Business Leaders on China

LEADERS asked a group of leading CEOs: What would you suggest be done by policy makers and other business leaders alike to make doing business in China easier, in both the public and private sectors? Their responses can be found below.

THERE ARE NOT AS MANY STRUCTURAL BARRIERS TO DOING business in China as many may think. The biggest opportunities for doing more business in China will come from deepening mutual understanding – and building deeper, 'below the surface' relationships built on trust. Leaders outside China can invest more energy in business-to-business exchanges, bringing boards of directors and management teams to China – and, for that matter, adding more Chinese nationals to their boards, and having more Chinese nationals in their 'top 100'. At the government and societal level, leaders inside and outside China could do more mid-level government and city exchange programs, fund more sponsorship of educational exchanges (and focus more education in the U.S. on Chinese and Asian history in general), make it easier to get longer-term business visas (both ways), and accelerate the development of special purpose IP tribunals to resolve IP issues. Working on key global issues together, such as climate change policy and innovations, would also help deepen trust.

– Dominic Barton, Global Managing Director, McKinsey & Company

THE FRAMING OF YOUR QUESTION SUGGESTS THAT PUBLIC and private sectors have a desire for similar outcomes in U.S.-China economic relations. This is, in fact correct, yet not always put into practice.

Therefore, there should be a more robust process in defining our priority issues with China that result in a clearer road map of what our national economic priorities should be. Some would refer to it as a strategy, and that is essentially what we need. Our lack of a coordinated national approach around clear objectives hurts us in the end, and the Chinese often use it against us.

It's also fair to compliment the Chinese on years of market liberalization since Deng Xiaoping opened its doors to business in 1978, where it has since grown to become the second largest economy in the world, and soon America's largest trading partner. China's entry into the WTO in 2001 was also historic in charting its journey towards greater reform. Much however needs to be done to restore confidence that China is in fact moving in a direction consistent with its commitment to reform.

U.S. policy makers and business leaders should highlight the following priorities as part of any future economic agenda, particularly in the run up to the October U.S.-China summit between both heads of state.

1) A bilateral investment treaty (BIT) must be negotiated and finalized since today there is no set of rules governing or providing protection to investment flowing both ways. Given the increased investment flows between the world's two largest economies, we are increasingly vulnerable without one.

2) Both countries are now pursuing their own version of Asia-Pacific trade: the U.S. through TPP and China through RCEP. These networks of countries, some of which overlap, will soon be subject to differing standards for rules of origin, tariff schedules, and trade facilitation along with labor and environmental obligations. Trade within the region could be terribly confused and negatively impacted, and only the U.S. and China can bridge these differences.

3) China's recent economic practice of indigenous innovation or "picking winners" has had a profoundly negative impact on trade and investment. Beijing's favoritism of local enterprise, either through procurement practices, technology licensing arrangements, or preferred cost of capital for state-owned enterprises, has taken "market" out of the marketplace and introduced additional risk and cost to outside players. The playing field must be leveled and done so by Beijing respecting and abiding by its existing trade obligations, already in effect.

4) Cyber-hacking and theft of intellectual property have done more than anything else to sour the once positive commercial relationship between China and America, regardless of private or public sector. It has robbed the U.S. of jobs and put a damper on innovation. At the same time, it has fortified China with new technologies without the necessary ecosystem that must support technology development over time. It's a lose/lose and must be addressed.

5) Finally, the reform agenda in China must continue apace and begin to bring state-owned enterprises into real world standards. These behemoths have played by their own set of preferential rules for far too long. In the areas of corporate/governance transparency, internal transfer pricing, discounted raw materials, and sweetheart lines of credit, the rules must be changed. Foreign companies are put at a huge disadvantage and the Chinese companies simply grow weaker without real competition. This particularly applies to the financial sector where rules for deposit insurance, interest rate liberalization, and foreign competition must all be introduced.

– Jon M. Huntsman, Executive Chairman and Director, Huntsman Corporation, and Jon M. Huntsman, Jr., Former Ambassador of the U.S. to the People's Republic of China, and Director, Huntsman Corporation

AS ARCHITECTS, ONCE WE BECAME ESTABLISHED AND KNOWN in China we found working there not difficult and actually enjoyable. In fact, we have designed buildings in 18 Cities in China. Many are now completed. We have been working in China for over 25 years, and maintain a fine and busy office in Shanghai.

We have found that when the Chinese want to develop a new building, they do it in a relatively short time. For an architect, it gives you confidence that what you have designed when approved will be constructed. This is not always the case elsewhere as markets can shift from when you start the design to when construction should begin. Financing may be difficult or leasing slow etc.

So Kohn Pedersen Fox has had a very good experience working in China.

– Eugene Kohn, FAIA, RIBA, JIA, Chairman, Kohn Pedersen Fox Associates PC

In recent years, policy makers have taken positive steps in terms of tackling corruption and strengthening intellectual property rights, and continued progress on both fronts will make doing business in China easier.

– Mark Weinberger

CHINA HAS GONE THROUGH A GREAT TRANSFORMATION over the past three decades and there's so much to be proud of. There is no doubt that reform and opening up has played a key role in that transformation. China's leadership has repeatedly stated that it is determined to lead the country to the next level of development and prosperity, and they are also well aware of the significance of continued reform and opening up.

We are encouraged that the government has laid out an ambitious reform plan to let the market play a decisive role in allocating resources and at the same time promoting the rule of law. Though there are many challenges to overcome, we encourage the Chinese leadership to demonstrate continued determination in pushing forward with the reform and opening up plan to increase the transparent business environment there in which all market players are treated equally, fair competition is encouraged and protected, and rule of law is observed and enforced by both the public and private sectors.

– Doug Oberhelman, Chairman and Chief Executive Officer, Caterpillar

WHILE THERE HAVE BEEN SOME RECENT MACROECONOMIC challenges, we're still seeing that foreign companies are getting better at doing business in China. A recent survey by the American Chamber of Commerce in Shanghai shows that 73 percent of American companies operating there are profitable and nearly all are reporting stable or growing market share.

With more than 1.3 billion consumers, China is a key market for us and our clients – we have to be doing business there and doing it well. At IPG, we've invested to be sure we understand these complex consumers who are smart, price-sensitive, and hungry for information and for choice. Understanding and being immersed in the local culture are key drivers of success and inform the marketing solutions we bring to clients.

Moving forward, we believe that the crackdown on corruption and the government's increased emphasis on upholding the rule of law will continue to remove hurdles that have historically existed for foreign businesses. The big challenge for policy makers is to enforce laws equally across all business – foreign or local. On our end, it's critical to engage authorities on new and emerging regulations – China changes fast so we need to be on our toes.

Businesses also need to look beyond localizing their products and services for China and seek to nurture innovation within China. "In China, for China" is the hallmark of successful companies and is the kind of thinking that will move the needle for our clients who are operating there.

– Michael I. Roth, Chairman and Chief Executive Officer, Interpublic Group

CHINA HAS LONG BEEN A COUNTRY WHERE PEOPLE FROM ALL over the world want to do business. In the 19th century, enterprising English fabric merchants dreamed of the riches they could earn if they could convince every Chinese person to wear their shirts an inch longer. In the 21st century, manufacturers from all corners of the earth set up shop to capitalize on China's low-cost skilled workers.

But China isn't always an easy place to do business, for either native or overseas businesspeople. Companies establishing themselves in China need to consider a range of risks including intellectual property theft, regulatory change, and corruption that may be greater than they are accustomed to in their home market.

From the standpoint of business leaders doing business in China, to succeed it's important to not only understand and work to mitigate these risks but also to align their businesses to the country's strategic and political framework. That means making sure that we do business in a way that is consistent with the overarching policies of China's political leadership. By doing so, we stand a good chance of demonstrating win-win solutions with the Chinese managers and officials we work with.

Looking to policy makers, it is essential that China's leaders continue to demonstrate their stated interests in undertaking fundamental reforms, ranging from continuing to liberalize their financial system; opening local markets and sectors to more direct foreign investment; increasing domestic competition by encouraging entrepreneurship (through means such as, for example, the Shanghai Free Trade Zone) and encouraging private ownership (through state-owned enterprise reforms); and providing appropriate protections of individual and property rights.

In recent years, policy makers have taken positive steps in terms of tackling corruption and strengthening intellectual property rights, and continued progress on both fronts will make doing business in China easier.

It will be interesting to watch the next steps in China's recent devaluation of its currency. A more open renminbi policy, allowing it to float closer to market levels, will be welcomed. Some banks and other financial institutions find it difficult to operate smoothly in China because the renminbi isn't freely convertible and funds can't be transferred in and out of the country easily. While all these reforms will be difficult for sure, and they can't all be made overnight, they will facilitate China's necessary transition to a consumption-driven economy, as opposed to export- and investment-led one.

– Mark Weinberger, Global Chairman and Chief Executive Officer, EY ●