

America's 'Mr. China' on Google's Missteps and U.S.-China Relations

By [SAM GUSTIN](#)

Amid increasingly tense trade relations and an escalating currency dispute, the U.S.-China relationship is attracting plenty of attention these days. So is Google's ([GOOG](#)) very [public spat with China over censorship](#).



Courtesy of JFP Holdings

To get a unique perspective on these issues, *DailyFinance* turned to Jack Perkowski, a prominent Beijing-based American expert on China.

The son of a Pittsburgh steelworker, Perkowski worked his way up Wall Street after attending Yale and Harvard Business School. He eventually ran PaineWebber's investment banking business for over 20 years. In 1993, Perkowski famously [raised \\$400 million](#) to invest in China. From 1994 to 2008, he was chairman and CEO of ASIMCO, the giant Beijing auto-parts supplier that now employs 12,000 people across 17 factories.

A pioneer in Western engagement in the Chinese manufacturing sector, Perkowski has been dubbed "[Mr. China](#)" for his early, ambitious and very successful experience as a Western businessman in China over two decades. Last year, Perkowski founded [JFP Holdings](#) to help Western companies "develop appropriate strategies for the China market, implement their China strategies and gain access to the capital needed to fund their China operations."

Perkowski, 61, has achieved what his hometown Pittsburgh newspaper has called "[mythical status](#)" for his expertise, success and enthusiasm about China. (In grade school, I actually knew his son Doug, who went on to co-found facial animation startup [FaceFX](#).)

A Vital Resource on China

"Growing up in Pittsburgh, I saw first-hand how things change and one has to adapt," Jack Perkowski now says. "My father lost his job when I was 12 because his company moved its factory to the lower-wage state of Missouri. Though it was painful for the entire family, I was able to put this experience -- and manufacturing in China -- into the broader context of comparative advantage and natural economic evolution."

For Westerners trying to understand China's utterly unique business practices, Perkowski has been a vital resource. Thomas Friedman convinced him to write a book after featuring Perkowski in Friedman's best-seller about global trade, *The World Is Flat*. The result was Perkowski's [Managing the Dragon](#) in 2008, which drew widespread praise.

In a lengthy phone interview and subsequent email exchanges, Perkowski offered his views on Google's ongoing conflict with China and then more broadly on current U.S.-China relations. He also generously provided his [top five keys to success in China](#) for U.S. businesses.

DailyFinance: Does the Chinese government's behavior about Google surprise you? What's your sense of the attitude toward Google's decision among China's business community?

Jack Perkowski: Whether one agrees with China or not on this issue, the fact is that China's leaders must manage a massive economy of 1.3 billion people, approximately 900 million of whom have per capita incomes of \$800 a year or less. To maintain control of this population, the leadership has decided that it needs to manage information flow. That may not be the decision that leaders from other countries might make, but that is the one made by the people in power.

Knowing this, I'm not surprised that China insisted Google follow its censorship rules if it wanted to continue to operate in the country. Given this policy and Google's behavior, the Chinese government had no room to compromise. According to most accounts I've heard, Google has a 30% share of the search market in China. That's a lot, but Baidu [[BIDU](#)] has twice as much and, therefore, must be meeting the needs of the majority of Chinese Internet users.

Chinese businesspeople are most likely scratching their collective heads wondering how a foreign company can think that its product is so desirable that it can openly defy the government in this way and not expect to suffer the consequences. China's leaders have openly stated that China does not need Google, and that probably summarizes the attitude of many Chinese businessmen.

Google should have worked behind the scenes to move China in the direction of greater Internet freedom, recognizing that this would not be accomplished overnight. No matter how justifiable, shining the public spotlight on disputes in China is never a good idea and usually evokes a strong opposite reaction. As a business decision, it's difficult to see how a global leader like Google can so easily leave the China market.

What are the biggest challenges Western companies face in trying to enter the Chinese market? Will the Google episode make things more difficult?

By far, the biggest challenge is adapting their business models to the realities of the China marketplace. A company cannot simply export its business model from the West into China. It has to adapt its strategy to account for the fact that China's cost perspective is fundamentally different and lower, as well as the fact that there are two markets for any product in China. This creates a market dynamic that's vastly different than that found in Western countries and that isn't readily understood by most Western executives.

By China's different cost perspective, I mean the phenomenon whereby an American looks at a 100 renminbi [or yuan] bill and really sees \$15 (100 divided by the current exchange rate). Whereas the Chinese look at that same 100 renminbi bill and see the equivalent of \$100.

China's two markets come about due to the vast disparity of incomes in the country. The 400 million or so Chinese that enjoy high income levels shop in the part of the market characterized by high price and high technology, while the 900 million with per capita incomes of \$800 or less shop in the purely local market characterized by low price and low technology. Coming to grips with the affordability and competitive issues created by this vastly different market structure is the biggest challenge facing Western companies.

Google represents a dispute between a company and the China government, and that has nothing to do with this challenge.

What's your outlook for U.S.-China relations on the economic front?

I'm afraid that China and the U.S. are headed for turbulent waters, not just on the economic but on the political front as well. While the two countries, as the leading economic powers in the world, have some common issues to face, there are vast differences in their respective positions toward most.

The ability to solve these issues depends on a certain level of trust existing between the two governments, and I don't see any evidence that the necessary trust has been created. On the contrary, actions taken by the U.S. over the past year come across as protectionist to the Chinese and do little to develop trust. The lack of mutual trust between the two governments is the real sticking point.

No one can legislate away the fact that 1.3 billion people in China, and another billion in India, have entered the global workforce. Why should we try to stop them? Putting aside how it might affect individuals, individual companies, or individual countries, isn't it better to have 2.3 billion more people in the

workforce and 2.3 billion more minds thinking about how to solve thorny issues like the environment, a cure for AIDS, etc.? Individuals, companies and countries have to learn to adapt, not simply try and keep everything the same.

What's your prescription for the deteriorating relationship and lack of trust?

When President Obama came to China in November, one month before Copenhagen [where a global climate change summit was held], he wasn't prepared to tell China what the U.S. would commit to as far as emissions targets. He said he'd lay his cards on the table soon. The main topic on his agenda was verification. In other words, "We must have independent verification, because how can we trust China to do what it has committed to do?"

That may sound reasonable to many, but put yourself in the place of the Chinese. This tells them the president didn't come to China to have a sincere discussion about China's needs and what it can do, and the U.S. needs and what it can do. Instead, it told them that the U.S. doesn't trust them. Trust is a huge issue here.

In China, if you develop mutual trust with your counterpart, everything changes. Mutual trust, however, starts with having mutual respect for each other and each other's position -- an attitude that isn't conveyed by constant demands. It's not a question of sending more delegations to China or having more trade talks. If the attitude is to come to China with a list of demands, it's better that the delegations stay at home.

It means that at the highest levels of the U.S. government, there has to be a mindset change. China is in a different place today and can't simply be dictated to. I know this may sound simplistic, but in many ways, thinking about China differently will be by far the hardest thing for the U.S. government to do.

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