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Opportunities and Challenges Ahead of China's "New Normal"

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After three-and-a-half decades of breakneck growth, the Chinese economy has finally slowed down to just below 7 percent in the third quarter of 2015. Chinese President Xi Jinping has coined the term "new normal" to refer to this new situation. This commentary will examine the opportunities and challenges that lie ahead of China's "new normal" and their implications for foreign multinational firms investing in China. Some opportunities include regional economic integration; sizeable foreign reserves to finance development at home and abroad; and upgrading in the science and technology skills of its people. However, there are also challenges. These are: aging of China's population; institutional weakness, corruption/weak corporate governance and growing income inequality; and China's newfound confidence on the world stage.

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Introduction

China has experienced the most rapid of economic growth in the past 35 years that has effectively transformed the country from one of the world's most backward nations, whose economy was on the brink of collapse at the end of the tumultuous decade-long Cultural Revolution (1966–1976), to the economic powerhouse it is today. In December 2014, the International Monetary Fund announced that China has overtaken the U.S. to become the world's largest economy — $17.6 trillion vis-à-vis $17.4 trillion, albeit China's per capita GDP is only a quarter of that of the U.S. (Gorman, 2014). In 2030, China is projected to surpass Japan to become the second largest capital market in the world (*Emerging Capital Markets*, 2014). In addition, China possesses the world's largest foreign reserves and is the principal holder of U.S. debt. Furthermore, for more than a decade, according to A.T. Kearney's Foreign Investor Confidence Index, CEOs and CFOs from around the world have ranked China as the most attractive destination of foreign direct investment (FDI) in the world. In 2014, China overtook the U.S. to become the top destination for FDI, albeit not on a cumulative basis (Su and Yao, 2015). Viewed in this context, the phoenix has indeed risen from its ashes in the short course of three-and-a-half decades.

From a historical perspective, China's current ascendancy in the world stage is not new. For many centuries, China was one of the most developed nations in the world and has been credited with many innovations and inventions, including paper money, the magnetic compass, bureaucracy, gun powder, among other things. In his 2002 best-selling book, *1421: The Year China discovered America*, Gavin Menzies, a retired submarine lieutenant-commander in the British Navy, posited that Zheng He of the Ming dynasty may have discovered the Americas, seven decades ahead of Christopher Columbus' voyage. Even though some of Menzies' assertions can be disputed, the fact remains that in the distant past, China's influence and economic might extended far beyond its geographic boundaries, and its culture and civilization were imitated by many neighboring countries.

The question is will China continue on its current trajectory as *a* (not necessarily *the*) leading economy or will it eclipse once again into oblivion, a fate that it suffered in the mid-nineteenth century when the country succumbed to unequal treaties and concessions under the gunboat policy of the West? There is no shortage of Chinese watchers who insist that China will fail. Perhaps the most prominent of these "bears" is Gordon Chang, an American lawyer of Chinese descent, who penned China's demise in five to ten years in his 2001 book, *The Coming Collapse of China*. When Chang's prediction did not materialize, in a 2011 article in the *Foreign Policy* magazine, he insisted that he was wrong by only one year and asked his readers to "bet on it" (Chang, 2011). To paraphrase Mark Twain, China's imminent demise has been "greatly exaggerated". Chang's pessimistic assessment of China stands in stark contrast to the optimistic outlook posited by Justin Yifu Lin, former chief economist and senior VP at the World Bank and currently a Professor and honorary Dean of the National School of Development, Peking University. Lin asserts that China can continue to grow at the rate of 8 percent per annum for two more decades.

In the last quarter of 2014, the Chinese economy expanded by 7.3 percent only, the slowest rate of growth for that country in the past 25 years. Chinese President Xi Jinping coined the term "new normal" to refer to the new situation. Under the

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"new normal", the focus shifts from accelerated growth to sustainable development ("China eyes reforms", 2015). By invoking Deng Xiaoping's popular saying, "Crossing the river by feeling for stones", China's leaders seek to balance their "commitment to a process of defining an economic reform program, while studiously avoiding, at least for now, attaching themselves to any specific reform proposals" (Johnson and Glaser, 2013, p. 2).

The objective here is not to debate whether the "bears" or the "bulls" (as epitomized by Gordon Chang and Justin Lin, respectively) are correct. Rather, I will present what I perceive to be major opportunities and challenges to China's long-term sustainability, particularly as they affect foreign multinationals in China. Some opportunities include regional economic integration; sizeable foreign reserves to finance development at home and abroad; and tremendous upgrading in the science and technology skills of its people. Some challenges include the aging of China's population; institutional weakness, corruption/weak corporate governance and growing income inequality; and China's newfound confidence on the world stage. Each of these opportunities and challenges is examined next.

Opportunities

Regional economic integration

The late Alan Rugman has asserted that regionalization, rather than globalization, is a more apt characterization of the state of world trade. His assertion was based on an analysis of the sales and operations of the world's 500 largest multinationals and is evidenced by the volume and intensity of trade among countries that form the European Union (EU) and the North American Free Trade Agreement (NAFTA), respectively. The trend toward regional economic integration can also be observed within the Asia Pacific (AP) region.

China has concluded a free trade agreement with the Association of Southeast Asian Nations (ASEAN) that creates a market of almost two billion people, approximately one-third of the world's population; this represents the third largest free trade area after the EU and NAFTA. While lingering tensions still exist between some ASEAN countries and China, the latter's trade with this region has grown at an average annual rate of 20 percent since 1995 to reach USD358 billion in 2013; this accounts for 14 percent of total ASEAN trade (Nguyen, 2014).

Another significant regional economic agreement is the Comprehensive Economic Cooperation Agreement concluded in 2010 between China and Taiwan to allow for the free movement of capital, goods and services across the Taiwan Straits. This development, coupled with the return of Hong Kong and Macau to Chinese rule in 1997 and 1999, respectively, has made the concept of "Greater China" a true economic reality.

Meanwhile, the U.S.-led Trans-Pacific Partnership (TPP) initiative seeks to integrate the economies of twelve countries on both sides of the Pacific. It is important to note that China has been excluded from this endeavor. Furthermore, the TPP has met with resistance in both the U.S. Senate and the House particularly in light of Wikileaks' disclosure of a draft "Investment Chapter" pertaining to an agreement that allows foreign companies to sue the U.S. government "for actions that undermine their investment 'expectations' and hurt their business" (Weisman, 2015).

To partially counter the TPP, in a tour of Central Asian countries in 2013, Xi has called for a revival of the 2000-year-old land- and maritime-based Silk Road that once traversed countries in Central and South Asia to end in Australia. The maritime Silk Road seeks to connect the seaports westward to Antwerp, Belgium, along a path similar to the one that Zheng He reportedly traveled in his seven voyages of discovery (Rolland, 2015). When constructed, this new "Silk Road Economic Belt" will encompass a population of 4.4 billion people with a collective GDP of $2.1 trillion (one-third of the world's wealth) and link "emerging markets with strong growth potential" (Rolland, 2015, 1). To translate this vision into reality, in February 2015, Beijing has launched a USD40 billion Silk Road infrastructure fund to be financed by China's foreign reserves, China's EXIM Bank and China Development Bank, among others. The new Silk Road project seeks to promote economic development in Central Asian and Middle/Near East countries, help China gain access to natural resources, promote its exports, and thereby ensure sustainable long-term development at home. In 2009, China overtook Russia to become the largest trading partner of countries in Central Asia (Toh, 2015).

Even though many of the Central/Asian and Middle/Near East countries are still underdeveloped, as the late C.K. Prahalad (2005) indicated, there is "fortune" to be made "at the bottom of the pyramid" — approximately two-thirds of the world's population occupy the lowest tier and is comprised of countries with some of the highest fertility rates and hence a very young demographic profile. This contrasts with the overall aging of the population in most industrialized countries in the world, including China, an issue to be discussed further under the "challenges" section.

Aside from its economic significance to China, Rolland (2015, p. 4) has asserted that "(t)he birth of a transcontinental economic corridor . . . could change the global landscape, shifting the focus of strategy and commerce to the Eurasian landmass from the waters surrounding it and reducing the significance of U.S. naval supremacy. . . If Europe turns increasingly to Asia instead of looking across the Atlantic, and if China succeeds in linking itself more closely to Russia, Central Asia, Eastern Europe, and the Middle East, then U.S. policymakers may be compelled to radically alter their traditional approaches to these regions and indeed the entire world".

In addition, China has championed the establishment of alternative financial institutions to the World Bank and the Asian Development Bank in the form of the Asian Infrastructure Investment Bank (AIIB) that can further promote economic integration of the region (Hines, 2015).

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Regional economic integration has tremendous implications for foreign multinationals in China as they stand to gain in accessing these huge, yet largely untapped, markets at the bottom of the pyramid. Trade among emerging economies now accounts for 38 percent of global flows, a three-fold growth from 1990. To date, the lion's share of revenues for many multinationals is from home markets and other advanced economies; only 19 percent of their sales come from emerging economies (Bughin et al., 2015). Regional economic integration in the Asia-Pacific and the new Silk Road Economic Belt offer unprecedented opportunities for foreign multinationals in China to capitalize on these developments as they can use their China base as a springboard (Luo and Tung, 2007) for entering into these markets.

Sizeable foreign reserves to finance development at home and abroad

In September 2014, China's foreign reserves stood at a staggering USD3.945 trillion, triple that of Japan's, the second largest holder of foreign reserves in the world. This cash flush situation has enabled China to finance the Silk Road Project described in the previous section. In addition, it has allowed China to fund its infrastructure investment in the less economically developed yet natural resource-rich countries in Africa and South America. China has left huge economic footprints in Africa and, after Western Europe, China was the second largest source of greenfield FDI projects in the continent in 2013. As such, China stands to benefit from the growing intra-regional trade among African economies (Kruger and Strauss, 2015). China's inroad into Africa is consistent with its stated objective to be the champion of Third World countries, despite its emergence as a leading economic power on the world stage.

China's sizable foreign reserves also mean that Beijing can afford to focus on development at home when exports to traditional markets in North America and West Europe have plateaued. According to Justin Lin (2015), there is "significant scope for industrial upgrading and plenty of potential for improvement in urban infrastructure, public housing, and environmental management . . . Even under comparatively unfavorable external conditions, China can rely on investment to create jobs in the short term; and as the number of jobs grows, so will consumption". In 2003, an estimated 19 percent of Chinese had attained middle-class status. The Chinese Academy of Social Sciences projects that 40 percent of Chinese will ascend to these ranks by 2020 (Tung, 2009).

Despite the recent portrayal in the western media of free-wheeling Chinese tourists who splurge on the purchase of pricey real estate and luxury items abroad, the reality is China has one of the highest savings rate in the world — 46 percent in 2006 (Tung, 2009, 18) and 50 percent according to Justin Lin (2015). While Chinese consumers, in general, are favorable toward foreign brands, according to a 2014 survey by Credit Suisse, these preferences are confined primarily to high-end luxury items, such as watches, mobile phones, apparel and autos, whereas 75 percent of *actual* purchases of essential items in the twelve months preceding the survey — such as bottled water, cigarettes, dairy, spirits and beer — were of domestic brands (Kersley et al., 2014). The high savings rate coupled with the actual practice of buying local as far as essential items are concerned mean that sustainable development can be attained by stimulating domestic consumption to fill the gap created by China's declining exports.

Since many foreign multinationals already have manufacturing/servicing operations in China, they stand to gain from a rise in domestic consumption. This pattern is consistent with the experience in Japan and Korea where in the early stages of growth, a developing country relies heavily on an export-driven economy. As China develops, however, the drop in exports can be compensated for by increased sales in China. This presents an opportunity for foreign multinationals in two important ways. One, since many foreign multinationals already have manufacturing facilities in China and given the generally favorable attitude that many Chinese have toward foreign brands and products (albeit made in China), this can increase their revenues from sales to the growing middle class in China. Two, as China focuses its attention on infrastructure projects, both within and outside China, such as the Silk Road project, foreign multinationals stand to gain from taking part in these developments. This explains why 57 countries, including the United Kingdom, France, Germany, Italy, India, Australia and South Korea, have signed onto the China-led AIIB. Taiwan has also applied for membership. More countries are expected to join the AIIB despite U.S. objections. Even Christine Lagarde, head of the International Monetary Fund, has expressed her delight in working with AIIB as she sees "massive room for cooperation . . . on infrastructure financing" ("New China-led AIIB may work with ADB", 2015).

Upgrading in the science and technology skills of its people

Despite the fact that China still suffers from a human talent deficit — Farrell and Grant (2005) has referred to this situation as the "paradox of scarcity among plenty" — the country has devoted substantial attention to rectifying this situation.

First, after the U.S., China is the second largest investor in R&D spending in the world. According to a 2005 UNCTAD report, China has surpassed the U.S. and India to become the top choice for R&D expansion among multinationals from around the world (Tung, 2009).

Second, according to a 2011 British Royal Society report entitled, *Knowledge, Networks and Nations* (2011) in the 2004–2008 time period, China accounted for 10.2 percent of "global publication authorship by country", second to that of the U.S. at 21.2 percent. "Global publication authorship" is a good indicator of the intensity of knowledge generation in a country. China's ascendancy to second place represents a quantum leap from its share of 4.4 percent in 1999–2003. Furthermore, since "global publication authorship by country" is gauged by the country of affiliation of the author (rather than by the author's ethnicity), this statistic may mask the country's potential prowess in this regard, particularly when viewed in

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conjunction with China's plans to attract overseas Chinese to return home. While overseas Chinese may be the primary target for that country's medium- and long-term talent development plan, discussed later, foreign scientists and engineers who seek funding and research laboratories to support their endeavors are welcomed under Beijing's initiatives on attracting talent. A paper published in the prestigious *New England Journal of Medicine* revealed that in biomedical R&D spending, there is "a marked shift in spending from Europe and North America to Asia". In China, for example, the budget allocation for such purposes increased by an average of 33 percent annually in the 2007–2012 time period. This contrasts with an average increase of 6 percent in Japan and a decrease of 2 percent per annum in the U.S. ("But if you want to go to the after-party, it's in Asia", 2014). In addition, as noted earlier, China is the top choice for R&D expansion by foreign multinationals in the world. A growing number of foreign multinationals have already established R&D centers in China, particularly in the semiconductors, pharmaceutical and automotive sectors (Wale et al., 2012).

Third, just as the vast Chinese diaspora was and still is a primary source of FDI into the country, the Chinese government has launched a medium- and long-term talent development plan (2010–2020) to attract talented overseas Chinese to return home. An estimated 92 percent of Chinese with earned doctorates in science and technology in 2002 were still working in the U.S. in 2007, thus posing tremendous potentials for Beijing's talent development plan (Wang, 2010). If China's talent development plans materialize, the country's population dividend (i.e., most populous country in the world) can indeed become a "talent dividend", thus enabling the transition from "Made in China" where the focus is on low-cost manufacturing to "Created in China" that emphasizes higher valued goods and services (Wang, 2010).

Chinese traditional emphasis on education will likely ensure the attainment of the country's goal of upgrading its human talent. While the Program for International Student Assessment (PISA) scores are not available for the whole of China, 15-year old students in Shanghai outperformed their counterparts from 65 countries/economies around the world in all three categories of mathematics, reading and science (*PISA Technical Report*, 2012).

Foreign multinationals can benefit from this upgrading in two ways. One, they can use their China operations as a base for entry into other lower cost neighboring markets discussed under the first and second opportunities presented earlier in this commentary. Some products that foreign multinationals develop in China may be better suited to the needs of consumers in other developing countries. In fact, some of these products may later be introduced into developed countries — this is referred to as the process of reverse innovation (Govindarajan and Ramamurti, 2011). Two, as China moves higher up the value chain, foreign multinationals can tap into the growing pool of local talent (more specifically, scientists and engineers) whose salaries are still lower than that of their counterparts in industrialized countries with similar educational skills and technical qualifications. As noted earlier, many foreign multinationals have established R&D centers in China. Beijing has encouraged foreign R&D centers to partner with top research universities in the country. In addition, Beijing has invested heavily in high priority sectors, such as renewable energy. Priority has been assigned to renewable energy because China is now the world's largest consumer of energy. These efforts have apparently paid off — a March 2015 report by Worldwatch Institute indicated that China is on track to attain its 2020 target of deriving 15 percent of its energy from renewables. In comparison, renewables accounted for only 11 percent of total energy production in the U.S. in 2012. The report stated that "China is poised to pass world solar and wind manufacturing leaders in Europe, Japan, and North America in the next three years, and it already dominates the markets for solar hot water and small hydropower" ("China on pace to become global leader in renewable energy", 2015). These innovations are not confined to renewables only — GE's China Technology Center, for example, has been designated as its Global Center of Excellence in energy management, transportation and healthcare (Luo, 2015). Foreign multinationals stand to gain from these innovations and developments in terms of reverse innovation.

Challenges

Aging of China's population

The success of China's one-child policy is a double-edged sword. On the one hand, the policy has lifted China out of poverty more rapidly than that in India. On the other hand, however, the low birth rate has contributed to the overall aging of the population — an estimated 11.8 percent of China's population will be 65 or older by 2020 (Chand and Tung, 2014). UN statistics project that China's old age dependency ratio will reach 0.50 by 2064. This means that for every 65-year old, there will be two working-age citizens (Manyika et al., 2015, p. 39). Despite Beijing's recent lifting of its one-child policy, some people (particularly those in the affluent cities of Shanghai, for example) appeared to have lost their appetite for larger families. An overall aging of its population will lead to reduced productivity, greater spending on services for the elderly, and reduced government revenues from taxes on the working population. Furthermore, an elderly population can dampen the demand on consumption of non-health care related goods and services.

McKinsey has projected that if China were to continue on its current trajectory, it will experience a 12 percent decrease in per capita GDP by 2064. China is not alone in this regard, however. All developed countries and many emerging markets will experience the same or worse fate — the U.S., Australia and Canada are expected to experience declines of 28, 40 and 57 percent, respectively (Manyika et al., 2015, p. 28). Perhaps what is unique in China's case is that the country may grow old before it becomes rich (Chand and Tung, 2014).

The rapid aging of China's population has several implications for foreign multinationals operating in China, both positive and negative. On the positive, in absolute terms, China will have the largest number of citizens 65 and older in the not

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too distant future. This presents opportunities for foreign multinationals that sell medicine and medical devices to seniors. With the growing affluence of Chinese consumers, particularly those along the coastal areas and in light of China's continued respect for age, the elderly and their families will demand the best medicine, medical devices and services that money can buy. Since many Chinese consumers are wary of the low safety standards of domestic products (medicine and medical devices included) in light of the recent and ongoing revelations about contaminated food, including baby's formula, there is a high demand for foreign-made alternatives or at least products made under supervision by foreign firms.

In the past, dedicated living facilities for seniors in China were rare as children typically live with their aged parents. With urbanization and the growing focus on the nucleus (as opposed to extended) family as in the West, Chinese societal attitude toward moving seniors to retirement homes has become more positive. This change presents opportunities for foreign firms that specialize in providing quality care facilities for assisted living to the elderly to enter into the China market.

On the downside, however, the overall aging in China means that there will be more intense competition for skilled labor and talent. A primary reason for entering China in the first place, namely to take advantage of the low-cost younger workforce, will diminish over time, hence the need for foreign multinationals to re-evaluate their China strategy and to relocate their low-cost manufacturing to neighboring countries, such as Bangladesh in the case of textiles.

Institutional weakness, corruption/weak corporate governance, and growing income inequality

"China's one-party political system and its centrally planned economy have long provided fertile ground for graft" (Wan, 2014). Infrastructure projects and many economic activities require official approval, thus providing ample opportunities for people that occupy such positions to "enrich themselves or their cronies" (Denyer, 2015b; Pei, 2014). Minxin Pei, a professor of government at Claremont McKenna College, has dubbed this phenomenon as "crony communism" (Pei, 2014).

While objective statistics on the value of such bribes are impossible to obtain, according to official media sources, the median amount of a bribe has increased from USD91,000 in 2000 to USD225,000 in 2009 (Denyer, 2015b). Increasingly, money from such illicit sources finds its way to purchase expensive real estate abroad or is hidden at home. The largest haul of corrupt money (200 million RMB or USD3.2 million in cash) was discovered in the home of an energy official in China (Denyer, 2015b).

The Chinese agency responsible for curbing corruption is known as the Central Commission for Discipline Inspection. According to Chris Johnson, the CIA's former chief China analyst, "There is no Western equivalent. . . It has elements of the FBI, U.S. Treasury Department, Secret Service and Government Accountability Office all rolled into one". While this agency has existed since 1927, since Xi ascended to the Presidency in 2012, the scale and scope of its anti-corruption drive have been unprecedented — the campaign has netted both "tigers" and "flies, i.e., senior- and low-level officials, respectively. An estimated 100,000 officials have been disciplined since 2012 (Denyer, 2015b) and include some high-profile cases, such as Bo Xilai, former party chief of Chongqing and son of one of China's "eight immortals"[1]; Su Rong, a former vice-chairman of the Chinese People's Political Consultative Conference (CPPCC); Zhou Yongkang, former Chief of Domestic Security; Xu Caihou, a former vice-chairman of the Central Military Commission; and Ma Jian, Deputy State Security Minister.

This crackdown has extended to university professors and, more recently, to CCTV, the state-sponsored television network where 15 senior executives were removed (Wong, 2015). Several corruption scandals at universities have been uncovered, including one case where 10 million RMB (or USD1.6 million) of research funds were siphoned to a professor's personal or company account (Pei, 2014).

Given the endemic nature of corruption in China where institutional law remains weak despite the enactment of many legislations since its open door policy, a question can be raised as to whether it is possible for the country to rid itself of this scourge. Denyer (2015a) reports that Fan Songqing, a deputy secretary-general of the Guangzhou Committee of the CPPCC, disclosed all of his assets in 2013 and urged his colleagues to follow suit. However, instead of being hailed as a model of clean governance, he was ostracized by others, culminating in his resignation from all his official posts. Indeed, it appears that the concern of being caught combined with the "lack of any incentive to act" have prompted many government officials to inertia. According to Ren Jianming, a professor at Beihang University, "Officials have stopped or delayed making decisions to avoid risks. Even if they don't take a bribe now, they might be suspected or reported" (Denyer, 2015b). Inaction has apparently contributed to the slowdown of the economy in several ways, including delays in approval of government projects, drop in sales of luxury items and business at expensive restaurants — in fact, the sharp decrease in gambling revenues in Macau has been attributed to the clampdown on corruption in China. To rectify this economic slowdown, according to state media, Premier Li had asked government officials to "sign a written pledge to carry out major economic and social policies faithfully, saying that their dereliction of duty had slowed the economy" (Denyer, 2015b).

One reason (although not a justification) as to why corruption is so endemic in China is the low official salary. Even after a 62 percent increase, President Xi's official salary amounted to only USD1,832 per month as compared to USD1.8 million per annum for Singapore's Prime Minister, the highest paid leader in the world. Professors are paid the same as other civil servants and their official salaries range from 3,000 (USD480) to 10,000 (USD1,600) RMB per month (Yang, 2014). These low salaries coupled with the rising cost of living (particularly in major cities such as Shanghai and Beijing) explain why

[1] The "eight immortals" refer to the revolutionary leaders who fought alongside Mao Zedong to establish the People's Republic of China.

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many government officials and academics need to supplement their income from alternative sources. A cursory review of the Hong Kong and Singapore experience reveals that raising the salaries of government officials is one of the most effective means to stem out corruption. According to the 2014 Transparency International Corruption Perceptions Index (TI-CPI), Singapore and Hong Kong ranked as the seventh and seventeenth "cleanest" economies in the world, respectively. Hong Kong's ranking tied with that of the U.S. Consequently, China's current move to restructure salaries represents a step in the right direction.

Raising salaries of all employees (both government and non-government) and increasing benefits to the elderly (in light of the overall aging of the population discussed earlier) can also help redress the growing income inequality in China. According to the 2014 World Bank's Gini index,[2] China and the U.S. stood at 42.1 and 41.1, respectively, both of which were higher than the world's average of 38.8 (Kiersz, 2014). A wide income disparity already exists between the rich coastal provinces vis-à-vis the interior and western regions of China where the vast majority of China's population lives. Rising income inequality can lead to destabilizing social unrest among the masses, a scenario that the Beijing government can ill afford. The plight of migrant workers and unfulfilled expectations of college graduates[3] in China can also be contributing factors to social instability. After all, it was the mass populace that brought the Chinese Communist Party to power in 1949.

The implications for foreign multinationals during this transitional period where China seeks to eradicate corruption can be both positive and negative, depending upon the time frame. In the short-term, as noted earlier, for fear of being implicated or because of lack of incentive, there may be inertia among many Chinese bureaucrats. This can translate into delayed approval of applications for all kinds of projects. In the long-term, however, the strengthening of institutional law as opposed to the traditional reliance on back-room tactics to reach desired outcomes is a healthy development. The Opacity Index, a variation of the more popular TI-CPI, reveals that, with the exception of China, there is a negative relationship between FDI and overall opacity, i.e., the higher the opacity, the lower the volume of inward FDI (Kurtzman and Yago, 2008). China is the exception because despite its high opacity index, the volume of inward investment continues to be high. However, if China can lower its opacity index through the strengthening of its institutional law and environment, it could become even more attractive to foreign multinationals.

It is important to note that *guanxi* is not synonymous with corruption (Yeung and Tung, 1996). *Guanxi* or emphasis on personal relationships is steeply ingrained in the Chinese (in fact, East Asian) psyche — Confucius has emphasized the importance of the "five relationships" that allow for the orderly functioning of society. Thus, foreign multinationals still need to develop and cultivate long-term relationships (or *guanxi*) with the right stakeholders in China rather than resorting to a quick fix to their problems through bribery.

Beijing's attempts to lower income inequality can also benefit foreign multinationals in at least two important ways. One, as indicated earlier, severe income inequality could be socially destabilizing and threaten inward investment into the country. Two, as in the case of Hong Kong and Singapore, raising the salaries of government officials will lessen the need for them to subsidize their income through other sources, such as soliciting bribes.

Newfound confidence on the world stage

China's newfound confidence on the world stage has been characterized as "economic nationalism" in the western press. In general, nationalism is a positive as it can motivate a country and its people to work toward elevating their standing in the world community. Indeed, China could not have attained what it has accomplished in the past three-and-a-half decades without nationalism. However, it can become a challenge if economic nationalism rises to a level where it creates a sufficiently negative investment climate and where foreign investors may choose to withdraw or divest from the country.

In the recent past, foreign firms operating in China have indeed come under increased scrutiny. In early 2015, Qualcomm, the U.S. chipmaker, paid a record $975 million fine to settle charges for violating antimonopoly regulations in China. Other foreign investors that have also been fined for miscellaneous violations — such as bribery, tax evasion and monopolistic behavior — include GlaxoSmithKline, Volkswagen, Samsung, Johnson & Johnson, Chrysler, and Mead Johnson (Bradsher, 2014, 2015; Mozur and Hardy, 2015). According to Toh (2014), an unnamed U.S. multinational that began operations in China in 1995 has admitted to tax evasion and promised to make restitutions totaling 840 million RMB (or USD134.4 million).

In early 2015, Beijing has enacted new legislations that require foreign computer vendors to Chinese banks to disclose "secret source code, submit to invasive audits and build so-called back doors into hardware and software... (Furthermore) 75 percent of technology products used by Chinese institutions must be classified as 'secure and controllable' by 2019". Also in the works are anti-terror laws that are rumored to require companies to store all data pertaining to Chinese users on domestic servers to allow for monitoring of possible terror threats (Mozur, 2015). While these legislations appear to be similar to that of other countries, foreign investors are apparently concerned about the vagueness of these legislations.

Critics of China's rising economic nationalism have also drawn attention to China's education minister Yuan Guiren's ban or discouraging the use of "textbooks that promote Western values" (Levin, 2015). Cumulatively, these measures can unnerve foreign investors' confidence that business will be as usual under the "new normal".

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[2] The Gini index ranges from 0 to 100, where 0 is absolute equality.

[3] After the Tiananmen incident in 1989, according to Robyn Meredith (2007), most Chinese are more concerned about economic prosperity than democracy.

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To dispel foreign investors' concerns that China is becoming hostile to foreign investment and Western ideas, Premier Li claimed that only 10 percent of China's antitrust probes has been levied on foreign firms. Li reportedly told the executives of foreign multinationals: "I feel concerned that you are actually concerned. . . China's door has opened, and it will never be closed again" (Zhao, 2014).

The implications of China's newfound confidence on the world stage are several-fold. If Li's assertion that the current antitrust, tax evasion and bribery probes are part of an overall attempt to strengthen China's institutional environment rather than suggesting a deterioration in the foreign investment climate, then it can indeed be perceived as a positive in the longer term. Furthermore, the less favorable treatment of foreign multinationals now as compared with the generous incentives accorded them in the early years of China's open door policy may represent the natural evolutionary process of economic development in an emerging market. In the early stages of liberalization, the host country has to offer incentives to attract foreign investment and transfer of much needed technology. Viewed in this context, the elimination of special incentives cannot be construed as harassment.

Indeed, if economic nationalism does not escalate to a level of xenophobic hysteria that has twice plagued the country before — the Boxer Rebellion (1899–1901) and the Cultural Revolution (1966–1976) — and given the pragmatic orientation of the current Chinese leaders who continue to emulate Deng Xiaping's famous saying that "it doesn't matter whether a cat is black or white as long as it catches mice", the scrutiny levied on them should not have a severe negative impact on foreign investors.

Foreign multinationals have to put these challenges in the broader context of profits to be made in China. For example, an estimated one-half of Qualcomm's revenues come from China (Mozur and Hardy, 2015). Indeed, with growing consumerism in the world's most populous country, most multinationals choose to remain as long as there are profits to be made. The opportunities for making money are indeed there as discussed earlier in this commentary. Timothy D. Cook, head of Apple, has acknowledged that it is "only a matter of time" when the majority of the company's sales would come from China (Welitzkin, 2015). Mark Zuckerberg of Facebook has made major efforts — such as giving a 30-minute interview in Mandarin in 2014 and posting a Chinese New Year greetings in Mandarin to mark the Year of the Goat — to impress the Chinese in the hopes that the ban on Facebook in China will be lifted (McFarland, 2015).

Putting these challenges in context also means that foreign multinationals have to view these developments from the Chinese perspective aside from their own. As a country seeks to move up its value chain — from low-cost manufacturing to a focus on high technology and higher-valued goods/services — it is natural that it seeks a more dominant (or at least equal) role in decisions that affect its economic wellbeing. One way to accommodate the host country's objective is for foreign multinationals to partner with Chinese entities, such as the joint R&D efforts by foreign multinationals with leading universities in China alluded to earlier.

Research implications

China has provided fertile ground for research in the past two decades. Its transition to the "new normal" should present equally exciting research opportunities. For one, the changes/reforms that are taking place in China constitute one vast social experiment that has research implications at different levels of analysis.

At the macro level, the new Silk Road project represents a regional economic integration that is unprecedented in both scale and scope. The new Silk Road Economic Belt will extend from China through some of the least developed regions of the world to Europe. Besides differences in levels of economic development, this initiative encompasses countries/regions from many different religious traditions and cultural backgrounds. In other words, the types and magnitude of diversity of countries covered in this project far exceed that of any other regional economic integration efforts that the world has seen to date, such as NAFTA, EU, ASEAN, MERCOSUR, to name just a few. As researchers, there are abundant opportunities for us to understand how these different types of diversity pose challenges and how they can be effectively overcome to yield positive outcomes.

At the meso level, researchers can study the impact of these changes on different aspects of the institutional environment and their relationship to organizational/firm performance, the ease or difficulty of negotiating with the Chinese and doing business in China.

At the micro level, researchers can reassess the role of *guanx*i in the broader context of doing business in China and examine how values and attitudes of Chinese managers and employees change under conditions of the "new normal". In addition, it would be useful to see if these changes will lead to convergence, divergence or cross-vergence (Ralston, 2008).

Conclusion and discussion

This commentary has identified some opportunities and challenges associated with China's "new normal". Foreign investors stand to gain from the inroads/initiatives that China has made in Central/South Asia, Middle and Near East, and Africa. The challenges, particularly the first two identified in this paper, can pose hardships but appear to be surmountable. The cautionary approach of "feeling for stones" while crossing the river is consistent with Chinese pragmatism and their belief that events typically progress in a dialectic fashion, thus allowing for modifications along the way.

With regard to the West's concern that China's newfound confidence could lead to China eclipsing the U.S., the bastion of the free world, I find the comments made by Yang Hengjun in an article entitled "China vs. the U.S.: Who blinked?" to be

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particularly insightful. As suggested by the title of his article, the question should not be "who blinked" — perhaps the very question itself represents the western tendency to view relationships in the context of a zero-sum game. Yang referred to the remark that Vice Premier Wang Yang made at the fifth round of the U.S.–China Strategic and Economic Dialog in July 2013: "China has neither the intention nor the capability to challenge America's leading status" (Yang, 2015). Throughout history, even when China was a leading nation, it had not pursued a policy of imperialism akin to the ones espoused by major European countries in the eighteenth and nineteenth centuries.[4] China's newfound confidence on the world stage should perhaps be best viewed in the context of a country that wants equal voice now that the phoenix has risen from its ashes.

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[4] The westward expansion under Genghis Khan, the leader of the Mongols (later known as the Yuan dynasty), was short-lived. Furthermore, the Chinese considered the Mongols as foreign invaders.

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