

# Will China Raise the Quality Bar in the 21<sup>st</sup> Century?

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# Thank You

1. To the  $\pm$  400 business executives whose brains I have picked on planes, trains and automobiles in China, Africa, Europe, North America & East
2. To the authors of the 800 of articles & books who have broadened my understanding on China
3. To the production plants in China & their hospitality

These simple observations are dedicated to you - for all your patience with all my questions.

# China & Quality?

- What are your concerns?
- Fong Kongs and MCC maybe?
- Copy cat?
- Cheap labour
- Kr@4%&ppy products

Why buy from China anyway?

Who needs them? Who cares? Other side of the ocean, far, far away.....

# Talk Overview

Audience from various sectors...

try to address some questions

1. The Quality 'Revolution' in China
2. China & Sectoral Dominance
3. China & Economies of Scale
4. China & Production Competencies
5. China & Supply Chain Costs
6. China will become Lean and 'Mean'
7. China becomes the Superpower Economy

# 1. China and the Quality Revolution

- From Qulaity to Quality
- From Fong Kong to King Kong
- Parallels with Japan 1950's to 1980's  
From Jap Junk to Sony Splendour

# Deming & the Japanese Economic Revolution

- Way back in the 1950's Japan had some pretty **lousy** companies some of which you may just recognise: Toyota, Honda, Datsun (Nissan), Sony, Canon, Mitsubishi, Hitachi, Toshiba, Fujitsu
- By the late 1980's these **lousy** Japanese companies were all towering giants. By 2008 Toyota was rated 6<sup>th</sup> largest global company on Fortune 500 Global List
- And you and I are all **proudly** driving Hondas, Pajeros, Toyotas, Nissan X-Trails, play on Sony Playstations & watch Sony LCD Big Screen TV sets, and taking pics of our globe with our Canon cameras

# 7 Factors Leading to Growth Similar to Growth Factors of Japan

1. Vital commercial sectors arose in urban zones
2. Level & quality of manufacturing investment was high
3. Willing, intelligent labour force
4. Highly productive, disciplined & organised workers
5. Economies of scale as demand grew locally & internationally (Japanese keiretsus – large, industrial enterprise groupings)
6. Product diversification came as self-belief grew
7. Expansionistic thinking. By the close of 21<sup>st</sup> century they mastered art of manufacturing & put their stamp on the globe. Will China do the same?

# Insight

It took Japan about 30 - 40 years to transform from lousy to superior (1950s to 1990s)

It will similarly take China about 30 - 40 years to transform many industries from lousy to superior (1980s to 2020s)

**Japanese defined manufacturing in close of 20<sup>th</sup> Century.  
Chinese will re-define manufacturing in 21<sup>st</sup> century**

## 2. China's Industry/ Sectoral Dominance of the global economy has already started

- Uncomplicated **Clothing** is where it all began
- Now they are master producers of **Machinery**
- They control the **Semi-conductor** industry,  
Dominating any industry attached to a plug:  
Home appliances & entertainment (TV- DVD),  
White products, electronics, computer  
hardware, cell phones, camping equipment,  
Shipping, Tourism, Automobile (MG)
- Everything? The self belief of Tiger is there

China learnt her skills on low value  
items like clothes

# But China will start trading up....

- Move onto more lucrative **high value** product manufacturing like cars, computers, Playstations, iPods, hybrid cars
- And may even eventually farm out **low value** production of clothing to India
- **The Dragon has mastered the basic ninja moves & now wants to become Bruce Lee**

# China & industry sector dominance.

## A wake up call to the world

1. Mining and extraction machinery
2. Machinery (general) and tools
3. Construction equipment (Caterpillars etc)
4. Agriculture (foods, products, import needs)
5. Electronics & semi-conductors
6. White goods (fridges, stoves, household items)
7. Computer hardware
8. Cellular telecommunications equipment
9. Household goods and DIY
10. Energy: solar, wind, electric cars

# The list continues sorry...do you have time...maybe the whole day

11. Fashion and cosmetics (Dragon is a babe)
12. Tourism (destination no 1 internal & external)
13. Retailing (well go figure....)
14. Automotive (650 million potential market?)
15. Science and technology instrumentation
16. Banking, finance, equity and investment
17. Diesel engines, forklifts, construction cranes
18. Health and herbal products
19. Franchising and unique Chinese brands too
20. Conferences & exhibitions (Mice)
21. Sport and sports goods
22. Education and educational products
23. Toys, games, nuclear reactors, electric power equipment
24. Plastics and chemical products
25. Shipbuilding, trains and planes

Massive iron ore ship being built for Brazil

# Sleep tight my beauty

- Let me sing you a lullaby
- Whole world lulled by her lovely tune

**The Dragon will soon be able to play all instruments  
...and superbly well too....Maestro Magnifique**

Eventually the whole world may  
be 'made in China'



Chip W. J. W.  
HARVARD BUSINESS  
REVIEW, OCT 2006

### 3. China and economies of scale

- China represents almost 25% of the world's population (22% to be exact)
- India represents around 25% of the world's population (23% to be exact)
- Two nations that are the next two superpowers
- Two nations that represent almost 50% of the world's population. If they become like the US...  
The world's soon-to-be biggest consumer market ever (domestic consumer market)
- The more you produce the cheaper it becomes

500 million plus  
telephone users  
in China alone

Old and new...

The realities of  
change in China

300 million  
cell phone users

## 4. China & Production Competencies: Some People Have Question Marks???

Only one response from me here:

*Don't let anyone kid you....*

*China is sneaky smart*

The Dragon is Sneaky Smart

Why is China so 'dangerous' to the world economy?

# Why is China so 'dangerous' to the world economy?

- They are **actually prepared to work**
- They plan ahead and actually **work their plans**
- They are **'hungry'** for success & growth
- They have a **massive appetite**
- They have a high degree of **national pride**
- They are **prepared to sow tough seeds** today so that they can reap tomorrow's bountiful crop
- They are **strategically positioning** themselves to play the global game
- They are **sneaky smart** in so many areas of commerce, manufacturing

Manufacturing  
patience, people,  
attention to detail  
(with few complaints  
and few unions).  
Do jobs world does  
not want to do?

China has an estimated 200 million migrant workers & about 20 million in Shenzhen

The Production strategy began a long time ago with a little man called Deng

.....who popped on a plane headed for  
Singapore

# 5. China and Supply Chain Costs

- China has **radically changed global sourcing costs** (and resultant consumer spends) not just for Wal Mart, but Woolies, Pick n Pay, your local hardware shop
- **How? Quality-price mix, Devalued currency?**
- China is now Workshop of the World –  
The Global Manufacturing Plant  
(China will not just be the physical workshop but the cognitive workshop of the world of the future)
- Even goods produced internationally have Tier 1, 2, 3 **supply sources back in the chain based in China**

China is beginning  
to edge out many  
nations and many  
competitors in many  
industry sectors with  
a superior mix of  
quality-price

China's production engine will be so massive in the future that she could easily put the whole world into an oversupply situation in many product categories

# Key question

If quality rises in China by 100%, then will costs also rise in China by 100%?

Answer: No

Yes costs will rise (labour, materials, finishes, customer interfaces) but this may only reach 20%

China, the place where you can  
buy quality things really cheaply

The flea market was great for the West,  
but now the 'fleas' are coming back to bite  
them in the a\$%@se

## 6. China & Lean and Mean

- China is still learning how to play the Game
- Lean is not the key focus yet.....
- Dragon is still warming up...doing his Pilates

Will the Dragon become a Lean Mean Dragon Machine?

The Dragon already is already in many plants  
& is creating economies of scale capabilities

China of today is much more  
sophisticated

Plants are investing in  
robotic technologies & expertise

# Lean & Mean is Always a dangerous combination

**Just ask Tiger, Bryan Habana (viva Bokka!!)**

**Japan in the 1990's was lean & mean.....**

**China in the 21<sup>st</sup> century.....????????**

# **6.China the superstar is ‘Upsetting’ or Rightsetting the World Economy**

The economic axis has shifted

The West is now East

And how did the Dragon discover  
the golden economic palace?

Where did he find his magical keys?

# Four **golden** keys driving this economic revolution

1. The West benignly & somewhat naively **supplies the brand patents & technologies** and licenses to produce (license means = learn)
2. The Developing countries **supply resources**
3. The Communist party which runs the country and **supplies infrastructural capacity to grow**
4. The Chinese people who are amongst the most hard working, intelligent & diligent in the world – a 24 / 7 society who **supply hardworking labour**

# Industrial Palace has made China Cash Rich

- China is **cash rich** and has \$ 2 trillions in reserves in a wisely diversified basket of wealth including gold, Euros, Yen , dollars, US bonds, property, and shares
- China also has smart economists who have made the new world trade openness work wonderfully for them – and they will continue to do so

# The Dragon is Cash Rich

- What does this mean for her **own people** & internal development?
- What does this mean for the **globe**?
- What does this mean **for Africa**?
- What does this mean for **Indo-China region**?

**Foreign Exchange Growth will Continue to Fuel the Economy**

The ever-expanding  
GDP stands for  
Growing Dragon Power

**Why earn in rands when you can earn in dollars?**

**Why link your currency to the dollar when Euro is  
now an option too?**

**Why link global business to the US dollar?**

**The more foreign reserves you have, the more  
power to manoeuvre and clout to wag the world**

And bucks \$\$\$  
means you can do stuff....

Have money, will travel.....  
Both locally & abroad.....

And just like in Roman times where  
**the Senators were complaining**  
about all the gold leaving Rome in  
exchange for valuable silk, so today  
**the Senators in US are complaining**  
about the valuable gold \$\$\$ leaving  
Washington in exchange for an even  
wider array of 'silky' products

Exports to USA 337 billion ,  
Imports from USA 71 billion

The savings culture has created a massive wealth which can be put to work

**Whilst the**

***USA spends like crazy***

***China saves like crazy***

**Whose bank do you want to invest in!**

# Problem: **Over-consuming** Americans funded by the **over-saving** Chinese

- **Over-consuming, over-borrowing US economy dependent on foreign savings**

**Global superstructure imbalances have produced a tightly integrated, very lopsided world economy with China rich, USA 'poor'**

- **Over-producing Asia dependent on the consumption & continued lending (in USA)**

# China Investment Inflows Grow

China has become a 'sexy' investment destination which the world likes.

# Conclusions

1. The quality of Chinese products will improve in the 21<sup>st</sup> century. The *curve is upwards*
2. Chinese products will get better & better and *surpass most global competitors*
3. Now they imitate (copy), soon they will *invent*
4. They will *keep on trying until they get it right*
5. Yes costs will rise but they will still offer great value for money for a long while yet