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Nassimbeni and Sartor, Sourcing in China (2006)

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Cover Page Footnote

This is a companion piece to the review of the book on sourcing in India, also by Nassimbeni and Sartor, that appeared in MGD in 2016. The help of Professor Marco Sartor in providing us the review copies is appreciated.

Markets, Globalization & Development Review



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“Another issue concerns the sustainability of the economic process of liberalization that, after legitimating entrepreneurship and private property, could induce the citizens to demand greater political freedom. The current peculiar combination of political authoritarianism and a free market may therefore collapse” (Nassimbeni and Sartor 2006, p. xviii).

One cannot help but wonder if this book was one of the early indicators for what was about to unfold for the European Union after 2016. Faced with Brexit challenges, and a rapid metamorphosis under tight Germany leadership, EU's future has never been so uncertain since the times of the Cold War. Was it China's unavoidable emergence or EU's stagnancy that propelled these authors to venture into researching international sourcing from Chinese? The Chinese influence could not be avoided anywhere in the globe at the time of this book's writing in the first decade of the century, and is even more difficult to avoid at the end of the second decade. Other indicators, such as the rise of the Turkish Republic, could have offered a hint about EU's dwindling influence on not only the global but the regional markets. In this book, the authors offer the Italian perspective toward China at the turn of the century via an analysis of Italian enterprises' outsourcing journeys to China.

Authored by Italian scholars Guido Nassimbeni and Marco Sartor, 'Sourcing in China: Strategies, Methods and Experiences' was published by Palgrave Macmillan in 2006. The book outlines the first three determinants of international sourcing in a sample of western (mainly Italian) companies: (i) the possibility of purchasing less expensive materials and components, (ii) the possibility of accessing resources not available in the country, and (iii) the possibility of getting less expensive labor. The first and the third reasons reveal how far the Italian economy – which for decades was itself a source of cheap labor for Northern Europe – had improved itself under the European Union since the middle of the 20th century. To help sustain her economic status and the societal benefits she enjoys, shedding further light to the external unknowns via scholarly studies was seen by the authors as a viable option for Italy to improve the management of the external trade risks. The research conducted by the authors adopts the Chinese motto that a “thousand-mile journey begins with a single step” and provides a vast amount of knowledge to assist with

furthering the Italian trade with China, which was at very low levels in the 20th century.

The authors acknowledge that “of the 500,000 companies [doing business in China] only a limited number are Italian. In Italy, China has been ‘discovered’ later than in other countries.” (p.163) Rightfully so, the Italians “not only had considered the East as an uncertainty, but also as a great threat” (*paraphrased*, p.163). After all, observing the rest of the globe tapping into the Chinese markets may not be easily comprehensible from an Italian perspective that values quality to its fullest extent possible. Although cost and quality are different performance dimensions, the linkage established through Philip Crosby’s “zero defect view” in Total Quality Management (TQM)/Six Sigma must have raised serious doubts about what the future held for Italy. Trade strategies based on handcrafted quality as well as lower (but rising) cost Italian labor were becoming difficult to sustain. That said, one of the most striking points made in the book is reminiscent of an ambidextrous (Birkinshaw and Gupta 2013) dynamic that is expressed by the authors: “...it is difficult to make forecasts on a context that has made two presumed opposites compatible: a socialist economy and the free market” (p. xviii). The essence of this statement is twofold: First is the vantage point for this statement. From the US perspective, in terms of business dealings, EU and Italy are considered as economic settings that are subject to heavy rules and regulations with limited room for free market maneuvering. So, the EU and Italians are passing the buck to Asia and China. Second is the amusement and perhaps irony that is embedded in the statement. The two orthogonal concepts (socialist economy, free market) are considered as irreconcilable from the authors’ perspective, yet what has been unfolding in China provides a massive exemplar of how socialism and capitalism are actively balanced through the deft strategies of the Chinese government.

All the above motivations and perceptions aside, the book’s vignettes provide detailed coverage of the China’s geo-economic scenario from an Italian perspective, following the admittance of China to the World Trade Organization (WTO) in November 2001 as a major step toward integration with the global economy. Research presented in the book offers navigational strategies when companies are sourcing from China. These strategies are supported with detailed analyses and accompanying transactional steps which are then tied to case studies conducted with Italian firms. In essence, the authors walk the reader through establishing the backdrop with geographical setting of the suppliers in China in conjunction with the supplier selection criteria, types of sourcing that are available in China, and how to setup sourcing mechanism (e.g., the

Table 1: Selected Chinese International Business Terms

<i>Term and Definition</i>	<i>Explanation, Examples</i>
Guanxi can be described as the relationships among individuals and/or organizations, which is a central idea in Chinese society.	The relationships referred here can be between an individual and another individual, or between an individual and an organization such as a company, or between an organization and another organization (e.g., a company's guanxi with the government).
Renqing can be described as the flows of favors within a personalized network (guanxi), which is pivotal in maintaining any guanxi (relationship).	Normally, the favors referred here can be anything that can positively maintain a guanxi (relationship). For example, Tom gave his friend Jim a ride to the airport one day. In this case, Jim is deemed to owe Tom a renqing (favor), and this renqing enhanced the guanxi (relationship) between Tom and Jim.
Mianzi ('face' in English) is referred to a person's esteem which is basically a reflection of that person's feeling about other people's opinion.	Mianzi is a key components of Chinese culture – it can operate at personal, group or organizational levels. In the mianzi culture, one does not want to lose mianzi (face); as a result, he/she is inclined to show others the “best” aspects, even though he/she may not have the ability to be as good as what he/she shows to others. For instance, to gain mianzi (face), Chinese government spent a lot of money in holding 2008 Beijing Olympic Games; and so far the 2008 Olympic Game is deemed as the most luxurious Olympic Games in history. In the business world, mianzi (face) can be treated as one type of social capital that may eventually bring about monetary benefit for a person or an organization.

Source: Nassimbeni and Sartor (2006), Authors' research

creation of an international purchasing office), execution and maintenance of the sourcing system that is setup (e.g., guanxi, reputation, renqing, negotiation; see Table 1), investment structures (e.g., the equity and cooperative joint ventures, wholly foreign-owned enterprises) formed around the political and legislative maze, and the explication of the transportation structures (e.g., rail, air, road, maritime) to move the goods.

Essentially, the authors suggest that “riding the dragon is possible and the companies investigated in this research prove it: it is possible to enter the Chinese market successfully, to choose the most suitable sourcing method, and to conveniently decide on some critical aspects, in particular the organizational decentralization, the negotiation and relational approach, and the knowhow and technology transfer” (slightly paraphrased, p.163). This assertion brings us to the cotemporary China, at the end of the 2nd decade of the 21st century.

Since 2006, China has climbed to the second place of the ranking of the countries that account for the world’s economy volume, reaching 14.84% after USA’s 24.32% (World Bank, 2017). The Chinese economy’s staggering growth in the past four decades is attributed to many factors such as the country’s stable political environment, economic reform, the far-reaching globalization, and more. In particular, the far-reaching participation in the globalization should be well noted, especially in view of the “globalization hiccup” that MGDR has explored recently (Dholakia and Atik 2017). The book provides a clear hint from EU/Italian perspective regarding this improvement. As the authors point out, “...development originates from many factors; the first is the low cost of labour” (p.161). On the other hand, however, the authors conclude that “nonetheless, the cost advantage alone cannot explain the extraordinary growth the country is experiencing” (p.161).

Although, the book was published about a decade ago when China was the world’s factory, the knowledge explicated in the book continues to remain practical. We notice that some factors have been constantly changing in China over the past decade. First, the dramatically increasing labor cost in China has made it not the key relative advantage of the country in the global supply chain anymore. By 2016, “China’s labor costs are only 4% cheaper than those in the U.S. when productivity is factored in” according to Oxford Economics (Yan, 2016). Second, the housing price in China is a big concern as it increases the burden on enterprises. Although China’s supply chain infrastructures have been much better, many companies have chosen to move their manufacturing functions out of China. Another point worth mentioning is “the huge” Chinese market. Nassimbeni and Sartor (2006) point out in the book that the big potential

market of this country is one of the reasons that European companies should consider “sourcing in China”. The authors had also signaled the increase in consumption in China by stating that “As a confirmation of the importance of this phenomenon, let’s consider the figures about Chinese imports: if it is true that Chinese exports have grown by 77 percent during the five years 1998-2002, imports have registered an even higher growth at (110%)” (p.162). This is the undeniable “other side” of the coin called “Global China”. In fact, the consumption behavior of Chinese people has been reversed in the past decade. Ten years ago, around 70% of the Chinese GDP growth was contributed by investment as opposed to 30% contributed by consumption; whereas today consumption accounts for about 70% to the country’s GDP growth. The spillover effects include: 1) China import huge nowadays than ten years ago; 2) more and more Chinese companies invest directly into other countries. Given these, it would be interesting if the authors could extend their studies by adding a few more chapters for – what these reviewers hope – would be a new edition of this great book.

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