

China, India & Globalization

The Global Human Capital Journal

China Analysis and Outlook 2006

By Christopher S. Rollyson — Sunday, 19 March 2006

Part II of the 2006 Economic Forecast featuring David Hale (presented [Part I](#)) and Lyric Hughes-Hale. Here, I present my notes of Lyric's talk, followed by my observations.

- **Background:** China's development and situation are far more complex than U.S. news sources report. It has seen significant economic liberalization during the past 25 years, and it shows every sign of continuing on that trajectory. However, the country is politically conservative. There is no freedom of the press. However, the authoritarian government may produce reform much more quickly than if China had been democratic because the democratic process slows reform. China is far more open and engaged on the world stage than it has been in many years.
- **Social issues:** more than half of China's population work in the agrarian economy and, to repeat David's statistic, China spends 45% of GDP on investment. Building and infrastructure investment are tremendous in scale and scope. Many people are being forced off their land to make way for high tech centers, roads and other projects, and protests are growing. There is a veritable middle class rebellion underway, as those who did well under the Communist regime still want the status quo. Younger people are moving to the cities, and they are breaking with traditions, which is producing social turmoil. It's difficult to predict how this will be resolved. Mao was a peasant, and the possibility of revolution exists, although it is by no means probable.
- **The U.S.-China ecosystem:** The U.S. and China are joined at the hip economically because the U.S. is a profligate deficit spender, and China holds a large portion of U.S. debt. China has a very high savings rate. The U.S. depends on China to buy its debt instruments, and the U.S. is a huge market for China's exports. The Vice Premier was in Davos promoting China's growing wealth and demand for (western) imports.
- **Has China peaked?** However, there are warning signs that western journalists' ever-rosy predictions about China are seriously off the mark:
 - Profitability is falling in almost all industries. Even the predictions of China's demand for commodities don't reflect reality: from 2002-2004, Chinese companies stockpiled commodities, they overbought, and therefore predictions of China's demand for commodities are significantly too high.
 - China's health care system is seriously lacking. It was free, but it has largely shifted to pay for service. There are no pensions, and these are two reasons why saving is so high.
 - Predictions that Chinese consumer demand (for western goods) will surge soon are too rosy. Demographics show that China's population will get old before it gets rich. The labor force is peaking, and older people, who were raised Communist, are not spenders; there is no credit mindset as in the U.S.
- **Taiwan/China:** The two countries will soon be reunited peacefully. Taiwan is not sustainable in the face of China's economic reforms; its key function has been to serve as a conduit to China, and that role is largely superfluous today. The countries are already inextricably linked, and links are compounding quickly.
- **Intellectual property protection:** IP will cease to be a problem in the medium term for a simple reason: China's industries are all going up the value chain, and they are developing their own IP that they will need to protect. Expect China to become a strong protector of IP.
- **Stock market:** Individuals don't trust the stock market and therefore don't invest. It will remain dominated by government and commercial interests. Invest with caution.
- **Environmental issues:** China is paying for its rapid economic development with a growing disaster from an environmental perspective. Pollution is horrible. Provinces are largely independent, as are states in the U.S., and they are competing fiercely for economic development opportunities while the environment gets short shrift. Not having been a first-world economy, China may



not be fully aware of the eventual cost of its (lack of) environmental policies.

- **Incredible statistics:** China has 200 cities with one million or greater population. Two hundred. And one half of its population lives in the country.

Analysis and Conclusions

- Consumer demand in China will grow in fits and starts, but it will grow and be significant. As I reflect on Lyric's talk, I am reminded of one of [Chunka Mui's](#) pearls: "Never mistake a clear view for a short distance." In other words, we can see that China will develop into a world power of incredible proportions, but it is easy to overlook the "implementation details." The country is already changing at breakneck speed, especially considering the cultural shifts that are also underway (more free-market ideas in a country that is still Communist).
- Demographics show another reason that China's consumer society will be longer in coming than many people project: younger people will probably spend an increasing portion of their wealth caring for parents, whose health care costs will rise as they age.
- People can own homes for the first time. In most western economies, home ownership serves as an engine of consumer spending; therefore, home ownership may serve as some sort of leading indicator for growth in consumer spending, and this is in its very early stages.
- On the global stage, China and the world are embracing and have largely moved past Cold War postures. Of course, western countries will maintain the pressure for China to improve its practices on human rights and "democratization," but China will accommodate western wishes while proceeding at its own pace. China and western countries now have a customer/provider relationship, and economic ties have a wonderful way of moderating politics.
- In my humble opinion, western policies toward China should focus on building trust and using interdependence as a moderating energy. As I have written [elsewhere](#), Chinese culture deeply values relationships and takes the long view; we can set the tone for the relationship now. The world is far too small to sustain the lock-in we have regarding wars for natural resources. To survive, we must forgo the suspicions and antagonistic and sanctimonious attitudes still harbored in many quarters and adopt a mindset of collaboration and cooperation. It's that simple.
- As China's consumer demand ramps up and commodities remain scarce, there may be serious shortages, and the world may have to make a choice between conflict and cooperation for resources. As we are at the end of the industrial economy—in which the assumption of plentiful raw materials is embedded—our vision for success and our practices have not yet transitioned and are still largely zero-sum (see [Industrial Economy DNA](#)). There will undoubtedly be overlap in which there will be significant shortages in some areas, and the world will need to cooperate to share resources while we develop new ways to live (for example, reducing demand for copper and oil for example by inventing economically viable alternatives).

About the Author

Christopher S. Rollyson launched *The Global Human Capital Journal* in 2005 to address the most poignant issues of day for chief executives, namely global transformation, the reinvention of the enterprise, technology and culture. Mr. Rollyson has been a technology and marketing visionary and pioneer for over fifteen years, with distinction in corporate strategy and innovation. As a consultant and marketing executive, he has had a leading role in launching such game-changing offerings as: Java with Sun, e-business strategy with PwC Consulting, and SOA, Web services and architecture solutions with IBM and nVISIA. In 2006, he launched The Consumer Empowerment Adoption Curve™ and Transourcing™, a new approach to innovation that leverages high performance collaborative partner networks. He currently advises global enterprises on collaborating with Web 2.0-enabled customers—to drive innovation and to engage emerging markets.

Recently the Vice President of Marketing at nVISIA, he developed executive marketing programs and service offerings to drive the value of software transformation through service-oriented architecture and Web services, working with IBM, Rational and Grand Central. Previously a subject matter expert for e-business and knowledge strategy in PricewaterhouseCoopers' Strategic Change practice, Mr. Rollyson developed original models and services frameworks for e-business strategy consulting. He consulted to clients in automotive, software, telecoms, consumer electronics, chemicals and petroleum industries, advising global enterprises in e-business strategy and technology start-ups on innovation and business strategy. Prior to PwC, he led marketing for KPMG's Midwest High Technology practice, where he built one of the firm's first intranets to transform the marketing organization to a real-time team. Before that the head of marketing at a leading edge Java consultancy, he played a key role in co-launching Java via marketing alliances with Sun and Netscape. Mr. Rollyson has done graduate work in corporate strategy and economics at the University of Chicago, with additional studies at Die Freie Universität Berlin, L'Université de Clermont-Ferrand in France and il Liceo Americano d'Aviano in Italy. He earned his undergraduate degree from Kalamazoo College. <http://rollyson.net>

About the Global Human Capital Journal

The Global Human Capital Journal addresses the global shift from the Industrial Economy to the Knowledge Economy, which is changing how human beings work and deliver value. In the Industrial Economy, products encapsulated the value of human work; in the Knowledge Economy, information produces the lion's share of value, and customer experience itself is the focus of commerce and government. A greater degree of collaboration among people of the world is possible than ever before, and increased interaction will bring unprecedented surprise and opportunity, especially because the potential is great to "level the playing field" among people of the world. Obviously, these developments hold significant ramifications for business and organizational strategy.

Global Human Capital covers two prongs of economic transformation: 1) strategically, how organizations can rejuvenate their relationships with customers and constituents by collaborating with them to drive innovation and 2) operationally, how organizations can build strong collaborative cultures and skills to engage the world's emergent network of expertise, both within and without their walls. We analyze how global sourcing and collaboration are transforming enterprise and government organizations, as they transition from relatively self-contained, closed entities to more networked, open organizations.

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