China: Getting Beyond the Headlines

By
John Frankenstein

China's continued economic growth even in these tough times attracts headlines. But China appears to be taking a disturbingly harder line with foreign business. By examining the deep political and social dynamics—China's "Four Basic Questions"—that propel China's rise, we can begin to understand and come to grips with what underlies this apparently new attitude. Surveys by the World Bank and other international organizations show that China's business environment fundamentals might not be as strong as we think. Still, China's economic momentum will continue despite the many problems the country faces. While foreign businesspeople today may express concern over negative trends in the business environment, they should be realistic. Behind the ups and downs of the Chinese scene, the country is struggling to resolve issues left over from history. Clear thinking about these basic issues is needed to survive—and perhaps prosper—in this environment.

Business complaints about current trends in China are on the rise. But if we really pay attention to the driving forces behind today's Chinese business environment—historical trends, cultural factors, and political priorities, not to mention how China compares to other developing countries—we might uncover some surprising truths.

As we begin the second decade of the century, is it time for us to revisit what we understand about the Chinese business environment? Certainly a recent spate of consistently negative commentary in the mainstream press and from trade groups raises the question.

For instance, long-time China business observer James McGregor reported in February 2010:

> In my more than two decades in China, I have seldom seen the foreign business community more angry and disillusioned than it is today. . . . It is about the perception that antiforeign attitudes and policies in China have been growing and hardening since the global economic crisis pushed the U.S. and Europe into a tailspin and launched China to its very uncomfortable stardom on the world stage. (McGregor, 2010)

The *Wall Street Journal* picked up the beat in early March 2010 with a front-page story headlined "Business Sours on China" (Browne & Dean, 2010). In April 2010, the *New York Times* followed up with a long story slugged "Foreign Companies Chafe at China's Restrictions" (Bradsher, 2010).

The British *Daily Telegraph* took things even further:

> Faced with regulations that are often impossible to meet and a climate of overwhelming protectionism,

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> many [businessmen] said they are now openly considering whether to leave the world's biggest market. . . . [F]irms have complained of a witch-hunt against foreigners that has targeted British, American and European companies with intellectual property theft, blocked market access, rigged tender processes and the deliberately inconsistent enforcement of regulations. (Moore & Foster, 2010)

In part, the issue is China's mercantilist policy of "indigenous innovation," restricting government procurement to technology developed in China. This does not conform to World Trade Organization (WTO) rules; US businesses report lost business because of the policy (Lubman, 2010; Mark, 2010). This policy has many implications: it would seem to be a reflection of the old Chinese obsession with "self-reliance"; it could also be a wedge to acquire foreign technology from companies anxious to crack the huge Chinese government market.

Even usually upbeat business promotion organizations aren't quiet. The US-China Business Council's 2009 survey of American firms in China noted:

> Of the top 10 challenges that USCBC members cite, several are areas in which foreign companies report they are being treated differently than their domestic competitors: licensing, services market access, standards and conformity assessment, and transparency (although it should be noted that these issues affect some PRC companies as well). If the list were to be expanded to the top 20 issues identified in USCBC's survey, several other areas where foreign companies face an uneven playing field are added to the list: uneven enforcement of PRC laws, nondiscrimination and national treatment, and government procurement policy. (US-China Business Council, 2009a, p. 9)

The Beijing-based American Chamber of Commerce in its excellent and comprehensive survey-based 2010 White Paper, while noting the considerable success of US firms in the China market—71% say they have profitable China operations—and their optimism, reported "increasingly mixed views on the future of China's business environment":

> Many [firms] have begun questioning their long-term viability in China as they consider the obstacles presented by an increasingly difficult regulatory environment. Many new industrial policies show signs of protectionism that arouse concern over whether market access for both foreign-invested enterprises and trading partners will narrow significantly in the years ahead. We also observe that progress toward greater reliance on market-oriented mechanisms has slowed, allowing a return to reliance on administrative measures to manage the economy. (American Chamber of Commerce, 2010, p. 22)

And as Joerg Wuttke, president of the European Union Chamber of Commerce in China, wrote in an op-ed for the *Financial Times* in April 2010:

> I have seldom seen market sentiment among members so bleak or pessimistic. After 30 years of progressive market reforms, many foreign businesses in the country feel as though they have run up against an unexpected and impregnable blockade. . . . For the first time I hear of companies contemplating leaving the country altogether. They consider this not because they cannot compete with local rivals—but because they are weary of slogging through an unpredictable business environment where the odds seem deliberately stacked against them.
>
> I also hear of big companies preparing strategies to route part of their future investment away from China and into other Asian countries, where a more transparent and predictable market environment means safer and healthier investment opportunities. (Wuttke, 2010)

Echoing some of Wuttke's sentiments, more recently Razeen Sally of the London School of Economics, and director of the European Center for International Political Economy, tied the reemphasis on industrial policy and indigenous innovation with tightening controls and "stalled liberalization"—a slowdown of China's opening to the world. He cited more restrictions on foreign direct investment (FDI), the attempt to impose China-specific technical standards, the imposition of controls on exports, and similar issues. This combination of "protectionist trade policy and dirigiste industrial policy" could even impede China's stated desire to take a world leadership role (Sally, 2011). Regardless, it looks like hard sailing ahead.

Such negative sentiments may seem extreme, but the fact is that the Chinese business environment has never been easy. In 1993, a year after Deng Xiaoping kicked off the current period of growth and over a decade after China started to re-engage the international business community, the Nomura Research Institute summarized what was common knowledge: businesspeople going into China should watch for a range of difficult problems, including inconsistent economic policy, bureaucracy, an inadequate legal system, complex negotiations and approvals processes, difficulties conducting feasibility studies, potential political instability, and demands for technology transfer (Sender, 1993). Anyone familiar

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with more recent studies—Tim Clissold's account of his misadventures in *Mr. China* (Clissold, 2006) or James McGregor's hard-boiled *One Billion Customers* (McGregor, 2007) come to mind—would not be surprised to hear of business difficulties: mandated technology transfer, intellectual property theft, joint ventures that spawn copycat competition, uncollectable judgments, and uneven application of opaque laws and regulations (some secret!). After all, China isn't fabled Cathay—it's The People's Republic.

China's Allure

Still, China's international profile, undeniable economic prowess, and business attractiveness remain the stuff of dazzling headlines: gross domestic product (GDP) growth at 8%–9% (and sometimes more) over several decades; the world's largest car market; huge foreign reserves providing an ample cushion for a massive stimulus package; the second spot in the world export league tables grabbed from Germany; and soaring overseas investments in energy and other natural resources from Canada to Australia and Africa (Enright, Hoffmann, & Wood, 2010; US-China Business Council, 2009b). The World Bank forecasts China's GDP—estimated to be around $4.7 billion—to grow at 9% through 2011 despite the continuing economic crisis (World Bank, 2010a). Some estimates suggest that China's GDP will surpass that of the United States well within the next two decades. Pundits opine, perhaps prematurely, that the future of the world economy now rests on the "G-2"—China and the United States (Meredith, 2009; Wolf, 2009). Some writers have even speculated that the "Washington consensus" will be replaced by the "Beijing consensus"—a shift in economic focus from the liberal model of the political economy and the accumulation of market-directed private wealth to a neo-mercantilist promotion of state-directed national strength (Gresh, 2008; Ramo, 2004).

China Takes on the World

But it seems China's economic success and attendant political prowess has also sharpened China's dealings with the rest of the world. During the run-up to the 2009 G-20 meeting in Pittsburgh, Chinese leaders took a line some commentators interpreted as a challenge to the United States—officials asserted that China's quick response to the crisis, which included a massive $586 trillion "stimulus package," demonstrated the ascendancy of the China model. In a speech reprinted on the Bank of China website, bank chief Zhou Xiaochuan observed, "Facts speak volumes, and demonstrate that compared with other major economies, the Chinese government has taken prompt, decisive and effective policy measures, demonstrating its superior system advantage when it comes to making vital policy decisions" (Kurtenbach, 2009; Zhou, 2009).

No doubt high-profile disputes—such as the Rio Tinto imbroglio in which executives from the Australian iron ore producer were jailed, the sharp confrontation with Google over Internet censorship, US arms sales to Taiwan, serious pressure over China's exchange rate and human rights policies, and European charges of dumping—are part of these heightened tensions. And China's powerful growth during the recession has no doubt pumped up Chinese attitudes. There's a lot of bad temper out there—charges of arrogance, bullying, and interference flow both ways. (For a sample of these views from Europe and China, see Choong, 2010; Dongping, 2010; Follath, 2010; Niquet, 2010; Xing, 2010.[1])

But should we be surprised? To be sure, these challenging attitudes seem to be somewhat at odds with Deng Xiaoping's "24 character strategy"[2] of keeping a low profile and the Chinese mantra of "peaceful rise" (Bijian, 2005). But as one Chinese official is said to have remarked, "peaceful is for foreigners, rise is for us" (Shirk, 2008, p. 109).

Perhaps "rise" is the wrong word—maybe it's "renaissance." The perception, popular in Asia, is that China is now justly regaining its former political and economic

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world pre-eminence. Along with this is the view that the international political system is morphing into a multipolar system as the relative (but not absolute) power of the United States—the only power that could thwart China today—is declining ("Feast or Famine," 2010; Gupta & Wang, 2009; Mahbubani, 2009). Many in China believe their time in the sun has arrived.

Some Basics: Politics

But in order to gain a proper perspective on the dynamics of China's progress, we have to step back from the headlines and instant commentary and take a deeper look. Once we understand certain profound political and economic factors, today's China should be less of a surprise. I would suggest that we should begin by examining some of the fundamental issues that have driven China's rulers in the past and still drive them today. I call them, Chinese style, "The Four Basic Questions."

1. How to rule a large country with a large population from a single place,
2. How to make China great again,
3. How to transform Chinese society, and
4. How to deal with the outside world.

These are not mere academic questions—millions died in war and revolution as China tried to find the answers. They are engraved in the Chinese mind. We ignore them at our peril.

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Rule

The answer to the first question has deep historical roots, all the way back to Qinshi Huangdi, the first emperor of the Qin dynasty (221–206 BCE). Under his strict leadership, the chaotic China of the Warring States period was unified—and with that unification came the idea of a unitary state. Unity was key—should any part of the empire rebel, the entire structure would be imperiled.

The legacy of the Qin—"Legalism"—held that society could only be controlled by a system of harsh laws and punishments exercised by absolute and arbitrary state power. Indeed, control for control's sake became ingrained into Chinese concepts of power—control would ensure "stability." Social control and strict regulation of the economy was part of the mix. Information and ideological controls were paramount—in the Qin, the ideas of Confucius and other philosophers were proscribed; texts were burned, and dissenting scholars were buried alive. Intellectual pogroms marked virtually all the successor dynasties. And two millennia later, Mao Zedong compared himself favorably to the Qin emperor: "He buried 460 scholars alive; we have buried forty-six thousand scholars alive. . . . You [intellectuals] revile us for being Qin Shi Huangs. You are wrong. We have surpassed Qin Shi Huang a hundredfold" (Lieberthal, 2003, p. 71). Today, critics of unrestricted party and state power—the only real ideology in China—tread a perilous path.[3]

Greatness and Transformation

The second and third questions are related and have their roots in more recent events. How could China regain its greatness after the so-called "Century of Humiliation" that followed the Opium War? In the Qing, the last dynasty, China was probably the richest country in the world, and certainly was one of the largest, extending from Central Asia to the Pacific and from Mongolia to Southeast Asia. But the dynasty was brought to its knees by internal and external pressures in the nineteenth century.

There were, for starters, domestic issues: overpopulation, official corruption, and decay of governance. Chinese elites turned against the Qing, who, after all, were not Chinese at all but rather Manchus, originally distained tribal nomads of the northern steppe. The external pressures were catalytic: the Opium War first, followed by the incursions of Western imperialism and the Japanese invasion. As Yen Fu, an early twentieth-century reformer, wrote, "We thought that of all the human race none was nobler than we. And then one day from tens and thousands of miles away came island barbarians . . . they attacked our coasts . . . and alarmed our Emperor. . . . [T]he only reason we did not devour their flesh and sleep on their hides was that we had not the power" (Schirokauer, 2007, p. 195). When, in 1949, Mao Zedong declared the victory of the Communist revolution with the words "China has stood up," he was writing *finis* to a century-plus of almost continuous warfare.

China's perceived victimization at the hands of the Western powers still rankles. Every Chinese schoolchild is taught today that the humiliation wrought by foreigners was profound and must be avenged. The contemporary cultural critic Gan Yang has written about recovering that lost dignity:

> I think that to be Chinese means to belong to the only cultural nation in the contemporary world able to genuinely struggle for cultural independence from the tutelage of the West, the only nation capable gaining self-dignity. A non-Western nation completely enveloped by the West is without dignity. Hence, being Chinese is something to be very proud of, because you have the possibility of a history. I think the most important issue in the twenty-first century is to break the five hundred years of global domination by the West; only China has this possibility, and other nations—India and the like—do not. That is where the true meaning of being Chinese lies; we need to strive towards this goal. (Gan, 2009)

So if China was to be great again, how should China be changed? Mid-nineteenth-century reformers—the "Self-Strengtheners"—thought that Western technology could be grafted on to the imperial system with minimal fundamental change. Unlike their Meiji contemporaries in Japan, they could not imagine the depth of political and social reform required, even if the Meiji experiment with constitutional monarchy attracted some.

But after the Qing collapse in 1911, a cascade of solutions to China's problems were offered up—and most failed. The "Three Principles of the People" preached by the revolutionary Sun Yatsen found salvation for the country in nationalism, land reform, and guided democracy. Sun's successor Chiang Kai-shek (Jiang Jieshi), under the enormous pressure of Communist rebellion and Japanese invasion, toyed with militarism and fascism. Mao played with disastrous recipes of collectivization and mass mobilization, culminating in the frenzy of the Great Cultural Proletarian Revolution. In its aftermath, Deng Xiaoping's ideology-lite prescription redefining revolutionary socialism in terms of economic pragmatism (but under the strict control of self-perpetuating Communist Party elites) has led to the China we see today. Whether this system—characterized as "a Confucian-Communist-capitalist hybrid under the umbrella of a one-party state" by one analyst (Bennhold, 2010)—is China's "final answer" remains to be seen.

The Dangerous Outside World—The Necessity of Strength

Finally, how should China deal with the outside world? In imperial times, those relations were conducted in a fluctuating mix of tribute and conflict. The tribute system was an elaborate game in which China's neighbors pretended, through gift-bearing diplomatic and trade missions, to recognize the fictional suzerainty of the Son of Heaven.[4] And there was almost constant conflict with the nomadic tribes on China's western and northern boundaries—Tibetans, Uyghurs, Mongols, and, at the end, Manchus. But the Central Kingdom did not evince much curiosity about the outside world; while the Silk Road brought both horses and Buddhism to China, interest in what lay beyond Central Asia was minimal. The Century of Humiliation, however, taught China that the outside world was a dangerous place, and if Westerners were malevolent, the Japanese, their fellow Asians, were even worse. Chiang Kai-shek wrote that Western capitalism was the cause of China's woes. Mao, faced with atomic hostility from both the United States and the Soviet Union, tried to isolate the country and go it alone.

But today in the early twenty-first century, China has engaged the outside world, economically and politically. Foreign direct investment and trade have driven the economy; Chinese international economic involvement includes overseas investment in resources from Africa to Australia and holding of overseas government bonds (China holds almost 20% of the US long-term debt securities; US Treasury, 2010). China has engaged the world trading system through its membership in the World Trade Organization and is actively pursing economic involvement throughout Asia with its new Free Trade Agreement with the Association of Southeast Asian Nations (ASEAN) states. Politically, China is a permanent member of the UN Security Council, and if China does not always see eye-to-eye with the West on the rectification of exchange rates, climate/pollution issues, or rogue states like Iran and Burma, it has enhanced its stature by holding the Six Party Talks on the North Korean nuclear dilemma.

At the same time, China casts a wary and paranoid eye on the outside world. Rebuffs to international human rights concerns, and strict controls on the Internet, including restrictions on instant messaging and bans on social networking sites and Twitter, reflect this. Foreign sympathies for the Dalai Lama, Uyghurs in Xinjiang, Taiwanese autonomy, or religious groups like the Fa Lun Gong or "underground" Christian churches translate into foreign plots to split China. And widespread nationalism, stoked by the party-state, is as much based on a continued sense of xenophobic victimhood as it is on China's real and substantial accomplishments (Shirk, 2008).

Some Contradictions

That the answers to these questions contain contradictory elements should be obvious. The regime may want centralized control, but the scale of the country means that localities—from the provinces on down—often go their own way, giving rise to *de facto* federalism and what some observers have called "economic warlordism" (Yang, 1990). But formal federalism is not on the table; the myths of the unitary state and the reality of the party's extra-legal supremacy are too strong. If engagement with the outside world has led to an increase in China's political and economic standing, there are still powerful voices who question whether the point of the revolution was to embrace globalization and allow the inroads that foreign capitalism has made in China's economic system: after all, official statistics show that more than half of China's foreign trade is carried out by foreign-invested enterprises (Hong Kong Trade Development Council, 2010).

However, there is one question on which there is agreement: China must be strong again, and when strong, rejecting the West, its greatness will be confirmed. At the extremes, this sentiment is expressed in the Chinese best sellers *Zhongguo keyi shou "bu"* (*China Can Say "No";* Qiang, Zangzang, Bian, Zhengyu, & Qingsheng, 1996) and *Zhongguo bu gaoxing* (*Unhappy China*; Qiang, Xiaodong, Xiaojun, Jisu, & Yang, 2009). A more recent book, *The China Dream*, written by Senior Colonel Liu Mingfu, continues this thread: "China's big goal in the 21st century is to be become world number one, the top power. . . . If China . . . cannot become world number one, cannot become the top power, then inevitably it will become a straggler that is cast aside" (Buckley, 2010).

Is China Really As Strong As We Think It Is?

If this is the political environment into which we, as international businesspeople, are venturing, then we need to develop a portfolio of additional information. Fortunately, there is a range of publicly available studies that we can use to start answering these issues. They show that China's economic momentum is strong—but they also reveal that perhaps China's position is not as strong as some might think.

Take that hallowed number, China's GDP. A comparison of China's GDP in nominal exchange rate and purchasing power parity (PPP) terms shows an interesting dichotomy. In nominal terms, China's $5.7-trillion-plus GDP puts it into what the World Bank calls a "lower middle-income" group, but in purchasing power parity terms, China vaults to having the world's second-largest GDP ("China GDP Surpasses Japan," 2010). However, it's here that China's vast population—roughly 1.3 billion—dampens the outlook: China's GDP/capita on a PPP basis is $7,400, 127th in the world, less than Algeria's, more than Egypt's, and roughly comparable to that of Turkmenistan and the Ukraine (see tables in Central Intelligence Agency [CIA], 2011). Fifty-seven percent of the population lives in the countryside (CIA, 2010); more important, the rate of disposable income increase for rural residents has consistently lagged urban increases by large margins. For instance, according to official statistics cited by the Hong Kong Trade Development Council, in 2005 the growth rate of urban incomes was 9.6%; the rural rate was 6.2%. By 2009, the rate gap had narrowed—9.8% growth for urbanites, 8.5% for rural residents. But in absolute terms, in 2009 urban per capita income was over three times greater than rural per capita income: RMB 17,175 vs. RMB 5,153 (Hong Kong Trade Development Council, 2010).

These disparities have two consequences. One is China's middle ranking in the United Nations Development Programme's (UNDP's) Human Development Index (HDI). The HDI calculates an index number based on life expectancy, literacy rates, enrollments in education, and GDP per capita to measure social development. Here, China ranks China 92nd out of 182 countries—a lower standing than Iran and a higher standing than Jordan (UNDP, 2009). True, China's poverty-reduction efforts have been considerable. The World Bank notes that: "Between 1981 and 2004, the fraction of the population consuming less than a dollar-a-day fell from 65% to 10%, and more than half a billion people were lifted out of poverty" (World Bank, 2009). The latest edition of the *CIA Fact Book* suggests that by 2006 2.8% of the Chinese population was below the poverty line.[5] But this effort does not mean that severe income disparities and rural tensions do not exist.

And indeed, these disparities have raised concerns about social peace. President Hu Jintao has called for "a harmonious society," but it is unclear whether this means improving social conditions or cracking down on dissident voices—or voices that raise such embarrassing issues as human rights abuses, tainted milk, fake baby formula, spoiled vaccines, or shoddily built school buildings. Still, Premier Wen Jiabao is quoted in the press as telling the March 2010 meeting of the National People's Congress, "We should not only make our social wealth pie bigger, we should also divide the pie more reasonably through a better wealth-redistribution system" in order to deal with tensions (Zuo, 2010). But this is not a new theme—Chinese authorities have worried about reducing income inequality for years (see, for instance, Xinhua, 2006).

Others are perhaps not so sanguine about this issue. Yu Jinrong, a prominent Beijing lawyer, in a speech to a lawyers group widely distributed on the Internet, expressed concern about the destabilizing effect of income disparities, the increasing number of "mass incidents" in the countryside sparked by unfair treatment by corrupt officials, bloody strikes by laid-off workers, and other causes. Some of his government contacts warily anticipate "upheaval" (Jinrong, 2009). We bring this up not because we should expect major collapse, but to point out the reality that beyond the glitter of Beijing and Shanghai—places where the fast buck now reaches terminal velocity—there are social weaknesses that might reach a tipping point that could change the nature of the business environment suddenly. The sand under the Chinese edifice may not be as solid as we'd like to think. And the Chinese leadership knows this.

Beyond the glitter of Beijing and Shanghai—places where the fast buck now reaches terminal velocity—there are social weaknesses that might reach a tipping point that could change the nature of the business environment suddenly.

Indeed, there are some short-term and long-term questions about economic sustainability. Many analysts, both Chinese and foreign, are concerned that China's recent growth, fueled by the stimulus package and a massive expansion of credit, has led to overheating and to an investment bubble in infrastructure and speculative real estate deals (Guo & N'Diaye, 2009). There are questions about the sweetheart loans to unprofitable state-owned enterprises that will probably not be repaid. Empty cities like Ordos in Inner Mongolia and Chenggong in Yunnan are one result. As the *Financial Times* has put it, "After a state stimulus brought a building spree, the need for some of the new infrastructure is being questioned—as is the broader durability of an economy that may be overheating" (Dyer, 2010).

Indeed, the Chinese leadership has raised warning flags. In 2007 Premier Wen Jiabao warned, "The biggest problem with China's economy is that the growth is unstable, unbalanced, uncoordinated and unsustainable" (Guo & N'Diaye, 2009, p. 3). And at the March 2010 National People's Congress, the premier worried that "[a]lthough this year's development environment may be better than last year's, we still face a very complex situation." China's growth, he said, "should not be interpreted as a fundamental economic improvement" (Ignatius, 2010; Xinhua, 2010). In the chase after higher GDP numbers, though, it still looks like anything goes.

Other issues include the inevitable trajectory of the economy and population dynamics. As the economy matures further, slower economic growth is inevitable. One projection suggests that by 2025, about the time some estimates say China's GDP will equal that of the United States, China's growth will flatten out to about 3% annual growth (Hawksworth & Cookson, 2008). That's to be expected. But the regime has picked 8% growth as the magic number that will keep jobs growing.

China's graying population is perhaps an even more important issue. China's population growth rate of 0.66% is well below the replacement rate. As Harvard sociologist Tony Saitch points out, with more than 10% of the population over 60, China will be the first society to grow old before its grows rich. By the end of this decade, Saitch writes, dependency ratios will soar. Thus, just about the time the economy matures, "there will be an even greater need to maintain rapid and sustainable economic growth" (Saitch, 2008, p. 144). It's a contradiction that remains unresolved.

Pay Attention

These deep structural issues should be factored into strategic thinking about China. In addition, the information available from authoritative "business environment" surveys must also be considered by any China-bound businessperson. These surveys may not make the savvy internationalist think twice about China, but they do reveal that China's international standing isn't quite what the enticing business stories might suggest.

For instance, the World Bank's "Ease of Doing Business" surveys examine the difficulty of conforming to business regulations in 183 countries. In the 2011 survey, China ranks 79th, down a few points from earlier rankings; here, China's neighbors are Vietnam and Italy (Singapore comes in at first place, Chad last) (World Bank, 2011). Dealing with construction permits, starting a business, and employment issues are seen to be major hassles. Behind the scenes, "to get things done," almost 73% of the firms surveyed (in 2003) reported that they were expected to make informal payments to officials; almost 40% indicated that gifts to tax officials were expected (World Bank, 2010b).

Indeed, Transparency International ranks China 78th in its 2010 "Corruption Perceptions Index" survey of 180 countries (Transparency International, 2010); neighbors included Trinidad, Vanuatu, Colombia, and Greece. China ranked 21st out of 22 countries in TI's 2008 "Bribe Payer Index" (surpassed only by Russia and flanked by Mexico). TI noted, "Companies based in emerging economic giants, such as China, India, and Russia, are perceived to routinely engage in bribery when doing business abroad" (Transparency International, 2008). For firms subject to the US Foreign Corrupt Practices Act or similar EU regulations, this may seem to tilt the playing field. At the very least, these findings should prompt serious thinking about corporate behavior.

But perhaps the most detailed breakdown of perceptions about the Chinese business environment can be found in the World Economic Forum's Global Competitiveness Report (GCR). The 2009–2010 GCR ranks 133 countries in a detailed meta-analysis of data from the International Monetary Fund, World Bank, UN, and other public sources, as well as surveys of business executives. "Competitiveness," in the forum's view, is defined broadly as that "set of institutions, policies, and factors that determine the level of productivity of a country"—and productivity in turn provides prosperity and well-being. More specifically, the report examines 12 factors or "pillars" considered determinative of competitiveness (briefly defined below):

1. Institutions: the political, legal, governmental, and private-sector framework
2. Infrastructure: transport, power, telecoms
3. Macroeconomic Stability: inflationary controls
4. Health and Primary Education: health levels, basic educational levels
5. Higher Education and Training: vocational education and beyond; increasing the talent pool
6. Goods Market Efficiency: a competitive and healthy microeconomy
7. Labor Market Efficiency: labor flexibility
8. Financial Market Sophistication: efficient and flexible capital markets and banking system
9. Technological Readiness: penetration of communications technology
10. Market Size: potential for scale efficiencies
11. Business Sophistication: quality of management
12. Innovation: support for and quality of research and development

The report makes the important point that the "pillars" reinforce each other: "For instance, innovation . . . is not possible without institutions that guarantee intellectual property rights." (Intellectual property rights protection is notoriously weak in China.) In addition, the GCR provides handy labels for understanding a country's level of development on a continuum from being "factor-driven"—that is, driven by basic economic factors—to "efficiency-driven"—where efficiency of production is the key—to "innovation-driven"—where innovation is the main element in economic growth. The report suggests, without being overtly teleological, that the first four "pil-

TABLE 1 Global Competitiveness Report—China in the Global Rankings, Problems

	China
GCR Rank	29
Stage of Development	Efficiency-driven
Major Problems (Executive Survey)	Financing, bureaucracy, taxes, policy instability
GCR Comparables	Saudi Arabia, Chile

lars" constitute the foundations of basic development, the next six are the "enhancers" for developing efficiency in the economy; and the final two are necessary to achieve an innovation-driven economy. The report also includes a reading of what executives see as the main impediments to business in that country.

So where does China stand in this international survey? It's worth taking a look. China, not surprisingly, is seen to be an "efficiency-driven" economy. Overall, China stands in the upper quartile at 29th place (up from 34th place in the 2007–2008 GCR). But in other aspects, China would appear to have a way to go (see Tables 1 and 2).[6]

There are some obvious pluses here—market size and macroeconomic stability. But the other rankings do not suggest that China is in any way a "world leader," although China consistently ranks above the median. To be sure, it may seem absurd to compare huge China with small countries like Brunei or Serbia. But it is fair, I think, to see how China ranks with other major developing states like Turkey, Vietnam, Indonesia, and South Africa. These comparisons show where China, notwithstanding its remarkable achievements, really stands in the judgment of the World Economic Forum.

So What?

So we come back to our original question. Are we simply at some point on the China hot/China cold sinusoidal curve? Or should we be prepared for more difficulties in China? We are only a year away from the next Party Congress at which a new generation of leaders will be installed, and the political jockeying is already on. Surging GDP and economic development are, by now, the only measures of party/state legitimacy. And the regime,

TABLE 2 China in the "12 Pillars" Rankings

	China's International Rank	International Comparables
Basic Requirements	**36**	**Tunisia 35** **Ireland 37**
Institutions	48	Costa Rica 47 Spain 49
Infrastructure	46	South Africa 45 Greece 47
Macroeconomic Stability	8	Norway 7 Saudi Arabia 9
Health, Primary Education	45	Croatia 44 Serbia 46
Efficiency Enhancers	**32**	**Poland 31** **Chile 33**
Higher Education, Training	61	Bulgaria 60 Brunei 62
Goods Market Efficiency	42	Indonesia 41 Jordan 43
Labor Market Efficiency	32	Malaysia 31 Oman 33
Financial Sophistication	81	Turkey 80 Vietnam 82
Technology	79	Serbia 78 Ukraine 80
Market Size	2	United States 1 Japan 3
Innovation Factors	**29**	**India 28** **Slovenia 30**
Business Sophistication	38	Qatar 37 Chile 39
Innovation	26	Czech Republic 25 United Arab Emirates 27

despite its bluster, appears aware of China's weaknesses. At the same time, the leadership is constrained to respond to nationalism, often tinged with anti-American sentiments. As Jin Canrong, a People's University international relations expert, told a reporter, "Chinese society is changing, and you see that in all the domestic views now on what China should do about the United States. If society demands a stronger stance, ignoring that can bring a certain cost" (Buckley, 2010).

Stridency is probably the outlook until the leadership issues are resolved. But underneath, some constants remain. In the 1980s, as foreign firms began to flood into China, I asked a Chinese lawyer whose practice focused on helping these firms what issues his clients had to be educated about. His response: "That the economy is under state control, and that the state can legitimately intervene in any deal at any time under any pretext." That's how the business game is played. Control and manipulation of the business environment by an increasingly assertive party-state simply is a given in the Chinese business game. This was put into high relief several years ago by the State Council's declaration, in 2006, that "absolute state control" of key sectors—energy, transportation, and telecoms—would be maintained as state-owned enterprises reformed and expanded into the economy ("China Names Key Industries," 2006).

The bottom line is that China's economic bureaucrats are more comfortable with the certainties of the command economy and protectionist industrial policy than with the vagaries of the competitive marketplace. They know what their goal is: achieving greatness through the promotion of national champions exploiting their special "indigenous innovation" position. Their mercantilist policies—carving up the marketplace to the advantage of domestic firms, an exploitative technology transfer program (which often includes coerced disclosure of patents and processes), and preferential policies and subsidies that tilt the competitive playing field—aren't going to go away anytime soon.

In other words, the game hasn't changed. The edges may just be sharper. Still, the appeal of China isn't going to go away either. China's real comparative advantage is its vast scale. Growing domestic markets and investment opportunities in China's vast hinterland beckon. But an "open door" doesn't necessarily mean "open arms." As a businesswoman with almost 30 years of business experience in China told me recently: "China is like a savvy old gal who's had a facelift. Externally, she looks fabulous and gets much more attention. As a result, her confidence soars and so she is able to accomplish more in her life. But the essence of who she is—where she came from—does not change. Underneath, she's still the same old gal."

We shouldn't be surprised if she plays hard to get.

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Notes

1. For trends in worldwide public opinion about China—trending sharply toward "unfavorable" in Europe—see Pew (2009). Chinese views of China, on the other hand, are quite understandably positive.

2. "Observe calmly; secure our position; cope with affairs calmly; hide our capacities and bide our time; be good at maintaining a low profile; and never claim leadership" (cited in Bergsten, Freeman, Lardy, & Mitchell, 2009).

3. See State Councilor Dai Bingguo's definition of the "core interests" of the Chinese leadership: "China's number one core interest is to maintain its fundamental system and state security; next is state sovereignty and territorial integrity; and third is the continued stable development of the economy and society." In other words, party control first ("First Round of the China-US Ecnomic Dialogue," 2009).

4. Could it be that foreign businesspeople are still seen as tribute bearers?

5. That's about 37.5 million people—a population just one million less than Poland's.

6. We would add that if one looks at the GCR and World Bank's ease of doing business rankings for the so-called "BRIC" countries, anointed by the international investment community as hot picks, China is the best of the lot. GCR: China in 29th place, Brazil 56th place, India 49th, and Russia 63rd. Ease of doing business: China ranks 89th overall, Brazil 129th place, India 133rd, and Russia 120th. We would not deny the economic momentum of the BRICs, but they clearly remain "emerging."

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