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## Fast Guide to China: Four key questions to ask before taking the plunge

*By The Associated Press*

(Electronic Business) \_ Deploying in China is a big decision, so you need to know exactly what it takes for an electronics firm to be successful there. Here are four important questions you should ask yourself before increasing your investment in China.

*Question 1: Is our firm prepared to face frustration?* International deployments always involve challenges, but China can be particularly fraught with frustration, according to Erin Ennis, vice president of the U.S.-China Business Council (U.S.CBC) <http://www.uschina.org/>, a nonprofit trade group that helps US firms work more effectively inside China. "The problem used to be simply getting into China to do business, but now it's working through operational issues such as regulatory approval, licensing, hiring, and retention," she explains.

Although there are many companies that overcome these challenges to build profitable enterprises in the region, it's still an "extremely challenging environment," says Ennis.

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The general lack of business experience in China can cause electronics executives to pull out their hair, according to Usha Haley [http://en.wikipedia.org/wiki/Usha\\_Haley](http://en.wikipedia.org/wiki/Usha_Haley), author of the best-selling book *The Chinese Tao of Business* [http://www.amazon.com/Chinese-Tao-Business-Successful-Strategy/dp/0470820594/sr=8-5/qid=1171905408/ref=sr\\_1\\_5/103-9487161-5057420?ie=UTF8&s=books](http://www.amazon.com/Chinese-Tao-Business-Successful-Strategy/dp/0470820594/sr=8-5/qid=1171905408/ref=sr_1_5/103-9487161-5057420?ie=UTF8&s=books). "Many senior managers in this sector were trained back in their rice bowl days of guaranteed employment and thus have little idea of how to manage a free-market business," she explains. On the other hand, Chinese executives, especially those with an engineering background, tend to be fast learners who are more than willing to adopt practices that will make them successful in the long term, says Frank Liang, the Asia sales director for Centillium Communications <http://www.centillium.com/>, a semiconductor design firm. "Business practices in China and the United States are getting closer to each other all the time," he says.

*Question 2: Where's the best region for us to deploy?* Conventional wisdom says that electronics firms should deploy in the big cities where there's already a critical mass of similar business. However, wages for engineers and electronics factory workers in Shanghai, Beijing, Guangzhou, Shenzhen, Tianjin, and Chongqing have risen rapidly over the past few years. For example, salaries in Shanghai rose an average of 7.7% in 2006, according to PanAsianBiz [http://www.panasianbiz.com/2007/01/shanghai\\_salaries\\_grow\\_the\\_mos.html](http://www.panasianbiz.com/2007/01/shanghai_salaries_grow_the_mos.html). In addition, pollution has made living conditions in those cities increasingly unattractive, especially for expatriates used to the comparative cleanliness of Silicon Valley. Fortunately, "China is a big place, and there are many regions and cities that are worth considering," says Diana Matthias, a Shanghai-based senior consultant for Rouse & Co. International <http://www.iprights.com/>, a company that consults on international intellectual property rights.

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Today, electronics firms can choose from cities in several regions that were previously considered second- or third-tier. For example, Yantai, on the Shandong peninsula, southeast of Beijing, is home to LG Electronics' <http://www.lge.com/> largest overseas production facility. Similarly, Lanzhou, deep in China's northwest, has the infrastructure needed for electronics deployment, due to the longtime presence of more than 20 state-owned electronics manufacturers.

"You should look for regions where other electronics firms have deployed and big investment is building but not yet present," advises Tim Wang, regional president of Novellus China, a subsidiary of the semiconductor manufacturing equipment maker Novellus <http://www.novellus.com/default.aspx>.

*Question 3: Are we expanding or outsourcing?* For the electronics industry, much of the investment in China over the past years has been in outsourcing manufacturing to take advantage of lower labor costs. Today, however, with China's economy outstripping the rest of the world's, electronics firms also see the opportunity to expand sales in the region. . In the past, it was impossible to do one without the other, because the Chinese government made building a manufacturing facility the price of being allowed to do business there. That has all changed, though, since China joined the World Trade Organization (WTO), <http://www.wto.org/> according to Liang. "There truly are more options than there were in the past," he says.

Electronics firms can now set up sales offices pretty much anywhere they believe they can make money. "We're a fables company, so manufacturing isn't as much an issue as is access to the right kind of customers," says Liang. Similarly, Novellus doesn't do any manufacturing in China, even though it employs more than 100 people, mostly in Shanghai and Beijing. "We're essentially setting up sales and service offices, a process that's substantially easier than setting up manufacturing facilities, which generally involves navigating a more complicated process of government approval," says Wang.

*Question 4: How should we structure the deployment?* Until recently, foreign investment in China had to be channeled through joint ventures, with majority ownership in Chinese hands. Most of these arrangements were marginally profitable, at best, according to Dr. James Mulvenon [http://www.uscc.gov/bios/2005bios/05\\_09\\_15bios/mulvenon\\_james.htm](http://www.uscc.gov/bios/2005bios/05_09_15bios/mulvenon_james.htm), a deputy [director](#) who focuses on China for the Center for Intelligence Research and Analysis <http://www.defensegroupinc.com/cira/index.html>, an analyst firm that services the intelligence community.. "A lot of companies have thrown good money after bad in China," he warns.

The problem, according to U.S.CBC President John Frisbie, was that "foreign companies have found over time that local partners don't bring many of the business skills needed, such as plant management or marketing expertise, or the capital resources to expand over time."

As a result, most electronics firms indeed most American companies in general are moving toward full control via 100 percent ownership and then "hire local employees and train them in the company's culture and products to gain that local interface," says Frisbie. In fact, a recent survey of U.S.CBC member companies deploying in China (a list that includes, among others, such luminaries as Agilent <http://www.agilent.com/>, Cisco <http://www.cisco.com/>, HP <http://www.hp.com/>, IBM <http://www.ibm.com/>, Intel <http://www.intel.com/>, Motorola <http://www.motorola.com/>, and Qualcomm <http://www.qualcomm.com/>) revealed that almost three quarters of new foreign investment in China is to establish companies that are 100% owned by the foreign investor rather than being a joint venture.

This is not to say that joint ventures are totally pas.

"There are some advantages to plugging into an existing network of contacts," says Hainan-based consultant Guo Hai.

And joint ventures are still required in business segments that the government still considers strategic, such as supercomputers. However, electronics firms now have the option of taking control of their destiny in China. And that's a vast improvement over the way things were in the past.

*Top 10 concerns of U.S. businesses deploying in China*

*Source: U.S.-China Business Council*

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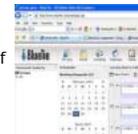
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