

Reinventing Competitive Advantages Amidst the Threat from China

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The title of this article seems straight out of a management textbook. I am not a great fan of American MacDonald's style management hype. But I think the current economic competitiveness of Malaysia deserves a careful debate.

Malaysians are preoccupied with economic crisis in 1997 and 1998. Between 1999 and 2000 everybody were sucked into the so-called Internet boom. Early part of 2001 is a year where party politics dominates the headlines of Malaysian papers. Later part of 2001 and early 2002 everyone is getting excited about the 'war on terrorism'.

During this period, there is a quiet but profound revolution going on in our region that are threatening the survival of our country and the livelihood of every Malaysian - the rise of China economic power. Unlike the 'war on terrorism' this issue is closer and more real to us and we need to address it urgently.

In country such as Australia, you could find almost all manufactured goods and textile products are now made in China. The Chinese-made goods are increasingly going up market into high-technology products. In the process, many local businesses were being sidelined or were forced to wound up. You could hardly see any textile companies or low-cost electronics goods manufacturers operating out of Australia today. The Australia experience is now fast replicating in most ASEAN countries, including Malaysia.

To add salt to the wound, China is not only competing for consumers' pocket money, it isTMs also the magnet of global investment capital, attracting not only investments from multinationals with base in Malaysia, but also local Malaysian companies.

Malaysia's economic survival is facing great challenge. Never in Malaysia history where the competitions are so extensive and devastating. China's threat directly affect the survival of our core industry - manufacturing. Malaysia is still a world leader in exporting commodities such as tin, rubber and timber. But with the ever-reducing commodity value and the fact that more than half of our exports are now manufactured goods, the impact will be tremendous.

We had traditional competitors such as Singapore, Thailand and Indonesia on the same industry but they are nowhere near the scale and reach of competition from China. Especially now that China has joined WTO and the setting up of China-ASEAN free trade area, the competition could only get tougher.

What are we going to do to stay competitive in the seemingly unstoppable trend? Using hard-line approach such as stopping the out flow of investments by imposing penalty or introducing tariff barrier to Chinese goods? Something that Taiwanese government has done previously but failed? Or using the soft approach such as providing more tax concession or financial incentive to foreign firms? Something similar to Multimedia Super Corridor that only achieve mixed result so far?

There is no simple answer to this question so far. It is almost impossible and makes no long-term business sense to stop local businesses from importing Chinese goods or investing in China. Historically a closed economy will eventually lose out economically. Various reasons argue against closed economy, lost of business competitiveness and the retaliation of global community are among them.

There is no sliver bullet to the threat of China's growing economic power. Many countries are still scratching their heads to come up with a strategic plan to counter the threat from China. Some countries responded by concentrating their effort into building on their existing strength, and riding on China's economic wave by complementing its strength with China. For example, Singapore is repositioning itself to be a service hub and increasingly integrating itself to China knowledge network and service industry.

The current China-ASEAN free trade zone concept is the first step to overcome this problem. In theory, the free flow of goods and services would in long term increase business transaction volume within the free trade zone and thus boosting the economy of all the countries within the zone. Unfortunately there will be short-term pain as less competitive companies will go bust and replace with stronger businesses that have a market niche in its respective country. Free trade area will be a win-win solution for all, but in the short term, there will be some casualties.

It seems that the answer to China's threat lies in the key words 'market niche' and 'tuned-in' Malaysia has to find a market niche in order to stay in the game and ride on China's growing economy. There will be pain, but we have to act fast to shorten the time in pain. Malaysia also has to find a way to 'tuned-in' or integrate into China economy to leverage on its growth.

The days where Malaysia relies on its low costs labour, cheap land, tax break and abundant mid-level worker skills, as key competitive advantages were long gone. China offers a spectrum of far cheaper workers with various skill levels and massive tax breaks. In addition to that, China's growing middle class is getting more attention from international and local investors. It is no longer viable for Malaysia to compete with China on financial ground alone. In this context, there is no choice but joining the bandwagon of our neighbouring countries going into high value added products and services.

This means Malaysia has to go up market, into high technology and business services areas. We have to find a market niche. If tin, rubber and palm oil are unique to Malaysia, then we should channel more energy into R&D, commercialisation, marketing and business services related to these commodities to safeguard current leadership position.

If multiculturalism is our key strength, then we should capitalise on its people connection to build networks of friendships and business relationships into building up the tourism and education industry.

Malaysia ambition in building a completely new high technology multimedia industry in the form of Multimedia Super Corridor (MSC) is commendable. This industry cluster could be the single most important competitive advantage of Malaysia in coming years. MSC might have some hiccup recently because of global economic downturn but the idea is brilliant and strategically sound. The only thing lacking is in the execution of the strategy. There is lack of marketing and lack of incentive to attract skill workers to MSC. There are at least five similar high tech cluster around the world that has similar theme but offers far better working environment and incentive. They are also a lot administrative red tapes such as visa application and import restriction. The somehow untrue images of Malaysia presented as inward looking and conservative nation portrayed by certain foreign media are also damaging the chance of MSC succeeding. All these issues have to be ironed out for us to move forward.

Identifying industries to develop is part of the formula. The other half of the formula is to link Malaysia into China's economy landscape. Investment into and from China should be encouraged. As both economies become more integrated, there will be effect of coupling economy growth.

Malaysia is in the crossroad and is facing the greatest challenge since independent. It's time to throw away political parcels and focus on the urgent issue threatening Malaysia's economy. China growing economy presents risks, but it could be a chance for Malaysia to reinvent itself. In Chinese, the word 'risk' (wei-ji) is a two characters word, representing 'danger' on one and 'opportunity' on the next. We must capture the opportunity ahead while threading on the risks involved.