INTRODUCTION

Localization is one of the key factors for a company’s survival and competitiveness in the Chinese market. Companies also need to localize if they want to capture greater local market share. By localization, I mean using local managers to run the business in the local setting, rather than expatriate managers from the parent company.

When China first opened up, a lot of companies established businesses there to take advantage of low labour costs, low overheads and other incentives. As an example of how cheap expenses were, in 1985 the wage for a technician was 30 renminbi a month\(^1\): cheap enough for a company to hire a couple of technicians just to sweep the floor! Today though, things have changed. It now costs about 2100 renminbi a month for a tea lady,\(^2\) who is obviously not a skilled worker. If you project this cost inflation, then in five years’ time labour costs will be higher in China than in Hong Kong. Of course, I am referring to the cost of workers in the urban areas, not in the remote inland areas such as Xinjiang or Mongolia. One must understand that in these rural districts workers are relatively less skilled, so there is no basis for comparison.

These figures illustrate why it is no longer profitable for companies to venture into China just for low costs. Instead, localization must now be used to expand market share and profits. If a company does not localize, it cannot identify itself with the culture and customs of the local people. And if you are unable to communicate with and understand the needs of the local people, you cannot sell your products to them. Localization also helps companies to operate more smoothly and efficiently. If you do not localize in engineering, you do not really know how to customize your products.
For instance, if an accident should occur on the shop floor and a worker dies as a result, you would have up to six government departments knocking on your door. I doubt if a foreign manager would know how to handle this situation. Take another scenario. Say a customs official comes to you at year-end and says, ‘Buy me a Coke, it’s hot.’ If you do not understand the local ways, you might really buy him a bottle of Coca-Cola, when in fact he is asking for a couple of 100-dollar notes. If you do not give him what he wants, he might ask to check your account books. It wastes your time, and you probably would not have minded giving him the money in the first place. It takes a local to understand, as these things are not mentioned explicitly. Worst of all, customs vary from place to place, to such an extent that a person in Guangdong would say such things differently from someone in Shandong.

It is important for companies to know how to get things accomplished through local channels with assistance from political parties and the government. This concept is close to a popular term, guanxi, in China. Guanxi refers to personal connections which help get things accomplished in a fast and easy way. With a good network of local Chinese, you can take the short cut to success. More importantly, foreigners would not even know which way to go as they could not understand the complex set-up of the PRC government, which involves numerous bureaus and committees.

CHEN HSONG’S EXPERIENCE IN CHINA

Our company entered China in 1984, and we were one of the first wave of companies to do so after Deng Xiaopeng instituted the open-door policy in 1978. We ventured into the southern part of China, for the simple reason that we believed a lot of Hong Kong firms would enter China to take advantage of cheap labour and land costs. These companies would, in turn, develop related industries nearby and thus generate interest from the local people.

However, our basic intention in investing in China was to capture local market share. We were probably the first company in Guangdong province allowed to export less than 20 per cent of the goods we manufactured in China. We were also the first to own more than 50 per cent of a JV enterprise.

Many companies that entered China brought their management manpower from Hong Kong. That is the fastest way to get things