China, Inc.:
How the Rise of the Next Superpower Challenges America and the World
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About The Author:
Ted C. Fishman, a former stock market trader, has written essays and reports for The New York Times Magazine, USA Today, Money, Business 2.0 and other publications. His commentaries on international business are heard on PBS International's Marketplace.

General Overview:
In China, Inc., Fishman describes the increasing influence China is having on the worldwide economy. Because China has an enormous labor force willing to work at low wages, its output forces prices down. The low cost of production encourages thousands of businesses to relocate in China, many of which would otherwise be located in America and Europe.

China’s impact on the global economy, and especially the U.S. economy, is significant and growing. Fishman takes a detailed look at how China is able to accomplish this dominance and what it means for the future of America’s economy and workforce.

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The World Shrinks as China Grows
China’s population, totaling close to 1.5 billion, represents a huge potential market for American goods. It also represents a huge, inexpensive workforce, and many U.S. companies are outsourcing jobs to China. In 2003, China sold the U.S. $152 billion more in goods than they bought and attracted $53 billion in foreign capital, compared to $40 billion in the U.S.

Shanghai, China’s first modern city, is a center for global business. More than 5,000 new skyscrapers were constructed there between 1980 and 2004. The average Shanghai income is 10 times higher than elsewhere in China. Property values are exploding.

By the end of 2003, 14,400 foreign-owned businesses were in Shanghai. Future plans for Shanghai include the world’s tallest building, largest shipyard and fastest train.

The Revolution against the Communist Revolution
The Chinese Communist government apparently decided it could not stop the capitalist movement, which began with the issue of private property.

In 1956, all land and property had been collectivized. Families were separated and moved into dormitories. Land was farmed collectively because larger tracts could be farmed more efficiently. Small businesses were also eliminated as the state controlled all buying and selling of goods. From 1959 to 1960, farmers were permitted to move to cities. They did so in such numbers that by the end of 1960, they were returned back to their farms. Further urban migration was forbidden.

Collective farms had production goals. In 1978, 18 farmers in Anhui province made a pact. After meeting their production goals, they would divide up their land and sell or barter whatever surplus they could grow. Suddenly, yields from their land increased. Deng Xiaoping approved this privatization move because farmers were still meeting their production quotas. Within a year, most farmers in Anhui province had adopted this system, which became official in 1980, allowing farmers who met their quotas to sell crops for profit.

When farmers came to the city to sell their surplus crops, city dwellers realized that these farmers were making a lot of money. Farmers then sought ways to invest their profits, forming TVEs - township and village enterprises - which now form one-third of the economy. The economic liberation of farmers triggered their subsequent migration to the cities, where they formed a workforce for the flood of capitalist investors.
To Make 16 Billion Socks, First Break the Law
In China's agricultural areas, farmers use primitive farming methods and many live a subsistence life. Because rural incomes are one-third of urban, hundreds of thousands of farmers are coming to cities for better-paying jobs. This exodus leaves local communities short of funds for local educational and social services. Taxes have increased, but often funds for community improvements are embezzled.

Because land in China belongs to the state, farmers cannot use farms as collateral. To fund a move to the city, farmers must borrow, usually from village lenders. Principal must be repaid in two or three years. To assure repayment, loans are actually made to family members who remain behind. Families select their most able member to move to the city and earn the money to be sent back to the family.

An alternate to urban migration is for villagers to start their own small businesses or factories, a practice that began when private businesses were illegal. Beginning in Wenzhou province, small businesses had to navigate a minefield of secrecy and bribes. In time, officials recognized the businesses, partly because they were so successful. "It does not matter if the cat is black or white, so long as it catches mice," has become the new catch phrase, referring to the failure of the old economics and the success of the new.

In less than five years, 80,000 families in Wenzhou set up businesses, which had to remain small to avoid legal scrutiny. By 1986, 300,000 workers were employed by private networks. Family companies attached themselves to legitimate state enterprises, finding there a source of state funding and freedom from taxes. These businesses often sold basic household items. Successes were quickly imitated, fostering competition, and some small businesses grew to become national and international. In Zhejiang province, the average wage is 40 cents per hour, but thousands of workers migrate there for jobs. State-owned industries have suffered. From 1998 to 2002, state-owned industries fired 21 million employees, "more than all the Americans who work in manufacturing."

China's Rapid Growth
Before the Communists came to power, China's east-coast cities, especially Shanghai, Guangzhou and Shenyang, were home to 90 percent of its industry. After Communism, industry was decentralized. When reforms began under Deng Xiaoping, China turned again to its cities for industry. Shanghai exemplifies the new Chinese attitude.

Shanghai is a mix of new and old buildings. Many old areas are being destroyed to make room for modern shopping complexes. A move exists to preserve the charm of some older areas and keep some green space. Polluting industries have been eliminated. Shanghai, with five percent of the economy and 10 percent of foreign investment, continues to attract as well as stimulate competition.

China's cities are growing rapidly. The skylines of Beijing, Shanghai, Shenzhen and Guangzhou have a futuristic appearance. Shanghai's high-rise condominiums are in
demand and buildings overdeveloped or abandoned in the '90s are filling up with renters, some of whom are migrants.

In 1980, Deng Xiaoping selected a fishing village, Shenzhen, as an experimental center for market capitalism, to be created within a communist framework of "socialism with Chinese characteristics." Today, Shenzhen is a city of 7 million, the fourth largest in China. When Hong Kong changed from a manufacturing to a trade and service center, Hong Kong factories moved to Shenzhen. Rural migrants poured into Shenzhen to work in those factories. Shenzhen also has the advantage of being a port city.

Young women factory workers outnumber men in Shenzhen, earn an average salary of $72 per month and work 70 hours per week. Older workers of either sex are less employable. The large output of textile factories results in unemployment for mill workers in other countries, where the factories can't compete. Chinese workers are paid so little that they force worldwide prices down by 42 percent.

Many young women leave their grueling, underpaid factory jobs to work in Shenzhen's growing sex industry. Their goal is to return to their home towns with money.

Beijing, the capital, is having a building boom, enhanced by the coming 2008 Olympics. Some structures which are more than 700 years old will be destroyed to make room for new high rise buildings and shopping malls. This is easily accomplished because the state owns all land.

China is the world's largest user of solar power for household use. China's boom has exceeded its power generating capability and has only 80% of its needed energy, although foreign and domestic industries are building power generation plants.

Pollution is another result of rapid growth. Seven of the 10 most polluted cities in the world are in China. More than 400,000 die each year from pollution-related causes and clouds of pollution travel as far as the west coast of the U.S. The growing number of cars in China’s cities contributes to the problem. Highway construction is also booming. Highways are built by the government, then leased to private companies as toll roads. In Zhejiang Province, with no government funding for highway construction, the province raised money on the Hong Kong Stock Exchange. The plan is profitable and highway profits fund other provincial social programs. Similar plans are being used to construct water treatment facilities.

Chairman Mao

The Communist regime of the '50s and '60s set out to destroy pests and birds. The destruction of birds upset the balance of nature and resulted in a great famine in 1960, due to crop destruction by locusts and other insects. As many as 30 million Chinese starved. The insects were attacked with insecticides, which also poisoned the land.
During Mao's "Great Leap Forward" in the late 1950s, farmers were urged to abandon their farms and produce steel in backyard furnaces. That steel was shoddy and useless and led to an economic decline. Food was rationed and restaurants were scarce and monotonous. After reform, food vendors were the first of the new business people. The rediscovery of the pleasures of food was symbolic of a new way of life.

Mao is still the most prevalent Chinese icon. His statue greets diners at Hunan restaurants, (his home town). Other remnants of communism are for sale, such as the little red books used for self-examination, moralistic comic books and propaganda posters. In Hong Kong, tailors sell upscale Mao suits, watches with his face and Mao tee shirts.

**Through the Looking Glass**  
China imports agricultural products. As the Chinese move away from farms, they no longer grow enough food for the nation and much farmland has been converted to urban centers. Food imports will probably double by 2020, much of it coming from the U.S. American farms average 269 acres; Chinese farms average just 1.2 acres. However, China has created a trade problem with the U.S. Chinese economics and banking practices directly affect American farmers and China's trade surplus with the U.S. drives down interest rates, including rates farmers pay to borrow money.

China has raised worldwide demand for mined materials, affecting manufacturers of mining machinery. China's growth as a manufacturing center has caused Chicago and other cities to have a surplus of industrial workers, due to outsourcing. Mexico is also losing manufacturing jobs to China and displaced Mexican workers are moving to Chicago. Thirteen out of every 20 Illinois firms face Chinese competition. One reason is that Chinese businesses receive government subsidies.

Between 10 and 13 percent of Chinese exports go to Wal-mart, the world's largest company. Wal-mart's goal is to sell goods at the lowest possible price that will still permit profit and China is a prime source. Wal-mart expects manufacturers to lower their prices yearly and Chinese factories manage this by extending their employees' work week.

Japan has a trade deficit with China. The goods sold to Japan by China, mainly electronics, are mostly made in China by Japanese companies. The two countries are not friends, but tolerate each other for business reasons.

**The China Price**  
The term "China price" has come to mean that everything made in China is cheaper. Most of the jobs that move from the U.S. to China are in manufacturing. North Carolina, for instance, lost 160,000 such jobs. Most of these people remain unemployed.
Although much manufacturing has moved from the U.S., the total volume of U.S. manufacturing continues to rise. Improvements in machinery and techniques result in more productivity per U.S. worker. This productivity actually exceeds the domestic market for the goods, resulting in a drop in price. Between 1993 and 2003, prices in the overall economy rose 18%, but in the manufacturing industry, prices dropped 6 percent. China's economic choices dictate U.S. production.

One reason for the China price may be that China keeps the value of its money artificially low. China has a number of other manufacturing advantages including a large population. Chinese industries are directed toward a huge domestic market, so the profit per item can be kept low. After fulfilling the domestic market, China exports the surplus to the U.S. and Europe.

**How the Race to the Bottom is a Race to the Top**

China's roads and highways are full of all kinds of vehicles, especially cars. Over 120 companies make cars in China. Some are cobbled from spare parts, some are manufactured for export. The Wanfeng factory near Shanghai makes 60,000 luxury cars per year. The assembly line is largely manual, using hundreds of low paid workers. The cars sell for $8,000 to $10,000. China's car industry expects to become the largest in the world.

Three out of every seven cars sold in China are Volkswagens made in Shanghai. VW expects to sell 1.2 million vehicles in China by 2008. China's enormous potential market has spurred fierce domestic and international competition and car prices are dropping.

Manufacturers of car components are moving to China in droves because parts made in China have both a domestic and international market. "China exported $6.5 billion in parts in 2003, more than double what it did the year before." Making car parts in China has one major drawback; the Chinese government decrees that in joint-ventures, all intellectual property of one partner becomes the property of all partners. This facilitates imitation of cars by expropriating their concepts, a cost-cutting measure for the imitators. The first Chinese cars exported to the U.S. might be sold through stores like Costco.

Electronics form another area of domestic and international Chinese manufacturing. Motorola created the initial mobile phone market in China, which now includes 300 million users. Motorola knew that in time there would be intense competition.

Components are part of this picture. Chinese manufacturers replace robots and sophisticated assembly lines with low cost workers, cutting costs dramatically for their products.

China produces 325,000 new engineers each year, but can't yet compete with U.S. research. The U.S. spent five times more than China on research last year, but had only
twice as many researchers. Chinese research money goes farther because of lower salaries. Most international companies have research and development centers in China.

The aerospace industry is also beginning in China, with Boeing a major player. China is working to produce its own aviation industry.

**Pirate Nation**
Counterfeiting of name-brand goods is widespread throughout China. China appears to conform to its own anti-piracy laws by cracking down on certain counterfeiters from time to time, but nothing really changes. Counterfeiters serve the Chinese economy by providing affordable goods and by acquiring needed technology for industry. For the Chinese government, dealing with counterfeiting is a low priority in a hungry nation seeking economic growth. Enforcement falls to local governments, which are usually involved in the counterfeiting trade. Many cities depend on counterfeiting for economic success.

Bright university students are attracted to the cell phone business because it is one area where innovative ideas cannot be stolen. In most other areas, intellectual property rights exist as law, but laws are not enforced.

In the U.S., computers come with licensed operating software paid for by the manufacturer, with cost added to the price. Chinese computers come without operating software because cheap pirated software is available. Pirated software of all sorts is sold at "dollar store" prices. The Chinese argue that no one can afford regular-priced software and that consumers purchasing pirated software are not the potential market for the real thing. Microsoft has tried a variety of strategies to remain in the Chinese and international market, most recently granting licenses to sixty governments.

China's blindness to counterfeiting benefits the country by creating wealth and power.

**The Chinese-American Economy**
Pressure from China's low prices forces prices down worldwide, a benefit to consumers. Manufacturers lobby Congress for protections which help manufacturers, not consumers. Between 1998 and 2004, "prices fell in nearly every product category in which China was the major exporter," despite the fact that the cost of raw materials rose in many cases.

The U.S. national debt places the country in a precarious position. Should China pull out of the U. S. market, there would be a devastating economic effect. Interest rates would rise and the value of assets would decline. The problem is dual: "Without the United States to buy Chinese goods, China cannot sustain its growth; without China to lend money to the United States, Americans cannot spend." China's currency adjustment should be gradual.
The Chinese Century
A study by the U.S. China Economic and Review Commission in 2004 found that in a three-month period, 58 U.S., 55 European and 33 Asian companies planned to move to China. The study concludes that in a year, 400,000 jobs moved overseas.

Innovation is the key to replacing lost jobs, but new ideas will need to be developed on a global basis. Highly educated workers are needed, but under-funded American schools are not filling this need. A national will to improve schools is required.

In order to remain a player in the world, the U.S. government must recognize and deal with the challenge that China represents. Companies doing business in China find themselves walking a diplomatic tightrope in which they hesitate to raise issues of currency control, repression or censorship for fear of reprisals.

To many countries, China represents the only country that can balance the power of the U.S.

Europe's trade with China is increasing. Europe is an easier trade partner for China than the U.S. because European countries have no military presence in Asia and no commitments to Taiwan. European countries increasingly distrust American stability and dedication to peace because of the United States’ pre-emptive strike in Iraq.

Asia forms another area of interest to China. China seeks to diminish U.S. influence in this region, but must counteract historic suspicion on the part of Asian countries, especially Japan.

China seeks unification with Taiwan, a constant source of dispute with the U.S. Because of its economic strength, China is able to make political demands and threats.

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