

CHINA'S COMPETITIVE ADVANTAGES

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ABSTRAK

Penelitian ini bertujuan untuk menyelidiki keunggulan kompetitif dari China dan mengapa China bisa menjadi super ekonomi negara dalam waktu singkat. Makalah ini menggunakan kajian literatur yang melibatkan sejumlah jurnal, buku, dan sumber internet. Sebuah tinjauan yang terkait dengan dokumen dan artikel akademis dilakukan untuk mengumpulkan pemahaman yang mendalam tentang keunggulan kompetitif China. Keunggulan kompetitif yang dimiliki oleh China tidak bisa dengan mudah diduplikasi oleh negara-negara lain. Beberapa faktor yang mendukung keunggulan kompetitif China adalah kebijakan pemerintah, dampak dari investasi asing langsung (FDI), faktor lokasi tertentu, sistem hukou, budaya China, dan pabrik bayangan. Triangulasi berbagai sumber data dari wawancara atau kuesioner (data primer) tidak dapat dilakukan dalam penelitian ini. Studi mengenai keunggulan kompetitif China perlu dilakukan karena memiliki dampak dalam perekonomian dunia.

Kata kunci China, Keunggulan Kompetitif.

ABSTRACT

This study is intended to investigate the competitive advantages of China and why China could become super economics country in short period. The paper uses a literature review involving a number of journals, books, and internet sources. A review related to documents and academic articles was conducted to gather deep understanding about China's competitive advantages. The competitive advantages owned by China could not be easily duplicated by other countries. Some factors supported China's competitive advantages are government policies, impact of foreign direct investment (FDI), location specific factors, hukou system, China's culture, and shadow factory. Triangulate multiple sources of data from interview or questionnaire (primary data) could not be conducted in this study. Study about China's competitive advantages need to be conducted because it has impact in the world economy.

Key words: China, competitive advantages.

INTRODUCTION, CHINA PRIOR AND POST ECONOMIC READJUSTMENT

China has shaken the world with its price. Many of goods' prices from China are unbeatable. Indonesia, which is popular with its low labor cost, now facing problem with China's price. Some of big textiles companies are now closed and many people lost their job. Indonesia cannot compete with China's textiles because China has glut raw material combined with its lower labor cost. In China, the worker only paid \$ 45/month with 46 work hours in a week, while in Indonesia, the worker paid \$ 80/month with only 40 work hours

in a week (www.indotextiles.com). In addition, government in China also gives textiles industry many incentives. This situation also faced by some industry all over the world, including USA. Many companies now shift the production to China in order to get lower labor cost.

To start find China's competitive advantages we have to look back at China before 1979. The economic readjustment in China has begun in the late 1978. China was famous of its central planned economic system; the government decided what to produce, how to produce, output.

The state economic planning system in China is consisted of three levels; they are central government, provincial, and municipal level (Holton, 1987). In these levels, there are two important commission related to China economy, they are planning commission and economic commission. Each plant should report to city level, provincial, and state level. As stated above, one of the characteristic in the state economic planning is all of the decision making concerning with products to be produced, prices to be charged, or customers to be served is not made by manufacturing unit but by the bureau of the state (Holton, 1987). This system lead to some problem, there are surpluses and shortages in some goods because supply cannot cope with demand, lack of innovation and creativity manager of the plants, rarely changes in product design, manager did not get any feedback from final customers, and there is no quality control due to quota minded (Holton, 1987).

The economic readjustment in China is indicated by the approval of small scale private firms and private enterprises establishment (Holton, 1987). After 1979, there were more decentralized policies about the product. The enterprise could produce the product after met government order (Holton, 1987). There was more flexibility deciding the supplier, buyer, and quota also. Finally, more contact with foreign buyer introduced.

Because of the lack skill and knowledge, most product decisions are made by foreign companies which have subsidiaries or joint venture partner in China (Terpstra, 1987). In the beginning of economic readjustment China still have problem regarding with its product development, branding, quality, and also warranty and service. In addition, there are some weakness that still face by company that are outdated equipment and lack of efficient method (Pegels, 1987). Despite of the problems above, numerous non-Chinese firms still attracted working with Chinese firm because of low labor cost in China (Pegels, 1987).

In the 1980s some multinational company (MNC) from Europe and US invest very limited numbers or investment. This Foreign Direct

Investment (FDI) has been increased rapidly since 1992. Etienne (1996) claims that the rush investment from Hong Kong, Japan, US, Taiwan, and Germany in 1992 is caused by three factors; they are:

- a. The potential of the Chinese market is enormous and rising.
- b. One must take advantage of the conditions granted by the government which are very favorable at present.
- c. Every MNC thinks it should make haste to beat its competitors.

Nowadays, China is emerging as one of the biggest economy players in the world. According to Dicken (2007), China is now become the world's fourth largest manufacturing producer in 2005, the second largest agricultural producer in 2005, the fourth largest exporter of merchandise in 2004, and the world's third largest importer in 2004. During first half 2009, China overtook Germany as the largest exporter of goods in the world (Field, 2009). Between 2000 and 2007, Germany's export only grew around 13 % and China's export grew around 25 % a year (Field, 2009).

This phenomenon is resulted from China labor abundance which has encouraged by foreign direct investment (FDI). Claro (2009) found that FDI liberalization in China enhance the productivity of labor which stimulates the rising of China's export. China also overtook United States as the world's largest recipient of FDI. In 2007, net inflows of FDI amounted to US \$ 83 million (Cases in The Global Business Environment Handout, 2009).

Most of the FDI inflow in China focused on manufacturing sector. There are many big MNC invest in China to gain more advantages. Wall Mart, Siemens, Toyota, Volkswagen, AT&T, Gillette, and Nestle are some examples of MNC which are operating in China. For example, Nestle chose China for many reasons; they are quality of natural resources as a raw material, low labor cost, support from experts, and the consideration of market demand for food products (Luo, 2000).

Multinational Company

According to Rugman and Hodgetts (2003) there are several reasons for the firm to become multinational company, they are:

1. Diversify themselves against the risks and uncertainties of the business domestic cycle.
2. Tap growing world market for goods and services. China becomes more attractive for MNC because of its large population and its economic growth very rapidly around 10% a year (Dicken, 2007).
3. Increased foreign competition and a desire to protect their home market share.
4. Reduce cost. MNC will consider seriously both wage cost and non-wage cost, such as taxes, regulatory cost, land, and energy (The Global Business Environment Handout, 2009). China has been attracted many MNC because of its low labor cost.
5. Overcome protective devices such as tariff and non-tariff barriers by serving a foreign market from within.

The Chinese policy "open door" for FDI has several positive impacts. According to The Global Business Environment Handout (2009) there are some impact for host country as a target place of MNC, they are:

1. Transfer of resources. The outdated equipment in China in the beginning 1980s could be resolve by attracting MNC which can bring their new resources to China.
2. Transfer of technology. One clear example of this reason is when China wanted Nestle's technological equipment in order to increase milk production and lengthen the quality of the milk produced (Luo, 2000). Through joint venture scheme, Toyota also developed skill of the worker with training activities (Luo, 2000).
3. Employment effect.

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There are some big issues shaping the China's competitive advantage, they are

government policy, impact of FDI, culture, and low labor cost.

1. Government Policy and Impact of FDI

As stated above, after economic readjustment, Chinese government started to open and attract direct investment from foreign country. China needs knowledge and technology to improve their competitiveness in the world market. On the other hands, foreign firms want China's low labor cost and concern about China's huge market. Chinese government plays pivotal role attracting FDI. According to Luo (2000), China offers greater incentives for direct investment in high-tech technology and in west land. China knows that combining high-tech industry with low labor cost will increase its competitive advantage.

Nevertheless China R&D expenditure is very low. Therefore government started looking for transfer of technology that is bringing in by direct investment. To attract the investment, government gives reduction in national and income taxes, land fees, and import and export duties. In addition, if foreign investor reinvesting their profit in China, they will get 40% cash back on tax paid, the government even give 100% refund for reinvestment in high technology or export-oriented (Luo, 2000).

Before 1990, China only export simple goods with low quality, but after FDI booming in 1992 (Etienne, 1996), China start to serve home market of country that set up subsidiaries or joint venture in China (Adams et al., 2004). In order to meet world market specifications, China should produce high quality and design of products with technological content inside the products. Therefore, FDI should supply technology and provide managerial skill to China (Adams et al., 2004). These supplies of technology and managerial skill improve China awareness on product quality and finally increase its competitive advantage in world market. In addition, Claro (2009) also found that FDI increase labor productivities.

2. Location-specific factors

Location-specific factors, which consist of country and cluster factors, are shaping China's competitive advantages. Country-specific factors are those that are available to all of the firms of a particular industry in a country, such as low-cost labor (Porter, 1990 in Li and Qian, 2009). Cluster-specific factors are defined as the factors that are available to a particular cluster that is located in a particular region (Porter, 1998 in Li and Qian, 2009).

Other developing countries and Western country have difficulties to duplicate China's firm strategies and also to compete with China's firm because China's location specific factor. In order to maintain its cost advantage in labor intensive industry, China rely on country specific advantage and clustered specific advantages (Li and Qian, 2009). Li and Qian (2009) analyzed that there are three stages of firm's development in China. The first stage is founding stage. In this stage, the effectiveness of company is very low due to lack of experience and knowledge. The firm only relies on country-specific factors; they are low-labor cost advantages, cheap land in rural areas, and cheap raw material. These factors also combined with Chinese command culture, that is one leader in organization could force the worker to accept low wages, minimum working environment, and longer work hours (Scarborough, 1998 in Li and Qian, 2009). Another advantage is the weakness of patent or copyright rules in China (Li and Qian, 2009). Company in founding stage does not need spend much money to do R&D because they can duplicate or imitate other products easily. Therefore, despite company in founding stage, they can still compete in domestic market and world market because of China's country-specific factors.

The second stage is growth stage. In this stage company that enjoys country specific factors start to look cluster specific factors in order to enhance its market competitiveness (Li and Qian, 2009). Companies in coastal region get benefits more than Westland in communication, banking, and also transportation. Many FDI are located in coastal area. This FDI gives managerial and technological skill to subsidiaries or through joint venture scheme. Therefore, companies in growth

stage which are located in cluster region can learn effective and efficient production. Adams et al. (2004) also notes that cluster region make company easier compare its product with other company that serves world market. Another advantage of cluster region is "cafeteria effect". The exchange of knowledge and information could be achieved among the workers that go to the cafeteria together in the same area (The Global Business Environment Handout, 2009). In addition, consider that country specific factors like raw material and labor cost combine with cluster specific factors, it support each other and then could make China more competitive. If one company buy raw material cheaper from supplier in the same cluster, spend transportation cost cheaper, and pay its worker cheaper, it make total cost lower.

In mature stage, company begins differentiate than others companies in the same cluster (Li and Qian, 2009). In this stage, Chinese firms start to produce to their own market, develop global distribution channel, and make their product available through all over the world. The combination of country specific and cluster specific factors with own company strategy make other country difficult to duplicate the Chinese firms strategy. In addition, competitor should compete not only with one firm but they should compete with the entire production chain.

3. Low-Labor Cost

Perhaps, among others China's competitive advantage factors, low-labor cost is the main advantage. There are some factors affecting China low-labor cost.

a. Hukou system

According to Chan (2006) there are three factors that Chinese wage can be kept so competitive, one of them is Hukou system. Hukou is household registration system, which is used by Chinese government to control population (Jianmin, 2008). Jianmin (2008) noticed that there are two hukou types; they are city hukou and agricultural hukou.

Due to industry booming in coastal region, many migrant from rural

This phenomenon results two social groups in China that are a floating population and “nongmin gong”, the farmer proletariats, the rural worker but do not hold city hukou (Jianmin, 2008). Jiangmin (2008) also stated that rural worker do not gain the same right and treatment as city hukou people. They do not get the same income, education, social security, and medicare.

Chan (2006) provides strong evidence about hukou system which constrains the geographical mobility of workers, drive down the wages and labor standards. The government can control the needs of cheap labor by hukou system. If there is excess limit of labor, the government can send back the rural worker to rural areas, especially for the rural worker that feels too old or having industrial accident that cannot do the job anymore. Chan (2006) also stated that the large volume of people looking for low-end jobs drives down wages and work conditions and allows them to be exploited by employers, who can pay them at the lowest possible wages. There is supply and demand match between rural worker who need job and the company which need low labor cost.

Government clearly gets a lot a benefit from rural worker. In order to increase tax revenue, government should attract foreign investment through providing low-labor cost (Chan, 2006). Chan and Buckingham (2008) argue that hukou system is the central to the current system of sustaining low-labor cost in the international market.

b. Culture

Rural worker is become the fuel of China's economy growth. Rural worker come to urban areas to find any job and earn more money (Harney, 2009). In China, people are hard worker and love work overtime, especially the rural worker. They come to urban areas to work for several years and then come back to their home to build small business. As a hard worker, people in China are usual to live in low standard. One clear example is middle manager in China usually goes to factory with their bicycle (Blackman, 1997).

Command culture also play pivotal rule in constructing low-labor cost. Command culture means one leader in organization could force the worker to accept low wages, minimum working environment, and longer work hours (Scarborough, 1998 in Li and Qian, 2009).

Despite the government limits work hour in a week, the company and the worker know that they need each other. The company should produce the product as a fast as possible, due to order, especially for fast changing style product and the worker need money.

c. Shadow Factory

Harney (2009) analyzed that there are two kind of factory in China; they are “five-star factories” and “shadow factories”. Five star factories functioned as a demonstration factory only. In real business, the factories subcontract its order to shadow factories, which are unregistered to government, in order to get cheaper price. Shadow factories provide the cheaper price because they provide lowest standard working condition for worker, pay the worker daily, force overtime work hour and there is no insurance cover for worker. Harney (2009) also argues that if companies in China have to maintain its standard as stated in law, the price of goods would not be as cheap as now. Therefore, among the factories there is “race to the bottom”, provide the lowest price that customers can get, force the factories subcontract its order. The growth of shadow factories is supported by hukou system, with this system, shadow factories can get or sack easily rural worker.

CONCLUSION

Nowadays China becomes a main player of the economy in the world. Semi-finished goods and finished goods can be produced in China to serve world market with lower cost but meet world requirements. The company which has subsidiaries or joint venture scheme with China's firm can supply its subsidiaries or joint venture partner raw material that needed for production. This explains why China becomes the third world largest importer in the world in 2004 (Dicken, 2007).

China also becomes platform for export. The company assembly their product in China, and then export the products to all over the world.

Another role of China in global value chain is the largest population in the world with high economic growth could become the potential market. Therefore, besides serve the world market, company in China also serves the domestic market.

China's competitive advantages clearly cannot duplicate by other firms in recent the world. Many factors related each other to create the low price of goods. This competitiveness could be stronger than before if China can combine the high-tech industry with low labor cost. Another point is if China can make R&D portion bigger than before, in the future, it could become new powerful country in the world.

Other potential factors that can be used by China are their population and their huge land in the west side. There are many farmers who work in the agriculture that can be transferred to the industry that only need low skill. In addition, many Chinese youth that has been studied in foreign country will comeback with new knowledge.

Despite of its fantastic economic growth and other achievements, China has some problems in low labor standards and environmental issues. Shadow factories clearly cannot comply with rules and ethical standards. On the other hand, if shadow factories are eliminated, the five star factories should produce products in a standard way, its mean the cost is increase. In addition, if China should comply with environmental standards to reduce the pollution, its mean the cost is also increase.

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