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GETTING STARTED

What do you think, my name is Fink!

The head hunger striker from the Tiananmen Square uprising is glomming another plate of stone crabs. It's his third.

Now he's flinging half-eaten claws like mahjong tiles onto a growing discard pile. Those leavings might have fed him for a week when he was on the barricades in Beijing. But this is Miami Beach—and our dissident-from-the-Chinese-backwoods-turned-entrepreneur is in sheer heaven. If launching a new business on the mainland means raising money in South Florida, then he could get used to capitalism quickly.

People mistake him for the bookworm who stood in front of the tank in Tiananmen Square. He's not. To the movement's leadership, that guy was a nobody, a foot soldier who vanished—as Tiananmen's A list trod more illustrious paths.

Some went to jail. Many went into business. Some went to jail, *then* went into business. They racked up MBAs and JDs from Yale and Columbia; cavorted with billionaires at Davos and Aspen; then went back to China to start companies.

Is this the biggest sellout in modern history?

Actually, it isn't. Making money had nothing to do with their intentions. Waging revolution did. And by trading their prison stripes for pinstripes, the dissident entrepreneurs of Tiananmen showed us a

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completely new way to achieve sweeping political, social, and economic reform in China—without standing in front of tanks.

But for the rest of us (who are more concerned with paying the kids' tuitions than with shepherding the fate of a billion people), they showed us that you don't have to be General Electric to trade with China. They showed us that businesses of all sizes can capitalize on a once-in-a-century windfall opportunity to make money, build value, and create jobs.

China is undergoing the largest and most rapid middle-class expansion since the rise of the United States, Western Europe, and Japan. Its middle class *today* already outnumber the combined populations of the United Kingdom and France. These new consumers need modern products and services—but China can't provide them; its technology and capabilities remain decades behind the West. The United States, then, is uniquely positioned to provide the many products and services China's vast and growing consumer base needs.

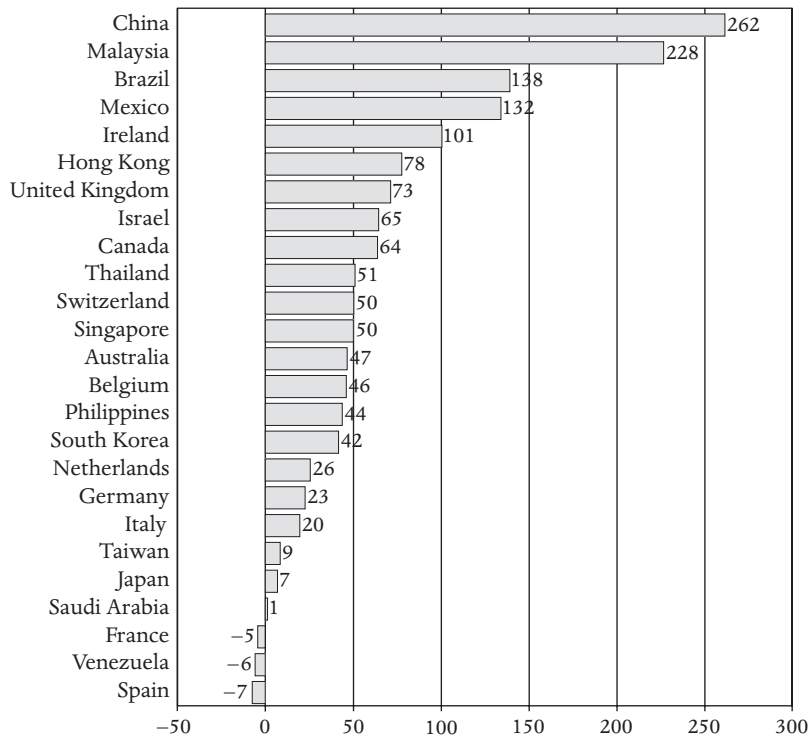
This phenomenon is already playing out. China is America's fastest growing *export* market—and has been for a decade. Since 2001, in fact, U.S. exports of goods and services to China have grown *five times faster* than to the rest of the world.¹ Some export categories, like cotton, are even growing in triple digits. Plastics, pulp, power generation and medical equipment, industrial machinery, and many other U.S. exports to China are surging by 30 to 40 percent a year.²

Who knew? Savvy companies, that's who. Sales from American firms to China have more than tripled in the last decade.* But the best news of all is that small businesses—not just the large multinationals—are cashing in. Exports to China from small and medium-sized enterprises (SMEs) have been ranked the largest gainers in the world for a decade.³

So while the shelves of your local Wal-Mart may teem with Chinese

*For more charts, visit AllTheT.com/charts.

**1992–2002 Percentage Changes in Exports by SMEs
to Top 25 U.S. Markets**



Source: U.S. Department of Commerce.

merchandise, China is actually buying goods and services from the United States at a much faster clip than we are from them—giving many U.S. industries a big boost.

As exports to China boom, imports become more dynamic. Savvy U.S. firms today are thinking way beyond just “outsourcing.” They’re importing goods from China to extend core business lines, enter new U.S. markets, and defend low price points from China. That’s right: many U.S. firms are importing Chinese goods to parry Chinese competition. And some firms, like auto parts manufacturers, are exploiting two-way trade: exporting products to China to expand sales, while

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importing from China to protect markets at home—and all the while, creating jobs locally.

But this is just gravy. The meat, my new partner insists, is that by doing business with China, we help guide the most populous country on earth into becoming the kind of modern nation that is good for the West—a peaceful, stable ally and trading partner.

I squint at the enigma across the table. His face is flecked with shards of shell and meat. Stone crabs, he declares, are now his official all-time-favorite food. (At \$55 a pound, I should certainly hope so.)

He sets in again. With the sharp crack of each new claw, I start to hear a cash register jingle in my head: Crack . . . *ka-ching!* Crack . . . *ka-ching!*

He eats like a buyer, my grandfather used to say—like a hungry client who happily pigs out on your dime. But I'm buying what he's selling. The upside in China, he insists, is huge and real. China's economy has already quadrupled in size.⁴ It will double again in the coming years. We can get a piece of that action.

He fingers another crab shell. It's 1999. A decade anniversary of the uprising just passed. Everywhere, the headlines are touting China's meteoric growth. We haven't a clue what kind of business we'll launch on the mainland, but we know we're headed for the right market.

We'll need seed capital. (Crack . . . *ka-ching!*) We mull over friends and family we can put the bite on. The pickings are lush in the land of real estate developers and dermatologists. I smile when I imagine the hard-nosed Chinese dissident pitching woo to a breakfast club of Miami retirees.

He's got the face of a man who's cheated death more than once. His right eyelid sags languidly. It cuts his big, black iris in half and makes his gaze look gimlet and hard. A tough cookie, no question. Yet he's as bubbly as Dean Martin on his third martini. (I would learn that many of the dissident entrepreneurs of Tiananmen are the same.

Their battle-scarred exteriors have been burnished by Ivy League classrooms and Wall Street boardrooms.)

A true entrepreneur, he's also seen failure. He snuck into China after the crackdown and risked arrest to launch two dogs. One venture was aimed at servicing China's nascent Internet sector, the other, legal services. Both deals tanked.

Yet he's stammering with excitement to tell me why he wants another go at it. Why, after trying to tear down the Great Wall, the dissident entrepreneurs of Tiananmen are rushing back to scaffold it. Why he, who risked his life to revolt against China, would risk his life again to trade with it.

Well, for one thing, China's problems are big and dire and could derail the economy. But that's not the whole story. Certainly, he loves his country and wants to try to help, but he also loves America. (He'll go on to become a U.S. citizen.) He wants to see both countries benefit.

To fulfill these twin goals, he points out a basic congruence: China's enormous challenges are the West's market opportunities. To redress one, you enrich the other. Both parties benefit. To explain why, though, he must return for a moment to first cases: the uprising itself.

Wait a sec, I've heard about these Tiananmen guys. They gave marathon lectures about Chinese history and ethics to the troops deployed in the square. As the seminar begins, I can see why the soldiers got sore. Nobody likes a pedant.

CHINA'S CHALLENGES ARE THE WEST'S MARKET OPPORTUNITIES

He leans in. For starters, the uprising at Tiananmen had about as much to do with democracy as the Boston Tea Party had with caffeinated beverages. The movement's original purpose was to stop government corruption—not to push for free and fair elections. Democracy got grafted on much later.

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Stopping corruption? How banal. Yet this aim was more revolutionary, more *visionary* than a desperate adventure to overthrow the government. The originators of the uprising understood that until corruption was licked, democracy was the least of their worries. Modernity itself was at stake.

The Tiananmen leaders were no dummies. These were the top ninety-ninth percentile of China's university students—in a country where getting into college is based solely on academic performance and has nothing to do with your extracurricular activities. (China's favorite extracurricular activity is not football. It's doing your homework.)

Brainiacs from all over China—not just Beijing U.—converged on the square. Their Paul Revere? The Internet. The uprising at Tiananmen Square was the first successful use of the Internet to mobilize great numbers of people. Before Meetup.com, which revolutionized American electoral politics by Internet-powering the right to free assembly, before there even was a World Wide Web, Chinese universities were networked, employing secure computer linkups to share data. Some of the technically savvy among Tiananmen's leadership understood the power of this network to enlist supporters and disseminate information across the vast country. They used crude electronic bulletin board systems to put the word out on the street.

Eggheads far and wide heeded the call. In the middle of the big square, with the portrait of Mao looming over them, they scurried into cliques as if it were the first day of grade school. Yet Tiananmen was a popularity contest among China's university elite. Scientists, historians, journalists, mathematicians: they were in line to take over top positions in government, industry, and academia. Why would these young superstars choose to risk it all—their careers, their very lives—for a cause like stopping corruption?

Because they knew their history and feared for the future. In 1989, it seemed everything was on the line. The Chinese people had endured

seven hundred years of war, famines, and servitude—concluded by a most vicious coda, the twentieth century, which they dub “the Century of Shame.” In that time alone, they endured a grisly civil war, wholesale cruelty under Japanese occupation, and Mao’s regime, which felled tens of millions of men, women, and children through famine and violence.

In America, each succeeding generation expects to do better than its forebears—indeed, usually feels entitled to do so. Imagine looking back over a hundred generations of suffering and premature death in your family, your city, your nation. And suddenly, there’s a ray of hope.

On the eve of the Tiananmen Square uprising, an unstoppable steamroller of progress seemed to be plowing over all the old ways. Picture the Industrial Revolution and the fall of the Berlin Wall happening at the same time. The old, agrarian command economy was rapidly being eviscerated by a modern, industrial marketplace. At the same time, the Communist regime was transforming itself, experimenting with more liberal forms of governance.

Deng Xiaoping, Mao’s successor, ratified a constitution in 1982 that employed the concept of rights as an organizing principle. The “rule of man” had governed China for many centuries, so the adoption of a constitution based on the concept of “rule of law,” and the rights of individuals, was a radical departure from the past.

Yet corruption and fraud had infested every aspect of civil life—from government to military to industry. The constitution and its laws were a sham. Municipal and provincial governments were rackets that extorted money from citizens and companies by fiat. An independent judiciary was nonexistent. Banks and businesses were run by a league of cronies with their hands in one another’s pockets. They gave money away to each other to prop up the dying state-owned industry sector, while denying loans to the private sector.

Corruption was putrefying the new economy, killing true competition and innovation. If corruption was not brought to heel, the leaders

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at Tiananmen feared China would fail to achieve modernity, and another century of shame would be to come.

The leaders pressed not for regime change but for institutional change: the adoption of the rule of law, honest civil and corporate governance, and an independent judiciary. These institutions, they believed, would not only support China's evolution into a modern prosperous state, at peace with its neighbors, but would also provide the underpinnings for a more open, liberal society.

Many in the government were sympathetic to the demonstrators' arguments. For some time, it seemed the students might actually wring some concessions from the authorities. But a dangerous game of chicken ensued, and the People's Liberation Army (PLA) had the last word.

The leaders who were not rounded up or killed made daring escapes, aided primarily by the French and the British. One escape featured a dramatic dash by sea: a dozen identical speedboats fanned out from the harbor in Guangzhou, breasting the waves for Hong Kong. They were all decoys, save one, which stowed the runaways. Chinese security gave chase. Shots volleyed in the air. The leader made safe harbor in Hong Kong and was spirited away to France, where the Mitterrand family personally administered hospitality.

President George H. W. Bush, who was an ambassador to China from 1974 to 1976 before we officially began fielding ambassadors there, resisted intense public pressure at home to demonize China. This former chief of the U.S. Liaison Office in China did not overtly aid in the leaders' escape. China's crackdown on the demonstrators had consequences—just not ones that would cause China to lose face at the hands of the Americans on the global stage. Instead, Congress enacted an embargo on all weapons sales to China and pressed Europe to do the same. This U.S.–EU embargo remains in force, twenty-five years after the crackdown, despite some recent maneuverings by the Europeans to have the ban lifted.

The leaders at Tiananmen regrouped in the West and continued to meet, argue, and plot their future plans to wage revolution. Standing in front of tanks was pointless. Sure, it made the evening news, but it didn't change the basic conditions in China.

So to press their mission to build honest civil institutions, they began employing multiple modes of attack: through conducting trade, through lobbying China policy in the West, and through participating in nongovernmental organizations (NGOs) inside and outside China. Rather than isolating and penalizing it, they sought to bring about reform by working with China—through the rules-based economic and regulatory systems to which it now belonged, and on which it so dearly relies for its continued growth and stability.

China needs all the help it can get. Its challenges are mind-boggling in their enormity and complexity. Geography, demography, political economy: each presents big difficulties.

Consider geography. China is a vast country, yet much of its land is uninhabitable. Half of China's 1.3 billion people, therefore, must live on land the size of Texas. To make matters worse, the deserts are claiming more and more of this habitable land every year.⁵

Demographically, China must now contend with the consequences of its birth-planning policies, which were put in place by Deng to rein in the runaway growth of the most populous nation on the earth. Three generations of birth planning have created the "one-two-four" problem: one adult child must support two parents and four grandparents. That puts a tremendous burden on the state and small families to pay for the aging population. The laws and policies are therefore evolving. Multiple children are often encouraged in the countryside and permitted (for a fee) in the cities. But as China is loosening population controls, it continues to struggle to provide its people enough water, food, and energy.

Aside from geography and demography, China faces a doozy with its political economy. It must move a billion people from an agrarian to

an industrial system—as quickly as possible. As a frame of reference, when the United States moved almost 70 million people from rural farms to factories in the cities, the migration took one hundred years and exacted a tremendous societal cost.

China must create twelve million new jobs each year for the next decade just to keep pace with new entrants to the labor pool created by population growth.⁶ And it must figure out how to provide jobs for the millions and millions of its unemployed citizens. China's stated unemployment rate is 4.3 percent, which is equivalent to the entire U.S. labor pool being out of work. And there is a giant migrant worker population—estimated at 150 million—with no job security, no long-term housing, and no health care.⁷

It is easy to consign these conditions to the effects of Schumpeter's "creative destruction": old systems must die as new ones emerge. But try telling that to a worker whose "iron rice bowl" has just been shattered—one of the many millions who have lost their jobs in the dying state-owned industry sector.

Civil unrest, not surprisingly, is rippling through China's industrial cities and the countryside, with 87,000 reported cases (which means the actual number is higher) in 2005.⁸ The Chinese are taking to the streets to demand stable jobs, good health care, and freedom from local corruption, which persists in undermining the new economy.

In short, China is walking a high wire with no net. Up until now, dollar-denominated trade and investment have ballasted the economy. With nearly one trillion dollars' worth of currency reserves, the government and banks have essentially been plowing free money into real estate and infrastructure development.

And that's causing problems. Investment in China's fixed assets grew 30 percent in 2005 and contributed a whopping 47 percent to China's GDP.⁹ These easy credit policies have created more bad debts and fewer new jobs. Overcapacity in real estate and manufacturing is

growing, and China's central bank has started raising interest rates, to prevent the economy from overheating.

To make matters worse, it's actually getting more expensive to buy growth, and that growth is becoming very wasteful. In the 1980s and '90s, it took two to three dollars of new investment to produce one dollar of additional growth. Now it takes more than four dollars.¹⁰ Even India is more efficient by that measure.

If you read the Chinese media, you'd get a much better sense of the very earthly problems this "miracle economy" faces. Daily stories describe corruption, a debilitating health care crisis, severe environmental degradation, the growing divide between China's very rich and very poor, crime, and civil unrest, as well as a number of other factors that Chinese fear could derail their country.

In an uneasy alliance, Chinese leadership and the dissidents are working toward the common goal of a modern, stable China. They are making amazing progress, given the magnitude of the problems. Economic development is having a profoundly positive impact on the poorest of China's poor.

UNICEF recently applauded China's success in combating child hunger, for example. While India has made only modest progress, and eastern and southern Africa barely any at all, China has already beaten the United Nations child hunger goals for 2015: to halve the world's percentage of underweight children and reduce the death rate for children under five by more than one-third. Wage rates are going up—usually by double digits per annum in the industrial cities—and the proportion of Chinese in poverty fell from 53 percent to just 8 percent between 1981 and 2001.¹¹

China's environment is another problem of catastrophic proportions that is gradually improving. China's leadership recognizes the direness of the situation. It would be hard not to: China hosts sixteen of the twenty most polluted cities in the world.¹² It seems that every

week, another glowing disgorgement of radioactive sludge spills into a river, and major cities downstream must scramble. For children in many cities, the simple act of breathing is equivalent to smoking two packs of cigarettes a day.¹³

Led by the proenvironment factions in the central government, China has adopted an aggressive energy policy that seeks to relegate oil and gas consumption to less than 15 percent of the total energy mix by 2020.¹⁴ It is investing hundreds of billions of dollars into green technologies and green urban planning, while scouring the globe to import environmentally friendly products and services that will help in the cleanup effort.

As for labor conditions, Chinese workers are striking, rioting, and in many cases, taking their grievances to court. There are signs that the authorities are listening. They asked the public to comment in the spring of 2005 on a draft legislation to improve the rights of workers—and received more than 190,000 responses.

The law would impose stiff fines on companies that do not comply with antisweatshop rules.¹⁵ And it grants additional powers to China's state-run union, the only union allowed to operate on the mainland: the right to establish worker rules, engage in collective bargaining, and pursue grievances. (Wal-Mart, though it permits no organized labor in the United States, was forced to unionize its China stores.) Although the law will most likely make doing business more expensive in China, it is a step toward improving labor conditions.

China is a work in progress. And it is *making* progress. But there's a lot more that still needs to be done. The dissident entrepreneurs of Tiananmen have blazed a trail for us to follow. Through doing business, they are helping to build civil institutions in China, while addressing some of the country's staggering challenges.

But here's the rub. The bigger the challenge, the bigger the market opportunity for the West. Take China's environmental crisis. Its industries, cities, and central government must import billions of dollars'

worth of products and services from the West to address the problem. (A leading U.S. provider of environmental cleanup services, Duratek Inc. of Columbia, Maryland, is one forward-leaning firm trying to help.) China's mining safety? Power generation? Water treatment? Health care system? All are big challenges and all, big market opportunities.

And just as we can help redress China's woes, China can help redress ours, as well. To many battered industries, China presents hope. Take the auto industry. China is the fastest-growing auto market today. And though automotive production capability is improving in China, it still lags way behind U.S. technology and engineering. So China must continue to rely heavily on importing auto parts from the West.¹⁶ While Detroit is in a tailspin, China's markets present a major opportunity for small and mid-sized U.S. auto part manufacturers to increase market share through export and in-country China sales. Steel is another industry that was bloodied a decade ago, but made a tremendous resurgence, in part because of the Chinese market.

Okay, okay. I think I get it. China's big challenges are big market opportunities for savvy companies. Both sides benefit. But I'm catching about every third word. Although my new partner holds two Ivy League degrees, his spoken English is difficult to decipher. My mind wanders.

There's a messy pile of crab shells between us. Stone crabs are a renewable resource, of sorts. Every season, they're culled from South Florida waters, and a single claw is clipped from each. The crabs are then chucked back into the drink, alive. Their claws grow back and are pried off next season. (And Sisyphus thought *he* had it bad.)

By 1999, waves and waves of American companies were already seeking their fortunes on the mainland, scuttling across the floors of silent seas—only to get their claws clipped off in China. Over and over and over again.

Little do we know, we're heading for the same fate. Even though we

have a “China insider” on our team and lots of dough behind us, we’ll still make mistake after mistake—sometimes putting the very viability of the business at risk.

I’m not alone. People who actually *are* doing business in China seldom have anything to report but horror stories. Real-life experience gives the lie to the rosy statistics. Whether they’re China business veterans or first-timers, big multinationals or sole proprietorships, they’ll just shake their heads and sigh.

Oh, China. We’re working on that. A batch of PVC just outgassed chlorine and killed our lineman. Or, our joint venture partner moved in the middle of the night without a forwarding address. Or, we’re trying to solve the mystery of how the goods arrived soaking wet inside a sealed shipping container.

The antics that go on in China make grown procurement agents cry. It’s far and away one of the most complex business environments in the world. Yet those who are succeeding in China today are glad to have led with their chins, because they’re making money, building value, and growing new market share.

Their success, I will come to understand, occurs not because they figured out the secret to unlocking some mythical pool of a billion customers. Or that they suddenly switched on a spigot of cheap labor. Both of these scenarios are illusions, and the road to Shanghai is littered with the carcasses of companies that chased after them and bit the dust.

Looking back on that day, and knowing what I know now, would I have stilled my partner’s mayo-smeared hand? Avoided all that time, money, and heartache spent on false starts, missed opportunities, and wrong turns?

Perhaps. The missteps schooled me, but I see my journey in China as following a path that many have trod. The mistakes I made are the mistakes everyone makes. And they’re *avoidable*.

Through the coming years I’d hear the same story over and over from clients. If a company did over a hundred million dollars in yearly

sales, chances are, they'd already been to China and paid dearly for it in sunk costs. Large companies plowed their money into trial and error, building plants and hiring personnel. Middle-market companies plowed their money into trial and error, partnering and working with intermediaries.

If the firms were smaller, a great many of them were family-owned operations, and were in even worse shape. Margins eroding fast. Hating China and resisting going there—then suddenly feeling compelled to go and leaping at the first chance. And getting reamed.

Sitting there that day, I have no clue of the topography of pain I'm about to traverse. I look away from the crab shells and try my best to pose the toughest questions I can about pitfalls we might encounter, and what we'll do about them. To each of my questions, I get, "May guanti"—No problem—and that Cheshire cat smile. Who is this paradox? He is both dissident and collaborator, both altruist and profiteer.

I like him from the outset. But it's hard for me to reconcile the opposites. I can't read him. Punctuated by frequent breakdowns in comprehension, cognition, and judgment, our relationship will play out in miniature the same mistakes we'll make in the business.

I should have paid closer attention to a joke my dad used to tell me about a guy named Fink.

Fink owned a dry cleaning store, and in the window there was a big sign:

WHAT DO YOU THINK
MY NAME IS FINK
AND I PRESS PANTS FOR NOTHING

A man on the street sees the sign and runs home. He gathers all of his pants and brings them to Fink for pressing. A week later he picks up his order, and Fink hands him a bill for \$25.

The man protests, "Wait a minute, Fink. Your sign says: 'What do you think, my name is Fink, and I press pants for nothing!'"

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“No, sir,” says Fink. “The sign reads: ‘What do you think, my name is Fink, and I press pants for *nothing?!*’ ”

Fink is no fink. He’s just bringing a different set of conventions to commerce. So are the Chinese. I will soon learn that to do business with someone you don’t understand is to court disaster.