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Creating a Harmonious Society

Jean Ruffier, *Faut-il avoir peur des usines chinoises?*
Compétitivité et pérennité de "l'atelier du monde"

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Jean Ruffier, *Faut-il avoir peur des usines chinoises? Compétitivité et pérennité de “l’atelier du monde”*

Xavier Richet

- 1 Industrial sociologist Jean Ruffier offers us an important book on his Chinese experience that begins at the end of the 1980s in Guangzhou and in the province of Guangdong. His work and reflections are rooted in the most radical area of transformations in the new “workshop of the world” China has become, in a few short years, since leaving behind the chaotic course of the Maoist era. His work undertakes, through studies conducted in numerous enterprises in the region, to evaluate the sources and the potential of the companies located in China’s most industrious region.
A research method
- 2 This work is firstly a method for understanding the transformations taking place in the Chinese industrial system: how to analyse the transformation process, and from what starting point, how to construct a framework for a relevant analysis? The author began by putting together a mixed team of French and Chinese researchers who were able to learn from each other and thus facilitate a convergent vision of the reality that they are about to discover in the factories.
- 3 In the course of his work as a sociologist in the field in France, in Latin America and now in China, Jean Ruffier has constructed and tested the concept of “productive efficiency”¹. Although at first sight the concept is slightly removed from the standard tools used by economists and managers to assess the performance of a company, the author starts out from the idea that every company gives out, receives, uses and retransmits strategic information internally and externally that helps it to define its strategy while using its resources in an efficient manner. This type of analysis, subject to a small paradigm change, is not unknown to economists and managers, who refer to other concepts (value chain, competitive advantage, portfolio of activities, structure-conduct-performance analysis, etc.)². What is important here is to reveal the origin of the processes that have led to the emergence of entrepreneurial activities, to measure

their trajectory and to come up with a prognosis on the durability of their growth and of their survival.

- 4 The author was one of the forces behind the creation of the French-Chinese Centre for Industrial and Technological Sociology at Sun Yat-sen University³ in Guangdong, established at the beginning of the 1990s and which has rapidly developed into a required stopover for any researcher wishing to work in Guangzhou and in the province of Guangdong on the transformations in progress. His present book is made up of a series of studies conducted in different enterprises in the course of the last 15 years in the province of Guangdong, enterprises that the author has had the opportunity to visit on several occasions during that period. Based on case studies, on diagnostics looking at the way these companies function, he evaluates their performance and comes up with forecasts on the durability of their growth in the new competitive environment.

A typology of enterprises

- 5 With his team, the author has conducted studies in three types of enterprises: state enterprises, joint venture enterprises and private enterprises. The latter, which draw the most attention, are the crown jewels of the new Cantonese entrepreneurial (and primarily family) capitalism. What is found in this province, far removed from the centre (a not negligible strategic advantage), are enterprises confronted with different competitive environments. Twenty years ago, Guangdong was an agricultural province with a few large industrial centres. In the space of just a few years, it has developed, in particular around the Pearl River, into an enormous urban zone where the boundaries between the cities have been erased. There is today a kind of continuum between Guangzhou and Hong Kong. The author sets himself the task, through his studies, of examining the process that has led to this formidable transformation by observing, at the level of the workshops, the mechanisms that form the basis for this “immense accumulation of goods”.
- 6 The first part concentrates on an analysis of the region’s state enterprises. In the context of China’s reforms, these companies have been the most affected by the introduction of the market, the changes in regulation and the launch of competition. Previously, these firms were heavily protected by the paternalism of the state with regard to their financing, their markets, their internal organisation (job for life, living in a community space, the danwei or work unit). What the author notes first of all is the very weak productivity that prevails in these state enterprises, all of which have been restructured, some moving from the production of tractors to that of sewing machines, others to the production of bottles. What is striking here is first of all the loosening of the links between the centre and the enterprises, but it is also the weakness of their capacity for innovation.
- 7 The second part of the sampling concerns joint venture (JV) companies, mainly Franco-Chinese. One, Peugeot, experienced a resounding failure, others have encountered great difficulties entering the market and have left again. It is not certain that the landscape of the JVs in the region is the same today as the one that the author and his team visited. On the ruins of the Peugeot joint venture, one of the jewels of industrial co-operation between China and Japan, the Honda factory, has prospered. The majority of foreign car makers today want to invest in the region. But the case of Peugeot is interesting, as it illuminates a certain number of difficulties in setting up strategic alliances with high transaction costs. In the case of this JV, Peugeot contributed only

25% of the capital of the company, which immediately limited its position vis-à-vis the Chinese partner,⁴ restricting it to technical and non-strategic functions. A second difficulty relates to the mode of internal organisation of the JV, which was more of a unitary/centralised than decentralised type. Finally, one last point concerns the badly perceived demand on the local market, which generated significant internal communication problems.

- 8 What is striking in the following case is the difficulties experienced by firms in expanding, attributable on the one hand to local factors and, on the other, to the change in strategy of the Western partner who decided to withdraw from the co-operation while the future of the company was still assured. The last case is more interesting, as it brings together several types of operators from both the foreign and the Chinese side. On the French side, this is a company that follows its clients who have decided to set up business in China⁵. On the Chinese side, the operator is the local municipality (the city of Zhongshan), which puts in place a new type of local industrial policy, in particular by planning a production zone (an industrial park) capable of receiving foreign SMEs and providing the necessary workforce. The municipality, on site, offers a customs clearance and bonded warehousing service that significantly reduces the costs of import and re-export.
- 9 The third sampling of companies, and certainly the most interesting, is that of the private Chinese enterprises. Among the different modes of corporate organisation found in China⁶, these companies are the most recent and the most dynamic. They operate under very particular conditions both as far as their supervision (the tolerance of the Party-state), their financing, their internal organisation (often autocratic) and their relationship to the inputs market are concerned. Above all, the growth of these companies depends on the commitment of their directors. In the cases presented, the biographical element plays a large role in revealing how the directors of these enterprises have been able to emerge, perpetuate their business and possibly diversify. Several common ingredients can be found: a personal history that has enabled them to profit from opportunities, to count on the financial aid from family or friends, sometimes to “fly a kite” by misappropriating the working capital of an official enterprise to launch new activities. At the same time, this growth mode is showing its limitations, both financial and organisational as well as in the mastery of technology and the development of the market.

A Penchant for Canton?

- 10 The province of Guangdong, for the author, is the heart of China’s growth. What was empty countryside just a decade ago has given way to a tightlyknit urban network of motorways, an endless succession of towns that seem to push back the boundaries of the former capital of the south. Nearby towns have become clusters specialising in the production of automobiles, motorcycles, or textiles. Experience gained from the decentralised co-operative ventures between Western operators and local authorities has given rise to new forms of “coaching” and partnership at the local level, with the municipal authorities mobilising to ensure they can make an enticing offer to attract even small-sized foreign companies.
- 11 In reassessing the analytical framework that guides his studies, the author draws several conclusions as to the factors involved in the entrepreneurial dynamics of this region. It is striking to observe the strong position gained by private companies that arrive on the market with limited means, often weak competitive advantages that

depend either on their relations with their suppliers or their clients or even on the dominance, at a given moment, of a particular, often underdeveloped technology. In the title of his work, the author mentions the durability of these companies. In his sample, he does not talk about any firms that opt out, although there must be some that do⁷. What is striking, furthermore, when reading this book, is the great fragility of the growth of these enterprises. The sudden disappearance of their director, a rapid change in technology, a sudden fluctuation in demand, the appreciation of the yuan following pressure from the United States, etc., any of these factors can rapidly destabilise these enterprises.

- 12 On several occasions, backed up by figures, the author shows the importance of the province of Guangdong in China's growth. Perhaps the importance of the province's performance should be put into perspective by integrating the valueadded content of the region's exports. The figures provided by specialists show that joint ventures and companies wholly owned by foreigners account for almost 60% of Chinese exports and that making up for technological gaps remains a priority objective of the Chinese government (as shown by the various industrial policy projects in different sectors). It also remains true, as the much-quoted Professor Wu of Sun Yat-sen University remarks, pleading for the creation of a forum of entrepreneurs with a view to pooling the skills of this entrepreneurial environment, that what we observe today in Guangzhou and in the province of Guangdong is the deployment of the Chinese entrepreneurial capitalism that the leaders of the region pride themselves on. It is also necessary to take into account, in China's current growth, other forms of capitalism that are at work in the country: state capitalism, managed from the centre and possessing powerful means, particularly in financing, in certain of the country's key industries, and also the "comprador" capitalism (foreign capital, the joint ventures) that sets the tone in terms of organisation, productive efficiency, technology, exports (more than 60% of Chinese exports with high added value), something which seems to frustrate the central government that is in search of a greater autonomy for Chinese companies in order to meet the challenge of appropriating new technologies.
- 13 This book by Jean Ruffier represents a major contribution to our understanding of the internal mechanisms driving the growth of Chinese companies and one that allows us to make some forecasts on the evolution of this process that is helping turn China into one of the world's foremost economic powers. In the end, China's industrial future lies in the emergence of a class of entrepreneurs increasingly liberated from bureaucratic constraints: this work gives us a glimpse of what is going to happen in the years to come as the perimeters of private activities are steadily enlarged.
- 14 Translated by Nick Oates

NOTES

1. Jean Ruffier, *L'efficience productive. Comment marchent les usines*. Paris, Editions du CNRS, coll. Recherche et entreprises, 1996.

2. Cf. Xavier Richet, *Economie de l'entreprise*, 3rd edition, Paris, Hachette, 2006.
3. The creation of this Centre remains to this day a form of unparalleled scientific collaboration, and consequently not recognised for its true value by the scientific and administrative authorities in France, within the framework of Franco-Chinese co-operation with, on its balance sheet, the production of several theses, the welcoming of Chinese and French researchers, the organisation of several scientific events and the publication of various works. Jean Ruffier has proved to be, in this adventure, a veritable "research entrepreneur" by combining, on very limited resources, skills drawn from different horizons.
4. In the automobile sector, joint ventures are generally of the 50-50% type in terms of capital contribution. This can rise to 100% for subcontractors.
5. The case is not an isolated one. In the automobile industry, Western manufacturers arrive accompanied by their main suppliers. This is the case in particular with Valéo, which set up shop in Wuhan. The company today has 10 establishments in China, one of which is a research and development centre in Wuhan.
6. Cf. Jean-François Huchet and Xavier Richet (eds.): *Gouvernance, coopération et stratégie des firmes chinoises*, L'Harmattan, Paris, 2005.
7. During a visit to a cluster specialising in the manufacture of textiles (sails), Textile City in the environs of Guangzhou, I was struck by the presence of several hundred small workshops congregated around a technical centre. These enterprises are most certainly not there to fulfil the conditions of atomic offer in the microeconomic theory of pure and perfect competition, but to make money.