CHAPTER 3

RED GUARDS WITH CREDIT CARDS:
Merge Planning and Market the Fusion Way

CHINESE ECONOMISTS CHOOSE ONE FROM GROUP A AND TWO FROM GROUP B

Beijing, 1992. It was a cold, dreary late winter day. As I peered out through my office window, the city looked grey-yellowish and flat. Nobody could foresee that vast construction sites would sprawl in every direction over the coming years, devouring all that low-rise space. My office was located in the China World Trade Center, a single lonely modern tower rising over China’s capital. A decade later, the China World Trade Center would be dwarfed in a vast sea of high-rises.

But in 1992, the building was almost empty. Only a few foreign firms bothered to keep a presence there after the Tiananmen crack-down. Working for Johnston Stokes & Master, Hong Kong’s largest law firm, I was asked to return from Lao and Vietnam and reopen their Beijing office, which had been closed since 1989. My brief was to rebuild their China practice from scratch.

Staring out through the coal-polluted and dust-smudged windows, I was trying to visualize how to make this happen. There were no foreign investors. There was no sign of any business anywhere. My thoughts were interrupted as our Hong Kong secretary briskly opened the door to my office with a sense of tense efficiency. “Several Chinese
officials are waiting in the reception to see you. They say they are your 'old friends.'"

Yu Xiaoyu, was stretched out on the reception’s institutional blue couch as if he owned the place, accompanied by two other officials. Yu, a burly Beijing’er who exuded the confidence and crassness of a New Yorker, was personal secretary to the Minister of the State Commission for Reform of Economic Systems (going by the obscure acronym SCRES).

SCRES served as the premier’s think tank. With far-reaching power to oversee other ministries in guiding the transition from planning to market, it was one of the most powerful organizations in the Chinese government.

Over steaming cups of jasmine tea, Yu whispered of changes and shifting power alignments at the top. Reformers planned for Deng Xiaoping to take a trip through southern China. It was clearly orchestrated as an emperor’s grand imperial tour. Every Chinese would understand the innuendo of Deng’s trip.

Deng’s “southern inspection” was all about sending messages to open the valves of China’s economy. Deng visited the special economic zones—capitalist experimental laboratories—that he had pioneered a decade before. Revisiting the zones, Deng unabashedly declared his experiment a success. He then called for the whole country to become a market economy.

Lashing out at conservatives, Deng took the upper hand. “Regardless of whether you call it capitalism or socialism, does it raise productivity?” Deng then pronounced China to be a “socialist market economy with Chinese characteristics.” Up until that moment, officials were afraid to even utter the phrase “market economy.” Now they had a green light to practice capitalism.1

When Deng declared, “To get rich is glorious,” people took it literally. The tycoon as icon consumed the national psychology, replacing Confucius, Buddha, and Mao.

Everyone, including communist cadres, jumped on the business bandwagon. China began running more like a corporation than a government (hence the term “China Inc.”). Investments poured in. An era of accelerated hypergrowth ensued. And soon everything got out of hand.

In China the ideological debate between socialism and capitalism had come full circle. Now it was buried. And the rest of the world would never be the same.