

Meet the New China

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ABSTRACT

The stereotype of a “backward” China is outdated at best. Today, after a record-breaking average of almost 10% annual real growth over the past two decades, China is home to some of the largest consumer markets in the world and to local Chinese companies which are emerging as world-class players, capable of advancing the global high-bar for economic performance in many industries. Using four industries (aircraft, automobiles, mobile phones and housing) as examples, the author examines China’s rapid economic transformation, suggesting that the tendency to talk down to China should be replaced with respect for a global partner who has much to teach the world even as it continues to learn from others in the global community.

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I. INTRODUCTION

It is an honor to participate in this conference dedicated to promoting dialogue and improved understanding between China, Taiwan and the United States. I would like to congratulate the conference organizers for their efforts to promote such a worthy goal. In a time of tremendous change, it is even more important to keep lines of communication open and to continuously update our perspective. While this is true in every area of the world, keeping up with China's rapid rate of economic development is particularly challenging.

Change has taken place so quickly in China that attitudes and policies toward China are often based on sadly outdated information. An appreciation for the size, dynamism and global sophistication of this "new China" could at once facilitate the development of a more balanced perspective on China's potential role as a market, competitor and partner in the global economy and hopefully point toward a more productive relationship that can now be developed between China and other countries including Taiwan and the U.S. This paper is offered with the hope that it can provide a small glimpse of the new China and encourage conference participants to take a new look for themselves at how far China has come in a very short period of time.

II. NEEDED: A NEW MINDSET TOWARD CHINA

The stereotype of a "backward" China is terribly outdated at best. China possesses one of the richest heritages of culture, enterprise, invention and wealth dating back more than a thousand years. While proudly conscious of this history, China is not looking backwards as it builds a new economic reality. Today, after a world-record breaking average of almost 10% annual real growth over the past two decades, China is home to some of the largest consumer markets in the world and to local Chinese companies which are emerging as world-class players, capable of advancing the global high-bar for economic performance in many industries. A tendency to talk down to China must be replaced with respect for a global partner who has much to teach the world even as it continues to learn from others in the global community.

A. Is China a Developing or an Industrialized Country?

As China prepares for admission to the WTO and emerges as one of the world's economic superpowers, a continuing debate exists over whether it should be viewed and treated as an industrialized or a developing country. For astute students of the economy of China, the answer is quite clear. *Yes*, China is a developing country and *yes* China is an industrialized country. A reasonable assessment of China must acknowledge both realities.

B. In China, New Meets Old

Meet the new China. Fastest growing economy in the world during the decade of the 1990s. Soon to join the WTO. Sleek, modern market sought by almost every giant

MNC in the world. Increasingly powerful member of the global community of nations. Home to what could become within the next 30 years, the largest economy in the world (Liu, 2001).

Meet the “New Beijing” as posters celebrating the city’s successful bid for the 2008 Olympics proclaim. Beijing is fast becoming a world-class home of striking traditional and modern Chinese and international architecture. In China’s capital, resident and visitor alike experience a visual feast seldom, if ever, encountered elsewhere in the world. Beijing, a city with all the controversial standardization that seems to accompany the status of “modern” no matter where in the world the city is located. Approximately thirty Starbucks, countless KFC and McDonalds restaurants, Schlotsky’s Delis, Outback Steakhouses and even a Rainforest Cafe join local favorites such as the famous Beijing duck restaurant Qian Jude and thousands of other local restaurants in serving up a wide variety of world class fare.

For better and worse, Beijing has reached a threshold. This year, for the first time in this writer’s experience after twenty visits to China over nine years, often with executive MBA students from the University of Denver, disappointment was expressed by some students that Beijing was becoming similar in appearance to the many other great cities in the world such as Singapore, Hong Kong, New York, Paris or London.

In many cities, particularly across the eastern region of China, the situation is similar to that in Beijing. As a result, a strong case can indeed be made that China has achieved the strength and economic status of industrialized country. Many of the 400 million urban dwellers in China’s cities are experiencing, as first hand observers and participants, this rapid economic transformation.

Yet 900 million residents are simultaneously experiencing a very different China. Many of these rural dwellers are living at the subsistence level, often raising their own food and deriving little or no cash income from the booming economy of the cities. Their daily economic lifestyle has changed little over the past century with hand-guided wooden plows as the primary means for cultivating fields and simple homes comprised of mud walls and grass roofs commonly providing shelter. Significant numbers of rural inhabitants remain without electricity, and a variety of other basic amenities.

With the largest rural population in the world, the challenge facing China to facilitate and accelerate social and economic development in the countryside is tremendous. Over the past 50 years, China has made tremendous strides in some areas. Inheriting an education system in 1949 in which only 20% of school aged children were enrolled and a country-wide literacy rate of 20% (China Editorial Handbook Committee, 1983), the government designed and deployed a national system of education that has increased the literacy rate to better than 90% today (National Center for Education Development Research, 1994). Meanwhile rural infrastructure has been enhanced so that access to electricity, television, water and other amenities is becoming widespread. A far-flung network of extension officers providing advice to improve crop yields has helped to bring China to near food self-sufficiency, and further massive infrastructural development is targeted for the western regions of China over the next 5 years.

Perhaps even more stunning, the “old” China and the “new” China often coexist in virtually the same space. It is not unusual to see wooden donkey carts crossing bridges over 120 kilometer per hour expressways. Farmers using oxen drawn plows return home at night to watch multiple and even foreign television channels pulled in by a satellite dish. In cities, impoverished shantytowns sit nestled in the shadow of towering glass skyscrapers, and electronic calculators and computers can be purchased in small stores where the cashier will calculate the amount of purchase on an abacus.

China’s economy is at once appropriately characterized as developing and industrialized. Unfortunately, much of the global media and too many of the world’s public and government officials continue to focus on the old China, largely ignoring the new. This unfortunate and outdated perspective all too often drives public attitude and government policy towards China making it much more difficult to build an effective working relationship.

III. THE GROWING AND GROANING ECONOMY OF CHINA

Notwithstanding the dichotomous reality of China’s economy and the extremely modest circumstances under which a large majority of its population are living, China is emerging as an economic powerhouse. As stated earlier, since 1978, China’s overall economy averaged just fewer than 10% real growth annually and has more than quadrupled in size. Even this fact understates the experience of some cities and provinces where sustained annual economic growth rates as high as 20-30% were experienced during much of the decade of the 90s.

The full impact of these numbers is often not well understood, in part, because the stereotype of the “old” China runs so deep. It is often argued for instance, that while the rate of growth in China is indeed large, the base markets are so small that the scale remains insignificant. In reality, China’s GDP broke the US\$1 trillion mark in 2000 (China Daily, 2000) just 10% smaller than the GDP of the UK. Using a purchasing power parity calculation, China’s GDP is revised to US\$4.8 trillion, the second largest economy in the world (CIA World Factbook, 2000).

Others will argue that the average per capita GDP (US\$849 or US\$3,800PPP) shows that the Chinese consumer has little buying power and enjoys an extremely modest material standard of living. However, if one takes into consideration the vast difference in living standards between different areas of China, as described earlier, a different picture emerges. By many measures, China now has the largest middle class population in the world, resident largely in the urban areas described above. Consumer and industrial markets supporting the continuing demand for products emerging from this relatively affluent group are well developed and extremely large. Even now, China is the largest market in the world for many products including tobacco and air conditioners. It is the second largest market in the world for roll film and is projected to be the largest digital camera market in the world by 2004.

A. Four Indicator Industries to Watch in China

In the following paragraphs, a brief perspective on four sample industries is offered to provide a feel for the sweeping changes taking place across the Chinese economy and the market scale that has already been achieved. Brief consideration of upstream (largely infrastructural) and downstream (largely consumer) industries is provided to demonstrate the broad impact that just these industries are exerting on the overall economy.

1. Aircraft

Air travel grew at an average rate of 19% per year from 1985 to 1995. This rate slowed to around 7% per year through 2000. Boeing estimates the market for commercial jet aircraft in China at more than 1700 units worth US\$144 billion over the next 20 years. This makes China the second largest jet aircraft market in the world after the U.S. (Boeing, 2000). Boeing sales in the China market (shared largely with the European consortium, Airbus) are estimated to employ as many as 100,000 U.S. workers on an ongoing basis.

Upstream - In support of that growth, the Chinese government is in the middle of a plan to build or substantially upgrade 300 airports in China during the 1990s and the first decade of the 21st century. While new airports in key cities such as Beijing and Shanghai are part of this plan, the impact extends well beyond showcase cities. Over the past ten years, air travelers have experienced the benefit of upgraded or new airport facilities as they travel to large and small cities in many parts of the country.

Downstream – International and domestic travel is becoming one of the new and highly valued leisure activities in China. Legions of Chinese tourists are making their way by train and increasingly by 747 and 777 to popular historic locations such as the Great Wall in Beijing, the Terra Cotta warriors in Xian, the Yangze River Three Gorges dam site near Yichang, and the scenic area of Guelin just to name a few. To support this trend, large-scale investment in hotels, restaurants and other tourist services is taking place. Gift, camera, film and film development shops have become pervasive along with a variety of other tourist-oriented services.

Travel by Chinese outside of China is becoming very popular as well. An estimated 8.4 million Chinese citizens traveled abroad in 1998 (Xu, 1999). Increasing numbers of Chinese tourists are traveling to Europe and other Asian countries on vacations and for business. Many more Chinese tourists would target the U.S. for travel as well, but U.S. visa regulations make such travel difficult at this time.

2. Automobiles

In 1990, there was virtually no market in China for the purchase of personal automobiles. Personal travel took place by foot or on bicycles (approximately 8 million bicycles existed in Beijing alone) while public taxis, buses, trams, subways and trains were the mainstays of longer distance travel. China's fleet of automobiles consisted

largely of taxis and official vehicles operated by the government, universities and enterprises.

Over the past decade, the Chinese government has set out to systematically alter this transportation profile. Relying on the conventional wisdom of many leading economists that a strong auto industry is an important “pillar” of an industrialized economy and perhaps a prerequisite for the transition from developing to industrialized economic status, China systematically supported the rapid growth and development of its auto industry (Consulate General, 2000).

To facilitate this transition, the government allowed increasing international participation in the industry. Companies such as Volkswagen, General Motors, Honda, Kia, Citroen and others made substantial investment in manufacturing facilities. General Motors, alone, invested US\$1.6 billion in a plant designed to produce 100,000 vehicles per year (Gilley, Lawrence and Holland, 1999). By the end of 1998, over 4 million cars were privately owned in China (Consulate General, 2000). Today, many professional employees own their own cars and some dual income professional families own two cars.

The experience of one U.S. MNC is instructive: In 1993, not one of the then 250 Chinese local employees owned a car. By 1999, it was estimated that as many as one third of the 2500 employees of this same company owned their own car. In that same year, the Beijing auto show attracted an estimated 250,000 people to view its exhibition of vehicles. Honda estimates the upscale auto market in China targeted by their Accord (selling in China for US\$36,000) to be approximately 1 million units – larger than the comparable market in all of the rest of Southeast Asia combined (Landers, 1999).

On recent visits to China, this writer has been driven around town by an increasingly diverse array of private car owners including former students who have become young managers and professionals in their companies, entrepreneurs who have started up their own companies, current students who are between jobs, even a retired music professor.

Upstream – An amazing array of roads has been developed to accommodate the growth of personal vehicles. In the early 1990s China’s first high speed (120 km/hour) limited access roads were developed to provide links between such locations as the industrial city of Shenyang and the port city of Dalian and between the booming economic centers of Guangzhou and Shenzhen in the south with Hong Kong. Beltways and freeways were built to ease the increasing traffic congestion in the larger cities.

In Shanghai, for instance, a four lane elevated beltway covering a distance of 60 kilometers was constructed around the city in less than one year. In Beijing, the first limited access road was completed in 1992. Referred to as the second ring road, it served as a beltway to facilitate travel around the city. By 2000, this road had been supplemented with a myriad of urban roads and beltways including an airport expressway, a third ring road, and a fourth ring road. Each of these ring roads offered new development opportunities in previously remote areas surrounding the city. A fifth ring is already anticipated.

Downstream – Across China, entirely new industry segments are emerging to support car ownership. Numerous automotive repair shops are appearing along with car washes and gas stations. Public buildings are built with vastly more parking space to

accommodate the explosion in car ownership. Residential construction often includes larger parking lots and private garages available at steep prices to increasingly affluent residents. Many department stores now include an area dedicated to displays of auto accessories such as steering wheel covers, driving gloves, decorations, and air fresheners. Amazingly, Beijing is even home to at least one drive-in movie theater.

3. Mobile Phones

This year, China is expected to become the largest mobile phone market in the world surpassing the U.S. with over 100 million mobile phones in service. Forecasts call for continued growth in the mobile phone market of 50% per year (Morais, 2001) and suggest that by 2004, China could have 250 million phones in service representing one fourth of the world's total. With Nokia and Motorola leading the way, most international mobile phone producers are present in the China market competing with at least twelve local Chinese mobile phone producers.

Driven in part by a shortage of landlines, the proliferation of mobile phones has now become an ingrained part of the culture for a significant portion of the Chinese population. Restaurants, stores and streets reverberate with the sound of personalized phone rings and animated phone conversation as Chinese citizens, young and old, display late model international and local brand name phones offering features which are, in some cases, available in China before they become available in other major world markets.

Upstream – Tremendous infrastructural development is required to support the growth of service providers. Networks and servers need to be installed and maintained to increase capacity and extend coverage. New technology needed to support enhanced services and new communication standards along with forecasted rapid further growth in end-users promises to keep this industry growing at a rapid pace over the next decade.

Although e-commerce has taken off slowly in China, some limited success stories already exist. The Gartner Group has predicted that the proliferation of mobile phone usage in Asia is setting the scene for expanded wireless Internet access (*Asia Business*, 2001). This can in turn lead to expanded e-commerce opportunity. Before large-scale wireless or wired e-commerce can be implemented, however, payment and delivery challenges must be addressed (Sliwa, 2001).

As a result, opportunities exist for banks to develop further, their credit and debit card services. However, they may encounter new sources of competition such a phone billing services and others players who could develop alternative e-commerce payment vehicles. Meanwhile, China's government postal service along with FedEx and other private sector delivery services can pursue new opportunities to move products from sellers to buyers – many of whom may be ordering goods from mobile sites away from their home or business address.

Downstream – The after market for accessories supplied by original equipment manufacturers as well as many others is rapidly becoming a large industry in and of itself. Brightly colored faces, phone covers, batteries, chargers, are all widely available in department stores, markets and on the streets of Chinese cities. Repair and service

centers are also proliferating – some with guaranteed one hour turn around (Morais, 2001) - even though many consumers upgrade their phone with a new model well before it needs service.

Online services will be one of the biggest growth opportunities as providers develop new services to offer their customers. Services such as WAP (wireless application protocol) and 3G (third generation mobile phone technology including significantly expanded access to the internet) have proliferated much more slowly than expected but still loom on the horizon. Other services such as SMS (short message service) are catching on more quickly. Phones that store and play MP3 format music are beginning to appear on the market and the advent of a range of other services is expected in the near future.

4. Housing

Until the early 1990s, almost all housing in China was provided by the work unit or *danwei*. Early foreign joint ventures relied on the local partner in the JV to provide housing for employees. But as more multinationals began to establish themselves as wholly owned foreign enterprises or WOFEs, the challenge of providing for housing began to fall more squarely on the shoulders of the MNCs themselves. Some foreign companies developed housing complexes for their employees in much the same spirit as the work units. Early pioneers such as IBM crafted more creative solutions including housing purchase subsidies and other programs which allowed employees to actually own their own housing (Allen, Burgoyne and Wirtzfeld, 1996).

By the mid 1990s, a major change in housing patterns was underway and housing reform was identified as one of the high priority issues by the government. As unprecedented levels of construction activity – primarily focused on business and office buildings continued to change the face of countless Chinese cities, many residents living close to city centers were relocated to surrounding residential areas that were built to accommodate displaced individuals. Employees working in the many *danwei* were encouraged to purchase their current housing, which was offered to them at a fraction (perhaps 10%) of a theoretical market value (Zhang, 2001). Salaries began to rise to reflect a new assumption that employees would be responsible for acquiring and paying for their own housing.

By the late 1990s a boom in mostly high-rise housing was occurring in many cities throughout China. Playing a major role in promoting this trend, the government is investing US\$25 billion per year in new housing (*World Trade*, 2001). In most cases, the new housing represents a quantum improvement over the housing that has previously been provided by the *danwei*. While much of the new housing is still quite basic, it is usually larger, with better facilities than the previously available housing. The average living area in Shanghai, for instance, rose almost 30% from 6.6 to 9 square meters per resident between 1990 and 1997 (Cong, 1998). For employees living on more modest salaries, millions of existing apartments are being upgraded and refurbished for sale as well (Firmin, 2001).

Upscale high-rise neighborhoods are also being built on the outskirts of cities. Appealing to the upwardly mobile professionals, these forests of 20-30 story buildings

often include attractive grassy green park areas, playgrounds for kids, restaurants, supermarkets, schools, and other facilities on site.

Many economists believe that the housing industry has become a primary economic driver for China. A Gallop survey of Chinese consumers in 1999 indicated that fully 10% of respondents anticipated purchasing their own housing within the next 2 years. Forecasts anticipate the need in China for 3 billion square meters of new housing per year between 2001 and 2006 (*World Trade*, 2001).

Upstream – Tremendous infrastructural development is supporting this housing boom. Early neighborhoods located on the outskirts of cities were often isolated without convenient access to basic amenities such as stores, schools and other support services. Road access and public transportation had to be improved in order to facilitate access to areas previously used as farmland. New sources of electricity were required to support increasing adoption of appliances such as larger refrigerators, hot water heaters, brighter lights, washing machines, microwave ovens, air conditioners, heaters, computers and a range of audiovisual equipment.

Banks have been vigorously developing mortgage programs to facilitate the purchase of housing. Virtually non-existent before 1995, mortgage loans had ballooned to US\$1.2 billion just two years later in 1997 (Roberts, 1997). Early mortgage programs offering close to consumer credit card interest rates and five to seven year payback periods have now been revised to offer lower rates and as much as twenty year payback timeframes (*Asian Business*, 1999). Interestingly, many banks have been anxious to participate in the mortgage industry because of the exceedingly low default rate of 1-2% (Roberts, 1997). The mortgage program operated by the city of Shanghai reported that it had not encountered even one default by the end of 1997 (Cong, 1998).

Downstream – When purchasing a home in a newly built high rise, the buyer usually acquires a concrete shell. He or she must then allocate an average of about 20% of the purchase price to complete the “interior decoration” which includes finishing of walls, floors, ceilings, and the installation of bathroom, kitchen and lighting fixtures, air conditioning systems, etc. While local Chinese suppliers provide most of these materials, almost US\$400 million worth of building materials were imported into China from the United States in 2000 (*World Trade*, 2001).

Additionally, millions of new homes need to be furnished. Large numbers of furniture stores have appeared in cities across China providing furniture at all price points, from quite basic to extremely upscale furniture costing thousands of dollars apiece. High volume stores from overseas such as Carrefour, Wal-Mart, Ikea and others are joining countless local department and specialty stores in Chinese cities to provide an increasingly diverse array of household goods and furniture almost totally unheard of in China ten years ago.

To support the huge demand for interior decoration, giant warehouse-like buildings have appeared which provide one-stop-shopping for new homeowners. Although configured in many different ways, a typical layout might involve an expansive lower floor where furniture sellers with attractive displays offer a wide variety of furniture choices selling at different price points. Upstairs, on a second or higher floor, dozens if not hundreds of small offices invite new homeowners to come and consult with interior design specialists who can help design the floor plan of the

residence and specify the materials and fixtures to be used as the home is finished. Suppliers of fixtures, flooring, wall materials, paint, etc. are located with displays on the same floor so that a complete plan can be developed in the one location.

For homebuyers on a budget, numerous vendors have set up shop in small storefronts or even makeshift shacks near the housing developments. Here, the do-it-yourselfer can come to buy any imaginable building material or product, from toilet fixtures, piping and sinks, to wood panels, doors and frames. Local workers can then be hired to assist with the completion of the home's remodeling or initial interior decoration.

The above is just a sampling of the many industries that simultaneously signal new sophistication, new opportunities and new problems in the Chinese market. Widespread adoption of mobile phones increases communication options and accessibility for many people even as it siphons off significant amounts of disposable income that might better be used on other family priorities. Automobiles offer personal freedom and travel flexibility even as they contribute to traffic congestion, noise and pollution. Private ownership of housing provides expanded and enhanced living conditions even as it adds to commuting hassle, urban sprawl and increased energy useage.

The point of this paper is less to celebrate these changes than to call attention to the fact that they are taking place. With the depth and breadth of these changes, China joins the legions of other countries around the world that are attempting to strike the appropriate balance between improvements in material standard of living, quality of life, environmental responsibility, and a sustainable model of development. Successful interaction with China on the part of others will depend on an appreciation and respect for this new reality.

IV. THE NEXT BIG THING: WORLD-CLASS CHINESE BRANDS

While part of the story of China's economic transformation has been the increasingly successful and extensive participation of international companies, a less widely acknowledged development is the emergence of world-class Chinese companies. These companies are beginning to establish and invest in the development of their own brands, which are well regarded in China, and beginning to appear beyond Chinese borders in international markets.

Chinese companies such as Haier, Legend, Konka, TCL and Huawei are increasingly respected for product quality and sophisticated design and marketing capability that will allow them to successfully compete against global competitors in global markets. Konka for instance manufactured 6 million televisions in 1999 and received a design award in the United States for its product line (Washington Post, 2000). The company has established U.S.-based development centers in Silicon Valley (*Journal of Japanese Trade and Industry*, 2001). Legend Computer has become the largest PC seller in China and is extending the breadth of its product line to include a variety of peripherals and PDAs. It is already establishing a favorable brand reputation in regional Asian markets and may soon seek to establish a presence outside of Asia. When the Chinese company Huawei exhibited its high technology wares at the

International Telecommunication Union's trade fair in Geneva, attendees expressed shock that "this sort of stuff was being made in China" (Gilley, 2001).

In industry after industry, China is demonstrating the capacity to rely on local capability to compete effectively in emerging fields of high technology. In aerospace, China is engaged in an aggressive manned space program, which could result in a manned flight as early as 2002 (Lawrence and Dume, 2000). In biotech, Chinese scientists joined an elite group of researchers (largely from industrialized countries) to participate in the human genome project (Murphy, 2001). With substantial chip manufacturing already under way in China, some believe that China could have the capability of advanced chip manufacture within five or six years (Saywell, 2000). Even city governments are becoming known for their ability to compete. A report in Taiwan recently expressed concern that the level of responsiveness, facilities and service offered to attract businesses to Shanghai were exceeding those offered by cities in Taiwan (China Post, 2001).

Setting the pace for this growing set of world-class Chinese companies and capabilities is the white goods and diversified electronics and telecommunications manufacturer, Haier, now present in all regions of the world.

A. Emerging Global Powerhouse

Haier began as a typical government-owned enterprise when the eastern port city of Qingdao opened up their "Qingdao General Refrigerator Factory." Originally, operating in an undistinguished mode, the arrival of Mr. Zhang Ruimin as managing director in 1986 changed the fortunes of the company. Although he had risen through the city government ranks as a government bureaucrat, he was known as an admirer of Western management theory and was widely read in the management literature.

Disappointed with the plant's production quality, shortly after his arrival he pulled more than seventy poorly built refrigerators off the line and ordered employees to smash them to pieces with sledgehammers. This, he said, should be a reminder that the plant would never again ship low quality product.

Today, Haier has emerged as a symbol of the new China. Claiming an average growth rate of 80% annually over the past 15 years and enjoying sales of just under US\$5 billion in the year 2000 (ChinaProducts.com 2001), Haier is now the 6th largest appliance manufacturer in the world (Haier, 2001). With over 9000 different products spanning over 40 product categories, Haier produces everything from refrigerators and washing machines to mobile phones and flat screen televisions.

1. Research and Development and Learning

Haier's success involves a strong focus on learning and development. Early in its history, Haier joined up with a German partner and gained new product and manufacturing expertise from that relationship. To this day, Haier's name and their logo (two kids holding hands, one Caucasian and one Chinese) reflect the importance of that early relationship.

The Haier home web page states that the company is, on average, applying for and receiving about 1.8 international patents per day as they continue their pursuit of continuous improvement and strong investment in research and development. Haier, in partnership with a Hong Kong partner holds the patent to the smallest mobile phone in the world (weighing 2.8 grams). Haier states that its current research and development budget is US\$100 million (Haier, 2001).

Haier's dedication to innovation and quality is legend. In one instance, Haier managers heard that many of their washing machines were clogging with dirt and debris in some rural areas of China. Sending customer service representatives out into the field, they discovered that people were trying to use their washing machines to wash farm produce. In response, engineers back in the labs developed a line of washing machines that had among other features a "produce cycle" that allowed the rural farmers to successfully use the machine for washing vegetables as well as clothes.

2. Global Expansion

In recent years, Haier has expanded its market focus to embrace global markets and now has a presence in 160 nations (Landler, 2000). In countries from South Africa to the United States, Haier branded products are featured with greater prominence. In the U.S., popular retail outlets including Walmart, Target, and Best Buy carry Haier brand name products.

To support their U.S. sales and to gain further market responsiveness, Haier opened its first U.S. based manufacturing operation in South Carolina. This US\$30,000,000 plant employs and trains American workers to build small, high quality refrigerators. Today, with two of the top five best selling small refrigerators, Haier controls over 25% of the small refrigerator market in the U.S. (Landler, 2000).

3. Local Responsiveness

Even at this relatively early stage of global expansion, Haier is examining differences between markets in various areas of the world in order to best serve local market needs. Out of this examination has come a broad concept of how refrigerators are viewed and can be positioned in each market. For many regions of the world, Haier has developed a slogan or theme that captures the way Haier plans to address the market. A sign in Haier's head office reads: "For Europe – solemn and elegant. For Africa – economical and practical. For Japan – the pet of the supermarket. For America – generous and imposing" (*Washington Post*, 2000).

As Haier looks toward the future, CEO, Zhang and his team are convinced that the best way to protect profitability in their home market is to build strong capacity to compete in the broader international market. Haier is not alone. Over the coming decade, the world will get to know a growing set of MNCs emerging from the new China.

V. BUSINESS LEADERSHIP IN THE NEW CHINA

Education and the development of people are key themes in the new China. Need for MBAs in the rapidly growing enterprises in the private and public sector is estimated to exceed 350,000 (Qiu, 1999). As a result, demand for the MBA and investment in management training on the part of companies and individuals is enormous.

So far, the capacity of Chinese Universities to graduate MBAs remains very small. In 1996, only about 26 programs were authorized by China's State Education Commission to offer the MBA degree involving a total capacity to graduate about 1,000 MBA students. Since that time, the number of authorized universities has been doubled and programs were expanded to admit 5,000 students by 2000.

International participation in the granting of MBAs to Chinese students has been growing as well. The most popular approach has simply been to recruit Chinese students to U.S., European and other universities. However, in the case of the U.S., this option has been severely curtailed by the limited number of student visas the U.S. government is willing to grant Chinese students.

On-ground programs have been established by foreign entities as well. The most prominent program to-date is a joint venture between the EU and the Shanghai city government known as the China European International Business School. With a main building located in the rapidly developing Pudong district of Shanghai, the school offers a variety of MBA and Executive MBA training in Shanghai and at a number of remote locations around the country.

Other schools from Europe and the U.S. have become involved in different ways. Most have engaged in joint ventures with local universities or helped companies and government agencies establish in-house training capacity.

The environment of the new China is honing the skills of a new class of business leaders. World-class leadership is rapidly emerging out of international and local Chinese companies alike. Haier's Zhang Ruimin, for instance, has been recognized as one of the top executives in the world by the *Financial Times* and has been referred to as "the Jack Welch of China" (Landler, 2000). Other corporate heroes will emerge from Chinese companies in the years to come contributing their skill, perspective and leadership to the solution of business, economic and other challenges that China will face in the years ahead.

VI. CONCLUSION

China has changed much more quickly in the past 20 years than perhaps any other country in the world. As such, much of the conventional wisdom and stereotypes involving China must be reexamined and updated. While much of the world continues to focus on the "old" China, a "new" China has emerged and is too often ignored. The result is rhetoric and interaction involving China that is obsolete and increasingly counterproductive.

While both Chinas continue to exist, the new China must be acknowledged, understood and engaged as a co-equal partner even as the "old" China remains involved and is not left behind. In this regard, countries that have strong economic ties with

China such as Taiwan and the U.S. have an opportunity to set the tone. A productive relationship based on recognition of the new China can pave the way for a productive relationship between China and the entire world.

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