



blue heron
international

www.BlueHeron8.com

USA PO Box 301374, Austin, TX 78703 | Tel 1-512-565-4909 | Fax 1-512-828-6138

CHINA Unit 502, Block 4, Green Court, No. 777 Bi Yun Road, Shanghai.201206 | Tel 86-21-5030-3597

CHINA ON MY MIND

Turn the pages of any leading newspaper or magazine and you will undoubtedly come across at least one article about China. Go to your local WalMart (or Home Depot or Lowe's) and you will find that at least every other product is made in China.....and not just a domain of low-tech goods, check your electronic products for the "made in China" label. China is the world's number one IT exporter.

It may seem that the world is orbiting around China these days and with superlatives like "faster growing", "largest producer", "biggest economy" attached to it, China is indeed hard to ignore. Even for business operating completely in the U.S. environment there is usually some influence from China – (perhaps the local electrician has noticed the increase in the price of copper wiring? Driven by massive investment by China in its national infrastructure, many commodity prices have risen significantly). Everyone in business is influenced in some way by China and understanding what is going on there is your best strategy for knowing where there might be opportunities for you.

LOOK TO THE EAST?

I regularly hear concerns from people who worry that they are not cashing in on the China boom – that they are not even on the "slow boat to China" and don't have a clue how to get there. China is definitely a complex and interesting environment, and can represent great opportunity but must be viewed from a very rational standpoint and not just as a great big market to sell 1.3 billion of anything (one for each person! And imagine if you had repeat sales!!)

Based on purchasing power parity-weighted GDP, China is the world's second largest economy –behind the United States. China's tremendous growth over the last two decades has been driven by national spending and by foreign investment. Most U.S firms involved in China do so to take advantage of China as a low-cost manufacturer of finished goods or product components. For products with a minimal proportion of value coming from "intellectual property", this is a good bet. This is why you will notice the "made in China" tag on many low cost items. On the higher cost or higher tech items, if there is a proprietary component, that may be imported by China for final assembly – still getting the made in China label.

Labor and raw material costs are lower in China and allow for a lot of competitive production. As you rise up the value chain, though, China is less competitive. I was working with a US food producer interested in sourcing plastic containers from China for their salsa. They figured that with an annual requirement of 2 million units, they had reached a volume where "off shoring" their container supply would make economic sense (i.e. be cheaper than their US source). As it turned out, this was not the case. Because the raw material for food grade plastic had to be imported from the US or Europe, and the US plastics producer had a highly automated process, there was not enough savings to source the containers from China.

For manufacturing that has a relatively higher proportion of human labor, China makes sense. Those decorative shopping bags that have knotted handles (hand-tied through the eyelets) or personal computers (multi-step manufacturing with standardized work flow) are more cheaply produced in China. For work that is more specialized, China may not be the place.

EAST MEETS WEST

As Western companies flock to China to set up manufacturing or sales bases, they are finding that there is a lack of manpower with global management skills or US-type service mentality. A lack of human resources in the largest country in the world sounds contradictory, but it is the lack of APPROPRIATE skills that matters.

Traditional Chinese culture and education stresses rote learning and obedience to authority. Creativity, risk taking and dealing with conflict are not taught or encouraged. When you look at what is expected in most jobs in US corporations, this is what managers are looking for – so, depending on what value your company may expect to derive from China, this human component needs to be factored in. You might find value in cheaper labor costs, but lose value due to poor management and the need for extra process controls, quality assurance or other components



blue heron
international

www.BlueHeron8.com

USA PO Box 301374, Austin, TX 78703 | Tel 1-512-565-4909 | Fax 1-512-828-6138

CHINA Unit 502, Block 4, Green Court, No. 777 Bi Yun Road, Shanghai.201206 | Tel 86-21-5030-3597

For all its growth, China is still a developing country. Its growth is based on manufacturing, and while moving up the value chain in terms of manufactured products, China has a very small service-based economy. There is much learning and growth that still needs to take place in this area.

So, this means that if you are in the manufacturing sector it is worth learning about China. If you are in a service sector, it is also worth learning about China. There are opportunities with each but they may be characterized very differently. The second step in assessing what's in it for you and your company is to have a basic understanding of the China environment. The first step is to fully understand your own business and how you derive value!

For commercial or educational use of this article, or for reprints, please contact info@BlueHeron8.com.

© 2007 Blue Heron Holdings, LLC. All Rights Reserved.