



China Inc. Takes Off

The big news in this year's Global 500 list? Chinese industries, from aerospace to banking to oil, put on a strong showing. Others didn't fare as well. Overall, corporate profits, ravaged by the recession, fell 48.3%,

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BY MARC GUNTHER

HENIT COMES to global competition, the U.S. isn't always in the pole position. In life expectancy it ranks No. 30 behind, among others, South Korea, Jordan, and Greece. American high school students lag behind their peers in global science and math tests. (Finland is No. 1.) This year's Oscar for Best Picture went to *Slumdog Millionaire*.

And Japan prevailed in the 2009 World Baseball Classic. The runner-up? South Korea.

But in the economic arena the story is a bit brighter for these United States. *Fortunes* Global 500, our annual ranking of the world's biggest companies by revenues, includes 140 American corporations. That's twice as many as any other nation. (Japan is next, with 68.) Even as America is being battered by the longest recession since the 1930s, the U.S. economy is still the most important in the world and is likely to remain so for the foreseeable future, despite the rise of China. America's Exxon Mobil remains the most profitable company, with income last year of \$45.2 billion. In fact, last year's high oil prices allowed global energy companies to dominate this year's list,



capturing seven of the 10 top slots. (For more on the oil industry, see the following interview with Shell CEO Peter Voser.)

U.S. dominance in business, however, has been slowly and steadily eroding. It's not merely that Royal Dutch Shell, with 2008 revenues of \$458 billion, displaced Wal-Mart Stores as the world's largest company, becoming the first non-U.S. firm to top the list since 1996. More telling is that the 140 American firms on the list tally up as the lowest number since *Fortune* began keeping its Global 500 count in 1995. A dozen U.S. firms fell off the list, including AIG, Countrywide Financial, Freddie Mac, Lehman Brothers, Merrill Lynch, Wachovia, and Washington Mutual.

WITH WALL STREET preoccupied by financial engineering, China—the rising power on this year's list—focused on the real thing. While China has just 37 companies on this year's list, nine are newcomers, and the rest are climbing in the rankings. (Indian companies are on the upswing too.) Consider State Grid (No. 15), a \$164 billion state-controlled giant that owns 80% of the transmission lines in China, including a brand-new high-voltage line to carry electricity from rural areas



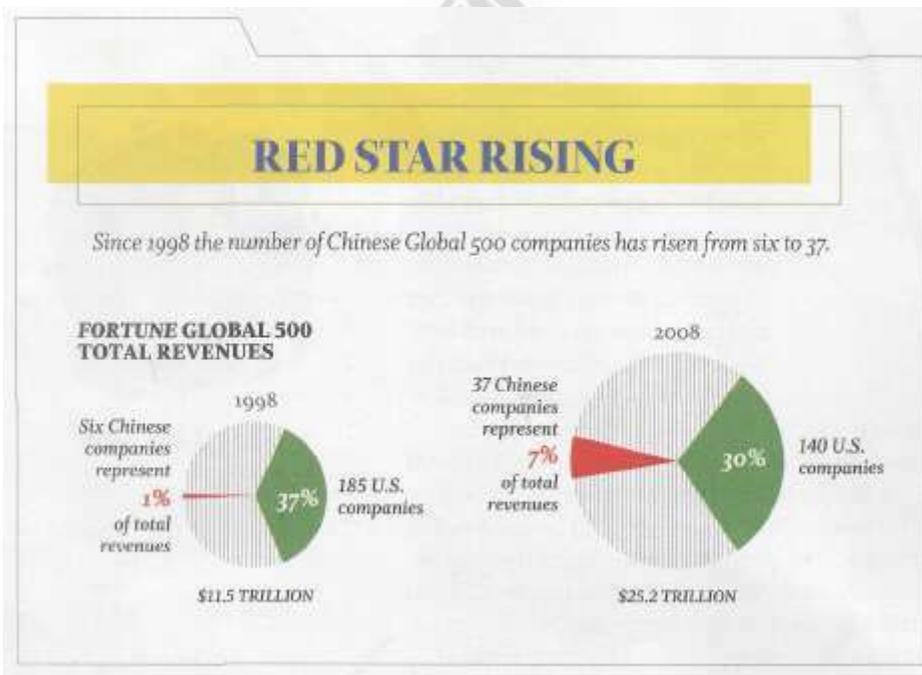
PUMPING MONEY With an income last year of \$45.2 billion, Exxon is the world's most profitable company.

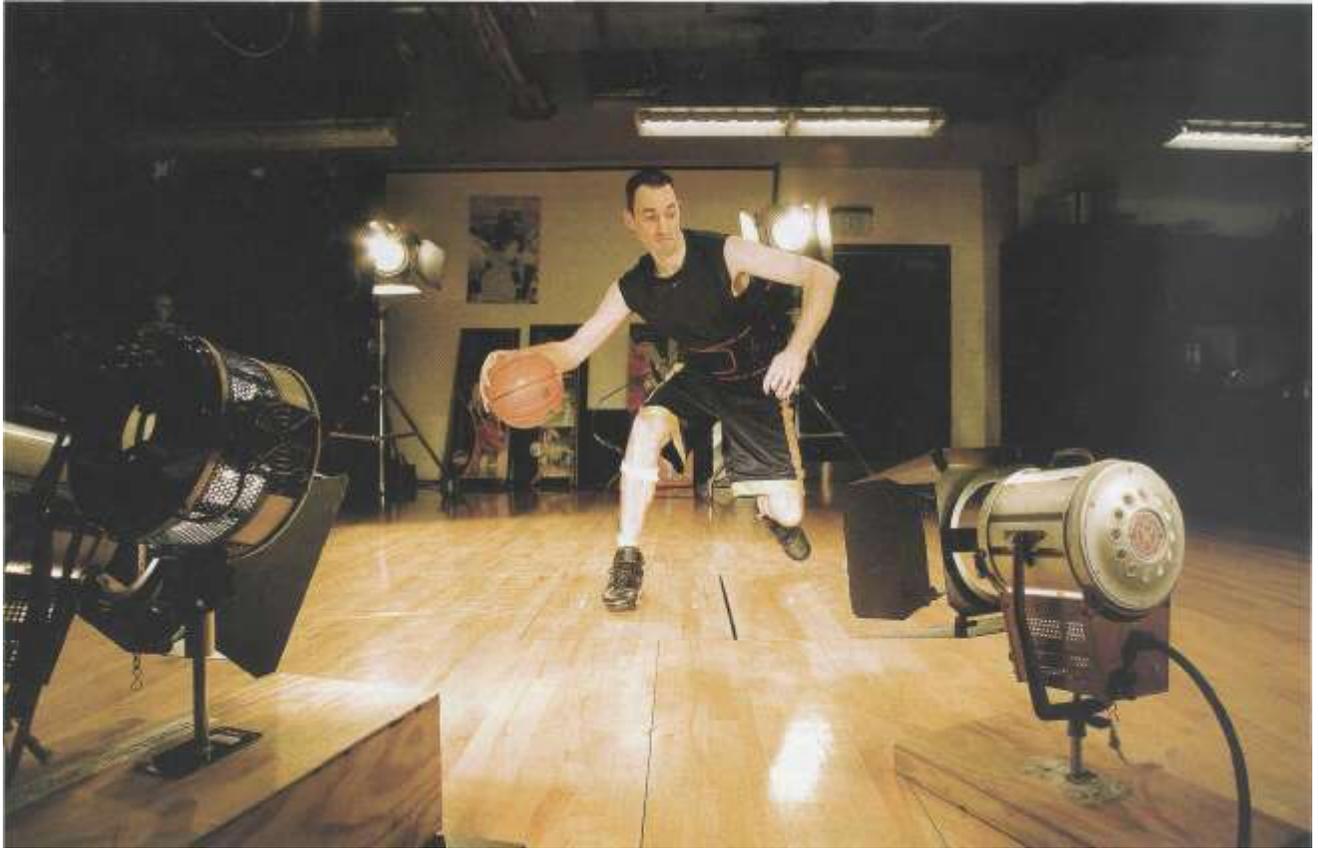
rich in coal power and hydropower to cities. "They are world leaders in ultra-high-voltage transmission, although a lot of it is experimental at this stage," says Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics in Washington, D.C. State Grid says it will invest \$12 billion in the technology this year and next, in part to import power from Russia. Another state-owned firm, Aviation Industry Corp. of China (No. 426), or AVIC, is one of the newcomers to the list. Most of AVIC's sales are to the military, but it is now part of a Chinese-U.S.-European consortium building a regional passenger jet for the domestic and export markets. The craft will be powered by GE (No. 12) engines.

Something big is happening here. "In terms of size, speed, and directional flow, the transfer of global wealth and economic power now underway—roughly from West to East—is without precedent in modern history." Who says so? The U.S. government. In a report called *Global Trends 2025*, the National Intelligence Council, a federal agency that does strategic analysis for the intelligence community, says, "If current trends persist, by 2025 China will have the world's second-largest economy."

Some experts warn against reading too much into China's ascension in the Global 500. "China's state-owned enterprises have weathered the financial storm better than private enterprises for the simple reason that they have received a massive injection of capital support from the government," says Yasheng Huang, a professor of international management at MIT's Sloan School of Management. "We do not really know what has happened in the Chinese corporate sector due to lack of transparency."

But the preponderance of evidence indicates that China and India, with their insulated financial systems, will emerge from the global economic crisis in better shape than the U.S., Europe, and Japan. "As the global economy transitions from re-





GREAT STRIDES Athletic-gear maker Nike, which returned to the Global 500 list this year at No. 497, tests its basketball sneakers at a research and development laboratory in Beaverton, Ore. The company uses contract manufacturers in more than 40 countries.

cession to recovery, progress has been most rapid in Asia," says Bruce Kasman, chief economist at J.P. Morgan Chase.

The Chinese authorities responded to last year's downturn by pumping money into construction. Shovel-ready really means shovel-ready in China. "Every city in China has a 20-year development plan," explains Gordon Orr, a director in McKinsey & Co.'s Shanghai office. "If you have the money and the need, you can accelerate that construction." While credit markets remained frozen in the U.S. early this year, Beijing was pushing money out the door—which has kept the economy growing.

State-owned financial services and oil companies like Sinopec (No. 9), China National Petroleum (No. 13), China Mobile (No. 99), and China Life Insurance (No. 133) are the big names from China on the list. They aren't known for their ability to innovate or for marketing savvy. Indeed, for all its might, China has yet to build a single, powerful global brand. The closest, Lenovo, which bought IBM's personal computing division in 2005, fell off the list this year because of weak sales.

HOWEVER, MCKINSEY'S ORR believes that China, as well as India, will become an important center of innovation in the years ahead. "China's trying to create global leadership in a number of industries because there will be massive domestic demand—particularly around green—out of necessity as well as opportunity,"

he says. Electric cars and the batteries to run them are a top priority. "Chinese companies may not have the scale or experience of BMW or GM, but they have capital" and government support, he notes.

China's rise need not be bad news for the U.S. More global demand for U.S. exports is healthy. If, for example, the Chinese stick to their pledge to build a sustainable economy, the benefits should be widespread for those countries—America included—that drive innovation around clean energy, electric cars, or a smarter electricity grid. For all the talk of China as a manufacturing powerhouse—and it is—the U.S. share of global manufacturing has remained at 20% or better (well above China's) for more than two decades as companies like GE, Boeing (No. 116), and Caterpillar (No. 144) thrive. What's more, Americans are still best in class when it comes to inventing things and building brands. U.S. companies that are new to this year's Global 500 list (or back on the list after slipping off) include innovators like steel-maker Nucor (No. 386), Google (No. 423), Amazon (No. 485), and Nike (No. 497). Nike, a marketing powerhouse, is listed as a U.S. company because its headquarters are in Portland, Ore. It has contract factories in over 40 countries, including some 150 in China, and generates more than half its revenue from outside the U.S. The world is indeed getting flatter.