
Event Report

“The Transforming of China”: A Chazen Lecture by Alan G. Hassenfeld

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On September 26, 2007, Columbia Business School’s Chazen Institute welcomed Alan G. Hassenfeld to the University Club in midtown Manhattan as part of the ongoing Jerome A. Chazen Lecture Series. Mr. Hassenfeld, who became chairman and CEO of Hasbro in 1989, has spent his entire career at the leading toy company, which his grandfather founded in 1923. With more than three decades of experience in dealing with China, Mr. Hassenfeld shared his historical perspectives on China and projections about the country’s future with his audience of more than 70 students, faculty members and alumni. Raymond Horton, the Frank R. Lautenberg Professor of Ethics and Corporate Governance at Columbia Business School, moderated the discussion.

“Everything’s changed. You almost can’t believe your eyes.” Such were the words Alan Hassenfeld used to describe the dramatic transformation of China since his first visit in 1974, when Chinese customs personnel provided him with his own copy of Mao’s little red book as he entered the country. During that first visit, Mr. Hassenfeld was struck by the rustic character of the country, the ubiquity of bicycles and the relative simplicity of Chinese life, even for visitors—he recalled, “For entertainment at the hotel, you could play Ping-Pong or write home.” Change since then has been “truly a renaissance, almost a miracle,” he said, pointing as one example to the growth and architectural transformation of Shanghai.

Despite Mr. Hassenfeld’s admiration for China’s economic development, he characterized China as now being at a critical juncture in its history, repeatedly underscoring the urgency of the country’s need to tackle its burgeoning environmental problems. “China truly is at a crossroads. Their GDP is growing 10 percent a year, but what most people don’t realize is that maybe 12 to 15 percent of the GDP is given back in trying to take care of some of their environmental issues. The environmental degradation in China is incredible,” he said.

To that end, he recited a litany of ongoing environmental ills plaguing the country. Sixteen of the most polluted cities in the world are in China. Seventy-five percent of river water is considered unsuitable for drinking. More than 70 million people drink contaminated water. Thirty percent of river water is unsuitable for agriculture. Only 23 percent of factories are treating sewage before discharging it. With coal providing 70 percent of the country’s power, China has some of the world’s worst acid rain. Because of deforestation, the Gobi desert in northern China is growing 1,900 square miles a year, with periodic dustiness in Beijing being one direct result.

China’s growing economic might translates into a widely acknowledged growing consumerist culture, demand for automobiles being one of the more notable by-products of China’s transformation. In the 1990s, many of China’s newly paved interprovince expressways were almost devoid of traffic. Now, as Mr. Hassenfeld noted, 14,000 cars a day are being added to the streets of China, some would say clogging highways in the same manner that Western fast food is increasingly clogging the arteries of many in China, where obesity rates in some parts of the country have been climbing dramatically in recent years. According to Mr. Hassenfeld, there will be 130 million vehicles in China by 2030.

According to Mr. Hassenfeld, the exact future environmental impact of China’s growth and the country’s efforts to reign in pollution remains to be seen. While acknowledging that he does not have a crystal ball, he went on to say, “The economic miracle of China will be taken off the rails very soon if the government doesn’t figure out a way of incentivizing the provinces to clean up. More people are getting sick, more people are getting cancer.” If the rest of the world views China’s pollution with concern, many individuals in the country feel even more strongly about the growing problem: in 2005, there were 51,000 documented cases of civil unrest concerning pollution.

Environmental issues were not the only source of concern for Mr. Hassenfeld, however, as China continues to transform itself. “Human rights in China remains a real issue,” he said, noting that rather than child or prison labor, the chief problem involves working-hour violations and the fact that many small factories have horrible working conditions. Some workers, however, are complicit in working-hour violations, he suggested. In the south Pearl River Delta, droves of seasonal workers come from all over China to secure temporary employment. “They don’t want to work 40 hours,” Mr. Hassenfeld said. “They want to work 80 hours for overtime and holiday pay so that they can go home sooner.” To the surprise of some in attendance, Hasbro’s chairman noted that “China has some of the strongest labor laws in the world, more onerous, I believe, than

Europe,” the result of needing to help find employment for 300 million people. The problem, he said, rested with individual provinces that “stretch” labor laws or make exceptions to them.

Mr. Hassenfeld also cited intellectual property (IP) violations as being a noteworthy problem. “The Chinese, as they begin to create their IP, must begin to protect our intellectual property, because if they want to protect their own, they’d better protect us because . . . they’ll come up with the next Transformers,” he said, referring to the popular Hasbro toys. On a related note, Mr. Hassenfeld viewed China’s educational system as being in need of change: students historically learned using rote memorization, but now the system needs to change to “get students to think outside the box . . . to create IP,” he said.

As much as China has changed for better or worse, one thing remains the same. *Guangxi* (pronounced “gwang-shee”), or personal connections, are extremely important, he said. These vital connections “can help you navigate a complex system [of doing business in China].” Underscoring the importance of *guangxi*, many capitalistic young businesspeople have joined China’s Communist Party in recent years, predominantly for the valuable business connections they can establish within this organization.

In response to a question seeking advice on tackling the Chinese marketplace, Mr. Hassenfeld stressed the importance of “picking your partners well.” He developed this idea by comparing the elements of doing business in China, the United States and Europe. In America, the first question is, “Is it legal?” then the logic of the deal, then the relationships among those involved. In Europe, it’s logic first, then the law, then relationships. In China, he said, it’s relationships first, then logic and then the law. “It’s complicated,” underscoring the need for good business relationships with Chinese partners. Mr. Hassenfeld has spent years cultivating and maintaining such relationships. “Seventy-five percent of what we buy in China today is from people with whom we’ve been working for over 25 years,” he said.

Mr. Hassenfeld ended his talk on an optimistic note, albeit one qualified with some concern. “With its emphasis on math, science and engineering, China has the ingredients to build one of the great civilizations of all time,” provided, he said, that it tackles its mounting environmental problems in the years ahead.

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