

SUNDAY

WWW.MERCURYNEWS.COM/BUSINESS » FIND



MIKE CASSIDY

SILICON VALLEY DISPATCHES

The flip side of China's growth

Swelling consumer base could open more doors for American companies

Helen Wang has met plenty like me. Reading about China's wildfire economic growth fills me with awe and terror. Awe at the sheer numbers and ambition reflected in a gigantic country that posts near double-digit economic increases year after year. And terror at what all that means for the United States, its businesses and its jobs.

"I see a lot of misunderstanding between the U.S. and China and misperception and a lot of fears about China," says Wang, a Saratoga writer who's consulted for companies doing business in China. "People always wonder, 'What does this mean to me?'"

Yes, what? Wang, a regular contributor to Forbes who's just published a book exploring the booming middle class in China, says she feels particularly suited to answer the question. She is a true citizen of Silicon Valley, one of many who were born elsewhere but made their lives here. Wang left China in 1989 shortly before the killings in Tiananmen Square. She came to the United States to study economics and ended up staying, working for a string of startups, and then in 2004 moving on to a Stanford University project aimed at narrowing the digital divide. The project required regular trips back to China.

See **CASSIDY**, Page 5



COURTESY OF HELEN WANG

Helen Wang, of Saratoga, has written a book about China's rising middle class.

Cassidy

Continued from Page 1

"I've seen amazing changes in China," says Wang, author of "The Chinese Dream: The Rise of the World's Largest Middle Class and What it Means to You."

Her book charts the changes through her personal journey. Wang relies on plenty of formal studies and reports, but also peppers her argument with interviews of up-and-comers in China and recollections of her own experiences as one who 20 years ago decided that the only way to build a bright future was to leave China. She concludes that it's vital that the United States and China understand, trust and learn from each other if both are going to prosper.

Let's just say I'm her target audience. The truth is we've all seen amazing changes in China in the two decades since Wang left. And I'm thinking that some of those changes include the shift of jobs from the U.S. to China, serious concerns about the theft of U.S.-generated intellectual property, stiff competition from China for resources like construction material and oil and a move to a U.S. fiscal model that relies on China to be the country's key banker. And I'm thinking of one thing that hasn't changed fast enough: China continues to be a repressive government with minimal regard for human rights.

Wang argues that I'm focused on the wrong changes. That kind of thinking, she says, misses the big upside to the rise of China. Consider instead, she argues, the explosion in opportunities for the Chinese people, the chance now for those who work hard to start businesses or to go to work for multinationals doing business in China and other countries.

"They have a lot more opportunities," Wang says. "Many of my American friends are going to China because of the tremendous opportunities there."

With the economy growing at roughly 10 percent a year, millions of Chinese workers are being propelled into the middle class — a whole new class of college-educated, city-dwelling professionals is on the rise. This growing middle class is aware of the government's shortcomings but also credits China's leaders with creating the economic environment that is bringing them — and more and more of their

fellow citizens — success. Wang cites one of a number of studies that predict that China's middle class will reach 600 million to 800 million people by 2025.

And, she says, all those people will want stuff, the stuff middle-class people want: cars, houses, iPhones, other electronic toys, nice clothes, music, movies and more.

"I do think this new middle class, because they have increasing demand for foreign goods and they actually favor American brands, that definitely creates a lot of opportunity for American companies in China," she says.

It's helping already, Wang says. General Motors just reported that it sold more cars in China in 2010 than it sold in the United States. She points to Nike, which has recently reported double-digit sales growth in China and which plans to double its business there in the next five years.

New consumers in China have "actually created an alternative growth engine for American companies," Wang says. "The fact that GM turned around so quickly, one year after bankruptcy, part of it is because the Chinese middle class helped."

But I wonder whether it's too good to be true. As members of the ballooning Chinese middle class become more voracious consumers, won't Chinese companies become better at making them what they want?

Wang isn't so sure. She says that for now, China's competitive edge is cost. The country's factories can make stuff cheaply. But, she says, the United States is still the leader when it comes to manufacturing higher-value products like airplanes and medical devices. China's education system, she argues, does not prepare students to innovate. And so the United States remains the innovation leader.

No small matter in Silicon Valley. And while I can't say I'm as sanguine as Wang about the effects of Chinese growth on the U.S. economy, I am more optimistic after listening to her arguments.

And I'm more convinced than ever that little is likely to derail the Chinese juggernaut any time soon. Our best bet is to listen to people like Wang, who've identified the upside, and then get to work on taking full advantage of it.

Contact Mike Cassidy at mcassidy@mercurynews.com or 408-920-5536. Follow him at Twitter.com/mikecassidy.