

The Chinese Business Model: Past, Present, and the Juggernaut Scenario

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This article examines past and present phases of the Chinese business model (CBM) by applying historical periodization methodologies, and applies scenario methodologies to prognosticate the identity of the next phase of the CBM. The article discusses the nature of business model phases and argues that, since 1978, the CBM has progressed through the infrastructure phase and the marketing phase, and is currently in the technology phase. We then examine three high-probability candidates for the next phase of the CBM: (a) the privatization of state-owned enterprises (the privatization phase), (b) industry consolidation through mergers and acquisitions (the consolidation phase), and (c) the focus by senior management on the use of advanced managerial methods (the management phase). We conclude that the next phase of the CBM will be the management phase.

INTRODUCTION

This article examines the evolution and character of the Chinese business model (CBM) since 1978, and examines possible candidates for the next phase of the CBM.¹ It makes and discusses three assertions.

Assertion 1: The evolution of the business model in mainland China has, since 1978, progressed through three phases where infrastructure, marketing, and technology have been dominant.

Assertion 2: The next phase of the Chinese business model will be dominated by (a) the privatization of state-owned enterprises (*the privatization phase*), (b) industry consolidation through mergers and acquisitions (*the consolidation phase*), or

¹ The concepts presented in this article were first presented at the Asia Academy of Management conference in Shanghai in December 2004.

(c) the focus by senior management on the use of advanced managerial methods (*the management phase*).

Assertion 3: Phase four of the Chinese business model will be the management phase.

The article is conceptual and interdisciplinary. It applies concepts and principles from historical periodization (Gerhard, 1956, 2003; Pokora, 1966; Popescu, 1965) and from scenario methodologies to facilitate discussion of past, present and possible future phases of the Chinese business model. Scenario methodologies are discussed in the last section of the paper.

BUSINESS-MODEL PHASES

Historiographers have used a range of methods for classifying historical periods. Gerhard groups these into three main categories: (1) chronological periodization, which is the enumeration of years, decades and centuries; (2) evolution periodization, which regards a period as a phase in a larger development and includes concepts of growth and decay; and (3) individuality periodization, which "professes to summarize the essence of an age, and . . . requires the period to have a meaning in itself" (Gerhard, 2003: 477).

The method we have used for periodizing the Chinese business model is conceptually closest to the individuality category (but absent the "meaning in itself" requirement) and, to a lesser degree, to the evolution category. Business-model phases reflect the priorities of a period but – unlike the individuality and evolution categories – business-model phases are also characterized by a dominant element or set of beliefs.

We define a business-model phase as "a zeitgeist that reflects the priorities of a period, which is driven by a dominant ethos that permeates all or most areas of the business environment and influences executive decisions and actions." Consistent with historical periodization and scenario methodologies, the identification of the single dominant element is based on the observation of qualitative indicators.

Historical periodization and business-model periodization both tend to be country specific. In historical periodization, the same period designation may be applied to more than one country (as with the *Renaissance*), but in each country it may occur at a different time, carry different levels of significance, and manifest different social, cultural, economic and political characteristics; or the period may only occur in one country (as with the *Cultural Revolution* era in China).

When applying the principles of historical periodization to business models, we have used the term "phase" (rather than "period") to stay within the existing business nomenclature – and because business-model periodization is in some ways similar to the phases of product, company and industry life cycles. Like life-cycle phases, business-model phases are "qualitative phenomena that do not lend themselves to quantitative measurement; they are characterized by imprecise start and finish dates; . . . and they share large areas of overlap with the phases that precede and follow them" (Wang, 2004: 227-228).

There are at least two aspects of business models, however, that are unlike life cycles. (a) All life cycles go through the same set of phases (introductory, growth, mature and decline), but business models are divergent. (b) Life-cycle phases are, by definition, sequential: each replaces the one that preceded it. But elements that become business-model phases are continuing and cumulative: they are usually present (in some cases for extended periods) before they becomes

the dominant element; and they continue (at varying levels of importance) after they have been supplanted by subsequent phases. In this way, business-model phases are conceptually similar to the evolution category in historical periodization, and especially to the periods in the history of economic thought (Popescu, 1965), where different schools ascend, dominate and decline – but continue at varying levels of influence.

Although business-model phases tend to be country specific, they are influenced by the international business environment and by the globalization of business. This has been increasingly true for the Chinese business model, due to the continued opening-up of China since 1978 and its focus on economic development, foreign trade and foreign direct investment. Also, business-model phases are discrete phenomena, but they affect and are affected by social, cultural and political forces – and by national and international historical periods. For example, in 1985 Deng Xiaoping argued "the popularization of computers must begin from infancy" (Deng Xiaoping, 1985); but it was not until 1996, when the Chinese business model had entered its technology phase, that the Ministry of Education issued the "five-year development program on computer education in primary and secondary schools" (Jiao, 2000).

ASSERTION 1

The evolution of the business model in mainland China has, since 1978, progressed through three phases where infrastructure, marketing, and technology have been dominant.

(a) The Infrastructure Phase

In China, 1976 marked the deaths of Mao Zedong and Zhou Enlai, the fall of the Gang of Four, and the end of the Cultural Revolution. The years 1977 and 1978 marked the return of Deng Xiaoping, his ascendancy to the *de facto* leadership of the Communist Party of China (CPC), and the start of the "infrastructure phase" of the Chinese business model.

In December 1978, at the landmark Third Plenary Session of the Eleventh Central Committee (which replaced class struggle with socialist modernization, and made economic development the primary policy goal), Deng Xiaoping presented his strategic priorities. These included the four modernizations and the "rapid development of our productive forces" (Deng, 1978c). Here, Deng Xiaoping was building on his earlier "policy of opening to the outside world" (Deng, 1978b); his argument that "we should take the world's advanced scientific and technological achievements as starting points for our country's development" (Deng, 1978a); and his admonition that China's development had been "held up for ten years, but now it is time for us to learn from the advanced countries" (Deng, 1978b).

Deng Xiaoping's vision for the rapid development of China's productive forces included both hardware and software: "our technologies and equipment as well as supporting facilities should be modern and up to the highest standards" and "if we ourselves don't know about advanced methods of management, we should learn from those who do" (Deng, 1978a).

But, during the infrastructure phase of the Chinese business model, the managers of China's newly empowered enterprises focused almost entirely on the hardware. When they looked at the "advanced countries," they saw the plants and equipment owned by individual companies; the extractive industry structure, machinery and processes that provided raw materials; the electrical power supply grids that drove plants and equipment; and the rail, road and shipping systems that facilitated the supply of manufacturing materials and the distribution of finished products. They focused on what was tangible: fixed and movable assets, physical resources, the tools of

production.

This focus on infrastructure was consistent with the turning away from the uncertainty, turbulence and ideological focus of the Cultural Revolution; and the emergence of engineers as the symbols of stability, productivity and progress. The focus on the physical tools of production was also supported by history: since the beginning of socialist New China physical plant and equipment have been central elements of Chinese iconography; and Chinese enterprises still insist on defining themselves in terms of square meters of floor space and makes and models of production machinery.

(b) The Marketing Phase

The marketing phase of the Chinese business model began in the mid-1980s. In the United States, the marketing phase had been supplanted by the short-lived finance phase, which by the mid-1980s was being supplanted by the quality phase. But marketing was still the dominant element in Japan, which had become the world's most talked about and copied business model.

When Chinese companies adopted modern marketing methods, however, they were not attempting to replicate the United States or Japanese business models. Rather, they were responding to an increase in corporate and product competitiveness in China, and to the progressive implementation of CPC policies and to the priorities of the National People's Congress (NPC).

Modern marketing methods were culturally un-Chinese, but they were consistent with China's market-economy policies. Because modern marketing methods did not violate China's political and ideological norms, they could be used by both state-owned enterprises (SOEs) and private-sector enterprises.

By the mid-1980s, the ability of Chinese enterprises to adopt and apply modern marketing methods was facilitated by the continued opening-up of China (which made the Chinese socio-cultural environment increasingly tolerant of foreign business methods), and by the increased presence of foreign manufacturers and their multi-element, integrated, highly-competitive marketing operations. The operations of these companies, especially in the consumer products and household appliance industries, facilitated the transfer of foreign marketing thinking, strategies, tactics and technology to Chinese executives and Chinese companies.

For these and other reasons, by the mid-1980s marketing opportunities in China were attracting many of the country's most intelligent, ambitious and dynamic managers and entrepreneurs. The intellectual and entrepreneurial aggressiveness of this new cadre of Chinese executives can be seen in the actions of eleven technicians from the China Academy of Sciences, who, in 1984, established a company to market foreign-made computers, printers and peripherals in China (including those made by IBM and Hewlett-Packard). It was not until 1990, that this company, Lenovo Group Limited, moved into manufacturing.

(c) The Technology Phase

Business-model phases tend to be country specific, but the same phase can occur simultaneously in more than one country and/or region. For example, the technology phase has been a global phenomenon. In the Chinese business model, the technology phase began in the mid-1990s.

Like modern marketing methods, technology was seen in China as politically and ideologically neutral. This meant communication and manufacturing technologies could be adopted and applied enthusiastically by both SOEs and private-sector enterprises.

The strong and sustained enthusiasm for the technology phase has been due to several factors. First, there is the huge range of technology-based products that have been manufactured for domestic sale and export by Chinese-owned Chinese companies, foreign-funded Chinese companies, and foreign-domestic alliances in China. These products range from mobile phones made by Motorola, Nokia and Lenovo to Airbus A320 trailing wing assemblies and landing-gear bays made by the Xi'an Aircraft and Chengdu Aircraft subsidiaries of AVIC I. Second, technology has provided the means for improving manufacturing productivity, manufacturing quality, and manufacturing flexibility – and has facilitated the development and implementation of advanced marketing strategies.

Because technology was seen as politically and ideologically neutral, and because technology has been a global symbol of economic modernization, technology fitted with the CPC's development policies and was embraced by the NPC and by governmental agencies.

The sustained enthusiasm for the technology phase may also be because communication and manufacturing technologies are infrastructural elements, and belief in infrastructure continues to be a fundamental element of the Chinese business model. When, in 2006, China's Ministry of Commerce announced it would revitalize 1,000 old Chinese brands, it said this would be done through "technical upgrading" (MOFCOM, 2006).

And finally, new technologies are popular with senior management, governmental policy makers, and the population at large. Personal computers, mobile phones, digital cameras, MP3 players and other personal high-tech products caught the imagination of millions of Chinese at many social levels. Technology is the current phase of the Chinese business model, but technology has also become a defining cultural element in the transformation of Chinese society.

ASSERTION 2

The next phase of the Chinese business model will be dominated by (a) the privatization of state-owned enterprises (the privatization phase), (b) industry consolidation through mergers and acquisitions (the consolidation phase), or (c) the focus by senior management on the use of advanced managerial methods (the management phase).

(a) The Privatization Phase

There are two frequently-cited factors that are possible threats to China's continued economic development. One is the problems relating to non-performing loans (NPLs) at state-owned banks; the other is the poor performance of many state-owned enterprises (Lardy, 2004). These two problems are not unrelated: most NPLs were loans to SOEs; and state-owned banks are SOEs. The central government has been aggressively addressing the policy and structural origins of the NPL problem; but fixing under-performing SOEs may prove to be more intractable.

The SOE problem received attention at the 16th CPC convention in November 2002, and in 2003 the NPC created the State-owned Asset Supervision and Administration Commission (SASAC). Most of the problems in China's under-performing SOEs are related to a lack of advanced managerial ability, but SASAC's management authority is limited to making senior management appointments – and SASAC is specifically prohibited from interfering in the operations of SOEs (Jia, 2003). Because of these limitations, and because poor managerial practices at many under-performing SOEs are deeply entrenched, it will be difficult or impossible for SASAC to turn around under-performing SOEs by applying its management authority.

One way for the SASAC to solve this problem would be to apply its ownership authority. The SASAC represents the central government ownership rights in all SOEs that are owned, or partially owned, by the central government. When the SASAC finds it is unable to fulfill its management mandate without interfering in the internal operations of under-performing SOEs, it may choose to progressively privatize under-performing SOEs.

This could be effected by selling individual under-performing SOEs to privately held or publicly listed companies, or by bundling same-industry SOEs and using Initial Public Offerings (IPOs) to take them public. To be viable, the bundling option would need to include strong SOEs with good performance records. In both privatization options, the new owners of former SOEs would have the means, motivation and authority to interfere in the internal operations of their companies – and to implement a range of turnaround strategies that may result in their survival and success.

(b) The Consolidation Phase

Some industries in China (such as photographic film, aircraft manufacturing, and oil and gas) are highly concentrated. But a principal characteristic of the Chinese business model is many of its industries are highly fragmented. The home appliance industry includes almost 100 companies, the machine tool industry includes more than 100 major companies, and in 2002 the Chinese beer industry (which, in terms of production volume, is now the world's largest) included more than five hundred companies.

Since the mid-1980s, there has been some consolidation in some industries through the merger and/or acquisition of state-owned enterprises. For example, First Automotive Works (FAW) is an SOE and the second-largest manufacturer of cars in China. Since 1986 FAW has been acquiring other SOEs, and by 2005 it had acquired and/or merged with a total of 27 companies that manufacture cars, trucks, engines and gearboxes. And Hangzhou Machine Tool Company, an SOE that ranks number six in its industry, recently acquired or merged with six other machine tool companies from four provinces.

There are, however, at least three factors that are contributing to the acceleration of industry consolidations. The first is the increase in the number of publicly listed companies in China, which is making it possible for these companies to raise the large amounts of capital needed to make cash acquisitions – and is allowing them to make partial-cash or no-cash acquisitions by using company stock. Haier, China's largest manufacturer of home appliances, is a publicly listed company with the highest brand value in China. Since 1992, Haier has acquired more than eighteen companies. In the Chinese beer industry, the number of companies has reduced from five hundred in 2002 to three hundred in 2006, due largely to the aggressive acquisitions by China's three publicly listed beer producers: Tsingtao, Yanjing and China Resources Beer.

The second factor affecting industry consolidation is the State-owned Asset Supervision and Administration Commission. In an effort to improve the productivity and performance of SOEs, the SASAC is using its ownership authority to pursue a scale and specialization strategy. It is merging same-industry companies, and combining same-industry operations from different SOEs, to achieve economies of scale – and to achieve the managerial and operational benefits that come from specialization. For example, in the Fall of 2004, SASAC used its ownership authority to merge China International Travel Service (CITS) and the China Duty Free Group – and began identifying travel-related operations in other SOEs that will be transferred to CITS or China Travel Service, China's two largest state-owned travel companies.

The SASAC will further influence industry consolidation if it tries to fix under-performing

SOEs by merging them with well-managed and successful SOEs; and/or if it pursues a "bundling option" when privatizing under-performing SOEs.

The third factor affecting industry consolidation is the increase in foreign direct investment since China's accession to the WTO. Many foreign companies are using mergers and acquisitions to increase and/or consolidate their presence in China. Before 2002, InBev (a Belgium corporation, and the world's largest beer maker) had a small equity presence in China. By 2006, InBev had used mergers and acquisitions to acquire an 11 percent share of the Chinese beer market and become China's second largest brewer.

The assertion that Chinese industries will consolidate as the Chinese business model matures is also supported by the industry consolidations that have accompanied economic development in most OECD countries. When Henry Ford was making his Model T in 1914, there were about three hundred separate companies manufacturing cars in the United States, whereas now there are less than a dozen, and only two of these are US-owned.

(c) The Management Phase

As the Chinese business model becomes more open, more developed, more complex and more competitive, there is an increasing awareness among executives and senior management of the relationship between advanced managerial methods and company performance. There is an increasing acceptance that, although many Chinese companies use modern marketing methods and their manufacturing operations have high-tech hardware and software, the weak link in the chain is managerial technology.

This is producing changes in every area of management, including corporate policy and other areas of corporate governance; operating unit policies; corporate, manufacturing, marketing and international business strategies and structures; TQM, Six Sigma and other areas of quality management; motivation, morale and other areas of organizational behavior; the acquisition and utilization of matériel and methods resources; and employment recruitment, development and retention, and other areas of human resources management.

In corporate policy and strategy, senior executives who were famous for their arbitrary managerial decision making and simplistic policy goals are now tending to define more sophisticated corporate policies, policy goals and priorities. The use of *de facto* catch-all domains are giving way to more disciplined area-of-domain definitions – which is moving the Chinese business model away from its traditional conglomerate thinking, and making it a more specialized or related-diversification model (Wang, 2003: 42). For example, in 2003, the CEO of Chinese Financial Education Development Foundation announced that his publicly listed conglomerate had divested its pharmaceutical, electronics and other non-car making businesses, had changed its name to Brilliance China Automotive Holdings Limited (Gong, 2003a) and is in "transition from a financial and investment company to a car maker" (Gong, 2003b).

The lead in a more disciplined approach to corporate policy and strategy is coming from the senior management of publicly listed companies, who are being influenced by the investment community. For example, Su Qiang said a principal reason for changing Brilliance's area of domain was to improve "investor confidence" (Gong, 2003a).

Because of the new focus on corporate policy, policy goals and priorities, senior management at many companies are developing and implementing policy-driven strategies. This is resulting in the more strategic use of resources, strategy-driven structures, strategy-based alliances, the use of Balanced Scorecard methods in strategy implementation, and other applications of the principles of strategic management.

Chinese companies are also applying advanced managerial methods at the operational level. In 2006, Panva Gas announced ambitious plans to expand its liquefied petroleum gas (LPG) and piped natural gas (PNG) distribution networks. The Hong Kong Stock Exchange-listed company outlined its plans to raise new capital, issue new shares, and invest in new infrastructure. But it also said it would "sharpen its competitive edge in China's city gas industry by improving its operations and management" and that it had entered into "a partnership with the Beijing Institute of Technology so the firm's senior managers and professionals can study for EMBA's" (Wang, 2006).

In human resources management, *guan xi* (relationships) has traditionally been the most influential element in the personnel-hiring process. But as the Chinese business model becomes more open, more developed, more complex and more competitive, executives and senior management are relying less on *guan xi* and more on merit when deciding who to hire.

ASSERTION 3

Phase four of the Chinese business model will be the management phase.

All of the elements discussed in Assertion 2 are currently present in the Chinese business model, and it is possible that all three scenarios presented in Assertion 2 could come to fruition. But the designation of a business-model phase is determined by the presence of a single dominant element that permeates all or most areas of the business environment during a particular period. We believe there are several reasons why management, rather than privatization or consolidation, will be the dominant element in the next phase of the Chinese business model. This conclusion was reached in part by elimination, and in part by confirmation.

Privatization

Privatization was eliminated for several reasons. We do not know if the SASAC and the local governments that own or hold a controlling interest in SOEs will conclude that privatization is the best technical solution for fixing under-performing SOEs. And even if privatization does become the SASAC's technical solution of choice, it may be socially, culturally and/or politically unacceptable.

The CPC and the NPC have shown, especially since the 16th CPC convention in 2002, strong support for privately-owned means of production, and have changed the constitution to reflect this. In practice, the central government's decision to privatize the state-owned banks through IPOs indicates they could agree in principle to the privatization solution. But these new policies and practices may have ideological and operational limits, and may not extend to the large-scale movement of SOEs from the public sector to the private sector. Also, we doubt that the effects of privatization will permeate all or most companies in all or most industries.

Consolidation

Industry consolidation is an important element in the Chinese business model for both SOEs and private-sector enterprises; and it is probable that industry consolidation in China will at different times be an important factor for some areas of some industries. Industry consolidations in OECD countries have occurred during almost all periods, and they have been a very influential element (and possibly the dominant element) during some phases. We doubt, however, the industry consolidation element in China will permeate all areas of all industries in

the near future; or that industry consolidation will emerge as the dominant element in phase four of the Chinese business model.

But consolidation could emerge as the dominant element in a subsequent phase. This could occur if Chinese-owned companies continue to pursue growth as their primary corporate strategy and use economies-of-scale as a principal competitive strategy; if the SASAC expands its scale and specialization strategy, uses merges to try to fix under-performing SOEs, and/or merges under-performing and successful SOEs prior to taking them public; and if foreign-owned companies shift their emphasis from alliances to acquisitions.

Management

It is possible that the focus on the use of advanced managerial methods will not be the dominant element in the next phase of the Chinese business model. After all, if advanced managerial methods are such an essential element of the Chinese business model, then why were they not embraced earlier?

In 1978, Deng Xiaoping placed significantly more emphasis on China's need for advanced methods of management than on the need to upgrade its infrastructure. But when he floated these ideas, he also introduced a policy that expanded "the decision-making powers of mines, factories and other enterprises and of production teams, so as to give full scope to their initiative and creativity" (Deng, 1978c). This policy empowered enterprise managers to choose either the hardware and/or the software option.

As discussed in Assertion 1 (a), in the decade following the Cultural Revolution managers of Chinese enterprises focused on the hardware option – on what was tangible. The reason they did not pursue the software option, at that time, can be attributed to their strong aversion to anything metaphysical. But it was also due to a lack of motivation and availability. Enterprise managers were not motivated to acquire "advanced methods of operation, management, and scientific development from advanced capitalist countries" (Deng, 1979) because they believed it was the foreign companies' superior physical resources and infrastructures that resulted in their superior performance. Even if some managers believed it was advanced managerial methods that made Western companies so successful, these methods would (at the time) have been difficult or impossible to acquire and implement.

But the motivation and availability situation has now changed. The continued opening-up of China since 1978, the progressive elimination of trade and inbound-investment barriers since China joined the WTO in December 2001, and the increase in foreign direct investment has made the Chinese business environment more complex and more competitive. This is providing the managers of Chinese enterprises with hard-to-ignore data on the relationship between advanced managerial methods and company performance, which could motivate more managers of Chinese enterprises to focus on the acquisition and use of advanced managerial methods.

The other change has been in the area of availability. Bookstores in China are now loaded with business management books, by Chinese and foreign authors. The two hundred and eighty principal universities in China offer undergraduate programs in business and management, almost one hundred universities offer MBA programs, and many universities and consulting firms offer specialized programs in advanced managerial methods. And finally there is the proliferation of domestic and international alliances. These "highly effective hands-on technology-transfer mechanisms" (Davies, 2000: 18) are providing thousands of executives at Chinese enterprises with the opportunity to work with some of the world's best managed companies – and to acquire, practice and apply advanced managerial methods.

SCENARIO METHODOLOGIES

The literature on scenario methodologies presents a range of techniques. It is generally agreed, however, that developing an explanation for a past or present event – or predicting a possible future situation – requires the development of multiple scenarios (Kleiner, 1996; Kuhn and Sniezek, 1996; Ringland, 1998; van der Heijden, 1996; Wack, 1985); and "the development of more than one scenario of the future is thought to prevent overconfidence in any one specific forecast" (Kuhn and Sniezek, 1996: 231). It may not always be necessary to "think the unthinkable" (Kleiner 1996: 27), but in most cases the net must be cast wide.

Consistent with these principles, we considered a total of six future scenarios. In addition to the three presented in Assertion 2, we developed preliminary scenarios that saw *quality*, *alliances*, and *information* as the dominant variable in phase four of the Chinese business model. These elements are current and important parts of the Chinese business environment. They were omitted from the short list, however, because we saw no indication that *quality*, *alliances*, or *information* would become, in the immediate future, a dominant element that permeates all or most areas of the Chinese business environment.

The decision to omit *quality*, *alliances* and *information* from the short list was based on qualitative data, and the evaluation of that data was subjective. But that is the nature of scenario methodologies.

Scenario methodologies are subjective and qualitative; and therein lies their strength and their weakness. The removal of objective constraints, which are at the core of scientific methods, allows "future-focused thinking" (Wright and Goodwin, 1999: 315) and the development of working hypotheses that may otherwise not be possible. For example, the working hypothesis developed by Archimedes when lowering himself into his bath was intuitive and totally subjective.

Scenarios also have the advantage that they can function where there is an absence of quantitative data: they rely "less on figures and more on insight" (Wack, 1985: 84). Furthermore, they are not constrained by the criteria that are generally applied to the use of quantitative data. For example, Archimedes' principle, which turned out to be correct, was based on a sample of one; and, the apocryphal history notwithstanding, we now know the measuring instruments of his time were insufficiently accurate to confirm or refute his working hypothesis.

The downside of a methodology that is subjective and qualitative, and sees intuition and insight as acceptable or even necessary elements, is it requires a high level of intellectual discipline.

The other downside of scenarios is they are good at prognosticating direction, but not distance. Pierre Wack's seminal work at Shell accurately predicted the most significant developments in oil-industry pricing in the second half of the twentieth century, but he was wrong on his timing. This problem with scenarios methodologies is exacerbated in our working hypothesis, because business-model phases are characterized by imprecise start and finish dates; they share large areas of overlap with the phases that precede and follow them; and in most cases the dates of their emergence, duration and decline can only be defined after the fact.

CONCLUSION

These caveats notwithstanding, it is possible the Chinese business model is now moving into the management phase. If this is so, the consequences could be momentous.

The extraordinary evolution in China's economy over the past twenty years has been facilitated by a combination of factors. These include a huge domestic market for goods and services, a huge supply of natural resources, a huge and highly motivated workforce characterized by harmony and collaboration, a culture that for centuries has supported and rewarded innovation and entrepreneurship, an absence of industrial-relations tensions and conflicts, a stable business environment backed by a stable political system and consistent government policies, a huge inflow of western technology, a huge inflow of western capital, and an RMB exchange rate that allows products to be exported at fire-sale prices.

The extraordinary evolution in China's economy has been achieved, however, without the benefit of advanced managerial methods. Now, advanced managerial methods are being added to the mix and will exert a multiplier effect on all of the factors listed in the previous paragraph. If this addition becomes the next phase of the Chinese business model – if management becomes the dominant ethos that permeates all or most areas of the business environment and influences executive decisions and actions – it will create a juggernaut that will pale anything seen to date.

It is probable that, over time, the exchange rate of the RMB will move closer to purchasing power parity. But, if we are correct, the loss of this advantage will be more than offset by advantages the Chinese business model will gain by moving into the management phase. The Chinese business model will continue to benefit from the factors that have worked in its favor for twenty years; but with management at the center of the equation, the performance of this new commercial juggernaut could be beyond belief.

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