

Developing Business in China: A Time Lapse Perspective

There are no lukewarm reactions to China—many are entranced; a few vow never to return. I felt as the many do and decided to explore opportunities for our engineering services firm, starting in 1991 with a visit to Taiwan. That first trip was made at a time when the People's Republic of China was a source of cheap, relatively unsophisticated products. No one in Taiwan talked about the mainland (except in a political sense); they were too busy making their own economic transformation. It wouldn't take long for that to change. By the time I made it to China in 1999, and particularly in the years hence, the manufacturing base has become sophisticated and high-output, with quality goods of all kinds produced and distributed around the world.

This article borrows some observations penned in the year 2000, during a visit to China of a few weeks' duration. Something was beckoning and, since that time, the challenge of figuring out Asia business and developing a business has become a mild obsession. The attraction is not solely because of the potential business that is there. No, much of the allure lies in being part of—and I say this without hyperbole—one of the most amazing periods of transformation anywhere in the planet, at anytime in history.

Eight years on, we've got a modest but excellent network and spar with our competitors in this unbelievable, almost cannibalistic marketplace, where the pace and frenetic activity is, on the one hand seductive and intoxicating, and at the same time, dizzying and terrifying.

This is what we saw and what we learned.

April 2000: I was not looking forward to the trip. The voyage across the ocean is long and the extended time away was going to be painful. At the beginning, I had no altitude and no attitude for this fourth trip, but after a layover in LA slowly, like an albatross getting aloft, my perception changed and the trip was memorable indeed.

My seat companions—a matronly lady and her daughter—are part of a tour group planning to enjoy Beijing, Xi'an (where thousands of Terra Cotta soldiers stand in mute guard to the unifying Emperor Qin) and Shanghai. They chatted with nervous excitement during the trip and rummaged in their bags periodically during the flight, pulling out peanuts, crackers, echenesia, homeopathic jet lag medicine and the ubiquitous water bottles that Americans are in the habit of carrying.

The ladies are wide-eyed and apprehensive about surviving and it is nice to calm them and give them some heads-up about what to expect: the exchange rate; how to convert from yuan to dollars; as well as basic safety and impression of the people.

From the air, the Beijing skyline could be Houston or any other US-western city that has risen from dusty plains. The "North Capital City" is situated on the edge of the Guoya and Shijing Mountain area, which rise to the West and North. It is clearer than usual on our descent; the dust storms from Mongolia that had blanketed the city in a red haze during a previous visit had not visited recently. When the spring and late summer dust storms do come, the place can look a little bit like Mars.

The plane landed gently onto the runway with a smattering of applause from the passengers. The applause was probably not so much that we arrived safely, but that the 12 hour flight was finally over. (After taking any US-Asia flight, any air journey within the US is no worse psychologically or physiologically than a cross-town bus ride.)

After landing, gathering bags and getting through customs was efficient and as good, or better, than disembarking anywhere in the US. The airport was new on my third visit; it is sleek, silver and reminiscent of Charles de Gaulle airport in Paris. Although the police are evident—Mao-green fatigues and crisply-pressed shirts—there is not a feeling of martial or heavy-handed enforcement. Although, one gets the impression that if anything were to happen to break the ordered calm, the response would be swift and involve a large contingent of regulars waiting in the wings somewhere.

Our hosts greet us at the exit to customs, which is a perfunctory and official transit into the country. A familiar face among the sea of Chinese is a welcome sight, although the Beijing populace is quite used to seeing Yankees visiting their country—at least at the airport.

Our group, consisting of 5 Americans—graying experts in the fields of textiles, foods, electronics and pharmaceuticals—squeeze into a clean, modern mini-bus along with four escorts and a driver.

Beijing is surrounded by six more-or-less concentric "ring roads", circling the inner core of the city, which is centered on Tiananmen Square and the Forbidden City. From its center, the city spreads like any other urban area, with new buildings, modern and monolithic interspersed with parks and some people-friendly areas. We whisk out of the new airport along the expressway and onto the fourth ring road. Traffic is extremely light on this Saturday afternoon and belies the chaos that occurs regularly every workday on these roads.

What I have come to do is to experience, for a fourth time, a connection with Chinese business principals and practitioners. With the US being China's second-largest trading partner, the focus on the US economy and political winds is intense. The Chinese are Sino-centric culturally but Western-centric economically. While tremendously proud of their venerable 5000 year heritage, China reveres the US economic engine as both a market and a model for business. The US is referred to as "mei guo," pronounced "may gwoh" and literally translates as "beautiful country" and phonetically similar to "America."

China, or "Zhong Guo" (middle country) is pushing out from years—nay, centuries—of isolation and in the last 30 years has achieved a marked economic break from its past. Although Mao's portrait is still firmly attached to the entrance of the Forbidden City, Deng Xiao Ping is the idol of the business class: those seeking to improve their lot, grow their business and experience the best, and maybe too much the worst, of western amenities.

Even over our relatively short engagement, the level of savvy and understanding about the market economy is growing quickly.

I have been fortunate to experience China after two distinct and severe strains in US-Sino relations. During my first trip in 1999 we visited four cities barely two months after an errant cruise missile slammed into the Chinese embassy in Belgrade. The following year a Navy reconnaissance plane sat for many weeks in partial dis-assembly on the island of Hainan.

The view that I heard at the time, over beers and convivial conversation, is that the US government escalated the rhetoric over the US "spy" plane and gave the Chinese government no option but to play the hard line. The concern that China is the selected enemy. Ignorance is the real enemy of peace.

Sometimes portrayed as a demon country by the press and the shrill radio pulpsters, the populace is less concerned with these issues than the paying of their rent and education of their children, although I am sure that amongst a population of nearly 1.5 billion they have their share of Limbaugh-types and accompanying "ditto-heads." However, these issues don't affect the day-to-day conduct of relations and business, much as the children of warring parents can still engage in focused play in the sandbox.

April 2008: What to make of these comments in retrospect? It was all part of the learning process: what to expect, how to engage, who to listen to, and what is the true sense of our colleagues in the economic, political and social conditions in which they were working and living. China is a country of contradiction and paradox. As Rob Gifford notes in his 2007 book "China Road": "For every fact that is true about China, the opposite is almost always true as well, somewhere in the country."

Eight years on, over an epoch of change in the wider world, we are firmly encased in China, and will be for the imaginable future. The intervening period has seen the world become a more accessible place and a more complex place. On September 10, 2001, China was a menace to the US, an easy target for blame for many of our woes and worries. We know how that has changed; the rhetoric has dampened, or has shifted to a more ominously-concerning threat. There has been a palpable easing of shrillness in the media as the focus has shifted towards the Mideast.

And during that time the Chinese economy—aided by US consumption—has grown at an average of 10 percent or so per year; Eight years ago the GDP was approximately \$1T. Current estimates peg China's GDP at \$2.7T, well on their way towards their stated goal of quadrupling their year 2000 GDP by 2010.

What did we do in these eight years? While I must confess that there was no grand strategy to setting up our business in Mainland China, what we ended up with was right-sized for our company. Rather than plunge directly into the cauldron of Cathay, we gingerly dipped our toes by first setting up shop in Taipei, Taiwan.

There are a couple of reasons why this has worked for us: First, Taiwan is Culturally Chinese. (In fact, it may even be more traditionally Chinese than many parts of China.) Why is that? In 1949, when Chiang Kai Shek's Nationalist were defeated by the Communists, political and military exiles and about 1.3 million civilians moved to Taiwan, bringing with them a large kernel of the Chinese culture. During the paroxysm of the Cultural Revolution on the mainland (1966-1976), China's traditions were attacked and suppressed as being old-fashioned thinking; a lot of it was destroyed. That volume of history is fascinating in itself, but in very short summary, Taiwan held out as a repository of culture and literature during the spasms of Mao's lengthy and often self-destructive regime.

Second, Taiwan is economically Western. Taiwan's shook the yoke of military rule not long ago, in 1987 when the first democratically-elected government took over from Chiang Kai Shek's son Chian Ching Kuo. During that period, however, Western-leaning Taiwan implemented market-based economics and the rule of law (generally) while mother China took a different path.

Throughout our activities in Taiwan, we continually looked west. The evolution of the labor and design market pressed the manufacturing and innovation over towards China. In the late 90s and early 00s the manufacturing advantage shifted firmly to PRC, aided in no small

way by the investment from Taiwan electronics manufacturers. As manufacturing migrates, so follows innovation and design and, within these past years we've witnessed an emergence of Chinese design capability. This has been aided, in no small way, by the return to China of students educated in US Universities in the 1980s and 1990s. (It would be to our mutual benefit to encourage more of that exchange, which has, unfortunately shifted in the wrong direction in the past 7 years.) In our world, the test laboratories set up around the design hubs, hence, the laboratories springing up around China are establishing operations in the technological parks and areas in the south and west of the country. We have followed this movement.

In addition, the press of the market puts amazing pressures on the need to respond quickly, almost absurdly so, to our customers. Our services—providing engineering review and certifications for consumer goods—are clocked to the development of the digital and wireless doo-dads that surround us all. "Deliver or die" the market demands and being part of that supply chain puts extraordinary demands to perform.

To service our part of the supply chain, we set up operations in three critical areas of the country: Shenzhen—in the Pearl River Delta region, Shanghai—the eastern Chinese economic hub, and Beijing—center of the government.

But what have we learned? Many things, with more learned with each visit and almost every email from our team.

To select a few critical lessons-learned: First, Chinese are eager to do business with Americans. Although there is a perception that the Chinese may be inclined to take advantage of foreign businesses, we have experienced very little of that affront. As with any business transaction, the ones that last are built on relationship that one makes. We choose to do business with people we could have good relationships with. The personal bond is something that has kept us out of significant trouble. Knock bamboo.

Second, you must change the perspective from a US market-orientation and participate at a level that is right-sized to the market and local economic conditions. If you expect US prices in China, forget about it. This reality can either help or hinder your plans, depending on whether your market is import or export. Certainly, localization is necessary at some level, wherein you get paid in local prices and your expenses are matched to that local reality.

Hence, the future of our company in China depends entirely on localizing the labor force—not any different than paying Iowa wages in Iowa and New York City wages in New York City. However, bringing the resources up-to-speed is another matter and has been a rather painful transition because we have been using US-based labor to service this low margin market for a long time.

Finally, there are nitty-gritty problems that continue to pester our operations. For example, the banking system makes you rethink cash flow. Presently, because the Chinese central government chooses it to be this way, the transfer of money out of the country must have approval of the government. Hence, normal 30 or 45 day receivables cycles get extended for quite a measure longer. This problem could be solved by invoicing in yuan (or renmibi—"peoples money"), but to issue a Chinese invoice requires a legal presence. This legal presence requires a fairly substantial investment—upwards of \$100,000—for a foreign-owned enterprise to register a company (called a Wholly-Owned Foreign Enterprise, or WOFE, pronounced woofy).

This will be a next step in our evolution, bring more capability and a chance to operate

across additional markets. Looking towards the future, barring some major calamity, I can't imagine a time when we won't be operating in China.

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