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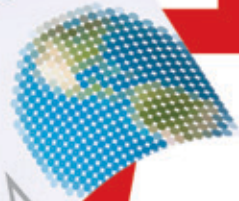
CHINA IN THE WORLD ECONOMY



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CHINA

IN THE WORLD ECONOMY

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BAYLOR GLOBAL BUSINESS FORUM, BAYLOR UNIVERSITY
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INTRODUCTION

Baylor University has a long history of involvement in China, which emerged from isolation thirty years ago to reclaim a critical and growing role in the world.



So it was quite natural for Baylor to devote its 2008 Global Business Forum to the topic, "China in the World Economy." Scholars, business executives, and government officials traveled from several regions of the world to participate in the weeklong event, hosted by Baylor's McBride Center for International Business.

With its enormous population and dizzying rate of economic growth, China has become the workshop of the world, providing products that range from food and clothing to LCD televisions and computer software. It has zoomed past Japan and is closing quickly on the United States and Germany to become the largest commodity exporter in the world.

None of the world's important problems – financial imbalance, energy prices, climate change, nuclear proliferation, protection of intellectual property rights, or alleviation of poverty, to mention a few – can be adequately addressed without Chinese participation.

Baylor's involvement in China may appear new to some, but the university and the country have longtime connections. Recently, a Baylor delegation participated in the centennial celebration of the University of Shanghai for Science and Technology (USST), which was established in 1907 by Baptist missionaries. Now, each summer, Baylor and USST join in a unique program, known as "Immersion Into International Interdisciplinary Innovation," or simply, "I-5." Baylor business and engineering students travel to Shanghai, where they work side-by-side with their Chinese

counterparts to find solutions to problems submitted by global companies. The program crosses boundaries between national cultures and academic disciplines, and between business and academia.

Baylor also played a formative role during the 1950s in the development of Hong Kong Baptist University, where we continue to participate in two international consortia, and where we maintain an active exchange program. More recently, we conducted two full MBA programs in Shandong province, training new management for one of the country's major electric power companies. Furthermore, Baylor has an exchange program with Tsinghua University in Beijing and a study-abroad program, based in Xi'an, that focuses on language study.

Now, we hope you will enjoy this brief summary of the week's events at our 2008 Global Business Forum, "China in the World Economy."



Xin Wang
Fangfang Zhang
Chang Lu
Quoted :
Feng Shu
Dary Stone
Travis Hobbs

Imagine a country where urban youngsters hold cell phones to their ears, play street hoops, sip Starbucks, move to a hip-hop beat and crunch KFC.

That would be the United States, right? Yes. And **China**.



Feng Shu, also an economics student from China, said the differences between Chinese parents and their sons and daughters extend to their role models and heroes. The TV show "Super Girl" is one example. Newspaper articles describe this Chinese version of "American Idol" as a "runaway hit." "The past glorified icons (as role models)," Shu said. "Our generation picks its own role models." For example, a story in an elementary school textbook in China centered on a young student who extinguished a fire and died. He was a hero or a role model of the past,

Lu agreed that his generation welcomes democracy. "We are taught from elementary school about communism and socialism. Ironically, when you ask a college student if he likes socialism, you get a "no" answer. Communism is not holding its own, even though it is taught from a young age." But important differences exist between the young of China and young people in the West, noted American students who have visited China. "The Chinese youth are a lot more driven than we are," said Stone, a Baylor business major. "There

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THE COMPLEX YOUTH CULTURE

"The Chinese youth are a lot more driven than we are," said Dary Stone, a Baylor business major. "There is a plan and a step for each part of life. There are pressures put on them because they are the only child. But they are as fun-loving as we are."

The similarities between young people in the two countries are numerous. In fact, young people in China might have as much in common with 15- to-25-year-olds in the United States as they have with their own parents.

Why is it important for us to pay attention to young people in China? Because their likes, dislikes and behavior have vast implications for the future of business and politics, said Xin Wang, a Baylor Honors College professor who was born and reared in China.

A new generation of young Chinese citizens is influenced by economic reforms and open markets, said Fangfang Zhang, a native of China who is an international journalism major at Baylor. "Capitalism has a huge impact," she said. Japan, South Korea and the West all play a role in shaping interests and purchasing habits. Young Chinese like hip-hop and street basketball, Starbucks, McDonald's and Kentucky Fried Chicken, said Zhang. Cell phones and iPods are their constant companions.

Also popular with this age group are magazines of all kinds: fashion, art, PC, electronics, cars. "Youth are the same here as everywhere. They want entertainment," Zhang said.

Chang Lu, a Baylor graduate student in economics, said many of the goods that young Chinese embrace today were not available to their parents. "Our generation is very different from our parents' and grandparents'," he said. "We were born after the '80s. We have different opinions."



she said. "That was eliminated from our books to get rid of the model of a student who did something he should not have done by himself."

How young people appear to their peers, or "conspicuous consumption," also influences China's young people, Zhang said. Some of her friends asked her to bring back i-phones from the United States when she returned to China for a visit. "The phone is locked in China, so the technical geniuses unlock it. But they cannot use all of its capabilities. So they just use it to show off."

"They are very aware of brand," Shu said, adding, "There is a disparity between rich and poor."

American student Dary Stone said some of his friends in China have asked him for American apparel. One who visited wanted Michael Jordan shoes, he said. Stone took him to a store where his friend pulled out a wad of bills. "He took back a suitcase full of shoes for his friends," Stone said.

Family orientation is important to young people, Zhang noted, but "there is a struggle. We welcome democracy but we are unsure that it will come very soon. We know we must fight for it. That's an impact for our generation now."

is a plan and a step for each part of life. There are pressures put on them because they are the only child. But they are as fun-loving as we are."

International studies major Travis Hobbs described the habits of Chinese friends who sleep three to four hours a night because in addition to being full-time students, they have jobs and internships. One had finished three internships by the time she was a junior. "She was at the top of her program and not considered exceptional," he said. He noted that Chinese students focus on science and math. "Liberal arts are considered a waste of time," Hobbs said.

Zhang agreed: "This is so true," she said. "The students study math."

Added Shu: "Most (Chinese) students choose majors that will let them get the hot jobs."

"Students are also becoming education consumers," she said. "It's a complicated environment. They are raised by conservative parents but love to have fun. Dreams are put on the single child and parents want us to have advanced degrees and study abroad – here and in England and Australia."



A COUNTRY OPEN FOR BUSINESS AS MISSION

Quoted : Dwight Nordstrom

U.S. companies looking for a perfect fit in China should first check to see that they fit the “best in class” description.

This advice comes from a 25-year veteran of the business world in China, Dwight Nordstrom of Pacific Resources International. His holding company specializes in planning and implementing small- to medium-sized high-technology manufacturing start-ups, mergers, and acquisitions. PRI operates in multiple locations in China and has equity interests in companies that produce a diverse array of products.



A COUNTRY OPEN FOR BUSINESS AS MISSION : continued

PRI's operations include specialty chemicals, precision plating, medical stents, nickel-titanium wire, book publishing and distribution, energy-efficient HVAC components, automation assembly and test equipment, electronic manufacturing services, etc.

Being best in class is imperative, Nordstrom said, because of the open and competitive nature of doing business in China. Businesses operate side-by-side with both international companies and Chinese-owned and managed operations. It's best to focus on doing a few things well and to outsource the rest, he advised.

However, PRI's activity in China is more than just business as usual. Nordstrom's companies provide additional benefits to their employees, customers and vendors by operating under the model of business as mission (BAM) or transformational businesses. These operations are guided by strong ethical and spiritual values, and they strive to support the development of healthy communities. They provide income, training, investment, and opportunities for the poor and for the nascent communities of faith.

"Business as mission is distinct from business IS mission or business FOR mission," Nordstrom said.

"Economic development is doing God's work; however BAM is more than just doing business in God's name. BAM requires that the entire business focus on kingdom results (church planting, discipleship, etc.)" Nordstrom said. "To do BAM well, you need to have intentionality beyond seeing just economic good results."

Over the past few decades, Business FOR Mission is normally not "invest-grade" profitable in the unevangelized world, Nordstrom added. That can be a reasonable approach, he said, but he prefers to "encourage people to use the entire brain that God has given them and to get after it." His operations have seen success when they have focused on the needs of employees, customers, suppliers, investors and international technology partners.

In addition to traditional commercial criteria, Nordstrom said that leaders interested in businesses as mission should evaluate the following:

- **The redemptive potential of the business – different types of business vary in their Great Commission "pregnancy" for Kingdom results**
- **How to wrestle with the inevitable conflict between the sacred and the secular**
- **Whether the operation will focus on serving a particular city or people group, and whether it will require specific technical skills**
- **The intended duration of involvement**
- **The best way to be accountable**

Nordstrom, who worked as general manager of seven factories in China as well as having served as the China country manager for one of GE's divisions in the 1980s, decided early that "I didn't want my ability to share my faith restricted by government regulation. I wanted a whole team behind me. BAM releases your creativity."

Currently, the majority of successful BAM businesses in new mission fields are in China, Nordstrom said. Similar businesses in other transitional countries have, in general, failed to realize a sustaining, investment-grade profit, he said. Few of the businesses have been able to attract seven-figure, market-based financing (debt and equity) on a continuing basis. This keeps China in first place for BAM- based capital investment. The businesses are growing along with China's economy and are popular because of their predictability and the benefits they offer people, Nordstrom said. "You see Bible studies and churches started out of our businesses," he said.

Other best practices that Nordstrom suggests for Chinese operations include:

- **Teaming up with companies that rank first or second in their niche.**
- **Creating multicultural teams at all operations.**
- **Focusing on hiring low-cost skilled workers, such as engineers, and striving for both domestic and export markets.**
- **Paying taxes after getting good financial and accounting support.**
- **Placing a government relations person at each operation and making arrangements for government relations support at both the local and national levels.**



- **Recruiting and developing local leadership for middle- and senior-management positions in the long-term. Leadership competencies will be the biggest internal challenge, but, if handled well, will provide an opportunity to achieve "best-in-class" status.**

Spiritual best practices include having a Christian strategist or pastor on the board of directors or board of advisers, Nordstrom said. He advised payment of taxes as well as careful networking and other government relations efforts to minimize government scrutiny that might prompt an arrest or a seizure of assets. "If you are careful and network, they are restrained in their efforts," he said.

The Texas-educated Nordstrom, who reviews about 50 business plans a year for companies, advised that business leaders who are trying to determine a potential role in China should not wait until the end of the process to decide what to be. "It takes a long time to go through the process" of opening a business in China, he said.

CHINA + UNITED STATES

CHINA + LATIN AMERICA

China's rapid economic growth is a mixed bag, say economists from the United States, Europe, Kazakhstan and Latin America. They acknowledge that trade imbalances must be addressed, but stress that good relations with China will help us to tackle the worldwide issues of climate change, poverty, and political unrest. Here are some of the views from around the globe.

CHINA AND THE WORLD - DIFFERENT VIEWS

CHINA + EUROPE

CHINA + CENTRAL ASIA

CHINA + AFRICA

"It's fine that other countries develop and grow. It's about time. China has a large population and a developing economy. It should be embraced."

Dr. Penelope Prime



CHINA + UNITED STATES

Timing is not everything, but that plus hard work account for China's rise in the global marketplace, said Dr. Penelope Prime, professor of economics at Mercer University.

Rapid growth began and continues because China's leaders had vision and made major changes, she said, adding, "It's fine that other countries develop and grow. It's about time. China has a large population and a developing economy. It should be embraced."

Mutual respect encourages China to play a cooperative role in the world trading system, said Prime, who is director of the China Research Center, which promotes collaboration between colleges and universities in the southeastern United States.

When reforms began in the 1980s, "manufacturing made sense" in China because of its large work force. Although the U.S. trade deficit with China is large, that "could be anywhere," Prime said. "It's China by chance and it may not stay there. In 10 years, the picture will look different; it's a fluid process."

The problems with China are exacerbated by its high savings rate – averaging 42.7 percent of gross domestic product in the 2000s – and its exports, averaging 29.8 percent. By comparison over a similar period, the U.S. savings rate was 14.6 percent and exports were 10.2 percent.

She predicted that the slowing of the U.S. economy will put more balance in China's economy, making it less dependent on this country. "I think that's a healthy thing," Prime said. China's economy is already changing because it is maturing, she said. In late 2007, exports from the U.S. to China increased and imports from China decreased. That should continue in a moderate way, Prime said. "We will also see increased investment from China in the rest of the world, including the United States," she said.

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Klenner said that China's highly regulated financial markets seem to be a source of stability.

Dr. Wolfgang Klenner



CHINA + EUROPE

China's image in Europe is changing, said Dr. Wolfgang Klenner, professor of East Asian Economics at the Ruhr-Universität Bochum in Germany's North Rhine-Westphalia region. During a period of global financial instability, rooted in America's sub-prime lending crisis, Klenner said that China's highly regulated financial markets seem to be a source of stability. Skepticism accompanies the change, however, because of China's violations of human rights, environmental issues and counterfeiting problems. "So the image is extremely heterogeneous," he said. Only a tiny amount of China's capital goes to Europe, but Europe can expect to see more, Klenner said, as it competes for Chinese investment. Likewise, EU investments in China represent a small percentage of its foreign direct investment, but some of Europe's largest firms are investing in China, he said. Attracted by low wages and technological advantages, the EU and the United States each invested \$56 billion, and Japan \$62 billion, at the end of 2007. The EU's

trade volume amounted to \$272 billion in 2006, compared to \$263 billion for the United States and \$207 billion for Japan. In the triangle that includes Europe, China and the United States, "China is more determined to make use of its role," Klenner said. China wants to counter the dominance of the U.S. model of economic power, and Europe is determined to strengthen its ties with China. Europe's trade with China will increase in general, he said, but the EU's investment in China "has lost some attractiveness." Chinese competition has caused fewer job losses – so far – in Europe than in the United States, Klenner said. In some industries, such as footwear, problems have appeared in Spain and Italy. "These are considered regional problems and don't affect the whole of Italy or Spain yet," he said. He noted that China is increasing pollution control and buying much of the equipment that it needs for that purpose from Germany. "Some firms suffer but some are competitive because of China," he said.



CHINA + LATIN AMERICA

"Mostly the exports come out of Chile and Brazil, which account for 76 percent of Latin America's exports to China,"
Dr. Mauricio Moreira

China and the Latin American countries have a great opportunity to improve their trade relationship, said Dr. Mauricio Moreira, head of research for the Integration and Trade Sector of the Inter-American Development Bank. Right now, Latin America is providing some of the natural resources that China lacks. "Mostly the exports come out of Chile and Brazil, which account for 76 percent of Latin America's exports to China," Moreira said. Meanwhile, China takes only 3.5 percent of the regions's exports and has a low per capita consumption of soy, beef, poultry, and pork. "There is room for growth." Investments from Latin American companies also need to grow, Moreira said. In 2005 Latin America invested \$2 billion in China, with most of that from Brazil. China's huge labor force – 109 million workers in manufacturing in 2006 – makes for intense competition, Moreira noted, comparing that number with 14 million in the United States

and 9 million in Brazil. Wages are increasing in China, he said, but they are still much lower than in Mexico and Brazil. This isn't a problem as long as productivity in China remains lower than Brazil's, but that advantage is disappearing, he said. The best opportunities for increased Latin America/China trade are in natural resources, he said. "But the challenges are in market accessibility." Agricultural exports from Latin America faced tariffs of 17.4 percent in 2005. Other government intervention includes quotas, import licensing and "unduly stringent sanitary requirements," Moreira said. "This requires a strong negotiating stance. In manufacturing, we need higher productivity from Latin America, an upgrade in products, and better use of low-wage areas in Brazil in the northeast and Mexico in the south."

China gives debt relief to Africa through the China-Africa Development Fund, but wants to make a profit. "This is not aid. Grants are small and are given for very targeted, specific projects."

Joshua Eisenman



CHINA + AFRICA

China has realized impressive results by using government relations in Africa, said Joshua Eisenman, a political scientist and a Fellow in Asia Studies at the American Foreign Policy Council. "China has developing interests in Africa, and the political and economic come together," he said.

Eisenman described three tiers of what he called a "going-out policy" in China:

- a government tier, where the Chinese government takes an entourage to a country for a meeting tied to commercial behavior and returns home with lots of contracts;
- an investment tier, in which Chinese are interested in free trade zones that give China favorable terms;
- and a labor tier, in which China sends excess labor to Africa.

China engages Africa by going into a country for meetings, or by bringing young African "elites" into China and introducing them to young Chinese elites, Eisenman said. "This allows China to talk the language of equality," he said.

Another part of China's relationship with Africa involves banking services and debt relief, which overlap and include aspects of the

commercial and political, Eisenman said. China gives debt relief to Africa through the China-Africa Development Fund, but wants to make a profit. "This is not aid," Eisenman said. "Grants are small and are given for very targeted, specific projects. China gives very little grant aid compared to other countries."

China's debt relief is difficult to follow, Eisenman said. It manages the debt-relief process by making announcements about what it is going to do. Then it makes loans and re-indebts the country. China's loans in Africa are related to infrastructure, he said. Angola might propose a project to China and get a loan. China approves the funds, but they never leave Beijing. "They are just transferred to another account," Eisenman said. "This leaves in the hands of the Chinese the decisions on infrastructure." As a result, Eisenman said, some African countries like Ethiopia have large debts to China.

The Chinese are also investing in banking in Africa, he said, but restrictions are heavy. "You cannot borrow from China. You cannot hire firms from other countries. You cannot recognize Taiwan."



Dr. Gabdygapar S. Seitkassimov

CHINA + CENTRAL ASIA



The border between Kazakhstan and China is a busy place due to the geography of the region and because of China's demand for natural resources, said Dr. Gabdygapar S. Seitkassimov, a professor of economy and rector of the Kazakh University of Economy, Finance and International Trade in Astana, Kazakhstan.

China is Kazakhstan's fourth largest trading partner, he said. Kazakhstan exports iron ore, oil, natural gas, wheat and grains to its neighbor. China sends textiles, furniture, leather, plastics and electronics to Kazakhstan. "We hope to achieve a balance between exports and imports and to diversify the commodity structure."

Trade on the border between individuals accounts for up to half of all the trade between the two countries, Seitkassimov said. This has negative consequences for Kazakhstan when household products from China threaten Kazakh producers. Also, he said, the products from China are often poor in quality and dangerous.

Many of the accredited Chinese companies operating in Kazakhstan act as mediators. They do not produce real products, he noted. Investment partnerships geared to oil and natural gas industries are most significant, he said. China's national oil company is developing several oilfields in Kazakhstan. One already completed pipeline can move two billion tons of oil annually. A second one will transport 10 billion tons annually, he said. Construction totaling \$1 billion will be finished by 2009, he said.

China is also funding a hydroelectric plant in Kazakhstan, Seitkassimov said. China has opened its own bank and is participating in the Kazakh insurance market. Kazakhstan wants China to help it produce agricultural equipment, "but China is not moving in that direction with great enthusiasm," he said.

Chinese economic growth is driven by the manufacturing sector, said Dr. Aigul Toxanova, vice president of the Economic Research Institute of the Kazakh Ministry of Economics and Budget Planning. In Kazakhstan, GDP is growing because of oil and natural gas exports and rising resource prices.

"China needs nine million barrels of oil daily, and produces only four million," she said. "Kazakhstan is a reliable partner."

The priorities for Kazakhstan, according to Toxanova, are to increase the quality of its economic growth, diversify the economy to include more high-quality products, and to ensure its oil reserves are "a blessing rather than a curse."

"China needs nine million barrels of oil daily, and produces only four million, Kazakhstan is a reliable partner." Dr. Aigul Toxanova

WHAT'S AHEAD IN THE GLOBAL COMMONS?

With feet planted in the United States, a background in Malaysia, and eyes cast toward China, Dr. Wing Thye Woo sees a clearer picture than most others when he views the global economic landscape.

What he predicts for the future is trouble, unless both China and the United States address their problems at home. Once they do that, they can address the shared problems that loom large, like **global warming**.



"There is an urgent need for the global community to reduce the emission of greenhouse gases in order to avoid the worst." **The question is, who bears the responsibility and the costs?**

A professor of economics at the University of California-Davis and a Senior Fellow at the Brookings Institution, Woo said that both China and the United States must



Dr. Wing Thye Woo

guard the worldwide trading system to prevent a clash in the global commons. Skirmishes are already taking place, noted the Malaysian-born scholar. The Doha Round of worldwide trade negotiations is failing, and Brazil and India are hoping to build preferential trading blocs.

"The only group totally committed to free trade is economists," noted Woo, and chinks are appearing in their armor, too. For example, Nobel Prize winning economist Paul

Samuelson has claimed that free trade is bad for developed countries over the long term. "I think he is wrong and is reflecting the discontent around him," Woo said.



Dr. Lan Xue

No one should be surprised at the backlash against globalization, he added. "We could have seen it coming in 1992," he said, when the Soviet Union, India and China "rejoined the world." Before that, half of the world's labor force did not participate in international trade because of self-imposed isolation.

China started its gradual program of economic reform in 1978, but the collapse of the Soviet empire in the early 1990s convinced

China that there would no longer be a "third way" to economic development, so they embraced market capitalism wholeheartedly and saw positive results. India followed, and the number of workers participating in international trade has doubled. Although economic models predicted that wages would fall as the world's workforce grew, that did not happen.

Instead, cheap goods from abroad displaced U.S. products and reduced the demand for labor, while innovations in technology increased incomes. People whose incomes increased wanted new services and products. "Technology also increased the impact of globalization through outsourcing," Woo noted, and some American jobs were lost. So technological progress brought prosperity, but the gains were uneven.

Dr. Woo predicted that rising protectionism in the United States and other industrial countries could cause serious problems for China's export sector, so he suggested that the trade imbalances and job losses must be addressed. China should increase its infrastructure investments, he said, and give more money to its students to attend U.S. universities.

Americans must increase their savings rate, which would reduce the trade deficit, and U.S. policymakers need to reduce the pain associated with the trade deficit. While economists talk about trade adjustment assistance and retraining, "We have failed," Woo said. "It is glib talk to tell a 40-year-old worker to go back to school and become a software programmer. But we can train their children to do it," he said, adding that the United States should invest more in training the young.

"We have failed," Woo said. "It is glib talk to tell a 40-year-old worker to go back to school and become a software programmer. But we can train their children to do it."

Quoted :
Dr. Wing Thye Woo
Dr. Lan Xue

WHAT'S AHEAD IN THE GLOBAL COMMONS : continued

Additionally, the United States must improve its safety net to help people "adjust to the churning in the U.S. job market," he said. "The pain in the United States is greater than in other rich countries. Unemployment income is lower here, and the duration of it is very short." Additionally, health insurance is occupation-specific, and people lose it when they lose their jobs.

Dr. Lan Xue, a visiting scholar at Harvard's Kennedy School of Government, agrees with Dr. Woo that climate change represents a growing threat to worldwide economic growth. The way to move forward, Xue said, is through joint solutions that improve mutual understanding and reduce distrust.

Xue, who heads the School of Public Policy and Management at Tsinghua University, sees a serious gap between American and Chinese perspectives on the issue of climate change, and noted that it is difficult to make rapid progress on environmental issues. Still, he said, "There is an urgent need for the global community to reduce the emission of greenhouse gases in order to avoid the worst." The question is, who bears the responsibility and the costs?

One solution would involve establishing a global per-capita standard for emissions. Countries that exceed the standard (probably including the United States) would be taxed, and countries that stay beneath it (probably including China) would be rewarded. Since 70 to 80 percent of greenhouse gases come from developed countries, they would

have to pay hundreds of billions in taxes under this framework. China would not exceed the quota and would be eligible for a reward. But "the general public in the West does not recognize the fairness and equity" of this plan, Xue said.

In the meanwhile, China needs fuel. Manufacturing such things as glass, cement and steel for export accounts for 48 percent of its economy. But coal is China's major fossil fuel and will remain the backbone of powering the economy, Xue said. Although China is realizing great gains in manufacturing, it has suffered a sustained drop in precipitation since the 1950s, and is home to 20 of the world's 30 most polluted cities.

China and other developing countries have a right to continue pursuing economic growth, he noted, but doing so unchecked would be environmentally devastating. In this atmosphere, what kind of global solutions are possible? Xue points to China's plan to cut its carbon dioxide emissions by 20 percent by the year 2010. Its citizens are participating in discussions – but public participation also brings out the NIMBY (not in my back yard) syndrome. Officials will need to address the public sentiment against dams, reservoirs and nuclear power stations, he said.

Worldwide, only joint policy research and communication and focusing on supply as well as demand will help the world move forward, he said.

He proposes joint investment and research in alternative energy technology and the creation of a grand technology pool funded by purchasing the licensing rights of mature and efficient technologies that developing countries need. Leaders could then make the pool's resources available to developing countries to improve their economic efficiency and reduce emissions.

Woo calls for the United States to work with China on a broad scale that includes the environment, nuclear proliferation and pandemics. "There are many giants today," he said. "We must make elbow room for the Chinese."

He added, "A harmonious society in China requires a harmonious world, and China must participate. It must become a law-abiding society and it won't obey international laws without obeying its own."

CONFERENCE SPEAKERS



Xin Wang



Chang Lu



Fangfang Zhang



Feng Shu



Dary Stone



Travis Hobbs



Pat Horner



Haiyang Li



Ted Li



Tony Stewart



Larry Xianghong Wu



Greg Lehman



Joe McKinney



Steve Gardner

MYTHS AND TRUTHS ABOUT BUSINESS IN CHINA

Quoted : Ted Li, Tony Stewart

Chinese native Ted Li, a Blue Cross and Blue Shield executive who lives in San Antonio, listed several common myths about business in China:

1. *If you are a well-known U.S. company, you can start a business right away.*
2. *You need guanxi (influence) to enter the Chinese business world.*
3. *You can build relationships through business transactions.*
4. *You cannot be trusted since you are a gui lao (foreign devil).*
5. *You can't do business with the communist government.*
6. *You must pay bribes for business success.*
7. *Protocol arrangements with Chinese partners are merely a form of hierarchy.*
8. *Chinese companies are not well managed because of lack of experience.*

Li, whose family lost everything in China's Cultural Revolution, said he has known hard times but managed to succeed anyway. "I never went to high school," Li said. "I was separated from my parents during the Cultural Revolution." He later obtained degrees in mechanical and oceanic engineering, and now, as vice president of China development for BCBS, maintains offices in both Chicago and Beijing.

Businesses seeking success in China need to realize that "harmony between man and nature, body and soul" is the ideal in the Chinese culture, Li said. Organizations do best when their managers talk of the social and economic benefits of their business, and of building a harmonious society. "Working with the government is key to success, regardless of the industry."

He suggested that foreigners entering China should have a Chinese business partner and should treat that partner like "a loved family member, and promote cross-cultural management."

Best practices include tying the business to social mission; becoming a trustworthy partner with mutual goals; and building a relationship founded on cultural respect and the ability to collaborate. The Chinese government likes American businesses because of their integrity, Li said.

Tony Stewart, a long-time resident of China who is now a partner in the Dallas law office of Jones Day, noted that China's huge population is 91 percent literate and their economic success means that increasing numbers are shopping for refrigerators and luxury automobiles instead of bicycles and wristwatches.

"It's the largest and fastest-growing market for cell phones, and the second-largest PC market," Stewart said. China is the second-largest Internet user, with 94 million people online in 2004. Projections put its commercial air travelers as number two in the market for the next 20 years. Automobiles, which no one owned 10 years ago, now number 20 million in China. That will double by 2020, Stewart said.

Stewart helps Dallas businesses to enter China, and notes that U.S. companies have a steep learning curve. They must remember that "Everyone likes to be spoken to in their own language. You've got to be user-friendly."

He works with the Greater Dallas Chamber of Commerce, which focuses on entering cities with population of 10 million. These "second-tier cities" are open to new ideas, Stewart said, and aid the goal of building brand awareness for Dallas-Fort Worth.

There are rules for foreign investment in China, Stewart said. Although world-class statutes are in place, they are not uniformly enforced. There is also a disconnect between local behavior and national laws, he said. If a business is operating counter to national law, local officials will not shut it down because it is often the biggest employer.

Other things to remember, Stewart said:

- *The level of government approval depends on the amount invested, the location and the nature of the proposed investment. Study China's investment catalog. You cannot just incorporate a company and start to work.*

- *Special economic zones are scattered throughout China, and they offer benefits. Tax benefits include no income tax for the first two years, then a structured tax after that. A new enterprise income tax law is leveling taxes between foreign and domestic companies.*

- *China passes laws that differ from the U.S. tax code. They are very short and they state broad, general policies. This provides a lot of leeway for bureaucratic control.*

- *China's judges had no experience with dispute resolution until the 1970s. The legal structures have improved. Foreign companies are better off with arbitration.*

- *If you face an intellectual property violation, make yourself a nuisance. Although violations are widespread and local governments protect local taxpayers, China has a civil law system. Register everything in China, because you cannot enforce IP rights without registration.*

IN A WORD, 'guanxi'

"The counter-offer is the starting point, and you must go through the process. It's a physical exercise, and you must prepare for a long battle. Negotiators are very tough. You must be physically fit and mentally prepared."

Anyone who wants to transact business in China would be wise to learn at least one short word of the language: guanxi, pronounced gwan-shee. Knowing the meaning and practicing the concept helps -- even in everyday shopping, say students who have spent time in China and researched the country's culture and marketplace practices.

Parker Short, a Baylor business major who spent part of a recent summer in China, called guanxi "a tacit relationship that includes mutual obligations." Although similar to networking in the West, Short said conducting business in China could be difficult if guanxi is absent.

Seconding that notion was Baylor student Scott Strickland of the Honors College, who researched Beijing's marketplaces. Westerners have a "colder relationship" when they shop, Strickland noted. "We choose a product, buy it and leave," he said. In China, negotiating is crucial even when shopping, he said.

Although Americans are pressed by time, that's not the case in China, noted Dr. Xin Wang, a Baylor Honors College professor who was born and raised in Xi'an. "In China, building relationships is a process," he said.

Thus, said Short, people who want to do business in China need to be connected by someone. The parties to a deal must be trustworthy and follow through on their promises, he said. And it's important for businesspeople to know how to use guanxi appropriately in marketing, easing government restrictions and participating in joint ventures.

Chinese use marketing to give consumers a chance to know the brand, Short said. Consumers in the West are willing to experiment more. "We think of how to place commercials and they think of how to bring people around to the product," Short said.

Quoted :

Parker Short
Scott Strickland
Dr. Xin Wang
Diane Nelson

When dealing with the government, effective use of guanxi may mean that applications are approved quicker. In joint ventures, Chinese nationals might teach the nuances of guanxi to their partners, Western businesspeople can get to know Chinese people in positions of influence and better understand cultural practices.

"Guanxi is diminished to a degree, although it's still powerful and important," Short said. Businesses that want to operate successfully in China should be prepared to accommodate cultural differences and use guanxi when appropriate, he added.

"Guanxi is a quintessential element of doing business in China," Wang added. "The relationship becomes business capital, just like people are."

Relationships also are important in marketplace negotiating, Strickland said. Talking about the Silk Street shopping market in Beijing, Strickland noted that "aggression is rampant. Vendors want to interact with customers." They will call out "Handsome boy!" or "Pretty girl!" he said. Ignoring these greetings invites hostility.

The colorful Silk Street offers deals to shoppers and lures tourists and businesspeople both, Strickland

said. It's the third best-known tourist destination after the Palace Museum and the Great Wall, he said. "Foreigners come in droves." The marketplace was closed in 2005 and razed, replaced by a new complex in the style of a shopping mall.

Successful shoppers pay attention to nonverbal behavior and context, said Strickland, who bought artwork, clothes and paintbrushes in the market. "Yes" does not necessarily mean agreement, he said. It can mean, "I am listening. You must judge the meaning of what's said by the situation."

Also important, he said, is "face" or reputation. American negotiators may not understand that they have embarrassed someone, he said. Standing firm on a price, rather than negotiating, may ruin a relationship. "If you didn't get a good price, you are too impatient," Strickland said. "Chinese use wait-out tactics. They are very interested in long-term relationships."

Added Wang: "The counter-offer is the starting point, and you must go through the process. It's a physical exercise, and you must prepare for a long battle. Negotiators are very tough. You must be physically fit and mentally prepared."

The Chinese marketplace also includes a network of art districts, which can include residences, restaurants, bars and clubs as well as artists' studios and galleries. Diane Nelson of Baylor's Honors College researched the emerging urban art districts in China and found one, the 798 Art Zone, that "reflects the transformation of the country." That's because the district was once farmland, then a military factory and is now a contemporary arts district, she said.

The factory, built by East Germans in the Bauhaus fashion, was placed far away from the city center for security reasons. The windows face north, which works well for art galleries and studios. About the time it became defunct as a factory, Beijing's artists were looking for a new home. Although it was supposed to be a temporary location, the Central Academy of Fine Arts moved there in 1995 and made it a permanent home. Also located there is Beijing Tokyo Arts Projects.

The space attracts international artists, and it reflects Chinese national pride. Because it's also a residential district, it fosters dialogue among artists, Nelson said. "The government has taken notice. The government is pleased with the role it plays in society, but wary of people's reaction to art." The government wants free expression "but not too much," Nelson said. Artists have been censored for political expression, and although that is changing, works are still being censored.



HOW TO SUSTAIN HEAD-SPINNING GROWTH



Many factors are influencing economic growth in China, but Dr. Gary Jefferson of Brandeis University is particularly interested in three of them: **technology, inequality, and political reform.**

Do these indicators suggest that China will sustain its growth in the coming years?

Jefferson, who has lived and studied in China, casts a vote for optimism.

Technological progress has played a key role in the economic development of many other countries, and Jefferson believes that China currently in the middle of its take-off in science and technology. During the growth spurts of six major economies – the United States, Japan, South Korea, the United Kingdom, France and Germany – expenditures on research and development increased rapidly until they settled at about 2 to 3 percent of GDP. Reaching that threshold took an average of 10 years, he said. For South Korea, it was five years. China's R&D intensity was 1 percent in 2000 and 1.5 percent 2006-2007, so it is reasonable to expect that technological progress will continue to contribute to Chinese economic growth.

The economic conditions influencing this drive include a shift from low to high technology production and imports; an increase in the size of the technology pool, and growing benefits for workers in research and development, such as a higher quality education, extensive networking and equipment investment.

Since 1980, Chinese economic growth has been concentrated in the coastal areas, and has been associated with rising income inequality. For economic growth to continue, Jefferson said, it will need to spread farther into the undeveloped western regions of the country, so a more uniform distribution of income will be a corollary of sustainable growth.

"There is an inverted U curve that China is following: As per capita income rises, there will be a reversal in the growth of income inequality."

Development of a more equitable and "harmonious society" will require continued economic prosperity and social and political stability, Jefferson added. The Chinese government "has been quite successful in establishing and

maintaining performance legitimacy in the absence of procedural legitimacy," he said. The country has accomplished this by reassigning property rights, and it now has a burgeoning, entrepreneurial middle class.

But there is a lower class, too, and the function of the political system is changing to mediate tensions between the winners and losers, Jefferson said. China needs procedural legitimacy, he said, which may require the gradual development of more democratic institutions.



HOW TO SUSTAIN HEAD-SPINNING GROWTH : continued

Dr. Wing Thye Woo of the Brookings Institution agrees that change in China will require increasing accountability on the part of leaders. Open elections, a free press and an independent judiciary will encourage this, he said, and "China is talking about all three." Officials are discussing extending elections from the village to the provincial level. There is talk of greater use of democratic procedures for social intermediation, and the press today is "certainly freer," he said.

Dr. Larry Xianghong Wu, a private-sector business consultant with experience in public policy and diplomacy, noted that the disparity in wealth is an issue that will define future policy debates between China and other countries.

The Gini index of income inequality is higher in China than in most other nations, and keeps rising in China while it declines elsewhere, he noted.

"So what?" asked Wu. "Why should we care?" Because none of the unequal countries happens to be the third largest economy in the world

and the second largest trading partner of the United States, he said. "The poorest Chinese determines the 'Made in China' stamp," Wu said. Eighty percent of the poor are contracted urban workers from rural areas, and they make up 10 percent of the Chinese population and probably the poorest 10 to 20 percent.

This "bottom line" is very low, Wu said, and the Chinese who make up the bottom will work very hard to lift themselves. "Any sound trade policy with China must begin with lifting the bottom line," he said.

The United States also should address China's population structure, Wu noted. Many criticize the one-child-per-family policy for religious or ethical reasons. "But the criticism misses the point," Wu said. The policy has transformed China into a highly unstable structure, in which one child often has to support four grandparents and two parents. This influences the young who are making money to save heavily for the future, which "chokes" Chinese spending and imbalances the world trading system, he said.

Jefferson noted that the United States should encourage China to develop social insurance, which could help to moderate China's savings rate. He encouraged sensitivity and collaboration, not confrontation.

To respond to unacceptable levels of income inequality, "the political system must evolve," Jefferson said. "I am an optimist and I believe the changes are deeply rooted."

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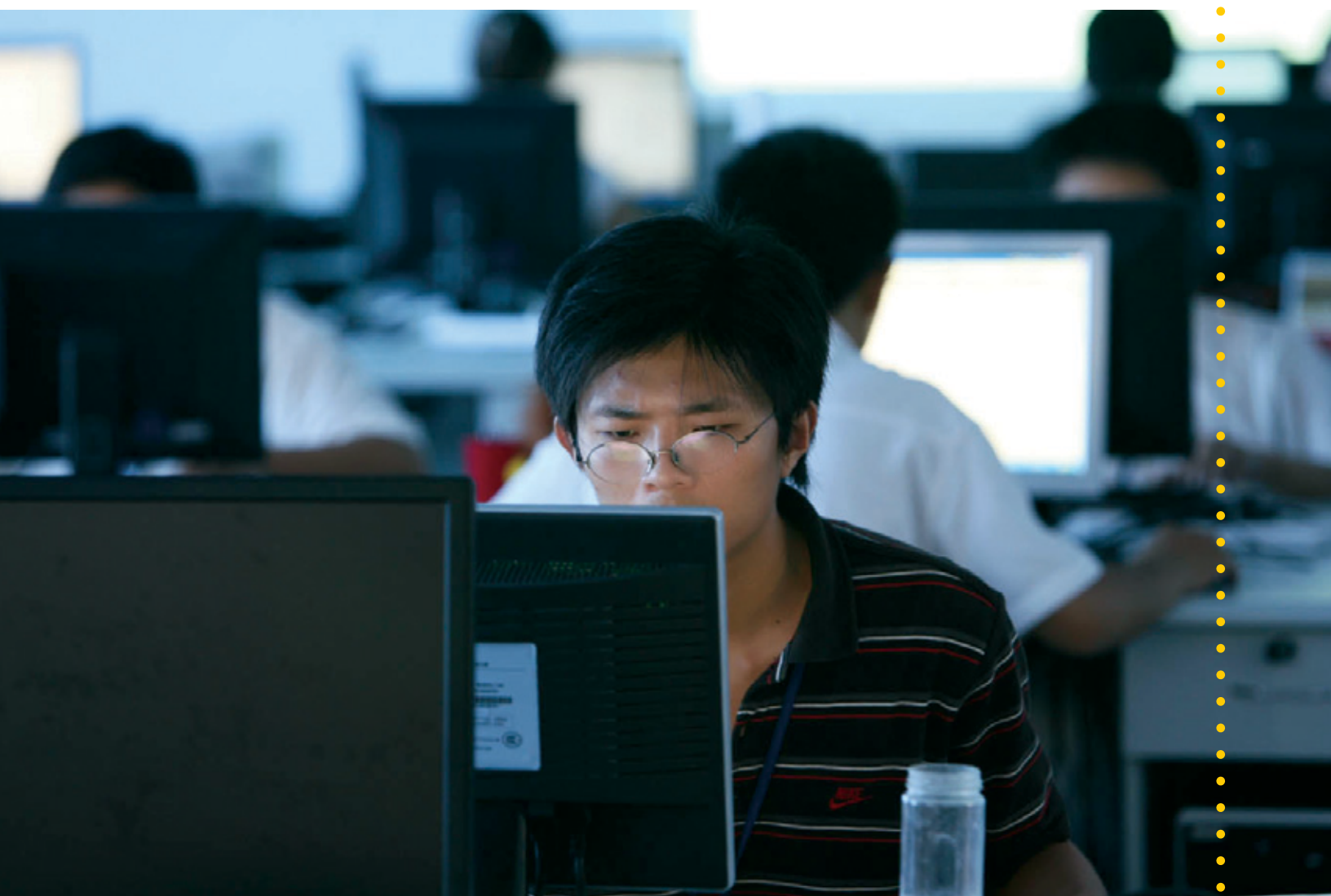


WHY OUTSOURCE IT TO CHINA

Right now, India controls about 85 percent of the offshore outsourcing market for information technology services. China's share of the market is only about 5 percent. So why did Pat Horner, who has decades of experience in the IT sector, close his operation in India and move it to China?

Quoted :

Pat Horner
Haiyang Li



According to Horner, China is attractive for several reasons, including its pipeline of 37 million IT workers, its 16,000 software and services firms, its \$25 billion domestic market for IT services (financial services, government, telecommunications, health care, transportation and manufacturing), and its 100 percent government support.

Horner, a onetime chemistry major at Baylor, later turned to IT and computers and fell in love with the business. Today he and three others with 100 years of experience run E5 Systems, a software development outsourcing company based in Jinan, China. "Our strategy has been to focus on companies we know. We try to do in China what other companies are doing in India," Horner said. The operation has 125 employees, 35 customers, \$5 million in revenue and a positive cash flow.

Texans invented IT outsourcing, Horner said. Ross Perot of Dallas launched EDS, one of the top companies in the world in IT services. In the '70s and '80s, much of IT, which includes network maintenance, computer operations, software development, help desks and related operations, went offshore.

Science and technology parks, supported by cities, provinces, and universities, are playing an important role in China's technological development. For five years, E5 Systems has worked from Jinan Software Technology Park in Shandong Province. The first three years, it occupied the space rent-free.

China established the parks in the 1980s to meet the global challenges of new technology and competition, said Haiyang Li, assistant professor of strategic management and innovation at Rice University. Four such parks in

Beijing dispatch thousands of graduates, he noted.

Four Chinese scientists championed the parks in an effort to accelerate China's high-tech development, and the country established the first development zone in 1988, Li said. They grew to more than 50. The parks incubate technical startups and have shown "dramatic sales output in the last 15 years," he said.

They grow because of preferential policies as well as the distance between them, the knowledge base they offer, and the amount of foreign direct investment (FDI) -- \$750 billion from 1979 to 2007, Li said. "FDI stimulates the growth of China by demonstration, building local linkages and employee turnover," he said. Foreign investment, along with research and development, attract new business to China.

"FDI crowds out weak firms and increases competition," Li added. Companies compete against each other and against local firms.

The hourly rate for computer programmers in China is \$12 to \$25, Horner said. In India, the rate is about \$50 an hour. Employers can easily find workers with one to five years' experience, he said, but finding people who have managed large projects is more difficult.

U.S. and European companies that want an alternative to India will find it in China, Horner suggested. "It takes a long-term perspective and investment to be successful." The major challenges for China are protection of intellectual property, English language proficiency, and project management skills, but progress is happening on all of those fronts. "Those will be solved," he said.



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