China in London: Dr Edward Tse, CEO Gao Feng, on untapped value in China

23 Oct 2015 | Giada Vercelli

Rising costs, reduced supply of cheap labour, shortened life cycles for products and rapid changes in customers' needs set new challenges for entrepreneurial companies worldwide. These fundamental changes are also true for China and their impact goes well beyond the volatility the Asian markets have experienced over the summer. **Dr Edward Tse, Founder and Chief Executive Officer of Gao Feng Advisory and author of the book *China's Disruptors: How Alibaba, Xiaomi, Tencent, and Other Companies Are Changing the Rules of Business***, discusses recent changes in China's business environment with **Euromoney Conferences' Giada Vercelli** at the China Global Investment Summit in Hangzhou.

EC: Dr Tse, in your book you argue that given the fast changing technological environment, business strategies have three principal characteristics. First, any advantage can only be temporary. Second, strategies will have to defy generalisations, and third, reinvention will lie at the heart of all activities of a company. If it is worth investing in such a fast moving environment, how can companies make sure their efforts are not going to become obsolete too quickly?

ET: The only way is to continue to invest in innovation and to reinvent the organisation. It is important that companies develop a sensing capability. In other words, the ability for companies to know what is going on and to make judgements on what might happen. Longerterm predictions are helpful but shorter or medium-term judgements are probably the most relevant. Sensing should be an institutional capability, not the sole job of a single function such as an R&D department. Turning market and technology insights into action and innovation, doing it fast with a resonating rhythm, and using the market as a feedback loop, are all key to sustainable progress.

EC: Do China's leading companies exemplify these trends? If so, how in terms of organisation and output?

ET: The very best Chinese entrepreneurial companies do but of course this does not apply to everyone. Huawei, Haier and Midea are among the leading companies. In the tech space, Alibaba, Tencent and Xiaomi are also at the front of the curve. DJI, a global leader in consumer-sized drones, is a great example of a fairly young company doing this.

EC: With their 12th five year plan, China switched from being a producer to a consumer country. Is the new Made in China 2025 plan a U-turn?

ET: No, it's not. It's an add-on. Made in China 2025 is a strategic imperative for China to advance its manufacturing capability. It does not make sense for China to stick to a low labour cost export model. A more value-added and technology-based manufacturing model is needed. A successful transition would create more value and people's income would continue to increase, thereby creating more consumption propensity.

EC: How does the Made In China 2025 programme differ from the German experience of Industry 4.0 which inspired the Chinese government to take action?

ET: Germany has a much better and more established base to migrate to Industry 4.0. China is not as ready and needs to better prepare itself in technology, engineering and manufacturing. While the Chinese have done a good job with consumer internet in the last decade, they have yet to develop industrial internet. The gaps are pretty large but I am confident that the Chinese can make this transition effectively.

EC: Germany had to implement very harsh reforms before implementing Industry 4.0. Is China prepared to do the same?

ET: As I said above, I think the Chinese government are aware of the gaps and challenges and are committed to tackle them. Needless to say it won't happen overnight and will take some time. However, I know the will – and to a great extent the skill – is there.

EC: In your book you also say that strategy cannot be driven from the top down. Instead it should be driven from the business unit level up. How is this happening in China given the traditional role of government participation?

ET: I said strategy cannot only be driven from the top down. Bottom up is also critical. It's the two-way process and the synchronisation of it that are critical. The Chinese government's direction of the economy and industry sector development have been instrumental in China's growth so far. But like everything else of this magnitude, some actions or policies worked better than others. China wouldn't have progressed so far and so fast in the last couple of decades without the government's direct participation. On the other hand, past success doesn't guarantee the future will also be successful. Having a dynamic way of looking at things and creating the right balance while making progress is tricky but necessary.

EC: If SOEs are gradually being let go from the central administration, how will the government implement Made In China 2025?

ET: The SOE reform is driving them to become mixed equity enterprises. In other words, these enterprises will no longer be solely owned by the government. However, it doesn't mean that they won't all be owned by the government. Ownership in the future will vary from company to company but government ownership can still be significant despite being represented by a range of owners.

EC: Human resources management is changing. Human capital is increasingly precious and deployed more in decision making than in execution, an area where robots are taking over. Can this be disruptive for mass employment? How will China, with its great population, deal with this problem?

ET: Perhaps, but again things won't happen in China in a one dimensional manner. While robotics is being taken up, manual labour is still abundant, particularly in the inland areas. As China's economy evolves, the nature of employment will evolve commensurately. For instance, service is becoming a large part of China's economy and it creates jobs. Consumer internet such as Alibaba's Taobao has created, and will continue to create, jobs for millions, if not tens of millions, of people in China. Many of them didn't have productive output before Taobao was available. The size and diversity of China is a huge challenge but it is also a major source of resilience that few other countries in the world, if any, possess.

EC: Do you see the next industrial revolution as an opportunity to rebalance the economy?

Yes, but it is not the only opportunity. The next industrial revolution will clearly be a game changer as I mentioned above. However, other phenomena are taking place that are also rebalancing the economy. Migration to the service economy is important. Innovation, entrepreneurship and the rising power of the private sector is critical. SOE reform by itself would yield dividends, but it may take some time. More deregulation and liberalisation will also add to the rebalancing of the economy. China is trying to fire on all cylinders. Some reforms will work better and be easier to implement than others.

EC: Is the new Chinese strategy taking into consideration the green principle of offsetting carbon emissions? Perhaps this could create the opportunity to invest in new technologies in waste management and pollution...

ET: Yes, very much so. President Xi Jinping has already pledged China's commitment to the green agenda several times, not only in China but globally. Environmental improvement is a huge area of opportunity for companies who have the technology, capability and commitment.

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