China Mobile also has announced plans to invest in a TD-SCDMA-flavoured version of LTE, called TD-LTE. And in December the State Council reportedly approved plans for a consortium of vendors, operators and the finance ministry to invest some Rmb70bn (US$10bn) in projects to create a Chinese 4G technology platform.

The best reason, however, for China to continue with TD-SCDMA is its huge number of mobile-phone users. Scale matters to technology developers, not just because of the market promise but also because of the opportunity to define new technologies and services. For example, Tencent, a Shenzhen-based Internet portal and mobile-content company, announced in October 2007 that it will invest Rmb100m in an R&D centre to leverage its large base of mobile and instant-messaging users to develop a video-messaging and other new services.

The best way forwards

The global telecoms players understand and even appreciate China's attempts to use its vast market size to influence (and profit from) mobile-technology development. They know that China's ability to harness the needs and desires of over half a billion mobile subscribers can potentially show the best way forwards for 4G services worldwide. "China's voice will grow louder and louder in determining the future of mobile technology," says Vincent Pham, CEO of VP Dynamics, a developer of display-screen technology for mobile phones with R&D partners in China, Hong Kong and Taiwan. He believes that in the process of developing technology to serve the world's largest mobile market, Chinese technology firms will eventually build intellectual property that foreign firms will need to license.

Someday, foreign firms will need to license Chinese intellectual property

When that happens, China will at last start to reverse the "royalty trade imbalance" that its policy-makers have try to redress for so long by promoting domestic technology. Yet TD-SCDMA developers hardly need to pursue global domination of the 4G market to come as their endgame when a giant, captive domestic market for mobile technology will be a cash cow in its own right. As an executive of one of the largest US network-equipment vendors points out, "if you can serve a quarter of the world's cellular population, you don't need the rest."

Stay the course

The only strategy for foreign companies caught in the crossfire of China's Olympics-related controversies is to lay low and wait for a return to normality

For foreign companies, doing business in China has never been business as usual. But the recent row surrounding China's policy in Tibet and foreign protests during the around-the-world Olympic torch relay have raised the anxiety level in many corporate suites from North America to Europe.

Most worrying is the spread of anti-Western Chinese nationalism. In retaliation against high-profile French support of the Tibet cause in the Paris leg of the torch run, Chinese crowds have rallied in front of a number of Carrefour stores in mainland cities. In a statement to the French government, Hu Jintao, president of China, basically condoned the actions of his compatriots, saying the feelings of the Chinese people were hurt by the unfriendly events in Paris. A group of irate Chinese is also suing CNN for US$1.3bn—US$1 for every citizen in China—alleging one of the news network's commentators, Jack Cafferty, caused mental harm to all Chinese when he called them "goons and thugs". Meanwhile, some foreign nationals facing complications in obtaining Chinese business visas believe recent tensions are partly to blame for the more stringent entry requirements that the Chinese government unveiled in April.

At times like this, it is best to "keep your head down", says James McGregor of JL McGregor & Company, a business consultancy founded by the former China bureau chief of *The Wall Street Journal*. And that is exactly what many US and European companies, including key Olympic sponsors, are doing. Juggling pressure from Chinese patriots and Tibetan sympathisers abroad—both important stakeholders—companies are cautiously trying to distance themselves from the situation and are hoping for the storm to pass.

Too important

Despite repeated suggestions by human rights groups that Western corporations with major investments in China should withdraw their support of the Beijing Olympics, none has agreed so far. (Official Olympic sponsors, including Coca-Cola, Visa International, McDonald's, Johnson & Johnson, Anheuser-Busch and UPS, have all reiterated their commitment to the games.) China is simply too important a market for them. According to Chinese commerce ministry figures, US companies in China alone numbered more than 51,000 as of 2006. China is also the US's second largest trade partner. Given the country's economic and political significance, it is not surprising that George W Bush has ignored calls for a boycott and insists on attending the games' opening ceremony. For Western companies determined to stay in China for the long-term, too, supporting human rights in China simply is a

US companies in China alone numbered more than 51,000

lower priority than prudent engagement with upset Chinese stakeholders.

Richard Brubaker, managing partner of China Strategic Development Partners, a market-research firm, and managing editor of *All Roads Lead to China*, explains that pulling out now would be a self-destructive move. "Essentially, the economics are like this: if Johnson & Johnson were to pull out, all of a sudden all its products would be pulled from the shelves for suspicion of being harmful," he says. "If GE pulled out, Rolls-Royce would be given all future aircraft-engine orders. And UPS would start seeing its documents confiscated at the border." Besides, Mr Brubaker adds, China operations are such a critical part of many manufacturers' supply chains that any disruption would be unimaginable to them.

China operations are a critical part of many foreign firms' supply chains

In some ways, riding out the current turbulence should not be difficult. Most of the Tibetan protests have erupted in China's western provinces, far away from the eastern and southern coasts where foreign investment is concentrated, notes Andrew Gilholm, a senior analyst at Control Risks, a business-risk consultancy, in Shanghai. In 2007 Tibet attracted a mere US$24.2m in utilised foreign direct investment, 0.0003% of the nationwide total of US$74.8bn. Any disturbances the riots caused to business in Tibet only represent a minuscule hit to China's overall economy. And now, the huge Chinese military presence there should keep the situation from spinning out of control again.

Continental Minerals, a Canadian firm, is one of Tibet's major foreign investors, operating a US$500m mining project in the region. Despite the protests, the company says its business has been normal. "We're assuming the short-term disruption will settle down, and we can proceed with the project," says Dickson Hall, its director of corporate development in Asia.

Even in China's main investment hubs along the coast where nationalistic boycotts of Western goods have been recently mounted, foreign companies with localised brands should face little dissent from China's consumers, says Adil Husain, president and senior advisor for Greater China at Emerging-Asia, a Suzhou-based consultancy. Mr Gilholm of Control Risks agrees that the risk of Chinese consumers switching wholesale to domestic brands is low, as the quality gap between Chinese and foreign products in many cases remains large.

Long-time China watchers say anti-Western Chinese nationalism is expected to taper off after the Beijing Olympics conclude in August and human rights groups and other activists shift their attention to newer targets. Already, much-touted boycotts against Carrefour on May Day by and large were smaller than expected, and Carrefour outlets' doors remained open. According to Mr McGregor, recent events, while worrisome, "have not made China a riskier place to invest at all."

Bigger issues

In fact, foreign companies have many bigger issues to consider when investing in China, says Mr Brubaker. They include the rising costs of operating in the country, quality problems with many "made in China" products, lack of intellectual-property protection, and a shortage of skilled workers and managers. For their part, many economists say the biggest risk to the Chinese economy is consumer inflation, which has surpassed 8% in recent months and is at a 12-year high.

Nonetheless, in the aftermath of this nationalistic outburst, foreign companies will to need reaffirm their commitment to China. As the public scrutinises foreign companies more closely, contributing to the country's social development will be vital for building a positive reputation. For example, Continental Minerals is pursuing a carefully drafted localisation strategy that involves community consultation, school and road building, and training of Tibetan workers. "Local economic benefit is key to [having] a social licence to operate," says Mr Hall, the company director. This is true in all places, but even more so in a strategic *and* volatile market like China.

Rules of the game

China is infamous for its trade in counterfeit goods, but the government's efforts to protect the Olympic logo just might prompt lasting changes

China has prosecuted some 2,300 people for using fake Olympic logos

In 2002 China's government passed a law to protect the trademark of the famous five-ringed Olympic logo ahead of the Beijing games in August. In the ensuing three years some 2,300 people were prosecuted for breaking this law, and 2.5m fake Olympic items were confiscated and destroyed. In February 2007 alone authorities seized 30,000 pirated souvenirs, some made from toxic materials, according to state media. The simple fact is the Chinese government holds a stake in the logo—and is determined to protect it.

Tacky souvenirs have become as much an Olympic tradition as interminable opening ceremonies and cheating athletes who resort to performance-enhancing drugs. Could it be that one of the countries with the most lucrative trade in counterfeit goods is now setting the gold standard in intellectual-property rights (IPR) protection?

Hardly, critics say. "This proves when they want to, they can shut down piracy and counterfeiting,"

