NBA v. China

Are US companies being bullied in China?

All emerging markets are difficult. For decades companies put up with China's challenges because of the tremendous growth. Due to a lack of reform over the last 10 years, China's growth is slowing and the business environment isn't as easy as it should be. The nationalistic boycotts don't make it easier. China risks becoming a market that isn't worth the trouble.

"I hate China." That was the opening comment to me from the CEO of a multi-billion dollar materials company as we started a meeting. The meeting focused on both China and India so when my colleague who covers India smiled at that comment, the CEO said "Don't laugh. I hate India, too." He went on to list 5 or 6 other countries he "hates," all of them emerging markets. Of course, he doesn't hate any of these countries. He was using dark humor to make a point with which most experienced people would readily agree—emerging markets are extremely difficult.

All emerging markets are difficult

Corruption is common. Intellectual property theft is equally common. The rule of law is uncommon. The government is over-involved in the economy. Regulations are ambiguous and regulatory deliberations are opaque. Business practices and standards are often underdeveloped. Staff is inexperienced. Resources can be hard to get. Infrastructure is wanting. There are challenges aplenty. Frankly, in an environment with an over-involved government and weakness in the rule of law, everyone is bullied.

China gets the attention because China is big and has grown

The above perspective is important because some, when describing the challenges in China, make it seem as if China went out of its way to specially create an economic torture chamber for foreign companies who are then too foolish to know they are being taken advantage of. The fact is all emerging markets have similar problems. China's size and growth is why China gets all the attention.

Growth and profits are why companies are willing to endure

Growth is also why those foolish companies put up with the treatment in China. Companies are willing to endure the difficult environment because ten percent growth salves all wounds. For many years, more than 80% of foreign companies in China have been profitable and most enjoy rapid growth. Extra effort is required and problems must be endured. But the reward has been there.

Lack of reform has made the "bullying" linger

China's problem now is that the reward is at risk while the "bullying" persists, both for the same reason. For the last 10-15 years, economic reform in China has slowed to a snail's pace. As a result, growth has slowed, debt has piled high, and changes that make the economic environment fairer and more open for foreign companies (and all companies) have not been made quickly enough. For sure some progress has been made, even in areas like intellectual property protection. But that progress doesn't quite fit what China needs to move its economy to the next level.

China is more competitive so the unfairness matters more

One other factor makes the "bullying" in China more impactful. Fifteen or more years ago, most Chinese companies weren't terribly competitive so unfairness to foreign companies didn't necessarily translate into a usable advantage for Chinese companies. Now, not only are some Chinese companies more competitive, but the overall economy has much greater ability to invest in new products, technologies and markets, which means a hindrance to a foreign company can be great help to a Chinese company. The unfairness is amplified.

China's ultra-sensitive nationalism makes it worse

Those are the economic issues. Now we get to the political challenges, as most recently evidenced by the backlash against the NBA as a result of a tweet by a Houston Rockets executive in support of the protestors in Hong Kong. China has clearly developed a habit of nationalist backlash against perceived slights to China. There are good reasons why this happens, including Chinese history, in which foreign powers played a key role in China's decline, and the fact that, at this point in its development, political concepts like freedom of speech and elections simply aren't priorities for many Chinese. These factors mean that many Chinese prioritize nationalism over freedom of expression which results in the harsh reactions that have jarred not only foreign companies (NBA, Dolce & Gabanna, Marriott) but foreign countries (Japan, South Korea) which have been boycotted as well.

China is at risk of becoming "not worth the trouble"

Just because there is a good explanation for a particular type of behavior doesn't mean the behavior itself is good. These nationalistic flare ups add yet another element of risk to doing business in China. By itself, the "nationalist boycott" threat might not be that important, simply because most companies can avoid a problem. But taken together with the other issues, specifically stalled reform and slow growth, China runs the risk of significantly decreasing its allure as a place to invest and do business.

Without more reform, the "bullying" might become unbearable

China had thirty great years of reform and growth, every step of the way building confidence among investors and businesses that China is worthy of investment. That confidence won't collapse overnight. But it is showing signs of wear. The business community, Democrats, and even the EU mostly agree with Donald Trump's China position, even while disagreeing with much else. The latest member survey by the American Chamber of Commerce in Beijing shows that, while most members are still optimistic on China, pessimism is growing every year, and the chief concern is the slowing economy (not the trade war). If China isn't careful, it will kill the goose that lays the golden eggs. Call it "bullying" or a challenging business environment or something else. If foreigners begin to think China is no longer worth the trouble, then China will be in big trouble.