

# Dragon-Mart: Chinese Contamination

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## 1. Wal-Mart, Globalisation and the Chinese Market

Dragon-Mart is a gigantic, 1.2 km long, commercial B2B platform, built like a threatening dragon, which opened in Dubai a year ago. It is a symbol, a warning on globalisation<sup>1</sup>. Nowadays, it is essential to talk about platforms: technological, logistical, linguistic and financial.

Globalisation means huge quantities of goods and money moving from place to place all over the world, all without borders. All day, every day, every minute. Globalisation is here to stay. It will not vanish tomorrow morning.

Faced by the quantity of goods flowing and the mass of money moved from one side of the globe to the other every day, countries cannot intervene nor even affect the state of things in any way. All countries, even the biggest, are like boats bouncing on a stormy sea.

China is behind it all. Chinese contamination exploded like a bubo. The Chinese are neither Martians nor aliens, though many feel they are. We need to understand the nature and reach of changes. Let me just give you a few ideas of what the Chinese dragon is really like.

Right now, the Chinese have no brands or commercial framework, but what about tomorrow? Globalisation exists because trade does, because multinationals, trading companies, national and international retailers exist. Wal-Mart: 300 billion dollars in sales (more than the GDP of some entire nations) signifies 10% of US Chinese imports, 100 billion dollars, all by itself. Over the past 4 years, “Made in China” has eliminated 1.5 million jobs in the USA alone. Over here, 80,000 jobs have gone just in the textile sector. Another 100,000 will be gone soon.

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<sup>1</sup> The article is the translation of Andrea Sparvoli’s speech during the seminar “Over-Supply and Global Markets” (November 2005), organised by ISTEI – Istituto di Economia d’Impresa, Università degli Studi di Milano-Bicocca.

China is a “cloning” empire: from bags to medicine, watches to cars (+1700% over the last ten years). No patents or industrial secrets. Copyright matters not for the Chinese. There is a small town called Dafen in southern China, just an hour’s drive from Shenzhen. 2700 paintbrush experts are concentrated here, working for 145 “art factories”, and able to duplicate any Western art masterpiece. You can order them online too. Price for one painting: from 30 to 100 euro, shipping included. These “artists” work 11 hours a day delivering thousands of paintings.

There is yet another aspect: for the West, globalisation and China mean good market prices, diminished competition, high added value for marketing, branding and commercialisation. It also means that millions of Western consumers can buy TVs, mobile phones, sofas, computers and clothes they could otherwise not afford.

China is not just cheap labour. 500,000 engineers graduate there each year. Two years, one million engineers.

Chinese do not practise dumping as many politicians claim. They do not sell masses of below-cost products. They sell at low prices simply because they have low manufacturing costs. There is other discounted labour besides China: in Vietnam labour costs half what it does in China, but is of less interest. Why? China has a structural differential. Not to mention India, Africa, Eritrea and The Congo. If anything, the question is: are ever-lower prices a manifestation of falling incomes?

Wal-Mart is in China with 40 superstores and another hundred opening over the next 5 years. 80% of the products sold are Chinese, but there is no way those working for its suppliers can afford to go into the shops and buy the goods.

(However, in the Chinese Carrefour POS – 61 hypermarkets, 15 on the way – 80% of the food products are imported).

## **2. China and the Global Market**

A dragon biting its own tail? No. There are three things we need to understand: orders of magnitude, how Chinese production is structure and how decision-making power works.

First. Years ago in 1998 when no-one even considered China, I wrote that as soon as the Chinese start using toilet paper it will be the end of the world as we know it as there weren’t enough trees worldwide to go round. The terrifying strength of large numbers. Hong Kong has 8000 skyscrapers. Shanghai 3000. They weigh so much that the ground sinks 1.5 cm per year. The highest skyscraper in the world is the Taipei 101 in Taiwan: 508 m high, 61 lifts

travelling 69 km per hour and doing 89 floors in 39 seconds. And here we argue over a 200 m tower!

Second. Think how long it takes to open a factory in Italy. In China, if a factory needs to be set up in town or in the country, no problem: inhabitants or farmers get 48 hours warning to move and find themselves somewhere else to live. If they refuse, the police move in. In the most industrialised districts, sewers and industrial waste have polluted the water table turning the water to poison. Quality of life? That is for the future. In some places, the average lifespan is 45.

Over the last five years, 150 million peasants have left their land for factories. China is the biggest factory in the world. It produces not just for itself but for all the rest of the world too. In any world market, it is really difficult not to buy something that was not made in China. There are 500,000 foreign companies operating in China (of which 1200 are Italian).

In China, something unstoppable is on the move - a huge concentration of economic, manufacturing and financial power. Over a ten-year period (1990-2000) the number of Chinese cities with over one million inhabitants went from 20 to 166. Each of those 166 cities competes on the market as if it were just one "corporation" with the Mayor as its Managing Director. Everything is aimed at production. There are 12 districts/areas/regions, each specialising in one main industry (computers, clothing, pharmaceuticals, furniture, etc.). Each of these competes internationally as if it were a mega-conglomerate. Nine of them compete with the 15 strongest "States" in Asia.

Still on large numbers: the number of inhabitants in the Henan region, with Zhengzhou as its capital, is equivalent to France and Italy summed together. Size determines the speed and scale of change. Many people ask how can communism and this kind of extreme capitalism live side by side.

Third. Production entities are organised as vertical-pyramidal decision-making hierarchies. Every town Mayor has full power. His target each year is to increase output by 7-9%. If he fails two years running, he gets sent home. Every district/region has a chief with full powers. All the regions report to the Communist party, which operates above them as if it were both a "religious organisation" and "holding company". Just think: it is as if the Vatican did all the strategic and industrial planning here in Europe.

But let us get back to the consequences. Producing at the lowest possible cost has become a must everywhere. Suppliers are asked to offer China compatible prices. Manufacturing in China means saving an average of 30 to 40%. But do not be in a hurry. The infrastructure is awful. Forget Just-In-Time. Goods take about 4-6 weeks to arrive, plus two in Customs. If nothing goes wrong. But in Singapore a container can be unloaded 25 minutes after arrival, 24 hours a day, 7 days a week.

Let us take a look at freight costs. Container transport costs:  
From Hong Kong to Genoa: \$1,050  
From Genoa to Hong Kong: \$200  
From Genoa to Milan: €400  
No comment needed.

To help us understand the nature of the China problem, here are two examples, two books, two symbols at the extremes of the spectrum: one is the famous *I Ching*, the “Change Classic” or “Book of Transformations” which has influenced Chinese thought for thousands of years at least as much as the Bible or Greek philosophy have influenced the West. Like the Bible, *I Ching* is a collective work with authors going back to two thousand five hundred years before Christ. This book does not provide dogmas or absolute values but evolution and transition. In Western culture, the word is the origin and writing only comes later. In China, there is no divine or epic Word; conscience is born of the sign. The trigraphs and hexagraphs at the base of this classic do not express a perfect sense but can be read as elements of a mathematical matrix.

That is the great difference between the Western and Chinese traditions. We are obsessed by the “truth”. Our philosophy, originating in Greece, is always obsessed by God, even when denying it. Instead, China has developed a philosophy consistent with reality, in which God has lost his consistency and relevance. It contains a vision of the world that does not focus on speculating about the mystery, but integrates it.

That is why China itself is a mystery.

For the last 19 months, there has been a bestseller in China called “Wolf Totem” or “The story of the God-wolf”. It is a lot more than just a literary or commercial happening as it has catalysed a public debate on the national Chinese psyche. Written after thirty years of thought by Jiang Rong, an economist-sociologist and professor at Beijing University, he inspired a Chinese businessman to say the following:

“This novel teaches us that wolves are excellent strategists. They never fight a battle without preparing for it. They attack at the right moment, and save their strength. They hit their prey when it is at its most vulnerable, unprepared. And they always act as a team”. The author wants to inspire the Chinese to stop being “a people of docile, passive sheep and finally become wolves”.

Not bad for a nation of 1.3 billion people that has never known individualism as we know it in the West. I will let you just imagine what kind of upheaval that can bring.

Nowadays, to do business you have to be open to the world, open your eyes and mind, throw away old ideas; know who you are up against, but most of all study China, the oldest civilisation in the world.