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Opportunity Missed: A Brief Look at Entrepreneurship in the U.S. and China

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The promise or threat of China's economy has fired the American imagination ever since the first Yankee clipper ship captains voyaged there in the 1780s. Whether perceived as a limitless market for American goods or as an intimidating rival poised to supplant the United States as the world's dominant industrial nation, China is indeed a force to be reckoned with.

At first glance, Reed Hundt's *In China's Shadow* is another in a recent spate of books probing the nature of China's startling rise over the last 30 years since the death of Mao. The title of his book, however, requires more than a moment's scrutiny. Hundt, former chairman of the FCC during the presidency of Bill Clinton and a member of the board of directors of Intel, has written a book whose subtitle is more indicative of his thesis: *The Crisis of American Entrepreneurship*.

Hundt's book is less about China's impact on the United States than about the response of American political and business leaders to the challenges of the 21st century, of which the growth of China's economic juggernaut is a significant feature.

The key to comprehending this "crisis" of response lies in the role of the risk takers whose willingness to back untested technology has propelled American growth from steamships to the world wide web. Entrepreneurs, the embodiment of America's faith in "can-do" self-reliance, were the architects of the new Internet and information technology companies that led the way to the 1990s decade of prosperity and innovation. And it is upon the response of America's entrepreneurs to China's rise, and the degree to which American government and society supports them, that Hundt bases his hopes for the nation's continuing economic vitality.

Entrepreneurship is not solely based on the equation of risk plus investment equals profit. In 1942, the Austrian economist Joseph Schumpeter famously described the role of entrepreneurs as "creative destruction," whereby investment in new forms of technology, often in the face of conventional wisdom, promotes economic growth. Hundt quotes Schumpeter's definition as a starting point in his discussion of the differing American and Chinese views of entrepreneurship in their respective business models.

For Americans, Hundt notes that "creative destruction" implies an individualistic and iconoclastic approach to innovation. The entrepreneur creates a start-up firm or invests in a new enterprise by attacking "an existing hierarchy of power." The process is often marked as much by bucking the straight jacket of existing business practice as it is by visionary assessment of what new technologies will repay the risk of investment.

The Chinese have a very different approach. Chinese entrepreneurs, Hundt astutely notes, are every bit the risk-takers their American counterparts are, but they act from within a well-defined social framework. Chinese entrepreneurship stresses "creative construction," which entails accepting degrees of government control and lack of democratic self expression that Americans would find hard to swallow. With China accounting for 40% of global economic growth in the early years of the 21st century, these differences may indeed be no bar to profit making, but they are culturally significant and need to be understood, Hundt maintains, if American firms are to compete -- and cooperate -- with China.

Escalating Environmental Threat

Provocative and insightful comparisons like these are a feature of the first chapter of Hundt's book. Unfortunately, he fails to follow up his success, and loses both focus and impact by trying to cover too many facets of American entrepreneurship at the expense of a thorough analysis of China's impact on the business culture and prospects of the United States.

A case in point is Hundt's all-too-brief analysis of the way that the Chinese telecommunications company, Huawei Technologies, has emerged to threaten the preeminent position of Cisco Systems in the design and manufacture of information technology. Given Hundt's background, a thorough explanation of the rivalry of these two companies would have served as a dramatic way to illustrate the different approaches evident in Chinese vs. American business strategy and culture.

Instead, Hundt skims though the rise of the "secretive, fierce and effective Chinese firm Huawei" in two paragraphs in order to illustrate his belief that American firms like Cisco must relocate significant parts of their operations to China -- i.e. become, in essence, a Chinese company -- in order to match Huawei's "cheap and high quality workforce."

Hundt completely ignores Cisco's very effective lawsuit against Huawei and its subsidiaries, Huawei America and FutureWei Technologies. In 2003, Cisco sued Huawei claiming that the Chinese firm had been unlawfully copying Cisco's IOS software (the operating system of its routers and switches), technical documentation and a number of other patented Cisco protocols. Faced with a methodically prepared and documented case, Huawei caved in and agreed to modify its routers and switches and stop infringing on Cisco's intellectual property rights.

Firms like Cisco may indeed find it necessary to locate production units in foreign countries, including China, but to fail, as Hundt does, to address strategies for protecting and promoting America's domestic industrial base is a serious defect in this book. Yet this failure to analyze the Cisco-Huawei law suit is only one of many missed opportunities. Hundt's book is very brief for such a huge and vital topic, with only 133 pages of narrative and 50 more of notes, many of which contain useful information that should have been included in the text.

After the second chapter, Hundt pays little regard to China and launches into wide-ranging and cursory examinations of a variety of themes. These include the "Golden 90s" Internet boom, biographical studies of leading entrepreneurs, development scenarios in Latin America and a torrent of advice on what America -- government, business sector, academic realm and general public -- should, ought or must do to promote a favorable situation for entrepreneurship. In one paragraph alone there are six "shoulds" and one "ought." That's a lot of advice in one gulp.

Most significantly, virtually all of Hundt's arguments, illustrations and "ought-to(s)" are framed in reference to information technology. Other forms of industry are ignored and consequently he misses a field of enterprise that is crucially important to the U.S. and China: environmental technology. It is a sphere of activity that American entrepreneurs could use as a spring board to a new decade of productivity, prosperity and self preservation -- technology to address the world's escalating ecological crisis.

Although commenting on just about everything else, Hundt brushes away the environmental threat with a couple of quotes buried in a solitary footnote. Yet China is particularly vulnerable. Most of its industrial base has been built near to its coastline or major rivers, and therefore is exposed to flooding if the direst predictions of global warming about the rise in water table come true. Moreover, as John Byran Starr commented a decade ago in his book, *Understanding China*, only 7% of China's land is suitable for farming. The strain placed on it by withdrawing arable land for building factories, roads, housing and recreation areas for the rising urban population poses huge threats which climate change and industrial contamination could heighten to the point of catastrophe.

Whether viewed as "creative destruction" or "creative construction," the ability to react to a situation where investment is necessary and potentially profitable is the hallmark of successful entrepreneurs. Threats to the environment offer such an opportunity. Technologies developed to treat the ecological ills in the United States -- wind and solar power, water desalting technology, materials for dealing with chemical contamination -- could be readily exported to China or built under license there by enterprising American firms. The environmental crisis is thus an open field for just the sort of savvy entrepreneurship that Hundt extols during the "Golden 90s."

Overly ambitious in some respects, lacking focus and needed detail in others, *In China's Shadow* has the effect of a "sermon to the converted." Faithful readers will nod in agreement to much of Hundt's assessment of the importance of entrepreneurship but leave the church with little in the way of practical advice on what they "should" or "ought" to do to turn risk and threat into opportunity and profit.

[↑](#) back to top [\(#top\)](#)

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