

China's rush to the end of growth

The current economical growth of China seems unstoppable. Unfortunately this will come to a drastic halt if there is no change in the way the Chinese organize their businesses.

Although it might seem unnecessary on the short run, efficiency concerning the execution of people and other resources are crucial.

An important lesson is to be learned from Europe and the USA.

Around the sixties, western consumers were able to spend more money on other things than the physiological needs (food, water, shelter and clothing). Although there was money to spend it was not enough to buy whatever wished for. So, the products made had to be low cost products. Factories focused on efficiency, so that the market demand of low cost could be met. Many products were mass-made.

As time went by and the economy grew, consumers were able to spend more and more on non-physiological goods. Around the seventies, consumers started to demand better quality of goods and were prepared to pay little more for this quality improvement. Factories now had to produce qualitative goods in an efficient (i.e. low cost) way.

About a decade on, consumers got used to cheap and qualitative products. Due to the ever increasing economy they started to demand different types of products, not liking the impossibility of choice. Factories were pushed to differentiate within their products, so various options (different colour, style, etc.) were possible, still for a reasonable price and in a good quality.

This, again, was a huge turnaround for many firms, because the way of managing their operations had to change again. As consumers demanded choice in colour or shape etc., the production units were to be made more flexible. Products still needed to be of a good quality and for a fair price.

Although the consumer demands at present day are much further now than 'only' cheap,

qualitative and having a choice, the lesson for China is to be made at this point.

Since Europe and the USA got the time to go through these changing demands in an evolutionary way, many factories were able to adopt and succeed. Chinese factories, in contrary, went through these phases of changing demands in a revolutionary way. Even though China has the advantage of knowledge about the western history, unfortunately the leap-frog revolutionary way is the beginning of the end of China's growth.

After many years of struggling with bad reputation concerning quality, China finally managed to produce products according to the 'western' quality standard, resulting in serving an enormous new market and hence experience an enormous economic growth.

The evolution which took Europe and the USA about 30 years, took China about seven years. Apparently it seems that there is a way to prevent having to live through *all* these steps of the evolution. China has found a way, and utilized this accordingly.

This rush of good achievement is also the bottleneck of continues growth for China. The solution China has on the three evolutionary steps towards meeting the current market-demand is: 'more people'. China has a lot of people that can be utilized as low-cost employees and therefore can be used for quality control and flexibility. In addition, low costs of people prevent the necessity for efficiency.

Unfortunately there is a danger in this solution.

If in time, and it will, the Gross Domestic Product (GDP) will increase, the costs of labour will increase proportionally. When this happens, China will lose their answer to the market demand of cost *and* quality *and* flexibility.

Most countries investing in China will either go back to their home base or find a new area of the world where cheap labour can be utilized to produce all kinds of products at large scale.

One can only imagine what will happen to many Chinese factories.

There is still a way to prevent this from happening. It is most necessary to understand the importance and necessity of the adaption of the evolutionary steps discussed earlier. For China it is time to focus on the first market demand: 'costs'. A strange assertion for a low-cost country, but the focus on costs will ultimately save China's factories and therefore the economy on the long run.

Chinese factories need to start working in efficient ways without utilizing the easy answer of hiring more people. Although this answer still works probably for some years, a long term focus is needed to preserve an economic stability.

Knowing that Europe and the USA are still struggling with flexibility, there is a chance for China to catch up. Within a few years firms will manage their operation in a different way than they are doing now. As time and consumer demand changes, flexibility is necessary for all firms and institutions. The next generation of operations management will be the key for China to catch up with Europe and the USA and also help the current economic-leaders to break through their struggle with flexibility.

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