

Dollars and Sense: China After Google

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This year (2010) started with two events of global significance: China passed the United States to become the world's largest automotive market, and China passed Germany to become the world's second largest exporter. With surging mobile phone use, it was already the world's largest telecommunications market, and with nearly 340 million users, its largest web market. On the other side of the ledger, China passed the U.S. to become the world's largest emitter of greenhouse gases, and Google announced that it would close its mainland site due to sophisticated Chinese hacking. Get ready for more headlines like this as China's economy continues to surge, and its government becomes more assertive.

Few American companies can afford to ignore the Chinese market. Its scale is undeniable, and after decades of losing money many U.S. companies there are becoming profitable. Add the fact that the U.S., European and Japanese economies are still in the swamp, and it's clear that U.S. companies—large and small—need a China strategy.

But here's the twist. China isn't an ordinary market economy. Its Communist Party maintains a strong grip on all things political and exercises extraordinary influence over the economy. This happens through state-owned enterprises, its massive reserves and capacity to invest (relative to the size of its economy, its stimulus program was larger than ours), its influence over domestic banking, and its ability to make and act on decisions quickly. As Silicon Valley and other companies that depend on intellectual property know, businesses in China also face piracy and industrial espionage on an epic scale.

With their economy surging and ours struggling, China's government sees little need for U.S. lectures on economics. Where it feels vulnerable is political control—thus its intolerance of dissent. While its embrace of markets has greatly benefited many Chinese, who now enjoy substantial personal freedom and rising standards of living, the jury remains out on whether this will someday be reflected in freer political expression.

What does this mean for U.S. business? China's market has an attraction that few companies can afford to ignore. But businesses going into China need to do so understanding both the opportunities and the risks. Those risks can come from many directions—from piracy, from government policy, or from competition. China's government pursues its interests aggressively, pushes compulsory technology transfer, and champions domestic companies. Recent issues include a preference for "indigenous innovation" in government procurement. For those stepping into China's market, it's an eyes-wide-open world.

At the end of the day, we can participate in and benefit from China's growth, and perhaps influence it at the margins. Pragmatic cooperation—business-to-business or through shared efforts to address mutual concerns such as energy—can provide a foundation for US-China relations that buffers political shocks at the national level. While questions that touch on security—something China's government obsesses over and defines broadly—will be sensitive, with the right kind of investment and commitment relationships can be readily formed with most provincial and local governments, which welcome and compete for strong foreign partners. This is particularly the case in cities in China's interior—the country's next economic frontier.

Perhaps China's juggernaut will stumble—as Japan's did—when government management proves too inflexible to deal with changing economic times. But there's no sign of that yet. For now, China has become an engine of global growth, benefiting both its people and its partners. Both will also benefit as it embraces global business and legal standards. But if China—or the US—turns inward, harder choices lie ahead.

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