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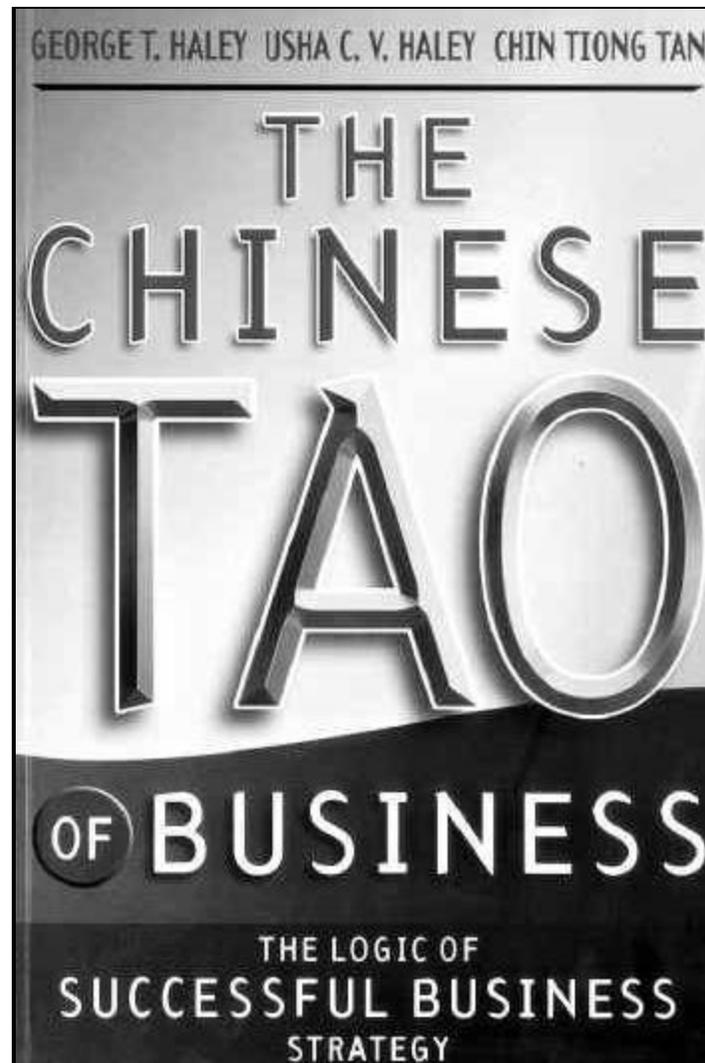
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Squeeze water off Chinese data, add a dash of guesswork

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'BEHIND an able man there are always other able men.'

'Govern a family as you would cook a small fish — very gently.'

'Dream different dreams while on the same bed.'

FOR those who do not know, these are just a few proverbs from China. If, as a businessman, you want to look at a big market, where the 1.3 billionth consumer was born two days ago, it

may be useful to know that country's philosophy too before ferrying your ware beyond the Great Wall. That explains why *The Chinese Tao of Business* by George T. Haley, Usha C.V. Haley and Chin Tiong Tan, published by Wiley (www.wiley.com) is an appropriate read, even as China bristles with optimism in the aftermath of quota demise.

The book begins by looking at the civilisation chasm. Chinese moral philosophy has limited flexibility, observe the authors, and "unlike Western society, Chinese society displays no distinct individualism." I am sure you would like to reflect on the inputs from this chapter before moving on to 'Economic and ethical roots of Chinese strategy', which begins with a quote of Tao Te Ching: "Exterminate ingenuity, discard profit, and there will be no more thieves and bandits."

You can see Yin and Yang, the dualities and contradictions, in ancient Chinese economics, state the authors. Thus, wealth creation was okay "only to the extent that the individuals could care, feed, house and educate their families, and honour properly their familiar ancestors." Beyond these levels, wealth became 'immoral'. In China, "without personal relationships, commercial partners can expect no ethical behaviour." Disappointingly for corporate culture, Taoism has place for loyalty to society as a whole, but not for loyalties to institutions or organisations.

Perhaps that explains why two of the biggest packaging suppliers of Procter & Gamble indulged in helping counterfeit shampoo and detergent manufacturers who used P&G name. The authors recount how counterfeiting poses the biggest problem to the company; "conservatively some 15 to 20 per cent of all products on the shelves purporting to be from P&G are fakes."

One may be aghast that there is little success in chasing counterfeiters, because "government officials, law-enforcement agencies and even local courts have often protected counterfeiters". As if that were not enough, government departments control wholesale markets trading in counterfeit goods. Contrastingly, a value that characterises Chinese business is 'uprightness', which involves "displaying the appropriate behaviours in any situation based upon the respective positions held by the individuals involved." This comes into play when a manager has to obtain info within the network, point out the authors. "A well-connected member of a network would be able to obtain this information quickly.

Additionally, an upright individual can correctly interpret the latest information about people's positions within the networks." If that is something to connect to, after sitting upright, know that, while the West has companies as basic economic units, the Chinese have networks. You can find networks elsewhere too, such as South Korea's *chaebol*, Japan's *keiretsu*, and Mexico's *grupos*. Civil service administration in China is credited with an antiquity of some 2000 years; it has been a model for similar systems in other Asian and Western countries. The book explains how 'in the civil service's infancy' power vested in magistrates who conducted the emperor's business in the prefectures.

Interestingly, "as the population grew, the magistrates outsourced day-to-day operations to the scholar-gentry." Who were these people? Anybody who wanted to 'progress in life' and so undertook 'a series of government-sponsored national exams'.

Once a candidate cleared the first test, he got into 'scholar-gentry' category and could "contract to mediate between the citizens and the government", retaining a percentage of the

take. The system continues among Chinese bureaucracies, add the authors.

What China adopted was 'ancient cellular economic system' in comparison to Russia's 'centrally planned system'. Thus, China divided its tax base by admin zones, not by industries. Traces of the old systems continue even now; means of production are owned and controlled by "political units, not economic ones", and these show as SOE or state-owned enterprises.

Private companies exist "only in labour-intensive, non-strategic industries" as for instance the garment industry, and these have little access to capital. China is one nation, but 31 markets. How? The 31 provinces enjoy independence from the Centre, so "FDI of less than \$30 million does not need approval from Beijing's central government, but only from the provincial governments that oversee the region."

Queerly, the provinces have erected barriers "to protect local SOEs from those in other provinces" and do not sell their products to one another. Thus, "Shanghai has to buy raw silk from abroad, despite having the largest producers, Zhejiang and Jiangsu, as next-door neighbours." There is more. If one bought goods from other province, there would be fines, confiscation of profits, all to "subsidise the buying of local goods". Currency may be different, at times, to prevent shopping in a neighbouring province.

As a result of such fragmentation, prices vary widely, as for instance those of steel. Competing with one another, provinces have created 'enormous excess capacity'. The book cites the auto example with a 1995 statistic that China's 122 assembly lines made 1.45 million vehicles or 12,000 units per line, when the world benchmark of efficiency was 2,50,000 units per plant.

Data from China have the reputation of being unreliable, as this example would show. In February 2002, when the Chinese government said that its GDP grew by 7.3 per cent, provincial figures added up to "a national growth rate nearly two points higher than the official rate." Do not expect scholars there to work on alternative numbers "because of political sensitivity". However, the government uses a process called *yasuo shuifen* or 'squeezing the water' to check the validity of data; this involves "sample surveys, price-index adjustments, and plenty of guesswork."

Let me wrap with another Tao Te Ching quote: "The fish must not be allowed to leave the deep; the instruments of power in a state must not be revealed to anyone." As for the book, it is best not shown to the Chinese.

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