AmChat

July 2004

Journal of The American Chamber of Commerce in Shanghai

Brave New World

China's Retail and Distribution Sectors Open Up

Shanghai Today

China's Best and Brightest Come Home

Powers That Be

A Tale of Two Trade Deficits

World View

Singapore's Lee Hsien Loong on Asia, China & the US

AGE OF PROMISE: The EIU's Charles Goddard reports that China is now critical to the global strategies of MNCs.

Coming of Age: Multinational Companies in China

THE 1980s will go down in economic history as the age of promise for multinational companies (MNCs) in China, while the early to mid-1990s will be remembered as the years during which global companies woke up to the significant difficulties of doing business in the land that Mao built. Some even decided that they would rather just sit out the China opportunity altogether.

Today, the view has come full circle, according to research on the experience of global firms in China performed in 2003 by the Economist Intelligence Unit (EIU). The researchers surveyed more than 200 senior executives and interviewed dozens more. What they learned surprised them: for the majority of the companies surveyed, China is now very serious business.

"We're seeing a striking shift in how businesses are thinking about China," says the EIU's Asia Bureau Chief Charles Goddard, drawing from the new report, *Coming of Age: Multinational Companies in China*. "China is now the emerging market." Goddard and two colleagues briefed an AmCham Shanghai audience on their findings in May.

More than 50 percent of the survey's respondents said China was "critical to their global strategy." Another 25 percent stated that they derive 10 to 35 percent of their worldwide revenues from China. Such numbers represent the new global business reality: China is key.

In 1997 – the time of the EIU's last report of this kind – business in China for many MNCs was "exploratory" and dogged by management, logistical and regulatory problems. Today, however, China has grown greatly in importance for these global players, says EIU Chief China Economist Paul Cavey. As barriers to major-league investment in the People's Republic have been lifted, capital flows have immediately responded. Foreign firms have started investing in China for the long haul, Cavey stresses, and have changed their focus from operational issues to how to be competitive on a global scale.

Perhaps companies are still dizzied by the vision of China's 1.3 billion potential customers, but the reality is that China is a top destination for foreign direct investment (FDI), says EIU Chief Economist Robin Bew. More than US$256 billion of international investment has flowed into China since 1997, and Bew forecasts continued investment of US$67 billion per year through 2008. FDI has played a significant role in expanding China's economy into the sixth largest in the world. It could be said that the "sick man of Asia" is now the Charles Atlas of the region.

"Every serious multinational has to have a strategy for dealing with China. It influences markets across the world," Bew says. For many MNCs, that strategy includes a new element – a focus on the Chinese consumer. Even though less than 10 percent of Chinese have access to significant disposable income, the moneyed population is already large (more than 100 million people) and growing rapidly, Cavey points out.

Success breeds its own problems, of course. Competition is heating up in all industries, skilled workers and managers are still in short supply, banking and finance lag behind, intellectual property rights violations are still the norm, and the legal system will take years to build up. What's more, China's transportation and energy infrastructure has not kept pace with the country's relentless development.

The most creative and experienced MNCs are developing their own solutions. For the newcomers, Cavey advises temperance. "Yes, China has changed – but some people think it is like the U.S., with similar income levels and access to the market," he says. "Be sensible. China is not El Dorado."

By Kristina Lanier

PHOTO: WWW.ASIAMEDIA.NET