



## China and the West, Changing Positions

*While China is no longer the big and fat market as many people hoped for it to be, it is still a great market to do good business. We just need to understand the market environment and proceed accordingly.*

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“China Loses Its Allure”, an article appearing in the January 25, 2014 issue of *The Economist*, ended with this conclusion: “China is still a rich prize. Firms that can boost productivity, improve governance and respond to local tastes can still prosper. But the golden years are over.”

The golden years in China are over for foreign firms. They now need to do more than in the past, when they had the market experience and technology advantage over Chinese companies.

### The Big and Fat China Market

As late as 1985, China produced a total of only 5,200 passenger cars. In that year alone, the country spent some US\$ 3 billion to import more than 350,000 vehicles; this led China to a severe trade deficit, and it in turn started to limit automotive imports. Domestic production saw a good

opportunity to fill the demand and supply gap. Foreign-Sino production led the pact; in the mid-1980s, there were altogether six foreign-Sino joint ventures in automotive production.

Foreign firms were willing to engage in joint ventures because they wanted to access this market; Chinese firms were willing to engage in joint ventures because they wanted to gain knowledge and technology in this market. These early joint ventures, however, did not allow the Chinese to borrow much foreign technology as knock-down kit assembly made up the majority of manufacturing activities. All and all, the foreign firms were in a superior position because they had things – brand and technology – to offer their Chinese partners in exchange for access to this “big and fat” market.

Since the early 1990s, other Chinese companies have entered into the auto market. By 2006, China surpassed Japan to become the world’s second-largest vehicle market, and in 2009, it surpassed the United States to become the world’s largest vehicle market. Today, China is capable of manufacturing a complete line of automobile products, and it is also a big player in alternate-fuel vehicles and electric vehicles.

#### A More Competitive Market

China has become a more competitive market across the board. A foreign brand is no longer the ticket to success there.

Domestic product and service providers are better developed, Chinese consumers are better informed and experienced, and they now have more tools on hand to evaluate which brand of products and services to buy.

Whether it is a domestic or a foreign company, the key is to focus on markets and customers – provide them what they need or create and offer what they should need. A truly superior brand is when people only see the brand instead of its country of origin.

#### Still Room for Cooperation

In the automobile industry noted above, foreign firms were in a superior position in the joint venture. In today’s market, this is generally no longer the case across industries in China. However, there is always room and opportunity for cooperation – the key is that both sides have something valuable to offer in the venture, making the sum of the parts greater than the whole. And, a long-term partnership cannot be lopsided but carried on in equal footing and with respect.

The China-West trend going forward can include cross-industry cooperation. We should also bear in mind that the play is not only about foreign companies accessing the China market but also out-going Chinese companies accessing the foreign markets.