



STRIVE FOR FIVE

WHY CHINA CONTINUES TO DOMINATE GLOBALLY

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Executive Summary

The People's Republic of China markets itself as the world's fastest-growing major economy and the world's most populous country with a population of 1.3 billion people. With facts like these, it is easy to see why many businesses are now seeking to tap into this emerging market. Although Beijing and Shanghai are contrastingly different –Beijing being more culturally conservative and Shanghai more westernized– each city contributes to China's current economic success. Through pre-departure classes, hands-on experiences and visits to multinational and local companies, the 2012 China Global Immersion Elective trip has allowed me to see and witness China's rich culture and business atmosphere first hand.

I have grasped a clear understanding of the wealth and market potential present in China, through my travels to Beijing and Shanghai. As a result, I can accurately compare and contrast the business environments of China and the United States. Through my synthesis, I will explore how the Chinese Five Year Plan (FYP) creates a more efficient and progressive society compared to that of America. I will defend my position by contrasting my personal in-country experience, my extensive research regarding China's history as a nation and its political, social, and business environments to those of the United States. Moreover, I will provide my synthesis on the future impact of China's current economic activity on America's sustained prosperity in the international market.

Each bullet point will be addressed in detail in a new paragraph

Overview of China	<ul style="list-style-type: none">• Geography
Political Structure	<ul style="list-style-type: none">• Communism
Social Structure	<ul style="list-style-type: none">• One-Child Policy
Business Customs	<ul style="list-style-type: none">• Twelfth Five Year Plan
Future Outlook	<ul style="list-style-type: none">• Strive for Five

China's geography helps contribute to its global economic success.

China's location in Asia makes it a global center for businesses. Bordering fourteen different nations, the People's Republic of China is geographically the second largest country in the world after Russia. But more interesting is its demographic breakdown. The country's male to female ratio is almost 1:1, with the majority of Chinese nationals living in the densely populated eastern, coastal provinces like Beijing, Hong Kong and Shanghai. Dozens of cities are filled with one million or more long-term residents, giving China the ability to stimulate revenue from multiple places. This allows China to become a global supply chain center for America and to control many of the United States' financial assets.

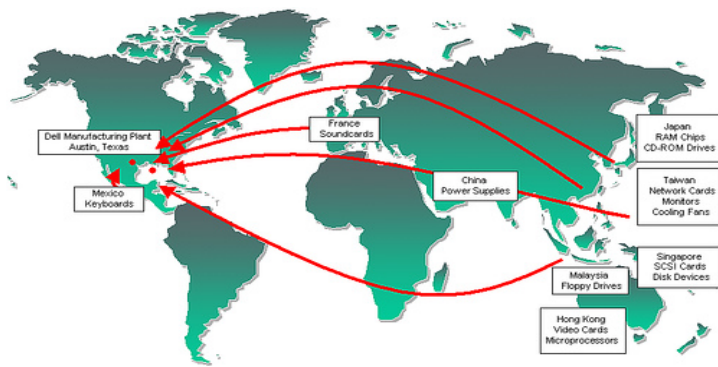


Figure 1: With more than 2,000 ports between both countries, China has benefited from cross-border collaboration with the U.S.

Political cohesion helps the Five Year Plan remain effective in China.

Government experimentation has played a key role throughout China's extensive history and its recent political system has helped spur economic growth. The first documented system of government consisted of a dynastic feudal system followed by a two thousand year stretch of various dynasties that implemented meritocracies, dictatorships, bureaucracies and republics. Each system had its varying degree of successes; however, in 1948, under Mao Zedong, China adopted its current system of communism. As I observed China's political structure before traveling and while I was in country, I constantly contrasted it to America's and wondered why China never readopted its old republic. The United States is often branded as the land of "opportunity and freedom," but I now wonder if a democratic government lends itself to too much individual choice. No one can argue with China's economic efficiency, and I believe some of their success comes from the fact that they do not waste time on presidential debates, elections and differing public opinions.

Numerous critics site communism as a very strict governmental policy that takes away individual political freedom. Although true in scope, communism in China has opened the door to arguably the most effective government strategy in history: China's Five Year Plan (FYP). Now in its twelfth year, China's FYP has been a consistent document that drives the country forward. From an economic perspective, the efficiency from China's FYP has also lead to monetary benefits. Owning almost 8%, China is currently the largest holder of U.S. debt (Murse). When it came to America's debt crisis, 2012 Republican Party presidential candidate Michele Bachmann jokingly remarked, "Hu's your daddy," a reference to the current Chinese President Hu Jintao (Murse). America can learn from China's FYP: a greater emphasis on action plans over societal political choice can help the government run more efficiently.



Figure 2

America's lack of an action plan like the Five Year Plan has contributed to its economic inefficiencies

The One-Child Policy impacts the overall effectiveness of the Five Year Plan.

Some of China's economic success is due in large part to its One-Child Policy. Since 1979, China has made numerous efforts to control its incredible population growth. The One-Child Policy officially restricts married, urban couples to having only one child. While initially a good idea, the policy has recently resulted in an increasingly low birth rate, causing the overall work force to shrink over the past decade (Casey). The labor decrease will eventually cause the limited supply of workers to demand higher wages.

Furthermore, more stress is placed on children to succeed academically. As I learned at Tsinghua University, ranked by *QS World University Rankings* as the 47th best university in the world in 2011, being an only child has its pros and cons. Our campus tour guide informed our group that college students at Tsinghua take up to eight classes a semester, have dorm lights off by 11:00 pm each night and limit their computer use to only three hours a day. All this is to direct a greater focus on schoolwork and high academic performance. While some students enter the work force immediately after college, others go on to continue their education, pursuing masters, doctorates and law degrees. No matter the path, pressure from the family to succeed is still evident. While talking to some attorneys at Zhonglun W&D Law Firm, I noticed they take their jobs very seriously and have pride in knowing they are making their families proud when they succeed in their professional careers. The same applied to workers at the Beijing Yuanlong Silk Corporation. During my interview with two Chinese One-Child workers, Susan and Shenyua, I learned both were highly motivated by their families to study hard in school. As a result, both Susan and Shenyua are trilingual with proficiencies in Chinese, English and Spanish.

Coupled with its economic growth and one-child regulation, China, as a very regimented yet mobile society, is full of booming economic activity and ambitious minds. Tom Doctoroff describes this idea as the "Confucian Conflict." He argues Chinese nationals view America as a country of great opportunity, but they are not ready as a collective group to evolve into truly westernized individuals. Ultimately, as I learned at Deloitte, the majority of Chinese citizens prefer to come back to their home country once they have experienced other opportunities across the globe. One of Deloitte's young consultants, Jason Xu, a UCLA alum., referenced how forward-thinking he and his friends were in applying to American universities. They practiced Harvard and MIT business case studies and performed mock interviews on one another in high school. In Jason's eyes, America represented a way for him to improve his business acumen and become a more marketable, well-versed consultant. Not surprisingly, Jason came to the U.S. for a short stint only to return back to China. His mindset reflects one of the future megatrends mentioned by IKEA's Elfa Zhang. Zhang mentioned higher individualization and global awareness is becoming increasingly popular in mainland China. I found it interesting that numerous Chinese students are seeking opportunities to come to America to gain knowledge to make their country better, yet, the same emphasis on global awareness is not reciprocated within our own government plans. Annually, only 14,000 American students are studying in China compared to the 140,000 Chinese nationals who are studying in the United States. A greater emphasis on academics can make for better societies and smarter businesses in the West.

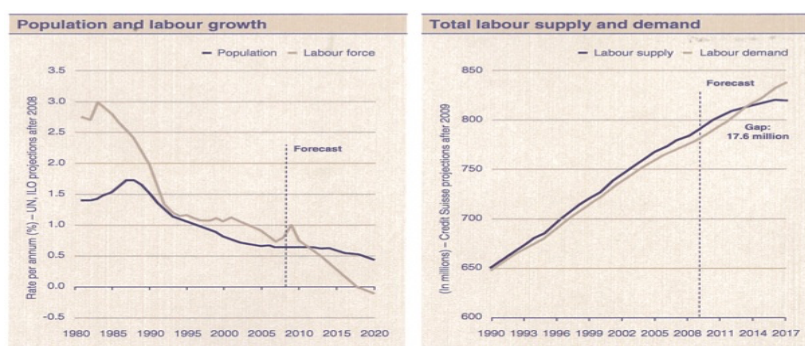


Figure 3: China's labor force expected to turn negative by 2017 and its labor demand is expected to outstrip supply by 2013

Understanding the Five Year Plan can lead to increased business success.

International business success in China is predicated upon the ability to adapt to the evolution of the FYP. A simple glimpse at China's large population gives one the perspective needed to understand China's hub for business. China is becoming an increasingly popular location for entrepreneurs and Fortune 500 companies from all across the globe. Today, private business is growing at an annual rate of 20%, making it the fastest-expanding sector of the Chinese economy. Nevertheless, I have learned international business success does not simply come with great marketing strategies and a strong brand. Chinese companies must also be cognizant of updates to the FYP to sustain their global presence. The Twelfth FYP calls for an adjusted cost structure to increase business costs in the next three years. Companies like Lenovo, for example, can adapt well to these types of government measures like this because their business environment is reflective of the FYP. The "Lenovo Way" is a company mission statement that calls for attention to the 4 P's: plan, perform, prioritize and practice. Lenovo continuously makes an effort to reach all its annual goals by *planning* before pledging, *performing* as they promise, *prioritizing* the company first and *practicing* improvement every day. As the world's second largest PC vendor, awareness of the Twelfth FYP has helped Lenovo continue to stay innovative and increase company sales each year.

Businesses in the energy and technology sectors are also seeing record success due to the Twelfth FYP's new emphasis on "inclusive growth" ("China's 12th 5 Year Plan"). Companies like General Electric (GE) and IBM have been singled out as China's new Strategic Emerging Industries (SEI). The government has been encouraging foreign business participation in SEI development to move the country forward in the future. The new attention to SEIs has even caused IBM to invest more heavily in the development of smarter analytics, utilities, energy, supply chain and cloud computing. Not surprisingly, IBM even has its own FYP. It is nicknamed the "2015 Roadmap" to ensure it reaches its goals and continues to expand like it has in recent years. Like IBM, Jeff Immelt (GE Chairman and CEO) sees the importance of technology investment to sustain business growth in the future. GE has continued to stay at the forefront of their industry by emphasizing energy efficient and environmentally friendly solutions through their most recent global initiatives called Ecomagination and Healthymagination. Since 2009, there has also been an increased focus on "reverse innovation," a GE initiative to encourage multinationals to innovate in emerging markets like Beijing and Shanghai and bring those innovations to developed markets like the United States. The idea is genius according to Vijay Govindarajan, director for the Global Leadership Center at Dartmouth's Tuck Business School. In a Harvard Business Review article, Govindarajan and Immelt even discussed the necessity for CEOs to make strategic changes to adapt to markets like China, which have a middle class population with significant purchasing power (Govindarajan, Immelt, and Trimble).



Harvard Business Review

How GE Is Disrupting Itself

by Jeffrey R. Immelt, Vijay Govindarajan, and Chris Trimble

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In May 2009, General Electric announced that over the next six years it would spend \$3 billion to create at least 100 health-care innovations that would substantially lower costs, increase access, and improve quality. Two products it highlighted at the time—a \$1,000 handheld electrocardiogram device and a portable, PC-based ultrasound machine that sells for as little as \$15,000—are revolutionary, and not just because of their small size and low price. They're also extraordinary because they originally were developed for markets in emerging economies (the ECG device for rural India and the ultrasound machine for rural China) and are now being sold in the United States, where they're pioneering new uses for such machines.

We call the process used to develop the two machines and take them global *reverse innovation*, because it's the opposite of the *globalization* approach that many industrial-goods manufacturers based in rich countries have employed for decades. With globalization, companies develop great products at home and then distribute them worldwide, with some adaptations to local conditions. It allows multinationals to make the optimal trade-off between the global scale so crucial to minimizing costs and the local customization required to maximize market share. Globalization worked fine in an era when rich countries accounted for the vast majority of the market and other countries didn't offer much opportunity. But those days are over—thanks to the rapid development of populous countries like China and India and the slowing growth of wealthy nations.

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Figure 4

"Success in developing countries [like China] is a prerequisite for continued vitality in developed ones [like the United States]."

Despite all the successes of the past FYPs, the Twelfth FYP is still seeking to increase research and development spending to 2.2% of GDP and to increase the competitiveness of local and international brands (Casey). I particularly noticed a brand marketing deficiency for one company while in China. Some companies, like Domino's Pizza, have trouble competing in the Chinese market because they fail to understand consumer behavior. Tom Doctoroff, a leading expert on Chinese consumer psychology, recently commented on this global issue saying, "If I've learned anything from my twenty years working as an advertising executive in China, it is that successful Western brands craft their message here to be "global," not "foreign" (Doctoroff). U.S. companies must adapt to the Chinese market. In order to do so, businesses must practice "guanxi", a term that refers to a personal connection shared between two or more people that allows business to be done more efficiently. In talking to Mr. Gabriel Dungan, a UNC Kenan-Flagler alum and current CEO of Skytex Holdings, he cited interpersonal networking as the single most important entity that has allowed him to sustain his successful Chinese business. Understanding the Chinese business environment can help countries like America create a westernized success model for sustained economic growth.

The U.S. must change in the future to remain competitive in the global market.

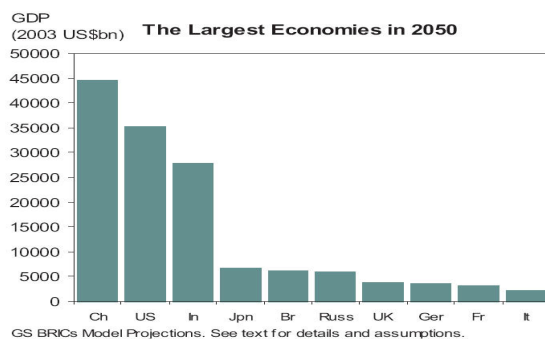


Figure 5: Research suggests China will officially surpass the U.S. in 2020 and become the world's largest economy by 2050

In order to continually compete at the same level as China on a global stage, America should "strive for five" by implementing some form of a five year plan to make overall government and country initiatives more effective. Although our democratic system suggests this idea will never work due to our political climate changing every four to eight years, I still think we can learn something from the Chinese. Part of the reason for China's overall economic superiority in comparison to the rest of the world is they have a clear country vision and their goals and proposals are organized in a format that allows them to sustain their growth. Businesses and government both coincide, something the United States has not seen arguably since the Great Depression. As a U.S. citizen, it seems I can only *hope* that our country will wake up and recognize its inefficiencies, adapt to the new world order and, most importantly, "strive for five."

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