

## Chapter 5.11

# Chinese Manufacturing: Renovation or Rebuilding?

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### ABSTRACT

*In the past three decades, Chinese economy has been arresting the worldwide attention for its double-digit growth rate. Playing a leading part in general economic development, Chinese manufacturing has been contributing a substantial portion in the total GDP growth. However, a national key project, the Research of China National Manufacturing Strategy, has found in the last several years that Chinese manufacturing has already lost its competitiveness due to the void of cheap labor force (New Labor Law in China), the rising costs of raw materials and energies, and the more rigid requirements for environmental protection. Chinese manufacturing has met its Waterloo and calls for an urgent business transformation if it wants to survive and sustain its development. Based on fundamental research, authors of this paper propose a new business conceptual model, SERVICE-MANUFACTURING, which focuses on the seamless marriage of service and manufacturing and how this new model can be implemented in real business practices.*

### INTRODUCTION

Due to the reform and opening-up policy implemented in China since 1979, China's economy has been developing swiftly with double-digit growth rate for 30 years. Such miraculous rapid develop-

ment has caught the attention of the whole world. Being the peerless part in the overall economic development in China, Chinese manufacturing has been doing great contribution in the total GDP growth (Sun & Gao, 2004). Business practitioners, as well as academic scholars have sung high praise for Chinese manufacturing. CCN news report has regarded "China as the No. 1 economic superpower

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of tomorrow.” In the blogs of Harvard professors ([www.hbs.edu](http://www.hbs.edu)), there were also splendid remarks singing high praise for the development of Chinese economy but in the meanwhile, those bloggers laid special stress on China’s manufacturing-based solid economic foundation as against the speculation economy in countries like USA, UK and others, which was the root cause for financial crunch initiated in late 2008.

Service-manufacturing is a trendy topic both in research and business practices (Bhagwati, 1984; Bartlett & Ghoshal, 2000; Sun, Zhu, Sun, & He, & Feng, 2008). By the time this concept was proposed in 2006, there were only several items released in the internet, but now more than 1.6 million items relevant to the concept of service-manufacturing can be found in popular search engines like [www.baidu.com](http://www.baidu.com) and [www.google.com](http://www.google.com). Authors of this paper have been the key members in the research on Chinese manufacturing strategy, which is a state key project since 2005. Based on preliminary research in the manufacturing factories in the Pearl River Delta area, Yangtze River Delta area and other parts of China, the authors of this paper pointed out that Chinese manufacturing has lost its competitive advantage as against the former years after the reform and opening policy due to the increasing cost in labor force, raw materials and energy, as well as more and more rigid requirement for environmental protection and strengthened summon of sustainable development (Chen, 2007; Cook, Bhamra, & Lemon, 2006; Drucker, 1990, 1998). Still the same authors have expressed their worries and anxieties for Chinese manufacturing. They have advocated that Chinese manufacturing must experience a transformation of current business models (Sun, Zhu, Sun, & He, & Feng, 2008). Service-manufacturing is the way out for Chinese manufacturing to overcome the current development bottlenecks and maintain, as well as sustain its development (Francois, 1990; Fuchs, 1965, 1968; Gebauer, Fleisch, & Friedli, 2004).

## 1. IS IT ONLY A VILLAGE PHONE?

Can you image that a mobile phone also works as a digital camera with long lens and PSP functions? Can you imagine that the auto-shaped and watch-shaped genies (Figure 1) are also mobiles with Bluetooth, PDA and other functions just like Iphone, Ipod and blackberry? Yes, they are mobiles and only at the expenses of no more than one hundred dollars? When you are wandering in the street in China, you might encounter young boys and girls with such cool-shaped things in their hands in a very arrogant manner, please never be surprised. These are all mobiles, cool but cheap cell phones! Though they have varieties of shapes, functions and other characteristic features, in China there is a very funky buzzword as their name—village phone, pirate phone or MTK phones<sup>1</sup>.

## 2. THE VALUE CREATION SPECTRUM OF VILLAGE PHONE

These smart genies have been manufactured in Pearl River Delta area in south of China. It is a place which works miracles every day. In this

*Figure 1. Auto-shaped, watch-shaped, and digital camera genies that are also mobile phones with Bluetooth, PDA, and other functions*



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