

China: the new Belgian frontier?

Management feature



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China has been the world's most rapidly growing economy for the past five years and is expected to remain so for the next four. This past year alone, China was the first universal destination for direct foreign investments. Particularly Belgian money. While growth rates of Belgian exports towards traditional partners stagnated, Belgian exports to China—a staggering €2,12 billion in 2002¹—continue to soar.

Is China the New Frontier? For some Belgian enterprises that question was answered in the affirmative decades ago. For others, the challenges still outweigh the opportunities. It's a reality that doing business with China is difficult, but Belgium's 'China success stories' provide fuel for inspiration.

Dubbed "factory of the world" China continues to dominate most labour intensive industries. It plays host to scores of capital intensive industries, and some of the world's best high-tech manufacturers.

China's business environment is becoming easier to navigate thanks to positive macroeconomic factors. These include: China's accession to the World Trade Organisation (creating a more transparent trade policy moving forward), decreasing import tariffs over the next six years, stable tax rates, attractive Free Trade Zone options, and reduced financial risk for investors.

What does this mean for Belgian companies? Most Belgian players—at least 60% of blue-chip companies—have already seized opportunities in China years ago. With the exception of Sweden, Belgium is the strongest

European exporter to China, on a per capita basis. Similarly, Belgian imports from China are among the highest in the West after the US and The Netherlands.

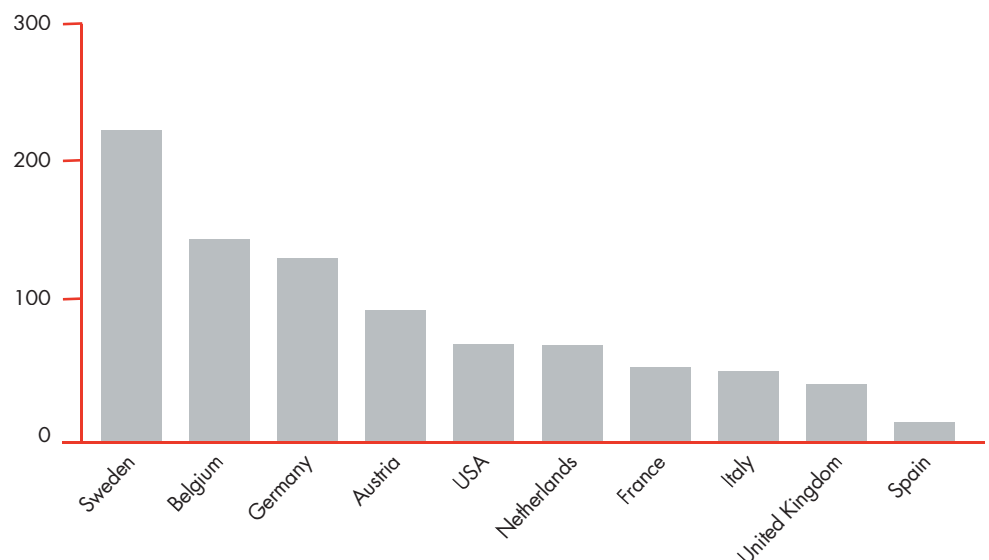
Still, most small and medium Belgian enterprises remain cautious about branching out to China. The executives Bain & Company surveyed feel their market remains squarely in Europe, some are deterred by logistical issues, others speculate that establishing a presence in China may be too risky and complex. In many cases, they may be right.

Executives pondering the move east could well study some of Belgium's 'China success stories'. Take Janssen Pharmaceutica, which established the first foreign-owned chemical plant in post-Mao mainland China in 1983. In 1985, Janssen signed one of the first European joint ventures with four state-owned Chinese firms. Today, the Belgo-Sino joint venture Xian-Janssen ranks among the top 500 Chinese companies every year. It was twice honoured as best Sino-foreign joint venture in China (out of 360,000). Today, headquartered in Beijing with 34 representative offices nationwide, Xian-Janssen has brought major pharmaceutical advances to the Chinese market. And, China accounts for 23% of Janssen Pharmaceutica's global revenues.

Janssen Pharmaceutica's accomplishment is a direct result of its ability to partner with local authorities and understand the local culture. Its success stems from ensuring distribution through innovative solutions and introducing innovative products.

Bekaert embodies another Belgian success

Figure 1:
EU countries' exports
to China per capita
(in USD)



story. In the 80s, Bekaert started exporting steel cord to China. In 1992 it established its first joint venture there. In 1994 it opened a representative Bekaert Asia office in Shanghai. Half a dozen joint ventures later, Bekaert's direct investment philosophy seems to have paid off: today, three out of four of its business units boast significant presence in China. How did Bekaert get this far, this fast? By developing local talent, providing state-of-the-art technology, and remaining in sync with market development.

In 2001, Fortis Insurance International seized a unique opportunity when the Chinese government granted nationwide license for insurance products to Tai Ping Life, which instantly began shopping around for an international partner. Though several UK and US players competed, Fortis Insurance eventually won out, securing a 24.9% stake in Tai Ping Life. Less than two years later, Fortis Insurance International employs 6,500 people in China across the four branch offices it opened in its first year and the 20 more it opened the second. The key to this success story is that Fortis Insurance International remained modest, open-minded and flexible from day one.

The business rationales for entering China are by now unequivocally clear: an attractive market on the demand side, an educated, low-cost workforce (China yields an astounding number of engineers every year who cost one tenth of their Western counterparts), cheaper raw materials and low-cost R&D. These advantages can make China a powerful springboard to world markets.

But it's important to remember that the risks, at this point, are as large as the opportunities. In short, doing business in China is hard. Most foreign companies struggle to enter China. Many fail. Often in exactly the same ways as others have failed before them: poor market knowledge, severe underestimation of the competition, overly hasty choice of partners, or inability to cope with logistics and local legislation.

All of this means that the China opportunity is there for the taking, but it must be thoroughly weighed on a case-by-case basis.

In assessing opportunities in China, Belgian executives must ask themselves some tough questions:

Is China relevant to our business?—What do we want to achieve? Do we want to sell, source, or both? What does this imply in terms of strategy, investment and organisation?

How far is the Chinese market already penetrated with products or services similar to ours?—What is the market's level of sophistication? Do buyers already own these products or services? What will our added value or innovation be?

Who are our competitors?—Are they already present in China? Are local competitors already modernised enough? Are they gaining market share over multinationals? What is the required cost position on the local market?

Where do we participate?—In which market, or which provinces, do we want to be present? Where do we start?

Encouraging as they may be, the Belgo-Sino success stories do not cancel out the fact that doing business in China is exceptionally challenging. There is no recipe for success, just key success factors. Companies that take these into consideration increase their odds of making it in China.

1 Source: China Statistical Yearbook 2003

"The China opportunity is there for the taking, but it must be thoroughly weighed on a case-by-case basis."



Figure 2:
Success factors to enter and prosper in China