



LABOR MOVES HOLD THE KEY, SAYS GUILLEN

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The global crisis may have had one trigger. On the international level, it may need one set of coordinated solutions. But different countries may also be suffering from different problems, said Professor Mauro Guillen from Wharton School at the University of Pennsylvania.

In his recent talk with China Daily, Guillen, who is also leader of the Wharton School program on the crisis, said that in the next few years, various economies' successful transition will, to a great extent, depend on the massive relocation of labor - or how much labor is directed for producing the goods and services needed by such transitions.

The United States, as compared with Europe, has an advantage due to its more highly responsive and mobile labor market, he said.

The US economy, especially its real economy, has a lot of potential to adapt to the current changes once the financial industry gets stabilized, said Guillen.

A flexible labor market will also be crucial to propel an economy's readjustment and recovery.

Similarly, China will also see a massive relocation of labor - to provide goods and services to consumers at home, now that consumers in the developed economies are cutting spending and prospects are dim for the kind of trade growth that China has enjoyed since its accession to the World Trade Organization.

"This is a peculiar challenge to China," he said.

China will be going through a transition from an economy highly dependent on the export business - a scenario that is unlikely to sustain - to an economy driven to a larger extent by domestic consumption.

That would, Guillen said, require many people building and upgrading China's commercial systems in the coming five to six years, before the country can enter a new cycle of robust growth.

For Chinese managers, the challenge is two-fold: In the global market, companies will need to learn how to sustain market share without, as what they are habitually doing, one price cut after another, but by raising quality and careful brand management instead.

The price cut model can no longer work, Guillen pointed out, as there is insufficient demand. It is in the best interest of the companies to avoid cutting prices too much and too often.

Chinese managers should be more skillful in expanding market share in other ways. One way is to try to provide customers with a better deal, such as by offering more accessories and more services, the Wharton professor said.

At the same time, in the domestic market, as the government is trying to speed up the transition from an export-dependent economy to one more dependent on domestic consumption, companies will also have to roll out more products and services for the Chinese consumers.

Chinese managers will have to learn to make money by providing customers with not just traditional food items, but also more industrial goods, flat screen TVs, digital cameras, and so forth, Guillen said.

Price cuts are not a good way to expand the market as it generates expectations of still lower prices among customers. It would prolong their waiting rather than stimulate their spending, he said.

It is an inevitable transition. The more quickly companies learn to cater to the domestic consumer market, the smoother and healthier is the economy's overall transition, Guillen said. If not, not only would the transition take a longer time, but companies' growth prospects would also suffer.

To meet the need of the domestic market, as one can expect, there can be some new industries. For the US as well as key developing nations like China and India, clean energy and environmental protection are among the sectors that would see major growth.

There would ideally be more jobs that are created now to eliminate poverty, Guillen said.

"Five years from now, when people look back to what we did now, we should be feeling great, because we have done more work for Mankind through this crisis," he said.

The global economic system would by then have been "reconfigured to be more responsible."

As part of the relocation of labor that is to happen, he said, probably there would be no longer as many high-bonus jobs around in banks and brokerages as in the years prior to the crisis. Nor would those companies stay with their old recruitment practices.

This being the case, Guillen said he would encourage his students and all those with a management major to take more entrepreneurial jobs in the future - to "run firms rather than to be just traders and analysts."

Management education will also change in due course. The Wharton crisis program, which was also aired on the website of the Financial Times, was an effort joined by the school's 15 faculty members.

The program takes the school's largest classroom and every session is fully packed, Guillen said. More sessions on the crisis will be used in the future management curriculum.