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China Boots Up

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Introduction

The announcement that a Chinese company, Lenovo, has acquired the Personal Computing Division of the I.B.M. Corporation should be regarded as extremely important, even epochal, in any terms. But it is of particular significance as a milestone in the rise of the People’s Republic of China to global importance since its founding in 1949. At that time, Mao Zedong, then the leader of a poverty stricken radical Communist regime, which was shunned by virtually the entire Western world, proclaimed that China had “stood up.” In computer-related terms, appropriate to the IBM-Lenovo deal, we may say that with this purchase, China has “booted up.”[1] This purchase not only creates the world’s third largest PC business but also puts IBM in partnership with the Chinese government itself. The consequences, while currently unforeseeable, are bound to be very far reaching.

The Lenovo Group

Lenovo (The Lenovo Group, Ltd.) is, by world standards, a well-established company, dating back to 1983, when it was founded as Legend Computer, one of the first entrepreneurial activities of the Chinese state organ, the Academy of Sciences.[2] Legend began in part by adapting IBM operating systems to the Chinese market by producing useful programs that “localized” elements of the system, particularly the critical operation necessary to permit the input of Chinese characters. Legend’s engineers also reverse engineered basic IBM machines to produce their own sturdy low-end computers for the Chinese market. Legend essentially created the Chinese market for home PC’s in 1990. By 2000, Legend had a 30% share of what soon became the world’s fastest growing domestic computer market. In April of 2003, Legend Computer became Lenovo, to “lay the groundwork for its expansion in the overseas market.”[3]

Legend was founded by Liu Chuanzhi, the current chairman of the Lenovo Group. It is then, like Microsoft, one of the few major hi-tech corporations in the world still under the control of its
founder. Liu was quick to study Western business practices, saw the importance of establishing a presence in the Hong Kong market, where much was to be learned about both capitalism and technology, and adapted the technology park model used so successfully in Taiwan to China.[4] By 1994 Hong Kong Legend was trading on the Hong Kong stock exchange and ensconced in a new highly advanced technology park in Guangdong province of south China, adjoining Hong Kong.

Legend soon began acquiring significant market share in Asia outside of Japan, where Japanese trade practices keep most foreign firms safely at bay. By 2003 this amounted to a 12+% share.

**Lenovo and IBM**

While the transaction is an acquisition, its terms bring the two corporations into close partnership. IBM acquires 18.9% ownership of the Lenovo group, becoming in the process a partner with an organ of the Chinese state, the Academy of Sciences, which also still has a large share of Lenovo. IBM and Lenovo together accounted for 8% of world market share of PC units in 2003.

Lenovo is clearly interested in IBM’s management expertise and its current international marketing chain. Steven M. Ward, jr, currently a senior VP of IBM will become the CEO of Lenovo in the Spring of 2005. The current CEO of Lenovo will become its Chairman at the same time, replacing Liu Chuanzhi. Some have read this transaction as amounting to IBM’s withdrawal from the PC market to concentrate upon higher-end operations aimed at enterprises rather than consumers. There is an element of truth in this, of course, but the agreement also gives IBM a strong position in what is arguably the world’s most successful producer of personal computers.

Lenovo, in addition to being sponsored into the American market, also acquires IBM’s international sales network in 160 countries, instant global brand recognition, and such intangibles as having IBM function as its preferred services and customer-financing provider.

**Conclusion: Long-term Consequences?**

The long-term consequences of this agreement are incalculable. For example, one can only imagine the impact for such American brands as Dell and others which produce a good deal less than they sell. It is possible that a whole new line of personal computers labeled Lenovo-IBM will soon enter the market at price points in which IBM has not competed for decades. And unlike the current providers of parts for Dell and others, Lenovo, aided by IBM’s research and development labs, will be capable of rapid technological breakthroughs, which will quickly differentiate them from others.

There are also other than financial or economic consequences to this transaction. Even international relations may well be affected. From the Chinese point of view, entering the
American market for technology directly is a highly desirable outcome. At present, Chinese firms and Chinese firms supplying Taiwanese manufacturers certainly have the lion’s share of the American market, but the brands on those computers are American ones, and the largest part of the profits go to those American firms. Other than perhaps Tsingtao Beer, it is difficult to name a truly Chinese brand succeeding in the American market.

At the same time, Americans are painfully aware of the gigantic trade imbalance with China, and Chinese trade practices are often said to be the root cause of that imbalance. If the purchase does indeed facilitate Lenovo’s access to American markets, the question of unfair trade practices will be minimized, as Lenovo will, correctly, point that it is in fact an international company with significant American ownership, guided in part by IBM management, backed by IBM research and development.

There is a certain irony to the acquisition of IBM’s Personal Computer Division by a Chinese mainland corporation. The Asian computing boom began not in China, but in Taiwan. The Korean War persuaded Harry Truman, earlier dubious of the viability of Taiwan, of the importance of an American guarantee of Taiwan’s independence, under the painfully thin pretext that Taiwan was, in fact, the government of all of China and merely in temporary retreat before Mao’s regime. Then in the late 1950’s and 1960’s the issue facing the United States was how to shore up Taiwan economically as an anti-communist bastion in the face of Mao’s China, which had not only stood up but also seemed to threaten to expand rapidly.

One strategy was to encourage Taiwan to develop a technology industry. Taiwan had proved adept at pirating American technology, but to openly support piracy was too much even for the most fervent anti-communist. So, as I heard in Taiwan at the time, IBM sent engineers to Taiwan to, paradoxically, assist the Taiwanese in reverse engineering IBM personal computers, but without infringing the critical patents protecting the BIOS, the communication heart of the PC.

With this advantage, the Taiwanese industry took off. By the 1990s the Taiwanese would be the largest manufacturers of a considerable portion of the elements necessary to the high-tech boom of that era. Then, as production costs began to mount, Taiwanese began to outsource stages of their production processes to factories in China.

While this process quickly became a very controversial one in Taiwan, and one inextricably intertwined with the heart of Taiwanese partisan politics, it was unstoppable. Taiwanese told themselves that they could safely keep control over the higher value-added end of the industry by assiduous state-encouraged efforts at research and development.

The acquisition of IBM by Lenovo shows this Taiwanese hope to be what it always was, a short-term strategy that was bound to fail as mainland entrepreneurs simply followed the path already laid out by Taiwanese entrepreneurs before them: take advantage of low labor costs and a highly educated technically savvy group of college graduates to exploit a rapidly developing domestic
market, then move swiftly to enter export markets, finally, continually upgrade research and
development, often with foreign partners to create new products to keep the expansion moving.

Another way of examining the implications of the IBM-Lenovo agreement is to consider what
other alternatives were open to IBM. The first company that comes to mind is Acer of Taiwan.[7]
Acer is long known to have been contemplating entering the American market under its own
name. It has a minor brand presence in the U.S., but is known primarily as a supplier to better-
established American brands such as Dell. As of 1998, Acer produced one third of the world’s
personal computers, well ahead of Lenovo. Acer, led by the dynamic Stan Hsieh, is highly
regarded as an innovative, reliable, and extremely competitive firm. Acer has had a record year in
terms of income, and expects to do better in 2005.[8] It certainly has the capital base to have
been a competitor for the IBM division.

But what Acer does not have is the China market, or the political ties that Lenovo does. The
actual purchase price for the IBM division was startlingly low, 1.75 billion. What IBM got was less
cash value than future influence and a stake in the booming Chinese high-tech economy. The
telecasts of the upcoming Beijing Olympics will establish Lenovo as an international brand just as
surely as did the 1964 Tokyo Olympics establish Seiko.[9]

So if Dell looks upon this transaction as a potentially threatening one, it is impossible to imagine
the despair that must grip many Taiwanese, hi-tech entrepreneurs and political leaders alike. The
political issues affecting Taiwan are doubtless going to continue to be periodically controversial
ones.

But Taiwan grows less and less important as an economic entity, worth less to China, and to
America, less worth disrupting trade with China. This may, in the long run, actually be good for all
concerned as the status of Taiwan is less likely to be the focal point of major international
conflicts.

Another possible impact of the sale will be an incalculable cultural one. At present, as we have
repeatedly argued in our editorials in Interface, Americans are in a sort of love-hate relationship
with China. Once the smiling computer engineers of Lenovo are familiar figures at American
board meetings, we wonder if they can continue to be viewed as politically threatening. Certainly
Lenovo is banking upon this result.

Notes

also the announcements on the WWW site of Lenovo, found at: http://www.lenovo.com/us/en/

[2] For a great deal of useful information on not only the Legend Corp, but also the Chinese
computer industry in general, see Sheff, David. China Dawn. The Story of A Technology and


[5] “In 2003, the United States ran a record-breaking $124 billion trade deficit with communist China, importing $152 billion worth of goods while exporting only $28 billion, a five-to-one ratio of imports to exports.” AFL-CIO Executive Council, “Taking Action to Challenge Communist China’s Unfair Trade Practices” at http://www.aflcio.org/aboutaflcio/ecouncil/ec03112004m.cfm


[9] Lenovo states in its web pages that it was the first Chinese enterprise to join the Olympic Partner Programme with the IOC. This makes Lenovo the computer supplier to both the Milan Winter Games and the Beijing Summer Games. See Wang Dan, “China’s Lenovo heads to the Olympics” CNETASIA News, 3/26/04 found at: http://www.asia.cnet.com/news/systems/0,39037054,39173295,00.htm

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portable generator reviews
on January 29, 2014 at 6:58 PM said:
It is appropriate time to make a few plans
for the long run and it’s time to be happy. I have learn
this post and if I may just I want to counsel you few attention-grabbing issues or advice.
Perhaps you can write subsequent articles regarding this article.
I want to learn even more things about it!

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on **February 3, 2014 at 7:58 PM** said:

Hi mates, how is the whole thing, and what you want to say on the topic of this post, in
my view its in fact awesome in favor of me.

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on **February 3, 2014 at 8:06 PM** said:

Great info. Lucky me I found your blog by accident (stumbleupon).

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on **February 3, 2014 at 10:23 PM** said:

This post will help the internet users for
building up new web site or even a blog from start to end.

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on **February 3, 2014 at 10:30 PM** said:

It’s hard to find well-informed people on this topic, but you sound
like you know what you’re talking about! Thanks
jig saw reviews on February 3, 2014 at 11:13 PM said:

Hey there would you mind sharing which blog platform you’re working with? I’m going to start my own blog soon but I’m having a difficult time deciding between BlogEngine/Wordpress/B2evolution and Drupal. The reason I ask is because your design and style seems different then most blogs and I’m looking for something completely unique. P.S Apologies for being off-topic but I had to ask!

best vacuum for hardwood floors on February 3, 2014 at 11:43 PM said:

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best electric kettle on February 4, 2014 at 2:22 AM said:

Hi, I think your website might be having browser compatibility issues. When I look at your blog site in Opera, it looks fine but when opening in Internet Explorer, it has some overlapping. I just wanted to give you a quick heads up! Other then that, great blog!

best recumbent exercise bike on February 4, 2014 at 2:56 AM said:

I’ve been exploring for a little bit for any high quality articles or weblog posts on this sort of space. Exploring in Yahoo I eventually stumbled upon this site.
Studying this info So i am happy to express that I’ve an incredibly just right uncanny feeling
I discovered exactly what I needed. I most surely will make certain to do not overlook this site and give it a glance on a relentless basis.

induction cooktop reviews
on February 4, 2014 at 3:23 AM said:
Hi there colleagues, pleasant piece of writing and good arguments commented here, I am genuinely enjoying by these.

rifle scope reviews
on February 4, 2014 at 3:31 AM said:
Wow that was strange. I just wrote an incredibly long comment but after I clicked submit my comment didn’t appear. Grrr… well I’m not writing all that over again. Anyways, just wanted to say wonderful blog!

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on February 4, 2014 at 4:21 AM said:
Great beat ! I would like to apprentice while you amend your website, how could i subscribe for a blog website? The account aided me a acceptable deal. I had been a little bit acquainted of this your broadcast provided bright clear concept

africa
on February 4, 2014 at 10:21 AM said:
it is always excellent to see these information inside your post, i was searching precisely the same but clearly there was hardly any right resource, thanx now i’ve the connection
that we wanted my research.

nigeria entertainment news  
on February 4, 2014 at 10:32 AM said:
good work, i adore reading your post. Preserve the nice work.

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on February 4, 2014 at 10:42 AM said:
Thank you to your sharing! I have the same problem.

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Good information. Lucky me I discovered your website by chance (stumbleupon). I’ve bookmarked it for later!

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on February 4, 2014 at 5:55 PM said:
Useful info. Lucky me I discovered your web site by accident, and I’m stunned why this accident didn’t came about in advance! I bookmarked it.

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on February 4, 2014 at 9:18 PM said:
Hurrah! At last I got a webpage from where I can really get helpful facts concerning my study and knowledge.