

TIME TO CHANGE ECONOMIC DIRECTION ?

The 1879 introduction to the world of the first, commercially practical incandescent light resulted in the death toll, being sounded for gas power as the means for illumination: Electricity replaced gas, transforming the way that people lived, forever.

Thomas Edison's invention of a light bulb that could last for as long as 1,200 hours resulted in New York, being the first city in the world to be illumined by electricity.

Nothing stands still for very long: Thomas Alva Edison, one of the most-prolific inventors of the United States of America, realised this and his thinking was, always, centred on the future and what it would bring and how he could be part of it.

In his life, he registered more than 1,000 patents and, even to this day, his discoveries power the modern world in one form or another.

The People's Republic of China (PRC), the second-largest economy of the world, has been credited with being the world's tailor shop, the world's shoe-maker, one of the largest producers of microwave ovens and other household appliances, the world's manufacturer of all manner of electronic gadgetry, and, at one time, it tried to become the world's largest manufacturer of luxury yachts.

However, with regard to the service industry, the PRC has put this industry very much on the back burner.

The PRC has not concerned itself about this industry anyway near to the same extent as it, not that long ago, emphasised its determination to exploit its vast workforce in the manufacturing of household appliances, clothing, and all manner of small, communication devices – iPhones, iPads, computers, etc.

Only on feeling the brunt of the chaos in Europe, the PRC's largest single market for its manufactured goods, did the powers-that-be in Beijing turn their attention to the domestic market with its huge buying potential.

Even that huge and highly competitive market, however, is fraught with problems. This was made only too clear when Giordano International Ltd () (Code: 709, Main Board, The Stock Exchange of Hongkong Ltd) announced, in its report for the Third Quarter, ended September 30, 2012, that its business of selling clothing in the PRC had fallen off, quite materially.

(Please see **TARGET** Intelligence Report, Volume XV, Number 13, published on Friday, January 18, 2013, for more about Giordano International Ltd.)

Since the 1970s, attention in Asia has been focused on labour-intensive industries, with force, brought to bear on the exportation of manufactured goods to the Western World, primarily.

This served its purpose then and, even up until a few short years ago.

But times have changed.

As the population of Asia becomes more and more savvy to the type of life that they feel they are entitled, they want more and more goods and services that support what they see as the life that they covet.

Enter the Importance of the Service Industry

The paradigm of an economy, based, to a large part, on manufacturing goods for the export market, has produced job growth for tens of millions of skilled and unskilled workers, during the past four decades, at least.

But the time is fast approaching for the growth in the creation of jobs in the manufacturing sector of the PRC to wane.

This has become only too obvious in areas of the south of the PRC where numerous former factories, once working two or more shifts per day, are silent, their workers, no longer in evidence, the machinery, standing idle.

If industry cannot move forward, then, it is sliding backwards. This is a self-evident truth.

For many parts of Asia, the PRC and the Hongkong Special Administrative Region (HKSAR) of the PRC, as well as the Macau Special Administrative Region of the PRC, it is very apparent that serious consideration must be placed on the service industry.

To neglect this important industry, which is growing and re-inventing itself, almost on a daily basis, will be at the peril of Asia and of its economies.

Employment growth could well come from this industry in the same way that Apple Incorporated, formerly Apple Computer Incorporated, designs, develops, and sells consumer electronics computer software, and personal computers. Its best-known hardware products are the 'Mac' line of computers, the iPod, the iPhone, and the iPad.

Apple is playing havoc with many of its former competitors and, most likely, will continue so to do.

But Apple cannot stand still, also. If it does not progress to the next phase of creation of electronic gadgetry, a competitor will emerge from the international woodwork and gobble up part of its empire.

So it is with the service industry

Parts of India are, today, well known as important hubs of its growing outsourcing industry. It is, still, known as a 'sunrise' industry in this country with a human population of more than one billion people.

>The service industry of India is playing an important part in maintaining the growth of the economy.

>It is generally accepted that India's service industry is growing at the rate of about 65 per cent per annum.

>It is estimated to be bringing into the coffers of corporate entities – mostly of Indian origin – that established themselves in order to ride this gravy train, about \$HK406 billion per annum. Its main driving forces are Business Process Outsourcing and Knowledge Process Outsourcing.

The total number of workers, employed in India in the service industry, has grown from less than less than 250,000 to more than 1.63 million.

All this with a period of less than seven years.

The compound annual, employment growth rate, during those seven years, is calculated to have been about 26 percent.

The service industry of India is the largest employer in the private sector of the country.

And in Asia

Outsourcing is not new to the PRC or the HKSAR since giant financial organisations, such as The Hongkong and Shanghai Banking Corporation Ltd, have been outsourcing to the PRC for a number of years and continues so to do.

These financial organisations that took advantage of the vast labour force in the PRC have concentrated, mainly, on Business Process Outsourcing, only.

But aside from Business Process Outsourcing, there is plenty of scope for attacking other potential sources of business in the ever-growing service industry.

As the people of Asia enjoy a higher and ever-higher standard of living, they tend to live longer and, as a direct consequence, their needs change, often very dramatically.

They no longer crave for fast motor cars, luxury clothing, jewelry, etc: They look to services that may enrich their lives, forsaking manufactured goods except when only necessary.

While India's service industry has grown quickly over the past decade or so, its composition is mostly unchanged.

The same is generally true of the service industry of the PRC.

And, in the HKSAR, it is only too painfully obvious in the communications industry that it is not keeping abreast of modern technology, preferring to sell the technology of yesteryear in spite of it, being badly outdated, and, therefore, unable to meet the demands of a modern city.

Efficient Information and Communication Technology can bring a wealth of benefits to an economy and it can be translated into dollars and cents, quite easily.

More-efficient transportation systems can increase an economy's wealth by promoting productivity. The ease of a transportation system needs no further extrapolation.

There could well be a retardant effect in the entire economies of certain Asian countries if the service industry is forsaken for quick profits in other spheres of commercial endeavour.

In the world of money, of which many people of the HKSAR seem to be enamoured, a modern service industry, with emphasis on business services – design, prototyping and marketing, to mention but three such services – can be of immense benefit.

Efficient healthcare services are sadly lacking in both the PRC and in the HKSAR – and nobody appears to be doing very much about this situation.

Private hospitals of the HKSAR, for the most part, care only for the annual growth of Bottom Lines and think little of the long-term ill-effects of not being able to meet the demands of the elderly and/or of the prevention of medical problems that plague everybody, at some time or another.

Prevention of diseases is just as important, if not more important, as the cure of those same diseases. The governments of Asia spend tens of billions of dollars, annually, in taking care of the chronically ill.

That money could be saved if the service industry came to the party with a plan to keep people healthy, thus reducing long-term illnesses.

Conclusion

Long-term, the service industry could well be the fastest-growth industry for both the PRC and the HKSAR.

The trouble is, simply put, apathy and business myopia.

While HKSAR moguls seem to be concentrating on buying up distressed corporate entities in Europe and the US, they fail to realise that, right at their doorstep, there are very material opportunities in the service industry.

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