

**China:
An Emerging Economic Powerhouse in the
Global Economy
Viewed Through an On-Site Faculty
Development Program**

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Abstract: The challenges to Western scholarly investigation of the Chinese economy are numerous as many academics have no doubt experienced. This paper discusses the insights gained through a Faculty Development in International Business Program sponsored by the U.S. Department of Education. Coming from all business disciplines, twenty five university faculty from throughout the United States gained firsthand knowledge of two of China's leading economic regions - the Yangtze River Delta and the Pearl River Delta/Hong Kong region. The objective of the tour was to gain insight on how China is being transformed from a planned economy into a globally competitive market oriented economy. The program included tours of factories, construction and investment firms, governmental offices, cultural sites and universities. Faculty were able to interact with their Chinese counterparts at three leading Chinese universities. Topics discussed include challenges in asset valuation, transparency, managerial/political career interactions, labor supply and rights, and social/cultural issues associated with rapid economic change.

Keywords: China, economy, business, research, university, global

Introduction

In January 2007 twenty five U.S. business professors toured two industrialize regions of China, the Yangtze River Delta and the Pearl River Delta/Hong Kong. The tour was sponsored by the U.S. Department of Education, arranged and lead by a native born Chinese who are now university business professors in the U.S., and was intended to give first hand knowledge of the emerging Chinese market economy. This paper discusses some of the insights, and surprises, gained from on site visits, discussions with Chinese university faculty, and native Chinese who assisted the tour group. Underlying many of the research and business anomalies for Westerners is the direct intertwining of political and business forces well beyond the scope in other large economies.

Issues:

1 Asset valuation. In much of the world the value of assets is set by market forces, i.e. the interaction of buyers and sellers under voluntary negotiations where either party is free to enter or leave the transaction. One of the significant challenges to asset valuation,

specifically real estate and buildings, in China arises from the concern that all the land is owned and controlled by the central government and its subsidiaries. Factories are erected on state owned land after receiving permission and given a lease by the governing authority. Currently the lease period for major projects is seventy years. That is up from twenty five years when China began to open up to foreign trade in the 1970's.

The valuation process is complicated by the lack of guarantee of extension or renewal of the lease. As in many business situations, the valuation process is complicated by the intertwined relationship between politics and markets. The renewal or extension of the lease is essentially a political decision, largely independent of market forces. Therefore, as the lease approached the termination date property value may become ambiguous.

2 Transparency. Asset valuation is also complicated by a lack of transparency and regulatory agencies. While China has several stock exchanges, and organizations are rapidly emerging to meet capital investment needs, there is no governmental oversight agency such as the U.S. Securities and Exchange Commission. Since most of the capital intensive industries (steel, coal, transportation, etc.) are state owned, as are many other smaller companies, there are no financial reporting guidelines or requirements. Information to potential investors lacks the opportunity for close scrutiny. In Shanghai we visited a mutual fund firm and were given a promotional presentation by the company's public relations representative. The content of the presentation was predictable, however during the question and answer period things became a little blurry. When pressed as to who owned the mutual fund company the representative gave only evasive answers. Finally, one of the native Chinese faculty interceded with "If she told you, you probably couldn't leave the county." And he wasn't joking. In reality, behind most businesses in China, even today, lies the influence of the former communist party.

3 Managerial/Political Career Interactions. On entering the Wanli Tire factory in Guangzhou I was struck by the militaristic ambiance of the security gate and personnel, something that was virtually non-existent in the first week of the tour in the Shanghai region. In meeting with company officials, including the CEO, apparently the official attire for managers at this plant is a rather plain industrial style blue jacket. There was a feeling of induced conformity with the reception and managerial personnel. Later discussion with our native Chinese colleagues revealed the close relationship between political party involvement and managerial career opportunities. Apparently, in order to become a plant manager one must also be an active party member. Wanli Tire is a state-owned company. Wanli Tire is owned by the Guangzhou regional government. Again, what we consider normal market forces in hiring practices and career opportunities are subject to more direct governmental influence.

4 Transfer Pricing. Baosteel is a huge state-owned steel mill on the Yangtze River Delta. It covers approximately twenty five square kilometers and employs fifteen thousand people. Many of its customers are other state-owned businesses. While transfer pricing in Western corporations often includes intra-company politics between unit managers, the mechanism for determining transfer pricing between state-

owned companies must spawn substantial political power struggles. When one considers the interplay of party membership and career aspirations, and the role of transfer pricing in determining unit profit as a measure of managerial success, the negotiation process must involve elements not found in private corporations contracts, and likely similar to interdepartmental government transaction. The governmental units, in this case, being members of the former communist party, who for nearly half a century curtailed or forbid free market processes.

5 Labor Supply and Rights. One of the key factors of China's economic success is, of course, a large labor force willing to work for low wages. Many, if not most, of the industrial firms include room and board as part of their compensation package which, incidentally, accounts for Chinese workers saving on average forty percent of their income. Attracting rural workers to industrial regions is somewhat problematic for several reasons. While there is a great deal of poverty in rural areas, life in the industrial regions is far from idyllic. Company housing is often crowded and unpleasant with little concern for quality of life. In order to reduce the potential for labor unrest immigrant works are often isolated from others from their home region, another factor in labor turnover. Having saved forty percent of their earning, workers often return to their native villages for the Chinese New Year celebration and fail to return to the factory.

In many rural regions peasant farmers eek out a subsistence living and literally have no money. While peasants may be a source of cheap labor, they do not translate into a market for consumer products and national economic growth by that market mechanism. Additionally, the absence of money is causing problems in rural areas as the economy transitions to market mechanism, including the privatizing of health care, when a significant portion of the population cannot participate.

While the world may marvel at the Chinese economic success, and justifiably so, the challenges to the society are equally staggering. On a typical day there are over five hundred protests in China, a large portion of those are over land use and confiscation for industrialization purposes. Literacy, especially in rural areas, is very high and the resources and time needed to transform the country from an agrarian to industrial society are considerable. The situation is compounded by foreign competition as firms, especially textile manufactures, abandon China for cheaper labor in Vietnam and other countries.

6 Corruption. The intertwining of political and economic power and success is fertile ground for abuse of power and privilege. As a nation China is relatively free of violent crime, especially crimes against foreigners. The lack of threat of physical violence in Shanghai took me completely by surprise. Our group, having arrived during the New Year's (January 1, not the Chinese New Year) holiday, met massive crowds on Shanghai's pedestrian mall, the Nanjing Road. We were told by our local tour guides it would be safe for us go about the city any time day or night. And it proved to be true. Equally interesting was the noticeable lack of police or military presence to keep order in a city of nearly twenty million residents, swollen with visitors for the holiday retail sales.

By contrast, the Shanghai mayor, and many of his associates, had been arrested in September 2006 on corruption charges, mainly inappropriately using state funds that had been set aside for other purpose to build pet projects and augment the Shanghai skyline. It was commonly believed and accepted that at least a few officials would be executed for their malfeasance, something unthinkable in the US. In our informal group discussions we learned that this sort of political/business corruption was a problem at all levels of the party.

7 Universities. The business schools at most universities tend to have the most modern facilities. Prior to the 1970's there was no need for business schools in a command economy and most facilities were built since 1980's. As would be expected, the new programs and professors were met with some resistance. Tenure could prove to be difficult when establish faculty are still of the Confucian temperament, which is the primary focus of traditional Chinese faculty.

Conclusion. The structured business/economic tour of China's industrial regions was an illuminating experience which produced more questions than answers for business faculty. Many of our stereotypes were challenged and shattered. The unique relationship between political and business factors in the nation has been part of the Chinese miracle. The national pride and sense of purpose behind the economic explosion is clearly evident. Many social and environmental problems inevitably accompany such rapid change. Income inequality is impatiently tolerated as expressed in the popular slogan "If we are all going to be rich, someone has to be the first to get rich." My overall impression from the tour is that China is more a part of our world in the future and what we witnessed may well be a but very small part of what lies ahead.

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