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China poses big test to our business ingenuity

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IN THE present uncertainty confronting global policy-makers and businesses as well as the financial markets, the one bright spot is China whose economy has continued to surge ahead relentlessly.

It is becoming the quintessential tiger economy, and its economic transformation is already a matter of fact, having posted an average 9 per cent annual growth since 1978.

Today it is the the largest recipient of foreign direct invest (FDI) flows and has surpassed the US as the most attractive investment destination in the world (according to AT Kearney's FDI Confidence Index).

Greater China, inclusive of Taiwan and Hong Kong, is today either the No. 1 or 2 trading partner for individual South-East Asian economies, and Japan. The Association of South-East Asian Nations (Asean) as a single market has 500 million consumers, Greater China 1.2 billion, the US 260 million and Europe 500 million.

If inter-regional trade continues to flourish as per the current trend, Greater China, Japan, Asean and South Korea will soon drive and determine the trend of world economic growth.

And the current reliance on US consumption growth to power the world economy will diminish.

China's growth has been largely internally-driven and with increasing domestic consumption in the Asian region itself as well, Asia will become less and less susceptible to the cold when the US sneezes.

China's success has also had profound implications for the continued viability of the labour-intensive industries in the smaller economies of Asean, including the electronics and heavy and light manufacturing activities.

Beijing's FDI incentives are so aggressive that they are forcing major adjustments in economic and investment policies throughout the rest of Asia.

The driving force behind the aggressive incentives is the need to provide employment for the annual inflow of 12 million new workers, which in turn ensures that labour remains cheap.

There is no turning back for China, or there will be major political ramifications. The population is enjoying the fruit of rising per capita income. In major economic growth nodes like Fujian, Guangdong, Zhejiang, Jiangsu and Shanghai City, per capita income has risen to between US\$830 and US\$1,430 (US\$1 = RM3.80).

For Malaysia, it is clear that we will have to move up the value chain to maintain our own competitive advantage.

Asean has long counted its English speaking labour force as an edge but this too is slowly and surely being eroded by China's aggressive adoption and promotion of the language as a necessary tool of international commerce.

English language centres are sprouting up everywhere in the major cities and the language has been introduced as a standard subject in all local Chinese schools from year one, and a pass is made compulsory too.

The Central Government itself has set an annual target of 350,000 English language graduates who will find jobs waiting in the various ministries.

The only option for the smaller countries and businesses is to ride on the new opportunities in respect of the explosion of trade and investment

generated by this economic giant.

And while the big boys and the multinational corporations have the clout and platform to tap the opportunities on their own, where does this leave the medium-sized businesses?

For Malaysian companies, where even the "big" ones pale in comparison with the multinational corporations, the challenge is indeed a daunting one.

It is to be lauded that Malaysia was among the first to recognise China's potential. Both Prime Minister Datuk Seri Dr Mahathir Mohamad and Minister of International Trade and Industry Datuk Seri Rafidah Aziz had started paving the way for Malaysian companies into China long before it was fashionable to do so.

In the most recent mission to three Chinese cities - Xian, Chongquin and Shanghai - at the end of last month, a 55-member delegation representing small- and medium-sized Malaysian companies was truly encouraged by the response which saw over 1,000 bilateral meetings being facilitated by Malaysian External Trade Development Corporation (Matrade) and Ministry of International Trade and Industry (Miti).

How many of these meetings will translate into viable business opportunities will ultimately depend on the ingenuity of our own companies.

The understanding of the Chinese business mindset and the culture of "Chinese circumstances" are indeed a challenge for all.

China is learning fast as can be seen from the extent of the internal organic growth in infrastructure, especially in the major cities, and the mushrooming of high-tech zones (similar in concept to our Multimedia Supercorridor).

Very forward in their planning, these industrial high-tech hubs are developed with several research centres forming the core, along with the technical universities and English language schools.

They constitute the "soft banks" so necessary for the sustenance of innovative research and creation of new skills. However, such rapid development has also given rise to concerns over the possible emergence of a "bubble". Can the financial system hold up?

The extent of non-performing loans in the system has been reported to be scarily high (in the 30s per cent, according to some people).

Inevitably there has also been a property boom and this has led economists and analysts to warn of a property and/or financial bubble and trough.

Obviously it will require a very fine balancing act. Stories of the pitfalls in doing business in China and the poor corporate governance are well known. But there are also success stories.

For us relatively tiny players hoping to leverage on the opportunities in this colossus of an economy, it boils down to our entrepreneurial nose, experience and ingenuity to pick the viable opportunities and avoid the pitfalls.

In short, Miti, Malaysian Industrial Development Authority and Matrade, and our embassy in China can only facilitate. The rest is up to the private sector.

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