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CHAPTER 1

Foreword

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It was a great privilege for me to participate in the Fourth Future Trends Forum in June 2005, which dealt with the issue of the "Implications of the Dramatic Rise of China". As the director of the World Bank's China Programme, I was a privileged witness to a transformation which will have a decisive influence on the world economy and its geo-political balance. The Fundación de la Innovación **Bankinter** deserves my most sincere congratulations for having organised a dynamic session, at which, through creative thinking, risks, opportunities and probabilities were considered, within a framework of application encompassing more areas of interest than are normally tackled.

In the late 1970s, Deng Xiaoping took a great step forward: he decided to open China up to the outside world. Neither he nor anyone else could have realised what the global repercussions of this move would be. China has not conquered the world with a great army, but instead with its assembly plants and with the opening up of its markets. Over the last 25 years, the country has experienced a nearly two-figure annual growth rate, releasing around 500 million people from the most abject poverty (and turning them into the potential customers of a globalised world). Today it is the world's second-largest trading power, the largest recipient of direct foreign investment and the second-largest consumer of oil products. Its voracious appetite for raw materials has upset international markets: China now buys 40% of the world's cement, quarter of its aluminium and nearly a third of its iron ore.

It is also capable of operating across the technological spectrum, unlike Japan and other Asian giants of the 1980s and 1990s. China manufactures between 60% and 70% of the world's toys and bicycles, half of its microwave ovens, a third of its televisions and even some components of the Boeing 757. China is also preparing to take the long awaited leap to the summit of innovation, through agreements with pioneering software companies and agreements with large multinationals to produce hybrid cars and explore space with its made in China rockets.

China has invaded the press, the radio and the television news: it is causing upheaval in the EU textile market, bidding for energy resources, going for companies with existing brands and attracting all the giants of the financial world to be strategic investors in its initial public offers (IPOs). There is much talk of China's immense size, but the diversity and depth of the change the country is now experiencing represent both an opportunity and a challenge: an opportunity because new production lines and processes will grow with great drive and speed, and a challenge because many of these mergers-perhaps the majority-will not endure.

The first phase of globalisation began with expeditions by European adventurers to far-off lands; the second phase was led by the multinationals and now the third phase may be born out of people and out of the initiatives of SMEs which are driving a new pyramid growth in processes and associations with their counterparts in countries such as China. The size and relative openness of the Chinese market offers a host of opportunities, but its complexities, its cultural differences and the inconsistencies of its legal system and system for protecting intellectual property may also pose serious problems for the uninitiated.

For economies like Spain's, whose trading potential lies in small and medium enterprises with a strong local presence and global aspirations, the awakening of China might be viewed as a threat. Even so, experience shows that large, rapidly-expanding diversified markets can offer more rewards than might be expected when the country in question-and this is especially true in the case of China-opens its domestic market and reinforces its export capacity without shoring it up with protective barriers. All this means that are abundant opportunities for companies prepared to forge alliances with small but dynamic local partners, who can thus get a toehold in international production networks and complement, with services of greater added value, China's greatest strength: labour-intensive product manufacture.

Because production processes are no longer vertical, economies of scale and specialisation are already available to a wide range of firms with global aspirations, something which did not occur in the past. Nonetheless, cave emptor for anyone embarking on a venture of this sort in these uncharted waters: they may make their fortune, but they might equally go to the wall. The pioneers must be prepared to invest time and resources in understanding the milieu and its risks, and to protect their own advantages in a market in a state of continuous and dramatic flux. It is against this backdrop that this book will prove so useful.

Notes

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