

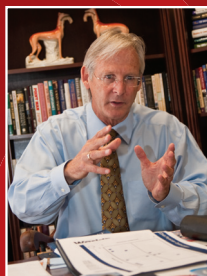
What China Sees When It Looks to the West

Our country sits on the tail of a dragon.

I recently spent time in China, immersing myself in the country's business climate and seeking insights into its world view and long-term economic goals. Here's my takeaway: The political leaders of China—who are also its economic architects—plan to be the world's economic leader by 2020 by building on the power of enterprise and consumerism.

How's that for irony?

The Chinese Communist party plans to overturn America's position of world leadership by out-performing us at our own game of enterprise and innovation.



Sam Frowine

The Chinese have an edge that's rooted in history and in pain; they are hungry to prove something to the world. They have a leg up because they've seen our mistakes. And they have the benefit of party unity—some might call it control—with which to avoid our mistakes of runaway debt, consumer addiction and entitlement at the expense of self-responsibility.

Imagine an economy that could avoid the twin monsters of debt and over-consumption. An economy where the currency is tightly controlled. An economy in which the government owns a share in every enterprise, and a *majority* share in all foreign enterprises that roll up on its shores. Imagine a government that holds the debt of its arch economic competitor, America.

This is the strategic plan of China as I interpret it. Enterprise with controlled freedom (an interesting oxymoron). Purchasing power with controlled consumerism. News media slanted to breed collective confidence.

Will it work? I don't know.

China is good at engineering society to achieve efficacy. Their greatest power lies in their ability to make unified decisions and move the ball forward. The trade-off is freedom.

The U.S. is good at individual expression, which leads to creativity and innovation and wealth potential. The trade-offs are an undefined strategy for global competition and a fractured voice to the world.

And China knows all this.

How do we avoid being crushed by the tail of the dragon? I don't know.

What I do know is that it does no good to look for enemies to blame for the condition we're in before we first look at ourselves. We may, indeed, be in an economic war, but it's a war we can't win by confrontation and intimidation. We cannot win with war-like rattles. We must gain strength through collaboration, relationship and deep introspection, with our eyes wide open.



From "Made in China" to "Created in China"

China's master plan for becoming the number one power economically and politically looks something like this:

- Own lower-skill manufacturing and production. (You can put a check there.)
- Become banker to the world's debt. (Check.)
- Control enterprise within its own boundaries. (Check.)
- Control the supply chain for unobstructed economic growth. (Check.)
- Transform from a manufacturing hub to a leader in innovation by retooling its talent pool.
- Move from manufacturing to creating, inventing, innovating products and services.
- Establish worldwide recognition of the China brand.
- Become the world leader, not a follower.

权力

What China Sees in Us

China's confidence in its ability to win the economic battleground of the 21st century comes from its knowledge that the U.S. is immobilized with political infighting, which neuters us to respond to their aggression in the market.

By the Numbers

- China now has the largest foreign exchange reserve in the world—**\$2.45 trillion** as of June, 2010.

- Today, **470-plus of America's Fortune 500 companies** operate on Chinese soil; the Chinese government owns a controlling share in those companies.

- A key speaker in world affairs stated to a group of 28 world-wide consultants at IBM headquarters in Shanghai that China is targeting growth in the middle class of 30% by 2020, which represents **450-500 million potential new consumers**.

- China suffers from a **major talent exchange deficit**. Of its 1.62 million students who go abroad to study, mostly to the United States, only 30% return to China. Among highly qualified people—Ph.D. graduates in science and engineering, the rate of return is 8%. Part of China's Human Talent strategy is to reverse this trend.

One Good Outcome

A significant result of China's economic strategy can be a better life for the tens of millions of Chinese people who live in poverty. As we rivet our eyes on the dragon, we may also focus on the greater good for these beautiful people.

Next Month

Sam Frowine is off to New York for the 2010 World Business Forum (www.wbfny.com) and plans to share insights from national and international thought leaders in the November issue of *Greater Charlotte Biz* magazine.

Content provided by Samuel E. Frowine III, founder, owner and president of The Performance Group, Ltd., a business consulting firm aligning enterprises with the ambition of owners. For more on Sam's experiences in China, check out his blog at www.OwnershipSuccess.com; contact him at 704-597-5156 or visit www.theperformancegroupusa.com.

CHINA'S GREAT LEAP ★ FORWARD ★

To imagine where China might be in 2020, it is helpful to recall how far it has come over the last ten years. The last decade has seen China move from a relatively inward-looking nation, that had just taken over the reins of Hong Kong and was building its initial steps towards entering into the World Trade Organization (WTO), to a country holding a more central and active position in international affairs, global environmental issues and the direction of world finance and investment.

Since 2000, China has grown its economy from US \$1.1 trillion to US \$4.8 trillion, averaging 16% per year, and has built reserves of US \$2.2 trillion from US \$155 billion. This has been a truly amazing economic performance for a country of 1.4 billion people with a median age of 34.1 years, where 72% of the population is between 15-64 years of age and 46% is under 35 years of age.

The Hong Kong Stock Exchange market capitalization has risen from US \$1.4 trillion to US \$2.3 trillion, making it the fifth largest in the world, and has demonstrated resilience following both

the bursting of the dot-com bubble and the global financial crisis of 2008. The number of Hong Kong-listed companies has grown from 700 to 1,300, while the Hang Seng Index has risen from 16,962 to 21,873 since January 1, 2000, an increase of 29%.

If you combine the market caps of Hong Kong, China, and Taiwan, they comprise the second largest market in the world, half the size of the U.S. market and double that of Japan.

In China, the market capitalization of the Shanghai Stock Exchange and Shenzhen Stock Exchange combined has grown from US \$1.8 trillion in 2000 to US \$3.2 trillion on December 30, 2009. If you combine the market caps of Hong Kong, China, and Taiwan, they comprise the second largest market in the world, half the size of the U.S. market and double that of Japan.

China's 2020 Vision; Hugh Simon, Chief Executive, and Christopher Chu, Research Analyst; Hamon Investment Group; May 2010; www.dreyfus.com

›THEIR MOON SHOT AND OURS

China is doing moon shots. Yes, that's plural. When I say "moon shots" I mean big, multibillion-dollar, 25-year-horizon, game-changing investments. China has at least four going now: one is building a network of ultramodern airports; another is building a web of high-speed trains connecting major cities; a third is in bioscience, where the Beijing Genomics Institute this year ordered 128 DNA sequencers—from America—giving China the largest number in the world in one institute to launch its own stem cell/genetic engineering industry; and, finally, Beijing just announced that it was providing \$15 billion in seed money for the country's leading auto and battery companies to create an electric car industry, starting in 20 pilot cities. In essence, China Inc. just named its dream team of 16-state-owned enterprises to move China off oil and into the next industrial growth engine: electric cars.

Thomas L. Friedman, The New York Times, Sept. 25, 2010