



Rising China

A Q&A with Kevin Young '83

Kevin Young '83 spent 1997-2001 in Beijing, leading the China financial services practice of PricewaterhouseCoopers LLP. Here are some of his insights into the economy of the world's most populated country.

What challenges to the U.S. economy does China represent?

I think the biggest challenge, the one that's getting all the press right now, is the outsourcing of blue-collar and back-office jobs to Chinese individuals, who will work at much lower rates than here in the U.S. The Chinese are very industrious, and already some well-established China-based companies are finding a niche in the U.S. market for their goods and services. The WTO [World Trade Organization] agreement that China signed back in 2001 allows the world access to the Chinese markets, but it also goes the other way – it gives the Chinese more export channels to international markets.

Clearly, China will remain a major competitor for consumer dollars for many years to come.

What sort of technology do they have? And do they have the talent to support that technology, or do they need to import skills?

When it comes to technology, they have the latest. They have the knowledge to use technology and build technology, and continue to grow along those lines. Probably more of what they need to import are enterprise management skills. The Chinese are very sharp people. I'd say that 95 percent of the staff in our China firm is made up of local Chinese hired from local universities, and they're very technically capable. But I think that learning how to make judgment calls, and learning to take responsibility for those calls within a business environment, are skills that they are still developing. They feel much more comfortable pointing to a rule or a law or a formula

or a calculation that says, “Yes, you get a loan,” or, “No, you don’t.” But when it gets into gray areas and they have to make judgment calls, they find decision-making very difficult. They don’t want to lose face over it, and they don’t want anybody else to lose face over it.

What are some differences between the economic systems of the U.S. and China?

The Chinese people are real savers; they are much better savers than we are. A large amount of their earnings remain in banks. This is due in large part to their general aversion to excessive financial risks. Because the Chinese capital markets are still in an early growth stage, the big investors there are usually the state-owned corporations, as opposed to individuals. They are also very averse to taking on debt. Where our society is driven by credit cards and the assumption of personal debt, the Chinese still conduct most daily business in cash. Credit card debt is still in its infancy.

A significant portion of the U.S. economy is driven by small business, but that area is still a small but growing sector of the Chinese economy. State-owned enterprises and large corporations still drive much of the economic development in the country, as access to financing for many small businesses is limited. But the entrepreneurial spirit thrives, and more small business enterprises are arising throughout the country.

What do the Chinese spend their money on? Luxury items, or basic necessities?

They are very upscale on technology. Cell phones are everywhere, and Blackberries and PDAs are very popular. Now they’re moving more in the direction of other forms of electronics, be it TVs or other types of household appliances. But a lot of these are still luxury items, because their per capita income is pretty low.

You do see the big shopping malls, in Beijing and Shanghai, loaded with people. They like to spend their money on entertainment, and karaoke bars and bowling alleys are always packed. There are theatres and concerts. Those are the luxury items. Basic necessities, they can get those dirt cheap. If they need a plastic bowl for the kitchen, it costs the equivalent of 40 or 50 cents. They eat at local Chinese restaurants for almost nothing. It’s generally the Western restaurants that are more expensive.

How is the Chinese society changing?

The Chinese society is changing very rapidly. There is a desire on the part of the Chinese people and the government to become much more influential international players. With that means a willingness to accept the best parts of other cultures. They look at the Americans as people they would really like to model. I did a lot of work with Chinese banks, and every time I went into a training seminar or a presentation, people asked, “What do the big U.S. banks do?” And it’s very obvious that they look to the Americans and the development of our own economy as something they would like to model.

Societal changes are noted to be much stronger on the east coast than in more rural areas. That area is home to roughly 400 million people, and has the big cities like Beijing and Shanghai. Everything is going great guns; there are high rises and hotels, and that’s where the financial markets are based. If you travel inland, you’ll find a different China. It’s very poor, and the per capita earnings are much lower than the coast.

Do you feel the Chinese government is stable?

I think the government is very stable. The Communist Party is still the ruling party in China. The press makes a big deal out of some of the local elections occurring in parts of the rural countryside, in the smaller villages and townships, where there’s a democratic process. But ultimately there is a Central Committee of the Communist Party that really runs that country. And it is run in a manner that is leaning gradually toward a socialistic environment, and away from the hard communist days of Mao Zedong and the Cultural Revolution of the 50s and 60s.

Where is China’s foreign policy headed?

I think they’ve got the chance in the next couple of years to really demonstrate who they are to the world. And the two chances they have are the full accession to the WTO, and the Beijing Olympics. These are probably the two big events of the future to allow them to show the world what China is really like and what they are capable of doing, and how much of a global player they want to be. And I think that will probably dictate a lot of what they do. They are a very cautious people. They’re not going to do anything to upset the apple cart between now and full WTO accession, and now and the Olympics. Because they want to make sure that people look at China as kind of the... mystery of the Orient, I guess. And it still is in so many people’s minds.

Questions were formulated by Michael McGrath, professor emeritus who has a specialty in Asian history, and Bill Bachman, professor of business.



Kevin Young '83 is an Assurance Partner in the banking practice of PricewaterhouseCoopers LLP. He currently works in southern Florida, where he lives with his wife and children. He will receive the 2004 Young Alumni Achievement Award at Homecoming on Oct. 23.

Want to know more? Kevin recommends “The New Silk Road: Secrets of Business Success in China Today” (Wiley, 2000) by John B. Stuttard, former chairman of PricewaterhouseCoopers’ China operations, and “China’s Century – The Awakening of the Next Economic Powerhouse” (Wiley, 2001), by Laurence J. Brahm.