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GM's Thinking on China

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Back in the 1950s, the big political debate was — who lost China? With the continuing tensions that plague the U.S.-China relationship, an editorial in *Business Week* a few months ago wonders if the debate is on its way to returning.

It serves no purpose, of course, debating who may or may not "lose" China. It also serves no purpose debating how we might "win" China, a notion that strikes me as dismissive of China's ancient civilization and own sense of destiny.

China is not to be won or lost but understood on its own terms. I am reminded of an incident that occurred during a period of Sino-Soviet tensions in the late '60s. Moscow claimed that the Great Wall had marked China's northern frontier since the 4th century B.C. Thus, the Soviets argued, everything north of the wall was — historically at least — not subject to Chinese sovereignty. To which a Chinese historian replied, "Where, one may ask, were the frontiers of the Russian state in the 4th century B.C.?"

So China is not a nation to be managed, but a nation to be engaged as we would engage other great powers. I do not pretend to be a China hand, but I do know that the United States, on the whole, does not fully appreciate China's relevance to the future. Nor does it understand China's present.

The question is: How does the U.S. government balance its political concerns with the tremendous economic

opportunities that China offers to form a long-term strategic policy for all of East Asia?

John F. Smith Jr. is chairman, CEO, and president of General Motors Corporation.

Economic Opportunity

What is happening in East Asia is remarkable and uplifting. It is a testament to the free market's economic vitality. Annual growth in the region averaged a spectacular 8 percent between 1980 and 1995. South Korea and China led the way with annual growth rates near 9 percent. While many of the Asian countries remain poor relative to the industrial economies of North America, Europe and Japan, the standards of living in Singapore and Hong Kong are comparable to those in the developed West. Soon, South Korea and Taiwan will be joining the ranks of high income countries. Other East Asian countries, such as Malaysia and Thailand, are now taking off.

China, itself, is likely to become the second largest economy in the world by early in the 21st century. While some find it hard to believe, China's economy already is larger than that of Germany. And it will soon surpass Japan if it maintains the growth pace of the last 15 years. While it is hazardous to make straight-line projections, I am confident that China will accomplish this remarkable feat.

China's economic performance since it began its current policy of economic reforms in 1979 is truly phenomenal. The average Chinese has become much more prosperous with per capita income growing threefold over this period. I do not want to overstate the case — compared to the average American, the average Chinese remains much poorer. If China, however, can continue to grow at 9 percent annually, per capita incomes in China will double every eight years.

China has one thing going for it that many other emerging markets outside Asia do not — internally generated savings. Chinese are prodigious savers, saving close to 50 percent of their income, as compared to 5 percent in the U.S. and 15 to 20 percent in Japan. The high level of savings means that China can continue to invest and grow at incredibly high rates without relying on outsiders. In short, China will continue to grow rapidly — whether we participate or not.

And let me give another advantage of China's economy — young people. As the *Wall Street Journal* notes, "Virtually alone among the world's big economies, China stands to benefit in the coming decade from a surge in the proportion of its population that is working, and a tandem increase in both savings and spending. In Japan, Europe and North America, the number of citizens outside the work force —retirees, youngsters who haven't yet started working or other dependents — is a troubling economic burden."[1]

In China, the situation is just reversed. A huge population bulge is just entering the work force. In fact, 45 percent of the country's 1.2 billion people are under age 26. To appreciate the magnitude of this youthful exuberance, look at it this way. China has more people under 26 than the total populations of the United States, Japan, Germany, Great Britain and Canada put together. Imagine the economic energy of such a young work force seeking to better itself.

Outdated Economic Perceptions

While Asia is experiencing dramatic economic change, the dominant perception of Asia in the United States remains that of a poor, impoverished region. More troubling, our corporate and political responses to the region have too often reflected this outdated concept.

East Asia is a top priority for General Motors as we look to where the world is headed.

General Motors itself was late in recognizing the meaning of China and all of Asia. For too long, we viewed this region as a production site rather than a market. We invested in Isuzu and Suzuki in Japan to source low-cost trucks and small cars primarily for the U.S. and Canadian markets. We formed a joint venture in South Korea with Daewoo, again, to source small cars for the U.S. market.

This cost us a great deal. Because as we were looking for low-cost production sites, these markets were growing explosively. To be fair, GM missed out on this tremendous growth not entirely by choice. We were busy fixing our operations in North America and Europe. We made a decision that our limited resources, both human and financial, were best utilized fixing our existing operations rather than seeking new opportunities. But GM International has now embarked on the largest production capacity expansion in its history. We're positioning ourselves to become a major player in all the growth markets of the world — and especially in the Asia-Pacific region. This region is a top priority for General Motors as we look to where the world is headed.

And just as Brazil was the key to GM's growth in Latin America, just as

Germany and the United Kingdom were the keys to our growth in Europe, so, too, China is the key to the markets of Asia. GM's experience from other countries is that spending on cars rises roughly in proportion to the rise in income. If China's income growth continues along the path it has been on for the past 15 years, consider the potential market for cars that we could serve.

Today, General Motors has an economic appreciation for Asia; it has a business strategy for the region, but one thing it does not have — and neither do other U.S. firms seeking to do business there — is a firm sense of where the United States stands politically in Asia.

U.S. Policy Toward China

One of America's unique characteristics is that we often think, if everyone did exactly as we do, they would enjoy the same prosperity and freedom. And we sometimes become impatient when the rest of the world doesn't see the rightness of our ways. The Chinese, whose history goes back for millennia, are not a people impressed by impatience.

We need to recognize the need for balance and timing as we form our expectations of what China can achieve and when.

But impatience is too often our approach toward the Middle Kingdom. We seem to think China, which is not yet a full market economy, should behave as one. China is still a nation in transition.

It is in transition from a state-planned and controlled economy to a free market economy. The transformation is far from complete. State-owned enterprises, half or more of which lose money, still employ two-thirds of China's urban work force. While I am an ardent advocate of the benefits of free enterprise, I believe the measured pacing of change is critical to China's ultimate success. Too rapid a closure of these enterprises would result in massive unemployment and political instability. On the other hand, if change is too slow in coming, the momentum for free enterprise will be lost.

We need to provide China with the time required to grow its private sector so that it can absorb the excess employees from a shrinking state sector.

Compare what has happened in China to what has happened in Russia. In China, the government has been allowing the private sector to grow while it shrinks the state sector. Yes, a very large state sector is still in place in China, and many of the old institutions remain. In Russia, on the other hand, the existing institutions have collapsed. The Chinese do not want — and we should not want — what has happened in Russia to happen in China.

So what should American policy be?

First, the United States should allow China to join our other trading partners in enjoying normal trade relations in the form of permanent Most Favored Nation trading status. The annual ordeal we currently go through is an unnecessary irritant to good relations and a potential disaster if such status were ever denied. Denial of most favored nation status is not a neutral action; it is a hostile, penalizing action. The fact of the matter is that China is not the country that would be penalized. It is the United States. The rest of the world would continue trading with China while we would be isolated and alone. So we should stop the annual charade and settle this issue once and for all.

China should not be judged by the same standards as established market economies like the United States or Britain.

Second, the United States should work to bring China into the multilateral trade order and the mainstream of the trading community. That means China's accession to the World Trade Organization (WTO). This will benefit both the United States and China. How do we bring this about when the Chinese position is that immediate acceptance of all the obligations of membership would create economic turmoil and thus erode support for reforms? The United States should proceed by recognizing that China is still in development and transition; our policy should be to find ways for China to accept some obligations of WTO membership now and other obligations over an appropriate transition period. China should not be judged by the same standards as established market economies like the United States or Britain.

Third, U.S. policy should be to let American companies work the magic of the free market. General Motors and other companies can help in the transition. We're experienced with working in countries with various political and trade regimes. And because of their integrity, their techniques and their technology, when U.S. companies enter a market, they bring the best of what free enterprise offers.

Fourth, we should take a more realistic view of our political differences with China, as the Europeans and the Japanese do. Our current political differences are not so severe that they should hold back our burgeoning economic relationship.

Professor Daniel Okimoto, the director of Stanford's Asia/Pacific Research Center says, "There now is the basis for a centrist, consensus policy." A study that Professor Okimoto and seven other Asian experts are preparing says, "No fundamental conflicts divide the United States and China" in the security area. "Both need the other to achieve their international and regional objectives."[2]

Conclusion

The United States has an opportunity to advance the economic and political progress that has been taking place in Asia. The centerpiece of our policy should be to help China make the transition to a market-based economy, tied to an international trading system, at a speed that is politically and socially feasible.

The basic human desire to improve one's economic well-being sets loose forces and trends in the world that inevitably will bring China into a closer web of relationships with the democratic and developed nations. Why would the United States want to stand in the way of such trends by inhibiting them through narrow, short-term economic or political sanctions?

The Chinese people's desire to better their lives is a potent force for change. We should welcome China's development.

[1] *Wall Street Journal*, April 14, 1996.
[2] Ibid., May 25, 1996.

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