

Analysis on the Development Strategy of Chinese Enterprises in the Background of America's "Re-industrialization" Strategy

Wei Shan

Institute of Economics and Management of Wuhan University, Wuhan, P.R.China, 430072

(E-mail: marshalltom@163.com)

Abstract Starting from the influence of financial crisis on American economy, this paper has analyzed the background of the implementation of "re-industrialization" strategy in the USA, analyzed the connotation of the "re-industrialization" strategy of the USA, and its influence on Chinese enterprises. According to this paper, the America's "re-industrialization" USA will have impact on the development of Chinese enterprises. In order to make preparations in advance, Chinese enterprises should take it seriously and strategically. This paper has brought forward coping methods to "re-industrialization" strategy of the USA, that is, firstly, amalgamate and restructure enterprises to make them stronger and bigger; secondly, improve the core competitiveness through science and technology innovation; thirdly, augment the market share through brand innovation; fourthly, improve the cohesion of enterprise through organization innovation; fifthly, improve the quality of human resources through training.

Key words Re-industrialization; Enterprise development; Strategy; Enterprises

1 Introduction

In 2008, the financial crisis beginning from subprime crisis in the USA has greatly harmed the fictitious economy whose principal part is real estate and financial industry of the USA. Lehman Inc. went into bankruptcy. In December 2008, a piece of bad news concerning the bankruptcy of a medium & small sized bank went out each week. In coping with the financial crisis, the US government reviewed the US economy and found that before the financial crisis, the USA, based on the principle of international division of labor and comparative advantage, had abandoned the low-end industries and chains, adopted the strategy of "de-industrialization", and controlled the most profitable part in the industry chain.

In the 1980s, the USA thought that the manufacturing industry was a "sunset industry". In the fields of automobile, steel and consumer electronics, the domestic and international market share of the USA had dropped largely. The proportion of production value of manufacturing industry had dropped from over 27% of America's GDP which was No. 1 in the world to 19% at the beginning of the 21st century. However, this "de-industrialization" strategy has also led to the hollowing of America's industry structure and a serious unemployment of domestic population. Under the circumstance of an incomplete industry chain, the normal operation of US domestic economy is balanced through international trade. However, when crisis appeared in the finance industry which had had a competitive advantage, not only the finance industry itself was greatly attacked, the other domestic industries were also greatly hampered. According to relevant documents, the US industry had had a successive negative growth in seven months from the begging of financial crisis in November 2008 to May 2009, dropped 13.4% compared with the corresponding period of 2008, which has been the biggest drop since 1946. The automobile, steel and chemistry industry have had an overall loss. The enterprises laid off a lot of employees. At the end of September, the unemployment rate reached 10.2%. All these phenomena have led the USA to rethink profoundly its industry development model.

At the end of 2009, Obama made a statement just after he had been elected as the US president, that the US economy should transfer from a high consumption model based on financial credit to a durable economic growth model based on export-driven growth and manufacturing growth, make "re-industrialization" as an important strategy to rebuild competitive advantage, sending out a signal to return towards the substantial economy.

On the day after Obama made this statement, the Berkshire Foundation of Buffett bought BNSF^[1], the biggest railway operator in the USA. Ted Strickland, governor of Ohio and Frank g. Jackson, mayor of Cleveland were also busy on inviting and attracting enterprises and investors, and they made out many preferential policies such as subvention, land preference and tax preference. They also said that they especially welcome Chinese enterprises to the USA for establishing manufacturing enterprises such as assembly plants in order to stimulate local employment and make contributions to the tax. The logic behind the behaviors of these organizations and the new strategy of Obama is the same, and they are

both the embodiment of Obama's "remanufacturing"^[2].

The re-industrialization strategy and its implementation will have an important impact on all the countries in the world. According to the flying-geese model, the basic pattern of the world industry is as follows: in some developed countries such as America and Great Britain, the main industry is the tertiary industry such as financial service, in some developed countries such as Japan and Germany, the main industry is advanced manufacturing, while in the so-called BRICs, the main industry is labor intensive manufacturing. The implementation of re-industrialization of the USA will certainly influence the existing global inter-industry specialization pattern and put the manufacturing of other countries under the intense competition of American manufacturing. For the USA, it isn't short of technologies needed for the re-industrialization; however the technology factor is missed in other countries. Therefore, the participation of the USA in the manufacturing means there will be another strong competitor in the competition stage of manufacturing. How the manufacturing of other countries will be positioned and how the enterprises will be developed? This is a question which needs a deep thought.

Without foresight and strategic thinking, the enterprises won't have clear goal in their development and behavior. This paper starts from the connotation of re-industrialization of the USA, analyzes the impact of America's re-industrialization on the development of Chinese enterprises, probes into how the Chinese enterprises develop in the context of America's re-industrialization in order to provide some reference for the development practice of Chinese enterprises.

2 Connotation and Trend of America's Re-industrialization

The America's strategy of "de-industrialization" began in the times of Reagan government. In the 1960s and 1970s, with the development of manufacturing in Southeast Asia, Japan and emerging developing countries, the transfer tendency of global manufacturing center in the beginning of the 20th century transferring from European continent to American continent faced another transfer tendency and the traditional manufacturing had the tendency to transfer to Asian. The America's manufacturing, confronted with the development of manufacturing in Japan and emerging developing countries, has appeared some signs of fading. Its manufacturing products obviously lack competitiveness because of high cost compared with Japan and emerging developing countries. The proportion of manufacturing in the national economy has dropped rapidly, and the labor has transferred rapidly from the first and second industry to the tertiary industry. The manufacturing has transferred to emerging industrialized countries. The added value of the tertiary industry has surpassed the second industry, becoming the primary industry of the national economy. The manufacturing such as automobile, steel and consumption electronics is confronted with serious challenge. In the 1960s, the manufacturing output accounted for 27% of the American economy. In 2007, the manufacturing only accounted for 11.68% of American economy^[3]. The main result of this phenomenon is that the proportion of employed population of the manufacturing field in the employment population of non-agricultural industry has dropped year by year. In 1900, the proportion of employed population of manufacturing in the employed population of non-agricultural industry is 36.0%. In 1960, this proportion is 31.0%, that is, an average decrease of 0.083% per year. While from the 1960s to the end of the 20th century, the proportion of employed population of manufacturing in the employed population of non-agricultural industry decreased with a speed of 0.45% per year, presenting an accelerated dropping tendency^[4].

Confronted with the tendency of dropping of manufacturing competitiveness, the USA relied on its strong capacity of scientific and technological development, the economic system with self-adjustment capacity and flexible financial innovation and promotes the emerging industries by use of risk investment in high technology R&D instead of promoting the manufacturing just by inputting resources. This is the strategy of "de-industrialization". The implementation of de-industrialization has led to the emergence of many internationally famous emerging industry companies such as Microsoft, Google and Goldman Sachs. By developing high technology industry, the USA has occupied the upland of national industry restructuring and amelioration, the leading position of the tertiary industry such as finance and information service industry have been highlighted in the overall economic structure, and the disadvantages such as high cost and lack of competitiveness in the national economy competition have been changed. The manufacturing had kept the R&D in the US and transferred the physical production to the emerging developing countries through external OEM and outsourcing. The America's strategy of "de-industrialization" has had a great success. The manufacturing has kept the most lucrative part inside the USA and transferred the processing industry which has a low added value to other countries. For example, the cost of iPad produced by Apple Inc whose selling price is 499 USD is 219.35 USD, while

the assembly charge of OEM is only 11.2 USD.

However, the financial crisis of 2008 has exactly hit the USA on its weakness of economic virtualization and hollowing. Although the finance and information service without the support of industries can create a high added value, it will lead to a huge unemployment when there is difficulty in the world economy. From the perspective of domestic unemployment rate, the bankruptcy of Lehman Brothers Holdings is a turning point. In October 2008, the unemployment rate of the USA was 6.6%, in November it reached 6.8%, in December 7.2%, in March 2009 8.5% and in June it reached the record of 9.5%, in October a new record of 10.2%. It is until November that the unemployment rate dropped to 10%. As the substantial economy can create a lot of jobs, the re-industrialization strategy proposed by Obama will also solve America's problem of unemployment based on the development of America's manufacturing. Obama said in his State of the Union in January 2010, that in the following 5 years, the America's export will be doubled, hence creating over 2 million jobs in the USA.

Obviously, the USA goes back to the substantial economy and realizes re-industrialization, which doesn't mean a simple return to the traditional manufacturing field. It will certainly have some differences with the emerging countries such as China. Therefore, as the USA still wants to have the advantages in high technology, the "re-industrialization" of the USA will have the following tendency and characteristics:

(1) America's "re-manufacturing" will certainly make efforts in the fields of high-end and of the highest added value. In the key fields of design, technology, handicraft and marketing, American enterprises will certainly seize the commanding position. Hence, the America's "re-industrialization" is far beyond the recovery of traditional manufacturing, and instead it is a second industrialization based on the first industrialization. In fact, it will promote the upgrading of industry, develop advanced manufacturing based on high technology to have an industry of powerful competitiveness again and lead and reform other industries with the achievements of a new round technology innovation, especially the industry of new energy, information, biology, biology, medical treatment, environment protection, ocean and space etc.

(2) The America's "re-industrialization" tries to form a new industrial pattern and norms. Restart of traditional manufacturing is not the aim of America's "re-industrialization". To establish a set of new industrial system is the real trend. The technology of new energy and new materials will promote the investment, orient the global capital toward the USA, and it is a process to build the new industrial pattern. The important characteristic of the industrialization pattern is that it centers on new energy and low carbon economy. As the USA has an advantageous and leading position in low carbon economy technologies, the USA tries to promote the sells of products of new energy and low carbon industry, and promote these products globally based on the domestic legislation. For example, in the dialogue of Sino-American economic strategy in April 2010, the USA promoted the sell of its products of new energy and clean energy.

(3) The main target of America's "re-industrialization" is the industry clusters centered on the emerging industries. From the perspective of tendency, the emerging industry is a tendency of future industry development as well as a supporting point for the next round global economy prosperity. In a short term, investment on the emerging industries and transform the traditional industries with informatization are also in favor of expanding domestic demand, pull the economic growth, overcome the difficulties from the financial crisis, and realize economic growth and create new jobs. In long term, the creation of emerging industry clusters will lead to a new pattern of international division of labor where the USA will continue to play the role of leader.

3 The Impact of America's "Re-industrialization" Strategy on Chinese Enterprises

At present, the non-manufacturing has occupies a proportion of nearly 90% in American economy, and other countries have regarded the USA as the main export market and destination of their manufacturing products. When the USA turns to "re-industrialization", the proportion of the manufacturing will certainly be increased and this shift of the USA will erode the economy of manufacturing-export-oriented countries, especially China. Now China is still in the middle-late period of industrialization process, manufacturing is the engine of its high speed growth. However, the general level of Chinese manufacturing is not high, which can be shown as follows: it has a low economic creativity, and the productivity and value added rate in manufacturing is about 4.38% of the USA, 4.37 of Japan and 5.56% of the Germany; the added value is not high and it is still located in the middle and

lower reaches of world manufacturing industry chain. Most of the exported products are products of low technology content, low unit price and low attached value. It imports largely products with high content of technology, high added value and high price. The implementation of America's re-industrialization strategy will certainly have great influence on Chinese enterprises, which are shown in the following aspects:

(1) In the field of market competition, the products of enterprises of these two countries will have more competition on market share, and Chinese enterprises should participate in the competition with American industrial products. Under the circumstance of international financial crisis, the USA will find the issue of "re-industrialization" from modernization, sophistication and cleanness of manufacturing, which means the USA will make a fuss about competition rules and rules of international trade, aggravating the trade conflict between the USA and China. In the global climate conference of Copenhagen in December 2009, the USA and other countries tried to make a global standard on carbon emission reduction, which is an important sign. As China is in a different phase of development from the USA, the non-difference carbon emission reduction standard will be certainly in favor of enterprises of developed countries and their products and to the disadvantage of Chinese enterprises for the exploration of international market.

(2) Chinese enterprises will face the blockade of America's advanced manufacturing technology. At present, the USA still have the labor of the most advanced skills and advanced equipments, and it is a country whose manufacturing is the most developed and the advanced manufacturing develops the most rapid in the world. Because of the implementation of "de-industrialization" strategy in the past, the USA had transferred part of manufacturing to other countries and China was the main destination, therefore, China could obtain part of advanced manufacturing equipments. With the implementation of "re-industrialization" strategy, Chinese advanced manufacturing equipment will face more technology blockade from the USA, hence the Chinese enterprises should depend more on its own R&D and creation to obtain advanced equipments.

(3) It will also have some impact on industry upgrading. At present, China is upgrading the industrial structure nationwide, changing from the simple OEM to industries with high added value. The re-industrialization of the USA will provide many high technology products to China, hence, an obvious problem occurs, even China doesn't make efforts to upgrade the industry, it can also obtain products with high technology. This will weaken China's enthusiasm to upgrade industries. For this problem, China should treat it from the height of national strategic development instead of simply regarding China as the dumping field of foreign products. Chinese enterprises should be independent, overcome the external pressure, develop and produce products which suit Chinese present situation and meet the demand of Chinese people.

4 Strategy Choice for the Development of Chinese Enterprises in the Context of America's "Re-industrialization" Strategy

At present, 80% of Chinese economy is substantial economy and traditional industry has occupied a big proportion. Furthermore, Chinese enterprises have a large dependence on foreign trade, which is over 60%. In the context of America's "re-industrialization" strategy, China will face a heavy pressure from American manufacturing. Therefore Chinese enterprises should take active measures strategically to reinforce the enterprises' competitiveness. These measures include:

(1) The enterprises are actively looking for restructuring and expansion, trying to make themselves bigger and stronger, and implementing the strategy of big company and big group. The main problem of Chinese enterprises now is a low market concentration degree and a small scale of general industry. The enterprises will develop through consolidation, alliance and restructuring. They will participate in global monopoly competition in a higher level. Only the big enterprises and groups have the capacity to participate in and win the international competition.

(2) The enterprises will make more efforts on science and technology innovation and improve their core competitiveness. At present, low carbon economy has become the trend of economic development. Enterprises should reinforce the innovation capacity of low carbon technology and product R&D and form the core competitiveness of R&D of enterprises. For this goal, the enterprises should: i) increase the input of capital and human resources in scientific research, establish and ameliorate low-carbonized R&D center; ii) the enterprises should reinforce cooperation with universities and research institutions, combine "the industry, universities and research institutions" centering on low-carbon technology innovation, establish and ameliorate conversion mechanism of scientific achievements; iii) import and

absorb domestic and foreign advanced technologies or cooperate with enterprises with advanced technologies to follow a path of digestion, absorption and innovation; (iv) stick on the combination of importing, training and using and build a talented workforce of high quality for the development of low carbon technologies; (v) reinforce the informatization construction of enterprises, cultivate and improve scientific competitiveness of big enterprises in a high platform of information.

(3) The enterprises should pay attention to the brand strategy and improve the market share of enterprise's product. The enterprises should meet the requirement of industrialization and low-carbonization, rely on scientific improvement, adjust and optimize the product structure and industrial structure, actively develop advanced manufacturing, improve the content of high technology in the products, make efforts to cultivate big brands which have advantages. We will follow a development path from brand products to brand enterprises, from brand enterprises to brand economy through the development of a group of core products which have international impact.

(4) The enterprises should ameliorate their own governance structure. They should, based on the requirements of property system of modern enterprises, form a scientific enterprise governance structure which can both mobilize the initiative of enterprise members and has strict supervision and binding to urge the enterprises toward normalized operation and healthy development. Furthermore, this enterprise governance can guarantee the demand of all stakeholders and provide the enterprises a good development environment.

(5) The enterprises should pay attention to the training of their own talents. This training refers to not only the training of entrepreneurs but also the training of skills of ordinary employees. The ambitious entrepreneurs make the enterprises full of vitality, while high quality and skillful employees are guarantee of high efficiency of production and operation of enterprises. The enterprise should ameliorate stimulating system and training system to reach the goal of talent training.

5 Conclusion

In conclusion, the USA began to implement "re-industrialization" strategy as a means to respond to its financial crisis. This strategy will have serious impact on the development of Chinese enterprises which are in the process of industrialization and are facing the competition of American enterprises armed with high technologies. This is an actual problem. On the one hand, competition is a kind of crisis, on the other hand, competition also brings the sense of crisis, which demands Chinese enterprises to make planning for and pay attention to it strategically.

The feasible strategic measures in the context of America's "re-industrialization" strategy for the Chinese enterprises include:

- (1) Consolidate and restructure the enterprises to make them stronger;
- (2) Improve core competitiveness through scientific innovation;
- (3) Improve market share through brand innovation;
- (4) Improve the cohesion of enterprises through organizational innovation;
- (5) Improve the content of human capital through talent training.

References

- [1] Xie Jinhe. Production in China and Consumption in the USA[EB/OL].
<http://cn.reuters.com/article/wtNews/idCNCHINA-1397920091224?pageNumber=1&virtualBrandChannel=0>, 2009.12.24
- [2] Zhao Gang. Invitation of Investment by American Governor[EB/OL].
<http://economy.sinoth.com/Doc/article/2009/12/30/server/1000052851.htm>, 2009,12,30
- [3] Zhao Gang. The USA Has Sent out a Returning Signal to Substantial Economy, Re-industrialization Strategy Has been Released[EB/OL].
<http://finance.jrj.com.cn/2010/04/1509467298543.shtml>, 2010,4,15
- [4] Zhong Shuiying, Li Jing, Liu Mengfang. Industry and Urbanization: the Phenomenon and Enlightenment of America's Deindustrialization and Re-urbanization[J]. Population and Economics, 2003, 4(2): 36(In Chinese)