

SPECIAL FEATURE TO NATIONAL POST

# ENTREPRENEUR

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BUSINESS Q &amp; A

## EAST HAPPILY GREETES WEST

For many Canadian mid-market companies, creating a successful China strategy is the next big challenge. Anthony Chang has been helping entrepreneurs do that for decades. His company, Montreal-based FTM Capital Inc., together with its Hong Kong-based strategic partner, InterAsia Venture Management, has helped more than 75 North American and European companies over the past 34 years to make the most of the opportunities establishing businesses in the Asia Pacific region with a particular focus in China. Here, Mr. Chang discusses the challenges and offers advice.

**Q** What is driving change in China today? What continues to attract huge interest from the foreign investors globally?

**Q** Since 1979, China has been making fundamental changes in the way its economy is structured. In 1979, it took the first step by creating five special economic zones that encouraged foreign investment to come to China and create manufacturing ventures that produced goods exclusively for the export market. Now it is broadening the scope of its economic reforms and seeking to attract investment in facilities designed to serve the domestic market as well. The result is that China offers two levels of opportunity. On one hand, it welcomes investment from companies looking to reduce labour and overhead costs and compete on world markets; on the other, it has also begun to welcome investment from companies looking to serve the newly created middle class, drawing from the 1.3 billion customers in the domestic market.

**Q** Manufacturing has been the growth engine for the Chinese economy for the past 25 years. How do you see that sector continuing into the future and what challenges lie ahead?

**A** Manufacturing continues to be strong but China has extended its welcome far beyond that. In many ways, China is following the pattern set by neighbours such as Japan, Taiwan and Korea. While it started by focusing on attracting manufacturers of low-value, long-production-run commodities, it is now aiming at sophisticated value-added products, research and design as well. China produces 200,000 engineers and scientists a year, an enormous pool of intellectual talent. Major international companies such as Microsoft, Intel, Motorola and Proctor and Gamble recognize the competitive edge from locating research facilities in China. Going forward, China will continue to expand the choices it offers foreign businesses.

**Q** The Chinese leadership has just approved a new five-year plan. What is its focus and what are the implications for foreign investors?

**A** The latest five-year plan combines social engineering with economic development. China wants to expand employment opportunities and the chance for a better life beyond already thriving areas such as Shenzhen, Canton and Shanghai. Those areas are booming but that boom is driving costs up. China has added the Bohai Rim region in the north, which



Investment expert Tony Chang sees long-term benefits for companies that successfully tap into China's market.

include Beijing and Tianjin, to its development plans. This area will [become] the centre for low-cost labour. China has decades and decades of growth ahead. As areas prosper and costs rise, it will open new ones. The entire west of the country is relatively untouched as yet, for example.

**Q** China's domestic consumer market is expanding aggressively with the creation of a very large new middle class. What are the opportunities for Canadian companies? How can they tap into this emerging consumer market?

**A** It is hard for us to come to grips with the size of the domestic market and its potential. Currently, the government is trying to convince Chinese to stop saving and start spending. The goal is to reduce the savings rate, which is 47% of the GDP, to 40%. If successful, that will create consumer spending on an unprecedented scale. China presents opportunities for everything from health care to hardware, from pizzas to high-end consumer products. The emerging middle class has an appetite for the novelty of almost all things Western. Take fast food: KFC and McDonald's are all doing well. I have a client who is considering launching a pizza manufacturing plant there soon. In my experience — and pardon the pun — the Chinese will gobble it up.

**Q** Many foreign companies' China operations are very profitable. What are the drivers these companies used to create value in their China operations?

**A** The American Chamber of Commerce issued a members survey in March that showed that 68% of U.S. companies with Chinese operations were turning a profit there. Among manufacturers, that rose to 80%. About 86% reported a year-to-year gain in sales. What the successful companies shared was that they were

also successful companies at home. They entered China following the same discipline and exercising the same management skills that made them successful domestically. China was essentially business as usual but with a good many new layers of complexity, all of which had been researched, thought out and addressed beforehand.

**Q** What are the critical success factors for Canadian companies doing business in China today?

**A** Companies enjoying success in China are the very same ones that have risen to the top of the heap at home. They are well-managed, well-funded, show strong cash flows and are in a growth industry. I advise clients to consider the following. Start by doing research, research and more research; hire advisors to help with a proven track record in China. Then, get to know the markets you intend to serve inside out and localize your services or products. China is a nation of vast regional differences and tastes. Remember that when it comes to recruiting in-country management. Locals understand market conditions better than imports from other regions. Successful companies have to be committed to the expansion from the top down; lack of alignment is an invitation to failure. Have reasonable expectations; China is not a magic bullet. Once established, spend time networking; business in China runs on friendships and relationships. Create an exit strategy. China will change and you must change with it. Finally, obey the law. Government can and will act unilaterally against any company or individual it finds guilty of breaking any one of thousands of laws or regulations. The court system is very different; the law is very different. Find out what the laws are and obey them to the letter.

### READER FEEDBACK

If you have comments on the Entrepreneur feature, please send them to [info@roynat.com](mailto:info@roynat.com)

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