

**PROGRAMME: "NICE WORK"**

**PRODUCER: ROSAMUND JONES**

**PRESENTER: PHILIPPA LAMB**

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**Tape transcript by MAREE SHILLINGFORD**

LAMB: Hello. Now I don't know if you've ever visited China, but if you have, you might well find much of it virtually unrecognisable if you went back again today. The pace of change there has been extraordinary and China will probably soon overtake Britain as the fourth largest economy in the world. Today as part of the BBC's China Week, Nice Work is going to be investigating what China's rise means for jobs. Not just there, but here in Britain as well. Take a trip down any High Street and it can seem as if almost everything has a Made-in-China label on it, and with economic prospects like that, foreign investors can't get enough of it. Last year they put more of their cash into China than any other country. Now our reporter, Caroline Bayley, has been to Beijing and Chengdu for Nice Work. Before we hear the first of her reports she joins me in the studio. Caroline, how long has this boom been going on in China?

BAYLEY: Well it was in the late 70s when China's communist government first decided to open up its markets to free enterprise. Now we're actually experiencing the third boom in China. But it's in the last ten to fifteen years that people in cities like Beijing have been feeling much richer. But take Chengdu in western China, there it's only in the last five years. Virtually no one there owned a car five years ago and now the roads are choked with traffic. So dramatic changes in a short time there.

LAMB: So do the cities there look pretty much like western cities now?

BAYLEY: On the surface yes, they've got western fast-food chains, sky scrapers and designer shops. The paradox of course is that all this looks like western style capitalism but it's all happening in a country which is still a one-party communist state.

LAMB: Well as you say, and all this must have just turned life upside down for the ordinary workers?

BAYLEY: Yes the gulf between China's rich and poor is huge and growing all the time. Next week we'll be looking at those people who are losing out from this. Today though we're focusing on the younger generation and many of them are doing really well. I started off in southern Szechwan Province at a successful state-owned company which makes a highly alcohol drink.

STAFF: Chattering.

BAYLEY: This is Ulangyae where staff are sitting outside enjoying their lunch break. It's one of the Chinese government's flagships state-owned companies and the entire site is seven square kilometres. To get across this site you have to go by car. It's absolutely huge and I'm driving down a road, there are road signs, there are cars, people walking along the street. 26,000 people work here in all and some of them actually live here on the site. This whole place is like a small town. Most companies in communist China used to be like this. Not only did they provide you with a job but also with a home, often a school for your children, and of course political instruction.

(Warehouse - Bell ringing)

BAYLEY: Here they produce a highly alcoholic drink which is made from grain stored in this vast warehouse. This company has managed to adapt the new booming business climate. Five years ago it was listed on the stock exchange but still with the government as the biggest shareholder. Now it's expanding and

the chairman, Wang Gootchwin, puts their success down to a willingness to change.

GOOTCHWIN: It was our understanding of market economies and business strategy that led to today's success. We knew what the market needed and we went for it. We quickly started making big profits and began paying a lot of tax to the government. Because of that they don't interfere with us much, which is another important factor in our success.

BAYLEY: However, if the company's approach has been transformed, the lives of its workers have been slower to change. Until just ten years ago, graduates like the supervisor of this bottling plant were assigned by the government to a job and that was where they would stay. Those rules have now gone but the expectations of staff on the factory floor are still very traditional.

SUPERVISOR: Our company started as a tiny factory but has now become world famous. I am very lucky and proud to work here at the brewery. It has great potential and I will not leave my job until I retire.

SUPERVISOR: I love my job and I believe that I have a very good future here with everybody pulling together and under the wise leadership of the management, the prospects, I'm sure, are very good.

BAYLEY: For others the opening up of China's markets over the past two decades has been a mixed blessing.

CHOW: Hi.

BAYLEY: Hello. Hi nice to meet you. I visited Lian Yan at her flat in Beijing which she shares with her parents. She's 28 and works in advertising.

CHOW: We have much more opportunities and choices and we can just choose whatever the work we like. But I think at the same time because of the one child policy, for most families now only have one child and they have like a pressure to look after their parents. So probably for young couple they have to look after old people.

BAYLEY: That's a big pressure, isn't it?

CHOW: Yea, it's like economic pressure.

BAYLEY: For her father, Yan Lang Chow, the new China has meant pain and bitterness. Like millions of Chinese, he lost his job at a state owned company. Unable to survive on just \$20 a month redundancy pay, he moved in with his daughter.

CHOW'S FATHER: Speaking in Chinese.

CHOW: My dad said that after the economic reform, they now just have a very low standard living of life.

CHOW'S FATHER: Speaking in Chinese.

CHOW: "My daughter's generation are very lucky. They can get very good job with very good payment. But for us we just see ourselves.....all this and historic events, farming and cultural revolution and now we got nothing."

BAYLEY: China's economic development is clearly polarising its society. The older generation like Lian Yan Chow, feel they've lost out while a growing middle class have seen their expectations widened as they've become more affluent. Just listen to these recent Chinese recruits at the American computer-chip maker, Intel.

MAN: For us, this generation, I think their working life will change a lot, I mean I already changed several companies.

BAYLEY: For your parents there wasn't that opportunity?

MAN: Right. It's not free. Now personal choice. You can do whatever you want. If you want to take a risk, you go.

LADY: When I decided to change my career and I told my decision to my parents, even my father supported me and he said that now things has changed. It is no longer that somebody with talent would wait others to choose them. It should be the choices by two sides. You work for yourself to find a better life.

LADY: Here if you can perform, then you can be promoted, but in the local companies you also need to maintain very good strong relationship or networks with government officials or with senior management of the company, then you've got more chance to be promoted.

BAYLEY: Are you saying that in Chinese companies it's about who you actually know rather than how you perform?

LADY: It's not like the working ..... it really depends on your performance, right.

BAYLEY: And it's people like this who are attracting foreign investors to China. First it was cheap manufacturing which brought the multinationals. Now they want a skilled workforce too. The mobile company, Nokia, sells more phones than anyone else in China and employs 4,700 people. It now designs 40% of its handsets here. Steve Marker is Head of Research and Development in Beijing.

MARKER: I can safely say, for my part, I haven't seen this type of flexibility, enthusiasm and high level of education anywhere outside China today. I can safely say that, having been in different countries in Europe. The main part for me is how people are hungry for the need to learn to show that they are willing to be successful. That is one of the main issues of our success here in China.

BAYLEY: China now produces around 5 million graduates a year. Beijing alone has 53 universities and colleges and these graduates are not only skilled but they earn a fifth of the salary of their European counterparts. The German engineering giant Siemens, whose products range from trains to mobile phones and household goods is well aware of this cost advantage. It's one of the biggest foreign investors in China with a workforce of over 31,000 people, and they need more. It's Wilfried Myers job to find them. He's director of Corporate Personnel for Siemens in China.

MYERS: We have something like 40,000 to 50,000 applications a year.

BAYLEY: And that's for how many jobs?

MYERS: When you look back last year for 4,000 jobs. So the basis where we can choose from is very very good. First of all it's the sheer number of talent that is coming from university with a very high education because in some areas and some other countries in the world, it's very difficult to find the right people because the universities are not producing that number of people that are required to fill your jobs.

BAYLEY: Are they as skilled as the graduates that you would get in the west?

MYERS: That's a difficult question. They have a lot of expertise but more on a very theoretical level. So there's a clear difference between some

countries where the university system works somehow differently, for example, China, where we have very highly skilled, highly educated people, but they are more coming with a specialist knowledge and a more theoretical background.

BAYLEY: So you're having to do more training if you're taking on Chinese graduates?

MYERS: Absolutely.

BAYLEY: You have a cost advantage with employing these very talented people here in China. How long before that cost advantage goes as the market becomes more and more competitive and you do have to pay higher salaries?

MYERS: It's difficult to say how long this will take, but we have a significant gap still between China and other countries in the world and for me it's not so much a question of salary levels or how long it will take to close the gap. It has something to do with the market and the development in the market and if really business is booming here and the economy is booming, you have to be here. The other one is a nice side-effect when you work, for example, in global markets but this is not the key. We are looking into business opportunities in the country and to develop our business inside China.

BAYLEY: Nokia also realises that being close to a market which is having ever greater influence on the rest of the world is vital. That's why China is one of Nokia's four global centres for research and development. Steve Marker again.

MARKER: Well China is one of the biggest markets today for mobile phones sales and distribution and we believe that in the past three or four years the design has been driven out of Asia specifically in China. So we need to be close to

our customers so we can incorporate the designs and ideas that the customers require.

BAYLEY: To what extent do you think we're going to see more highly skilled jobs outsourced to China from the west?

MARKER: I think that the jobs will definitely be, as you say, moving towards China. We are not at the level of Europe today in terms of research and development but we are striving to get there here in China and with that brings the speed and flexibility and need to be successful.

BAYLEY: It's not just the major cities that are attracting foreign investment. This is Chengdu in western China. It's the capital of Szechwan Province which has a population 1½ times the UK's. The free market boom has taken longer to get here but the city is racing to catch up with high-rise buildings, designer shops and technology business parks. The Chinese government is also actively pushing to get more foreign firms into the region and the attraction, graduates here too are in plentiful supply and they're 30% cheaper even than in Beijing.

BAYLEY: I'm standing next to a 100 acre construction site which is absolutely vast. I can't even see the end of it and this is where Intel, the American computer-chip manufacturer is building its latest factory in China. The investment of \$375 million is the biggest that this region has ever seen from a foreign company. 50% of Intel's employees will be graduates. Robin Martin is general manager here and he explains why they chose this city.

MARTIN: This is still an emerging growth area. In the west of China there's lots of potential emerging growth.

BAYLEY: How many people will you employ here when the factory's up and running?

MARTIN: The first factory that's going to be up and running by the end of the year and we hope to have about 600 to 700 people. But we do have enough land here to put another three factories.

BAYLEY: So you could have four factories here altogether? And if you did, roughly how many people would you be talking about employing?

MARTIN: A couple of thousand, for sure.

BAYLEY: What about research and development? There must be hopes in Chengdu that you will do more and that you will bring more and more to this area. Do you think you will do that?

MARTIN: At this point we don't have any plans for any research and development but you will never know. As we grow, there are always possibilities and given the potential of the skilled workforce here those possibilities are always there.

BAYLEY: Whatever Intel does decide to do, research and development is already happening in China on a large scale. Duncan Clark of the Beijing based BDA Technology Consultancy says this can only increase.

CLARK: Innovation globally is shifting to this part of the world. So engineers in North America or in Europe, will have to become part of that trend. I mean if trends are set in Asia, then they will either have to move here or increasingly be involved in companies that are successful in the region. The centre of gravity of R & D globally is shifting, in some areas it's shifting quite fast to Asia.

LAMB: Duncan Clark of BDA ending that report. So what does all this mean for jobs here in Britain? Well joining me to discuss that I have Jonathan

Garner, who's managing director of China Research at Credit Suisse First Boston, Paul Cavey is chief China economist at the Economist Intelligence Unit in Hong Kong and Andrew Helper heads the China Business Group for the law firm Eversheds. Andrew Helper, some of those western employers in Caroline's report were painting a very bright picture of China's prospects, I'd guess you'd expect them to do that since they've already taken the business decision to go there. Do you think huge numbers of western companies are going to flood into China?

HELPER: Well I think very large numbers are already going, not all of them of course will make a go of it. I think we got a glimmer of the underlying reality in the comment of, I think it was the chap from Siemens who said that the training component was quite considerable in China. It's true there are a lot of people with good technical skills and an increasing number of people with good English language skills, but it's the kind of invisible links that allow people to systematise this kind of knowledge and to actually apply it in a western industrial setting. Those things are still in development in China, so it's somewhat of a longer road to hoe than many westerners think. So going in is one thing and actually making a go of it is another.

LAMB: Yes because Paul Cavey, there is already a shortage of graduates in China, isn't there? Can they produce enough to meet demand?

CAVEY: Well this is the big question really and listening to the foreign companies speaking, it's very true that there are graduates coming out, 3 million a year or so in China which might seem like a large number from our perspective but you have to remember there's 1.3 billion people living in China and so relative to the size of the population it's not very big, and in fact if you speak to foreign companies in China, time and time again the biggest problem that they face is employing skilled labour and hanging on to them. Because it's not only the fact that you need to find them in the first place and those kind of softer skills that we've heard about already are indeed in short supply, but even when you've found somebody who's good, he's going to, or he or she is going to have

another six job offers in the next six months and somewhere else to go. And so really skilled labour and hanging on to skilled labour is probably the single biggest issue that foreign companies face in China at the moment.

LAMB: Jonathan Garner, given what we'd heard, what do you think this is going to mean for us in Europe? We've already seen manufacturing jobs lost to China. Is there a realistic prospect we're going to see British and other European skilled and graduate jobs going there to?

GARNER: Well I think in general your report captured quite nicely that this is a massively positive global supply side shock, probably the best we've seen in 120 years. So it's no surprise that the global economy on average is growing very strongly. But there'll be very big winners and losers from this process and I think it will increase income inequality in Europe quite noticeably. In fact in the US which has the most flexible economy amongst the advanced countries, we already see that medium incomes have started to actually fall in the private sector and are falling most rapidly for younger people and for less skilled people. I think for the UK, we're very lucky relative to countries like Germany that we've restructured our economy a lot over the last 20 years and we're strong in areas which are actually complimentary with China, particularly in financial services, oil, pharmaceuticals, media and entertainment, sport and tourism. Those are all areas where we can actually trade very profitably with China and people who work in those services will end up having quite a positive experience from China's integration into the global economy.

LAMB: Well, we've talked about western companies setting up in China but of course this is a two-way street and a few Chinese companies are already making in-roads over here. The latest being Shanghai Automotive Industry Corporation which has been all over the British papers recently as it tries to form a joint venture with MG Rover and there are others, not least China's leading manufacturer of personal computers, Lenovo, which hit the headlines back

in December when it paid over £900 million for IBM's PC business. Caroline Bayley reports from Beijing.

**BAYLEY:** This is Lenovo's call centre where they're dealing with customer queries. Lenovo employs 10,000 people throughout China and here in Beijing it assembles 5,000 computers every 8 hours. It was started 21 years ago by 11 academics with financial backing from a government-owned institute which still owns a third of the company today. Hailed at home as a Chinese business success story, it's now going global with a deal to buy IBM's personal computer division. Michelle Mang of Lenovo explains why.

**MANG:** Lenovo was the number one PC leader in China for seven consecutive years. We are very strong in this market and we can compete globally as well.

**BAYLEY:** There is a big culture gap between the Chinese and the Americans. Do you foresee difficulties in owning an American company?

**MANG:** Our cultural gap is truly an issue but we already started to bridge this gap. For example, we have cultural integration programme. We are providing the employees opportunities for learning, not only in terms of language but also the culture in the business norms and the practices.

**BAYLEY:** Are you offering the American employees the chance to learn Chinese?

**MANG:** I think they are very interested in Lenovo in the language and from our side everybody's learning English.

**BAYLEY:** Language is not the only hurdle Lenovo will have to overcome in its global ambitions. If it really wants to become a multi-national employing westerners, it has to develop a globally recognised brand and how

many western consumers have currently heard of a Lenovo PC. As Richard Morgan of consultancy firm ELI says, this is a challenge for all Chinese companies with western aspirations.

**MORGAN:** With a few exceptions, we're not quite at the stage where we're really seeing Chinese companies make their own brands and sell directly into European or North American markets simply because of the huge investment and the work that's going to take with marketing and PR and advertising to sort of assure western consumers that these Chinese products are good and are something that they would want to buy.

**BAYLEY:** Even so, this is what the communist government wants. Chinese companies to become recognised global players amongst the world's best. But to do this according to Duncan Clark of BDA, a consultancy in Beijing, they've got to break free from government influence.

**CLARK:** If these companies continue to depend on government support or are very influenced by the government, can they really break through to become multinationals in the true sense of the word? Can they actually act independently to the extent that foreign companies and governments don't fear them and feel that they are instruments of state policy. We're into uncharted waters now, but it is important to take a historical perspective to say, if you look back 150 years ago, China's share of the world economy was two to three times what it is today in fact. China is only really regaining its position after a very long period of internal strife. So I think when you take the broader view, China's rise in terms of its size of population, the qualified people here and so on, it's only natural that this is happening.

**LAMB:** Duncan Clark of BDA. So the next big question. Are we going to see more Chinese companies going global and establishing businesses in Europe? Jonathan Garner, Paul Cavey and Andrew Helper are all still with me.

Jonathan Garner, what do you think, are we going to see big numbers of Chinese businesses setting up here or taking over companies here?

GARNER: Well certainly, China now has the foreign exchange reserve resources to allow that to start to happen. I think it will start to happen most rapidly in the resources sectors, that's the oil, mining, steel areas which are important for the Chinese economy and maybe in parts of consumer electronics and possibly areas like furniture where you might get some vertical integration with the Chinese, maybe trying to buy some distributional companies in Europe.

LAMB: Andrew Helper, do you think it will be as dramatic as the influx of Japanese employers into Europe and the US back in the 70s and 80s?

HELPER: I think almost undoubtedly it will. It's just a question of time and I don't think it's going to be an extraordinarily long period of time either. I think the rapidity with which the Chinese economy is developing and moving up the value chain is really quite astonishing. Maybe less astonishing if one has a look at Malaysia and then previously Japan. Other economies have done it, the Chinese are perfectly capable of doing it and they are doing it.

LAMB: Paul Cavey, clearly market forces are now in play in China, in communist China. There is still a lot of state involvement in Chinese businesses. Are they going to be able to achieve their global ambitions to expand abroad if there isn't political regime change as well?

CAVEY: Well I think it's a complicated question and depends partly on what you think's happening within China. You've heard something that it's very difficult for Chinese companies to establish brands overseas. I think the thing we have to remember about China is there is a huge domestic market and that gives Chinese companies a huge advantage over companies coming from say Taiwan or Malaysia which haven't had that ability to have a very strong brand at home. Now looking further forward and what this means for the political

relationships between some of these companies, I think certainly, at the moment, some of these companies will prove to be paper tigers. A lot of companies at the moment are driven by government support and free credit from their banking system with things like this and that won't be sustainable over a long period, and as those things begin to change in China, as they will do, some of those companies will begin to fail. There will be other companies emerging from China, I think, in the longer-term which will be much more robust and much more sustainable than the ones we see now. And I think it also has to be added if you look at say the US in the 1920s, how many companies have survived from then until now? Very few, and I think if China is indeed the dynamic economy that everybody believes it to be, we shouldn't expect a lot of the companies, that are very famous and very media starlet at the moment, necessarily, to survive for the next 30 years. But there will be new companies coming forward that will be able to establish global grounds and I'm sure of that.

LAMB:                   Andrew Helper, your feeling?

HELPER:               Well my feeling, I would like to make a comment maybe on the issues of political change which you've just alluded to. I think that you can look in different places indicia of political change. For example, do we see a change at the very top constitutional level? Are they moving to a multi-party state? No. But do you see a change, for example, in the number of stakeholders within the Chinese economy who now have an interest in protecting their own home-grown intellectual property rights? The answer is yes. That creates pressure from below for a better functioning legal system. It seems to me to be an element of political change there.

LAMB:                   One of the other things that struck me as really interesting was that China is now, I think, the second biggest user of the internet in the world, they've got 100 million people with internet access over there. That is giving them a window on the wall they've never had before, isn't it? They see how western life is, they see how western working life operates. Do you think there's going to

be a push for change coming from perhaps lower down society than we perhaps expected?

HELPER: That's primarily where it comes from. The social change issue in China is really extraordinary. I moved to Beijing in '91 and left in '98 and came here and since then I go back probably every month. The rate of social change that I see is absolutely amazing. Ultimately, of course, and maybe even sooner than ultimately, this does of course push open the political process in China. No one's predicting exactly when that will be but people in the central government, they understand that the political system, as it's currently structured, has a limited life span, a limited shelf life, they know that. They talk about it rather openly in the central party school as well.

LAMB: Paul Cavey your feeling?

CAVEY: I think that's very true and if you look at what the current leadership, we have a new, well relatively new leadership, taking power in China in 2002/2003. There's an explicit recognition that there is a need for a change in the way the communist party rules. There's not a need for the communist party ruling, but there is a need for a change in the way it does rule and that implies some opening up, some more democratic decision-making within the party itself and so those kind of things do imply some political change, but we're not looking at a multi-party democratic system in China any time soon as is perhaps some people would wish.

LAMB: But you think it's going to be practically possible for them to bring up this rather extraordinary double act of market forces within a communist state?

CAVEY: Well I think it's...China's development is a very difficult one to follow and I guess what people would hope it was to follow the Taiwanese model of eventually the one-party state, some peacefully giving in to democracy.

The big difference with China is it's a much larger country and one with much much larger social disparities and so following that road I think will be very difficult. It's good that the government does recognise the need for change at the moment and hopefully that will see us through to a peaceful change rather than something more dramatic.

LAMB:                    Thank you very much indeed. I'm afraid that's all we have time for. Next week we'll be looking at the other side of the story. We'll be investigating how life is changing in China for the hundreds of millions of unskilled workers there. Join me at the same time next week.