

OPINION

A Productivity Boost for China

[Business Asia]

By YONG SIEW WAH

There is now wide agreement that Chinese manufacturers need to move up the value chain, and quickly, to keep pace with rising wages. Yet there is much less understanding of how this will be accomplished. Conventional wisdom tends to focus on the need for more capital investment in better equipment to produce higher-end products with more reliable quality. That's not the whole story, however. Much more attention must be paid to the soft skills required for this transformation, and especially the new management techniques China will need.

The need to boost manufacturing productivity is urgent. From 2008 to 2012, minimum wage levels across the country registered an average 12.6% annual growth rate. In the Chinese coastal province of Guangdong where many factories are located, the monthly minimum wage is 1,300 yuan (\$212). While wages are still much lower than in the developed West, China is no longer the world's lowest-cost manufacturing hub, with Vietnam's and Bangladesh's monthly minimum wages at \$113 and \$23 respectively.

Wage increases can be a healthy sign of economic development, but China's is an unusual case. Whereas wages typically rise in line with worker productivity—employers will pay more for employees who are able to produce

more—China's wage growth is mainly the result of government policies aimed at quickly increasing household income. Wage growth is far outstripping annual productivity increases of 4.7%, and wages are growing faster as productivity growth slows.

This places the onus on companies to boost productivity in line with wages. Traditionally that would involve buying new capital equipment. But more and better machines alone are not a viable solution for China. Many companies

Moving up the value chain in response to rising wages will mean more than simply better machinery.

are wary of this kind of investment given broader uncertainties about the economy. And the wage increases of the past six to eight years have drained cash that managers would ordinarily have had available to fund investments.

Rather, the search for productivity needs to lead to softer skills. In their rush to expand in the past decade, many companies operating in China did not focus on optimal management. Now they need to. There exists a huge potential for these companies to take stock of their internal processes and improve their efficiency. They should focus on reducing wastage, improving quality and simplifying proce-

dures—anything that can increase output with less input. The question then is where to look for the low-hanging fruits that will have the biggest impact with the least effort.

To identify these opportunities, managers first need to fully understand their businesses. For companies that previously didn't need to worry as much about efficiency, this isn't as simple as it seems. In manufacturing, this will require things such as a detailed study of procedures during shift-changes to minimize wasted time, the way assembly lines are changed over from one product to another, reducing unplanned down time and quality defects through careful root-cause analysis of production problems. In service industries, managers will need to focus on measures such as response time and how long it takes to resolve customer complaints.

As an example of how this can work in practice, one multinational producer of child foods with which we worked found ways to reduce a quality-inspection process to 10 days from 15 without compromising on safety. The resulting shorter product-release times and lower warehousing costs saved \$12 million per year.

But companies also need to be wary of improving too much, too quickly, as counterintuitive as that sounds. While a continuous improvement culture helps a company to stay ahead of the curve, fatigue can set in on employees when they face a never-ending list of improvement tasks on top of their normal



Workers inspect a car at the Peugeot Citroen automobile factory in Wuhan, China.

job responsibilities. As with any investment, efficiency gains can suffer diminishing marginal returns. Cutting down on a production-process bottleneck can be helpful, but not if doing so distracts attention from resolving a more serious problem with high production costs arising from high defect rates.

A steel mill found it had more than 200 improvement initiatives of various scales on its hands, from installing solar panels for energy costs reduction to greening its premises by having more plants, and resources were stretched thin trying to undertake all of them. Each employee had to be engaged in at least one project, with some juggling up to five projects at once. Demotivated employees left in droves as a consequence. Bringing

the focus down to only 12 critical projects with the greatest potential gains, such as using a just-in-time approach for its supply-chain management, accelerated progress on those items and boosted morale. The project teams found more purpose in their work and staff turnover reduced significantly.

A lot of this will sound familiar to Western companies long accustomed to facing tight cost pressures, but it's new territory for China. Managers there need to understand that growth is no longer merely a matter of boosting inputs such as extra labor and machines. It is also about managing well to get more from those inputs.

Mr. Yong is a Singapore-based consultant with Kepner-Tregoe.

The Ambivalent Would-Be Hegemon

[Bookshelf]

China Goes Global: The Partial Power
David Shambaugh
Oxford University Press, 432 pages,
\$29.95

By DAVID ZWEIG

To what extent has China gone global in its diplomacy, support for global governance, trade and investment, soft power and military reach? David Shambaugh, a professor of political science at George Washington University and one of America's leading China watchers, attempts to answer this question by drawing on a multitude of interviews with key players in China

China is far too angry, lonely, mercantilist and domestically insecure to be considered a true global power.

and around the world, as well as an extensive research effort. The result is a first-rate book that the nonacademic world will savor.

Mr. Shambaugh opens with a valuable synopsis of China's internal debate about its global identity. Chinese academics remain uncertain about their state's "international personae," resulting in a conflicted identity. This scholarly elite is composed largely of a "left wing"

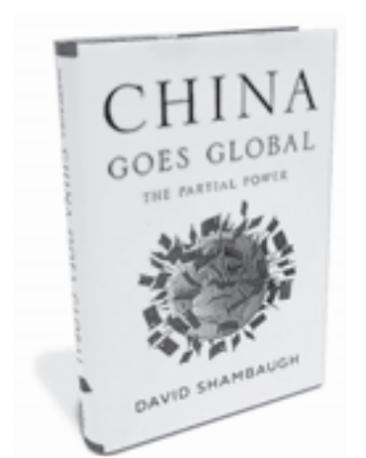
with a strong nativist streak and a realist bent—meaning they believe security comes from across-the-board self-strengthening.

As a result, China's foreign policy statements focus more on its moral right to once again be treated as a great power, and less on the benefits it will bring to the world. And while one hears voices on the margins expressing a "selective multilateralist" or a "globalist" viewpoint, Mr. Shambaugh sees the more troublesome views dominating the discourse about China's place in the world.

In most arenas, the book describes China as a "partial power," hence the subtitle. That means it punches below its weight, and fails to qualify as a great power.

After a detailed analysis of its foreign policy establishment and ties to major countries and regions, Mr. Shambaugh characterizes China as a "cautious diplomatic actor." In terms of global governance, China is "moderately revisionist," challenging some of the way institutions that have governed state relations since World War II are run. But more generally, China is uninterested in tackling the problems of global governance except as they impact domestic interests.

In a detailed chapter on China's military reach, Mr. Shambaugh notes that China had to hire foreign companies to evacuate its 35,000 citizens from war-torn Libya due to a lack of long-range aircraft and ships. This is an indicator, he argues, that the country



has not yet focused on its interests in the far abroad: "Beijing's continuing ambivalence over international involvements and self-preoccupation with domestic development and protecting its irredentist interests (Taiwan, Tibet, maritime claims) will continue to have a limiting effect on China's global security role."

So, too, will China's own concerns about the cost of being a hegemon. Even in the economic sphere, Mr. Shambaugh finds China to be a partial power, despite the fact that China is now the leading trade partner of 120 nations, and despite the fact that major countries such as Australia depend on China's economic growth for their own wellbeing. While its outward investment is growing, Chinese companies still play a relatively small role in other markets.

Mr. Shambaugh's chapter on "soft power" covers the gamut of components that fall under this concept: music, art, film, fashion, global media, educational exchanges and government efforts to promote China's image abroad; in effect, all forms China uses to promote a positive cultural portrait. Nevertheless, here too he finds a "soft power deficit" caused largely by foreign perceptions of its authoritarian political system.

Moreover, assertions that China is promoting a "harmonious world" and orchestrating a "peaceful rise" gain little traction in much of East Asia, as China's assertive behavior over territorial disputes since 2010 heighten concerns that its rise will be more disruptive than Chinese propaganda asserts. For Mr. Shambaugh, actions speak louder than words and China should stop "trying to buy soft power, rather than build it."

While throughout the book, Mr. Shambaugh only hints at the depth of his views, in the short closing chapter, he takes off the gloves. Within one page he calls China dissatisfied, frustrated, aggrieved, angry, narrow-minded, self-interested, mercantilist, lonely, domestically insecure, experiencing distrust with most nations in the world.

Not surprisingly, Mr. Shambaugh is convinced that unless China supplements its "institutional integration"—joining international organizations—with "normative integration," whereby it adopts the rules of the liberal

world order that drive these multi-lateral arrangements, "it is not ready for global leadership."

Mr. Shambaugh has written a terrific book whose breadth and mastery of detail measures China's global reach. Nevertheless, I remain unclear whether he sees his findings—that China is indeed only a partial power—as a relief, or as a toxic cocktail based on the blending of limited capabilities and "ambition without accountability." Clearly he worries that if China does become a great power while retaining all these negative characteristics, it will use its newfound influence to alter the existing liberal order for the worse.

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