

## **CHINA'S COMPETITIVE ADVANTAGE**

**By Peter Small**

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In less than four decades China has brought more people from poverty to wealth than could ever have been imagined in all of human history. Most western commentators find fault with the Chinese system. This is like a farmer looking over his neighbour's fence and convincing himself he is a better farmer than his neighbour!

What gives China competitive advantage over the western economies?

Most people would say, cheap labour, but there are plenty of countries in the World where labour is cheaper.

Yes labour is part of the equation, but it is much more than that.

Firstly it's the culture of the people. Family orientated, hardworking, and instinctive traders. Chinese are functionally creative but not creative artistically; as the Italians are for example.

However there is more important principles that give China a competitive advantage.

On a spare day on a recent trip to China, I visited an ancient tourist village. Wandering around I discovered a magnificent, modernly designed gallery/museum. All the signage was in Chinese as few foreign tourist were expected, but the building was in honour of 19th century German philosopher, Freidrich Nietzsche. This in the middle of an historic Chinese village I thought was a bit incongruous. Nietzsche was a brilliant philosopher and one of his notable pronouncements was - "man-made God rather than the other way around." I detect an interest by the Chinese in German culture, not just because of Karl Marx.

Going back to the Industrial revolution, the German banks developed a culture of lending on the basis of an invention or the business acumen of the prospective borrower. British banks on the other hand, would only lend against real estate. Many inventive British people would fail unless they could obtain the backing of the landed gentry.

One of the downsides of Germany losing the 1st World War, was that the British rather than the German basis for bank lending has prevailed.

In China the Government owns all the land. Therefore Chinese Banks can only lend against the assets built on the land, not the land itself. I observed a long time ago that the Chinese seemed to have developed the old German basis of bank lending. I have observed for example, that Chinese people who had certain criteria, particularly being able to speak fluent English, make rapid progress. Joining the dots I think these entrepreneurs really had access to unlimited finance as long as they delivered!

The Chinese have also worked out how the western financial system works and they have used that knowledge to build a productive economy to the benefit of most, rather than the rich elite. The western system understood by few is used by those on the “inside” who use the knowledge to create personal wealth.

The principal reasons I believe China has a competitive advantage over western economies is anchored in land ownership and the use of the monetary system to benefit most, rather than just a few!

Peter Small,  
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