

## The Rupp Report

### The Rupp Report: Wake Up, Western World!

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Today, the global economy is probably facing its biggest transformation since the start of the industrial revolution in the 18th century. In this context, the development of modern communication is not taken into consideration, because there is nothing related to production, just communication.

As reported in the Rupp Report last week, the entire textile industry value chain recently met the International Textile Manufacturers Federation's (ITMF's) annual summit in Beijing. Seeing a modest slow down in the Chinese growth, perhaps the world thought that China was having problems. It is not. Most of the Western world has no idea what's going on in the soon-to-be largest economy of the planet. The Middle Kingdom is shifting from a mass production country to a place where quality products are in the spotlight, and the Western world is arguing that China's gross domestic product (GDP) is slowing down 1 percent. In the 3rd quarter of 2014, the economy rose by 7.3 percent — there are not many countries around the globe that can show such growth.

#### Shift From Mass Production To High-end Products

It was also reported last week that the new ITMF President Wang Tiankai, president of the China National Textiles and Apparel Council (CNTAC), said in his opening speech that "China is in a strong transformation. China is shifting from a mass production country to a place where we put much more emphasize on quality." The reasons were also mentioned: high labor costs; rising environmental awareness; the lack of efficiency to use the natural resources; and the energy efficiency. Wang clearly defined the priorities of the Chinese textile industry: "To improve basic research and development projects; to bolster technical innovations; to improve environmental conditions for a better climate; and to establish consistent recycling of textile waste." And at the end of his very open speech, Wang said, "But with our own strength, a different attitude and the help of our global business partners, we are sure to achieve the targets."

#### Is It True?

Telling the world a story is one thing, proving it is the flip side of the coin. In many Chinese newspapers there are lots of examples that proudly describe recent efforts: For example China is challenging the European Organization for Nuclear Research (CERN) and its flagship facility, which houses the large Hadron Collider underground in a 27-kilometer-long tunnel. Recently, China presented plans to build a 52-kilometer (!) particle collider to study the Higgs boson, a mysterious and highly difficult-to-detect subatomic particle. This is physics at the highest level. The Chinese are convinced they will succeed, and the Rupp Report agrees.

#### It Is True

On the other hand, the world's biggest chemical company, Germany-based BASF, is investing in a US\$110 million extension of its Innovation Campus Asia Pacific at its Pudong site in Shanghai. A key part of the extension will be a regional research and development (R&D) building. BASF says that by 2020, around 25 percent of BASF's R&D staff will be based in Asia — most of them in China. Bruno Lanvin, executive director of INSEAD's European Competitiveness Initiative, said that, "China is shifting its focus from just putting things together. China knows that if it wants to play in the top league, it needs to create and innovate, and they can do that only with a highly educated population."

#### Long Time Gone

One should know that China was not always a nation with a very low income and an underdeveloped

infrastructure. If one thinks about the 5,000 years of history of the country and a more than 2,000-year-old history of the Chinese emperor, one must take a look back to the year 960 A.D. That was the time when the economy friendly Song Dynasty came into power, which opened a time full of dynamism and profit. The emperor built a fleet to protect China's merchants on the seven seas. The country flourished, and by the year 1000, its income-per-head was the highest in the world. The Chinese even invented paper money — in Europe, bank notes were only printed many centuries later. However, in 1270 this successful time ended with the invasion of the Mongolians, and China dropped back in poverty for ages.

#### Back To The Top

However, in more recent times, things are changing — even the slogan “Made in China.” Wang and other speakers at the ITMF conference said quite often that the “Made in China” label must be changed into a “Created in China” label. The plan is to transfer China from a manufacturing-focused country into an innovation-based economy by the year 2020. A survey said that last year, China overtook Japan in terms of R&D spending. In 2013, the Japanese GDP dropped heavily because of yen depreciation. The inverted money for R&D compared to the GDP fell from US\$202 billion in 2012 to US\$164 billion in 2013. Unbelievable, especially when one realizes Japan was the inventor total quality management. Meanwhile, the total Chinese investment for R&D rose from US\$148 billion in 2012 to US\$166.5 billion in 2013.

Analysts expect that by 2018, China will overtake the combined R&D spending of Europe's 34 countries. And by 2022, the nation's R&D spending is expected to match that of the United States, when the two countries are expected to spend some US\$600 billion each on R&D.

The list could be extended with more examples. Many experts say that China has the fastest growing expenditure in R&D. They mention that China has grown at an average annual rate of 20 percent per year over the last decade. Much of the investment is concentrated in six regions: Beijing; Shanghai; Guangdong; Tianjin; Shaanxi; and Zhejiang. One should bear in mind that the United States still leads the way in R&D spending globally. However, according to a report released early this year by the National Science Board, China is constantly closing the gap. The report adds that knowledge-based economic activity is gradually shifting toward Asia, particularly China.

#### Asia Is Rearming

The report says “Asia's share of total global R&D spending has risen from 25 percent a decade ago to 34 percent today, reflecting rapid economic growth in the region.” Many large Asian economies are boosting their R&D expenditure to build their competitive advantage in leading-edge industries such as technology and pharmaceuticals.

Wake up, Western world! It would be a big advantage if fortune tellers accept that “the East” in general, and China in particular, is closing the gap. It could be a rough time in the future for many already established businesses. Don't forget: When the going gets tough, the tough get going.

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