Meanwhile, Coca-Cola's bid for the Hong Kong-listed juice-maker Huiyuan for US\$2.4 billion has come to be seen as a litmus test for nationalist sentiment since the proposed deal was announced in September. It is currently awaiting government approval.

However, Coca-Cola faces mounting criticism for what is seen as an attempt to monopolise the mainland soft drink market via the deal.

The new circumstances have inspired the central government to shift its perspective on foreign investment from quantity to quality. The question now is not just how much foreign

Yes, China now has money, but it still cannot efficiently transform the money into investment

Mei Xinyu, an expert at the Ministry of Commerce research institute

funding goes into the mainland, but whether such investment suits the country's needs.

In its 11th five-year plan (2006-2010) on foreign investment utilisation, Beijing made it clear it would not shun foreign investment though it would become more selective when judging whether foreign investors could deliver advanced know-how, improve domestic

Tomorrow The Canton Trade Fair, plus how Hong Kong tycoon Gordon Wu made his mark

industrial structures and boost technical and management innovation.

"A complete shutting of the door [to foreign investment] would be irrational," said Mei Xinyu, an expert at the Ministry of Commerce's research institute. "Yes, China now has money, but it still cannot efficiently transform the money into investment. And we still have to recognise our weakness in technology and management compared with big foreign multinationals."

Beijing effectively ruled out any slamming shut of the door. A statement by Commerce Minister Chen Deming (陳德銘) on a government website said: "China will maintain the continuity and stability of its policies towards foreign investment, and we will continue to take great efforts in developing an economy open to the outside world."

Woods Lee

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