China’s building boom continues unabated
If India wants to catch up, it will have to run faster and harder

Donald L. Stevens

The Institute for International Business, home of the CU CIBER (Center for International Business Education and Research) is a leader in globalizing US faculty through various programs, some are faculty development in international business (FDIB) programs which expose faculty members to specific world regions. In January 2006, Donald L. Stevens, director of the Institute, and Ji Chen, a CU finance professor, led an FDIB study tour to China where educators got an up close view of China’s significant strides – and problems – as it races to become a 21st century country. Gail Schoettler accompanied the group and provides highlights of the trip. Schoettler serves on four corporate boards, is a former US ambassador, Colorado lieutenant governor and treasurer, Democratic nominee for governor and Douglas County school board member.

Of the many differences between India and China, perhaps the most pronounced is how each country approaches infrastructure development: India is a study in slow motion whereas China is a fast action thriller.

“What impressed me (about China) was how litter free the cities were and the incredible landscaping along every highway and in the medians,” says Gail Schoettler, reporting on a trip that took FDIB participants to the economic hotspots of China.

“All the new highways were beautifully landscaped. In the year since we had last visited, eight new eight-lane highways had opened. And new construction is not limited to roads,” says Schoettler.

“One of China’s four largest container ports, Yantian Port is expanding to accommodate the new giant container ships. Yantian Port is situated on the East Coast of Shenzhen in the Pearl River Delta (Guangzhou-Shenzhen area), China’s major manufacturing center. There are three other new ports being built within 40 miles of Yantian, a clue about the size of exports from this part of China.”

Shanghai: A bubble looming?

A burgeoning economic and financial center located in the Yangtze River Delta, “Shanghai now has 2000 skyscrapers over 40 stories and 4000 over 20 stories high,” says Schoettler. “Most have been built in the last 10 years and are quite spectacular. However, many are empty, particularly the apartment/condo towers.” Consequently, Schoettler speculates that China may be facing a big bubble, particularly in real estate. “If so, the bursting of that bubble would ripple around the world, hurting economies throughout Asia and the US.”

On the other hand, she points out that buildings that were largely vacant in 2000 were full by 2003, so it’s hard to gauge China’s appetite for office space.

The FDIB group was welcomed by the US Consulate where they received a briefing from “a Chinese-American who had been in Shanghai eight years and was finishing his MBA under the tutelage of Western professors.” According to this man, “Chinese faculty are not on a par with Western faculty; thus, college students in China are not getting the same quality education as we get in the US.”

Among the companies visited in Shanghai were Baoshan Steel and the GM factory.

“At Baoshan Steel, the largest steel company in China, we watched workers roll sheet metal and steel pipes,” says Schoettler, adding, “China’s huge steel production has resulted in driving up the demand and price for coking coal, which is used in the production process.”
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Business is good at the GM factory which is now producing “five different car models for the local market.” Although GM announced in December that it is closing five plants in North America and eliminating 30,000 jobs, “the company is expanding in China and making money there,” says Schoettler.

A GM vice president talked to the FDI B group about what it takes to do business in China where a Chinese 50/50 partner is required. “The advantage is that the partner can get the government to do what is necessary for the company because the government owns the partner. The downside has to deal with the Chinese government on every detail and work out innumerable small and large disputes with your partner.”

Electricity to run the plant is a big problem. “Plant managers never know until late afternoon of any given day if the government will provide electricity for the next day’s operations. So it isn’t until quitting time that they can tell workers whether or not they should show up for work in the morning,” says Schoettler. “Workers have no union and have never known Western worker rights and expectations. No doubt this contributes to China’s competitiveness.”

Chengdu: Pricey shopping

Chengdu, the capital of Sichuan Province in Southwestern China, is home to several thousand Westerners along with high-end Western shops such as Gucci and Armani, reports Schoettler. With a population of 10.8 million, Chengdu appears to have enough purchasing power to support these expensive brands.

“Based on what we saw in China and Hong Kong, the emerging middle class is very brand conscious. If this proves to be true, it will mean unprecedented demand for Western brands. On the other hand, if Chinese consumers ignore Western brands in favor of Chinese brands or no brand, the scale of consumption moves from $800 for a jacket to $200 for a jacket to $20 for a jacket. In any case, Chinese consumerism has the potential to rival anything experienced in the West.

“Intel, another American brand, has just opened a huge chip factory in Chengdu; others will soon follow. And at the Midea factory, a wide range of home appliances roll off the assembly line with the names of Kenmore and almost every other major American brand.”

PERSPECTIVE

“The Shanghai and Guangzhou regions each account for about one-third of China’s imports and exports. Each region is about the size of Colorado’s Front Range and each has more than 40 million people. If Colorado were as big relative to the US economy as these regions are to China, it would have a GDP of about $1 trillion.” Colorado’s GDP in 2004 is estimated at $185 billion.

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Chengdu is courting entrepreneurs. “That’s part of the strategy of a three-year old high-tech industrial park which has 20 or more buildings and will have about 60 buildings by the time it is eight years old,” says Schoettler. “Chinese expats with Western degrees are being recruited to return to their homeland and start companies.”