



Changing times for the Dragon

By Tim Moore

For anyone wishing to gain a snapshot of the current wellbeing of the Chinese economy, I would advocate a drive along the Pearl River Delta's Donghuan Expressway. The change in the region's fortunes hits one immediately. While the reduction in traffic congestion and air pollution come as a welcome relief, there has been an economic cost. At least 10,000 factories in the Pearl River Delta region alone have closed their gates in the past six months. Production managers throughout Europe have stories of suppliers closing abruptly overnight and the problems associated with retrieving tools and stock.

Some economists have expressed the view that the Chinese economy could uncouple itself from the West by developing its own internal market. While this may well happen at some stage, it is some time off. There is also the view that emerging BRIC markets are a possible route out of the recession for the West. However, with the scale of company closures across China, the fact is that currently the Chinese economy remains completely coupled to the West.

So, where do the pointers to the future lie? A good place to start is with the IMF who, despite the global downturn, are still predicting the Chinese economy to grow this year by 6.7 per cent.

This will be undoubtedly aided by the Chinese government's recent £416bn rescue package. Meantime, the predicted slump in manufacturing labour after the Chinese New Year has not materialised. The supply of skilled labour remains good and those with strong balance sheets are benefiting from this situation. Endemic staff churn, which was having a significant negative impact on quality, has reduced dramatically. In time this will open the door to more technically challenging products being made in China. The dragon may be down, but it's not out... and it's changing.

An insight into the way in which China will likely change over the next half decade or so can be gleaned from the ruling communist party's 11th five year plan. To many Western organisations that might seem like a strange statement, but we should remember that China remains a controlled economy. The plan emphasises the development of 'strong' business and the focus on energy sustainability and environment. The development of strong business in this context means the ability to innovate, create technically challenging products and have a recognised brand through development or purchase. There is a significant move away from mass labour.

Given China's education system legacy, it will be some time before the country starts to create serious innovation. This, coupled to a distrust of locally made products, means there is a window of opportunity for the West on two accounts: the development of products and services for the Chinese market; and the move away from me-too products with new technology manufactured at a competitive price in China.

Sagentia has been assisting Western clients in China for a number of years from an operations point of view: helping products transfer into market, auditing factories and being 'eyes and ears on the ground 24/7' to help deal with unexpected and/or difficult issues and to identify market needs and trends.

During this time we have seen the type of product being manufactured in China change dramatically from simple consumer products to, for example, sophisticated medical devices. We are observing a rapidly changing market: one that is moving from a desire to mass produce low cost products to one that demands the latest in high technology products.

China can be very complex, but with the right business partner and despite the current economic downturn, it remains a land of opportunity.

Tim Moore is a Director of Sagentia SGAI and is based at our headquarters in Cambridge, UK.
Tim.Moore@sagentia.com

