

## **CHINA STRATEGIC MANAGEMENT ON ECONOMY DEVELOPMENT**

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### **Abstract**

*China is an important emerging country; has transferred from planned economy to market economy after strong and strict experience of communism, which is still reforming Chinese public companies. After 1979 China applied reform and open policy and become half communist and half capital society, since that time several decades of development China has achieved through making great successful on economy development, replied on strategic management. In this paper we will present briefly historical view on Chinese Strategic Management, which is considered as a significant realistic example for former communist countries around the world and certainly in Europe such countries as Romania.*

**Keywords:** China, Strategic Management, Knowhow

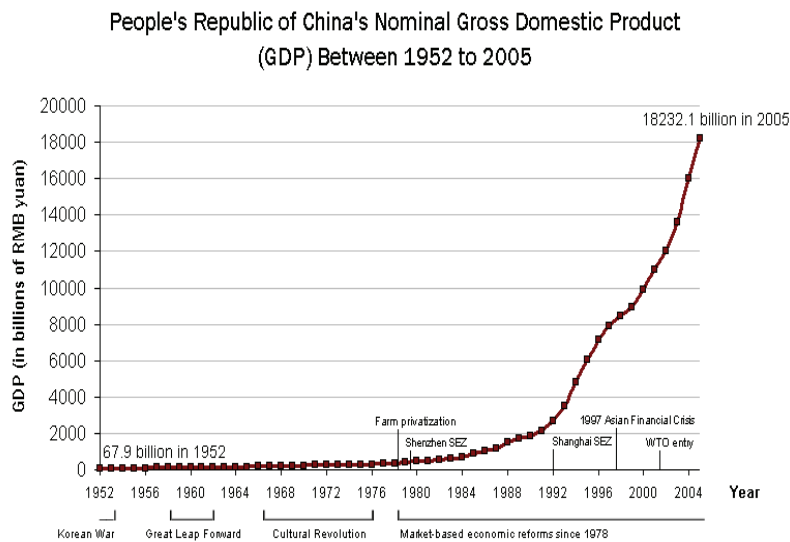
**JEL Codes:** F20, M10, O10

### **1. Introduction**

More than 30 years China's sustained high growth thanks to "elements of dividend, the market reform dividends and dividend" globalization of huge contribution. Along with the gradual attenuation of the three big bonuses, however, China relies mainly on the high-speed growth of low-cost advantage to return to normal gradually, the cycle of "big into a" development mode also seems to be coming to an end. In 2011, is the beginning of China's new "five-year plan", is also the fork in the road of

China's economic transformation, potential for China's economic development over the next five years, what advantage can dig the most important strategic issues of economic development. The change of the current global economic pattern let us review and adjust the road to future growth. Monetary easing from the external development environment, the global economy, the government, overdraw, structural imbalance, the dollar, commodity prices, inflation and deflation, a variety of factors such as capital flows, this will make the future more complicated situation to the global economy, especially in the major developed economies rely heavily on policy stimulus, and there is no effective follow-up to promote the structural adjustment of medium-term growth and long-term follow-up policy under the premise of the future of the global economy is still difficult to get rid of the low speed growth track, China still suffer from external impact and challenges. But in terms of the opportunities brought about by the crisis, the financial crisis in China, in addition to the adjustment of economic structure, development of engine, but also from the global economy and ecological reconstruction in the process of China's economy, is currently China's economic development strategy of thldl.org.cn outside-in three important adjustment and change the important opportunity. China's economy since 1952. In the past 30 years, China becomes the worlds's fastest-growing major economy, with average growth rates of 10%. Shows as chart 1 below:

**Chart 1: China GDP development change from 1952 to 2005**



All these developments affect importantly on corporate governance situation. The transferring from a planned economy to a market economy has reformed public firms structures. That gives SOE an important role of economic growth in China. That leads to separate ownership from controlling system with granting control right to executives. Pre-reform period between 1949-1983 public companies were dominating Chinese economy with absenting any shape of western corporate governance style.

Later between 1984 and 1993 the separation between state and firms started to take place in Chinese economy indicating the beginning of reforming Chinese firms. But these changes limited on efficiency of SEO enabling firms to make their decisions individually. The new model – management contract defines the rules of profit-sharing by negotiations between governmental presenters and management team increasing margin profit during 1980s. In August 1984, Shanghai Government issued the first provincial level regulation on securities and SEO followed the changing waves. As result, China Security Regulatory Commission was issuing main regulations of stock market. That means there were noteworthy steps for Chinese corporate governance. The modern shape of firms is formed between 1994 and 2005 allowing comprehensives regulations to highlight company's responsibilities. The modern corporate law has influenced governance system and economy as well. Even so, overwhelming favoritism is considered as the main challenge for Chinese companies. The mature level has started in 2006 through issuing regulations of balancing power between public and individual shareholders. Economic and governance growth has been continued in this period.

## **2. New management model – knowhow**

Managers of Chinese companies wake up from deep comfortable sleep of planned economy to face challenges of uncertainty as main feature of modern economies about how to obtain a maximum benefit of gained cope and autonomy with high competition. Chinese manager have searched desperately to new concepts of management meet market economy needs.

They are eager to learn fast the new model of management knowhow from West with paying strong attention on new approaches. But the heavy heritage of long strict experience of communism cannot be changed easily in short time. Strategic management and marketing are significant objectives for Chinese companies since managers do not have knowledge of marketing plus operating experience in high competitive atmosphere is absent (Chen; 1993). Plus a huge shortage of educated marketers and missing training programs make the situation worse (Zhou; 1991, Siu; 1994).

That set a need of enforcing managers to attend special training programs of knowhow management model to cover the huge gap created by

transition movement (Marketing Herald; 1994). This model is simplified by three points; philosophy and thinking of management, models and theories, and techniques and analyzing methods.

The first question must be asked; if knowhow western model can be transferred to China. There are some sensitive points must be considered in this transferability. Full adopting of western model can reflect negatively on Chinese economic growth. The idea of just transferring returns nothing on Chinese managers' experiences. China called modernization in the middle of 1970s limited at the beginning on importing advanced technology from industrial countries such as United States of America to include later management knowhow model. That creates a relaxed situation for Chinese politicians leading to get full approval on the attitude of western knowhow model. Moreover, this model creates great possibilities to attract foreign investments. At first stage, not all elements of western model are transferrable due to their compatibility and relevance to Chinese context assuring the differences between China and Western industrial countries;

Western markets are well prepared, developed and full mechanisms, China is missing all making post-industrial model is not suitable for Chinese companies. Thus, Chinese management need is "*appropriate knowhow: useful, acceptable and affordable*" (Terpstra; 1991). There are available resources of knowhow model for Chinese management are Western, Japanese, or overseas Chinese companies. Over Chinese companies has a significant role in adopting knowhow in China since important factors are common such as cultural roots, management style and language. But the challenge was that these overseas companies have a lack in all features of modern management (Hofstede; 1993, Redding, 1990), and their SEO act differently because ownership structure is structured on family businesses – weak at marketing making Chinese companies weak in international markets in high competition atmosphere. Adding to that the definitions of tangible and intangible assets is different between local and overseas companies (Hofstede; 1980, Yau; 1988). So the question here, Japanese management model is relevant to Chinese management or not. Japanese knowhow model is popular in China since 1980s due to some similarities of culture and economic impacts, which offer Chinese government a different and desirable way to modernization rather than western model through emphasizing economic growth and reducing the emphasis of democracy (Lewis & Sun; 1994). But that works for a while, there are some characteristics of SEO are same as names but the main features are absolutely different, which is making programmatically problems to Chinese management (Redding & Pugh; 1986). As result; Chinese management is forced to adopt different knowhow model to reformulate it

meeting the specialty of Chinese companies.

**China's economic development strategy should be implemented outside-in 3 big change**

**1) Economic development strategic shift, from the epitaxial growth to the connotation of transformation of economic growth.**

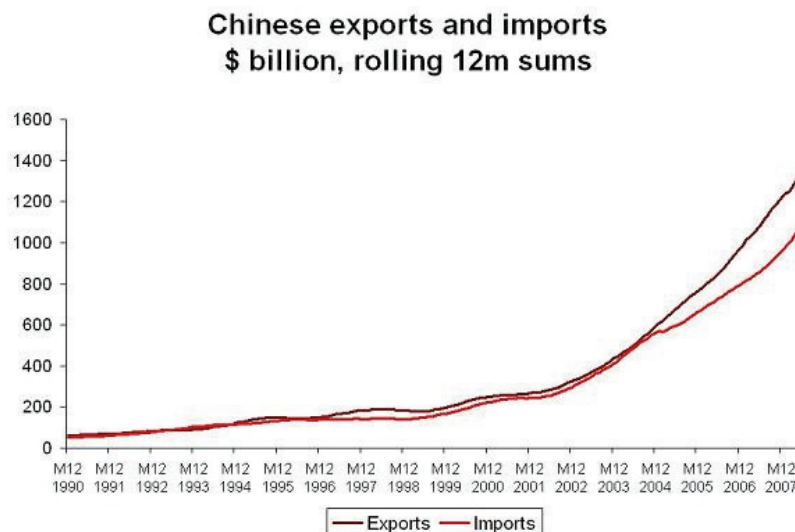
From low cost era, means that China rely too much on increase of production factor inputs such as labor, capital growth mode has been unsustainable, China needs through the upgrade of industrial structure, accelerate human capital formation, technological progress and institutional reform spillover effect on economic growth, by Smith of extensive growth to the connotation of schumpeter type growth.

Worth pointing out here is, for the "lewis turning point" brought about by the "demographic dividend" attenuation problem, in addition to increase human capital investment in order to improve population quality, promote the industrial transfer, the structural optimization and industrial upgrading, also should pay attention to the shortage of migrant workers "defects" factors, improve the efficiency of labor resource allocation to prevent the occurrence of similar phenomenon such as the shortage of migrant workers and the impact of, and to upgrade the industrial structure adjustment and optimization, to provide human resources, promote the benign interaction of industry structure and employment structure.

**2) From the export-oriented economic development strategic to domestic consumption growth.**

The current global division of the world on supply and demand structure system is facing the huge imbalance of international payments system. Global imbalances in the system, "China, U.S. consumer savings", should be in the balanced development of their own internal implementation under the impetus of the economic globalization, is according to their comparative advantage, the production, consumption, investment, link in the global scope has carried on the reorganization. Now, as the main suppliers of the world economy, China is facing the external demand of the market atrophy; And depending on the consumer credit relieve the contradictions of economic developed countries lead to excessive consumption because of debts unsustainable model, China's economy will further external demand constraint, this trend will be reversed transmission development drive towards domestic demand, China now manufactured by China, the United States consumption becomes by the Chinese themselves instead of exports, replace the consumer! It is XiaoFeiQuan part of developed countries to developing countries. We can see the rapid growth on Chinese exports and imports from following chart 2:

Chart 2: Chinese export and imports from 1990 to 2007



### 3) Economic development strategic change, from mainly relying on the international capital to foster stronger local capital.

It should be said that the international capital accumulation ability of formation, and the use of a large number of international capital in China, is China quickens the process of industrialization and market, the important reason for the rapid integration into the global economy. 30 years ago began opening to the outside world, from labor-intensive products processing trade, foreign capital introduction, resource development, compensation trade and so on. The way from the Chinese low development level of the realistic and the most effective strategic choice of economic development, it was also at that time, China's lack of capital, advanced technology and integration into the global economy's ability to stage characteristics, based on the low-level resources determines that China took to the road elements senior to attract foreign capital, but it also determines the distribution of interests in international capital flows, high-end developed countries can be achieved by capital output, most interests through direct investment and indirect investment.

#### China needs to rely on strategic management to keep economic development

Since reform and opening up, the essence of strategic management has become China's economic development. Strategic management requires leadership for formulating a series of policies, the economic situation for the sustained economic development continuously provide new direction and

motivation. Today, China's leadership will focus on implementing dominated by consumption, with emphasis on the rapid growth of service industry reform. Consumption and services, leading the growth model not only help the economy sustainable development and green development, but also will provide vast opportunities for all countries in the world.

For a long time, China is good at applying strategic thinking to the design of economic policy. Since the late 1970 s reform and opening up, in recent years to determine a set of widely dominated by consumption of economic "rebalancing", the essence of the strategy has been the development of Chinese modern miracle.

China's leadership will focus on the implementation of a wide range of the reform of the dominated by consumption. These reforms include making service sector development blueprint, funding for social safety nets, content of reform of state-owned enterprises, etc.

Now, China's external environment has been unable to support the export-led growth model. In 2012, in Europe, the economic situation is not optimistic. China's main export market hit, the next few years still faces severe challenges. Therefore, is necessary more and more urgent for China to rely on domestic demand, especially private consumption.

Promote the economic reform of dominated by consumption. A balance of China's economy will provide great opportunities for China itself and the world. From the Chinese point of view, to a more by leading the growth pattern of consumption and services, create a new growth to slow slightly but a new era of more sustainable. Equal output of labour-intensive services created more jobs than in manufacturing and construction 35%, therefore, the future China's gross domestic product (GDP) growth even down to about 7%, will not endanger the whole country to absorb labor force employment and poverty reduction goals. Also, by the growth of the service industry leading consumes less resources, emit less carbon dioxide, will push China on a more "light-duty", more green, more clean and more sustainable growth and development track. The miracle of the development has been in the fourth decade. China has a better future. But only if China return to its strengths, namely with the attitude of a strategic managers to manage their own special economic, the miracle will continue. It also asked China to turn to "rebalancing" and reform agenda.

➤ **Long-term strategy-system integration and sustainable development**

The Chinese governments are aware that Chinese economic growth is not sustainable in long term. In earlier of 2007, Chinese premier pointed out "the biggest problem with China's economy is that the growth is unstable, unbalanced, uncoordinated and unsustainable". Consequently, many areas require rebalancing measures have been determined, including:

- I. Extending the net of social safety and increasing incomes.
- II. Eliminating disfigurements in relative prices – basically in exchange rate and input cost to obtain advantages and strength sustainability.
- III. Reducing governmental intervention in resources' allocation.
- IV. Doing more steps to liberalize Chinese financial system, which allows for more effective saving intermediation.

The twelfth Five Year Plan was approved in 2011, and it seems to have furnished the needed reforms with right direction, even though concreteness might be still missed in some areas. Chinese authorities should do more efforts into improvements of services sector and consumption rate of investing and manufacturing. In table no.1 it is explained several rebalancing areas:

**Table no. 1: Measures to rebalance China's economy**

	In process	Reversed	To be done
<i>Strengthen private domestic demand boost private consumption</i>			
Household and rural incomes			
<b>Implementation of labour law and increasing minimum wages</b>	X		
<b>Labour mobility “hokou”</b>			X
<b>Social housing subsidies</b>	X		
<b>Agricultural subsidies</b>	X		
<b>Income tax reform</b>			X
<b>Consumption subsidies (cars and durable goods)</b>	X		
<b>Reduce precautionary saving via enhanced welfare</b>		X	
<b>Rural and urban pensions reform</b>	X		
<b>Education</b>	X		
<b>Health care (subsidies and infrastructure)</b>	X		
<b>Reduction of inequality</b>			X
<i>Boost private investment</i>			
<b>Crowding out from public investment stimuli 2008-2010</b>		X	
<b>Financial sector reform</b>			X
Export-led model discontinuation/private sector promotion			
<b>Exchange rate reform</b>	X		
<b>Export tax rebate system</b>		X (07/08-06/10)	
<b>Input costs</b>			X
<b>Manufacturing sector's domestic value added technological upgrading</b>		X	
<b>Service sector development</b>			X
<b>Inland regions development</b>	x		

Created by: E. Dorruci & G. Pula & D. Santabarbara; 2013



### **Conclusion**

China is forced to adopt new management model to sustain its economic growth, which is affected dramatically by external impacts of economic environment such as global economy changes, Chinese government plans, overdraw, structural imbalance, the dollar, commodity prices and inflation and deflation. The new model is based on Western culture specially in developed industrial countries and Japan allowing China to develop later its own model matching with its needs and specialty, Knowhow model helps China to content all negative impacts of long and strict experience of communism without real changing in the main structure of the country. That affect naturally on corporate governance, which is enforced by governmental regulations. Thus, that is one reason behind successful mixing of communism and capitalism; planned market and economy market with taking in consideration Chinese economic is based on exports; external markets have their own touches in Chinese growth. To sustain economic growth in China in this tough period of world economy China must care on labor market; low cost is a strategic management, and it can be developed when new technologies and educated labors are hired.

Also China must turn back to domestic market since internal debts model is not sustainable, replacing consumers can save Chinese economy in long term with needs government's support to strengthen local capital reflecting an increase purchasing power regionally. Chinese government has started a rebalancing program in its economy to sustain its growth in long term through several step explained above in table no.1

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