

Snatching defeat from the jaws of victory?

By Greg Burnard

Over the past 20 years, China has dispatched trade ministers beyond its borders in an attempt to lure the globe's biggest manufacturers to Shanghai and other cities across the nation. But now, much of the emphasis is on call centers, computer programming and high tech, and that could have serious negative consequences, according to Siva Yam, an advisor to the US Federal Reserve Bank of Chicago, president of the US-China Chamber of Commerce and an investment banker. The new direction, he told the Shanghai Star Business Journal, could represent "China's finest hour or worst catastrophe." The following are excerpts from our recent interview.

Q. Does Chinese business culture play a big hand in the future of the economy, and what would you do differently if you were shaping the country's future?

A. To date, the country's success has been built on a platform of manufacturing companies. We should make better use of the resources available; such actions would benefit cities with less spending power. Currently resources are focused on first- and second-tier cities; due to this there is an uneven distribution of wealth. This has created a very negative picture as a whole, and I feel in order to maintain the stability of the country, the government must concentrate on exports (of manufactured goods), the development of the domestic markets and investments.

... China was built on manufacturing, and it is now in danger of moving away. We see trends changing so fast, and incentives are quickly being stripped away. For example VAT (value-added tax) rules are no longer as advantageous, and the new changes in the labor law are heavily in favor of the employee, giving extra costs to large manufacturers and multinational corporations in particular.

There is an ideology of symbolism that overshadows the practicality of success. In short the country is far more interested in having the longest railway, the fastest train, or the longest suspension bridge. All these things are creating a society built on materialistic values. The average family is in such a rush to get the next house or the same car that the neighbors have next door. Many warning signs are already here, and the government needs to be flexible and able to adapt to change.

China already has the richest company, PetroChina, the most valuable bank, ICBC, and price-to-earnings multiples that are something like 50. But when I look at Chinese companies, they are not well managed. The culture of the staff is to keep changing jobs, and the Chinese owners do not trust their employees; therefore, companies are not able to get the best from human capital. For example, a Beijing company owner will appoint his senior management from Beijing to be based in the Shanghai office because of the lack of trust with other regional staff, giving very little chance for employees to climb the ladder.

Chinese companies looking to set up a business will find a piece of land and build, believing that customers will come. Now every company, regardless of what they are specialized in, has also become a real estate expert. In comparison, Western companies tend to occupy a building either by leasing or paying rent and get on with what they are good at. The Chinese way is to speculate on the land, or bricks and mortar, which may appreciate in value even if the day-to-day business operation may fail.

Q. Do you see any similarities between the untested Chinese real estate market, compared with other countries, now or in the past?

A. The Japanese market and the investments (Japanese) made in the US real estate market after (WWII). A typical method used in forecasting is to look at history. The currency market, for example, is like fashion; it's a not exactly a cycle but it does tend to repeat itself. Most Chinese invest in property because it is tangible, which is what many of us do. But sooner or later, there will be a downturn. Will the Chinese be ready for it? Their economy is only 30 years young and has not been tested in a major crash. Just on the sheer size of the country, what might be in front of them becomes daunting. A list of hurdles to jump over or ledges the government would rather miss on the way down if they get it wrong are endless.

Q. What hurdles must China overcome?

A. Balancing growth is most important; to slow down the economy too much will create instability. On the other hand moving too fast and over-investment will create negative long-term impacts in China. Creating a balanced investment strategy will give China sustainable and



Siva Yam says China's economy is at a crucial point. In the background is the Shanghai branch of China's central bank.
PHOTO BY GAO ERQIANG

Siva Yam's CV

Siva Yam, an investment banker with more than 15 years of experience in mergers, acquisitions, public offerings and private placements of securities, venture financing, and privatization, is managing director of Siva Yam & Associates, a private consulting and investment banking boutique that specializes in cross-border business and trade activities between the United States and Asia. He is president of the US-China Chamber of Commerce, a non-profit organization dedicated to promoting trade and investment between the two countries. He also serves on the Advisory Council of the Federal Reserve Bank of Chicago.

manageable growth. According to an IMF (International Monetary Fund) report, global growth is expected to slow from 5.2 percent in 2007 to 4.8 percent in 2008. But while the world slows down, China is expected to grow at 10 percent, and countries such as India at 8.4 percent. Both markets have higher P/E multiples compared with other emerging markets, as these are the fastest growing economies in the world.

The UK was once a world

power in manufacturing but not anymore. Automotive, mining and textiles have slowly been replaced by other industries. The world's top four economies are the USA, China, Japan and Germany, which are still heavily dependant on manufacturing. Germany relies heavily on the automotive industry and has developed far superior makes and models of cars and trucks over the years. Their manufacturing plants can make multiple models under

one roof. China's automotive industry is far behind that, and is in danger, if not willing to adapt and change, of losing out to other countries. Ok — implement more stringent controls, make it harder and safer and also cost effective, but more importantly, China must find a balance between the manufacturing sectors and more modern industries. This will keep their trade surplus in check and the economy on a sound track.