// China's impact on the global market won't be constrained to its manufacturing might for much longer as it looks for investments.

THE *front*

CHINA: TIME TO *RE-EVALUATE*

China is changing its focus from sourcing and manufacturing to investment and consumption, and you need to be ready.

– *By Mona Pearl*

Rise up, stretch and rub the green dollar signs from your eyes. A new day is dawning in China and a radical transformation is underway. China's new economic mission has shifted from sourcing and manufacturing to outbound and domestic investment, indigenous innovation and domestic consumption. While beneficial for some U.S. businesses already in China, this shift may present challenges for others. Certainly, any first-time businesses looking strategically at China will need to understand this new China and it will impact future success.

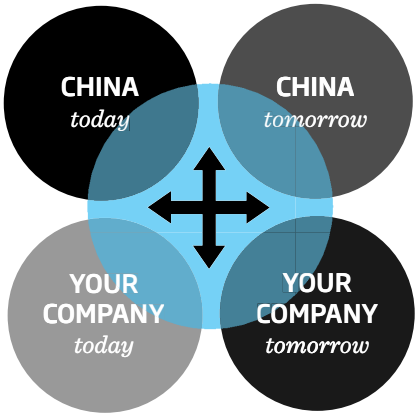
Made In China: Price vs. Quality

The initial surge of U.S. investment in China was fueled by businesses looking for cheap labor and excess manufacturing capacity. For any company competing primarily on price, discovering China was the equivalent of striking gold. On the contrary, for businesses competing on quality, the result was quite different. After a series of scandals involving tainted food, toys and other products manufactured in China, the international community began to question whether Chinese exports met minimum quality standards. Companies like Apple even began labeling their products "Designed by Apple in California Assembled in China."

Going forward, one of China's main ambitions is domestic investment. As China invests in infrastructure, education, and social welfare, it will no longer be the best source of cheap labor. However, this shift might result in a heightened commitment to quality, thus providing previously unavailable opportunities for U.S. businesses. On the other hand, China will always strive to protect its own brands, leaving no guarantee of benefit for foreign companies. While it is still too soon to tell what impact this change will have, one point is clear: U.S. businesses need to continually reevaluate their international strategy with a fresh perspective on China coupled with a look at emerging markets.

Intellectual Property Rights

China's outbound foreign direct investment (OFDI) has attained a level that is challenging international investment norms and affecting international relationships. Prior to China's "go abroad" policy, that started in the late 1990s, China's OFDI was minimal. In 2007, OFDI grew to $25 billion and reached $50 billion in 2008. On the positive side, by investing so much abroad, China is forced to recognize the importance of intellectual property rights and the consequences of product piracy. Ideally, by exposing themselves internationally,



IS CHINA THE RIGHT PLACE FOR YOU?

It's true that many U.S. businesses continue to report tremendous success in China and are committed for the long-term. However, with sweeping change in China and rapid development of other emerging markets, it's essential for businesses to analyze accurate and timely data before making any global decision. Don't go to China because the competition did, and don't stay in China because that was the five-year plan. Choose China when a thorough strategic analysis indicates that China is the best market to meet your specific business goals. Look again; is China the best place for your business in 2010?

China will be encouraged to adopt the necessary laws to protect foreign investments. Hence, U.S. businesses unwilling to risk technology transfer may want to give China a second look in the future.

Distance: Geographical and Cultural

Culturally and geographically, the United States and China are as distant as the east is from the west. Culturally, the divide is fraught with additional risk when considering language, social and business customs, level of formality, concept of relationships and time. Interestingly, a study conducted by Grant Thornton found the top five barriers to cross-border transaction were cultural issues, regulatory environment, legal environment, intellectual property protection and due diligence – each are monumental in China.

Geographically, China's relative distance to emerging markets may become problematic as American companies look to take advantage of them. Strategically, a U.S. manufacturer operating in China might soon discover that a better market has emerged in Brazil, Eastern Europe or Africa. In that case, manufacturing in China may prove too distant and increasingly more expensive relative to other emerging markets.

Political: Some Things Never Change

While young people in China aspire to a more Westernized culture, some things may never change. China is still a centralized economy that tries to obstruct business with issues like regulations, intellectual property, standards, taxes, market access, currency manipulation and corporate laws that regulate mergers and acquisitions.

For that reason, China rates comparatively low in terms of opacity scores and ease of doing business, which ultimately acts like a hidden tax. Furthermore, economy and politics are interrelated and China/U.S. relations will experience heightened tension as China continues to engage with countries like Iran and North Korea. •mt

Mona Pearl's experience in international strategic development and global entrepreneurship has been vital to help companies design and execute their global strategies. In addition, she has co-authored two books and is a professor at DePaul University teaching international business. For more information, please call 312-642-4647 or visit www.BeyondAStrategy.com.

// Doing business with China requires companies to heed the differences.