

The hidden costs of doing business in China.

All the eyes of the business world are oriented towards China. This “economical wonder” is the source of many entrepreneurial opportunities, which seem easily accessible. Who doesn’t want to be part of the Chinese miracle economy? Most of us want a piece of this huge profit cake. There are, nevertheless, many examples of business that struggle to enter China, consequence of a narrow view of costs that lie within Chinese business environment. Hopefully there are more examples of success stories that have managed those costs in a pro-active way.

Motorola has done considerable investments to enter China, and most of it was dedicated to technology transfer. They knew the costs that were associated to it, and they were one of the pioneer foreign firms to achieve such business success, beginning in 1987 with a representative office in Beijing. The pressure of transferring technology lies in creating your own competition in a bubbling business environment.

Foreign firms are eager and impatient of entering this dynamic market, however the Chinese business process is far from what foreign companies are used to. Initiating Joint Ventures with a Chinese partner could be an adventure full of twists and turns. In our determination to do business in China, some forget that we need them more than they need us; and unfortunately we are not sole players in this quest. Many of the established firms, have encountered time wasting related costs, and delays mainly due to communication and cultural issues.

Setting up legal firm requirements, and gathering the necessary documents and information to kick off the implementation procedure can be a hassle if done inappropriately. For example, while the capital requirement for setting up a Wholly Own Foreign Enterprise can run in excess of US\$100,000, this doesn't need to be the case. In fact, the capital requirement actually varies between industries and could indeed be less than this. Moreover, often all capital is not required up front and can be dripped fed into the business over a period of time.

China has been, and is still seen as a large pool of cheap labor. With the economical boom, especially in fast developing cities such as, Shanghai, Beijing, Hangzhou, Guangzhou... the cost of qualified labor is following china’s trends: leading to fast growing wages. Companies also realize once set

up, that managing Chinese staff is not only about opening a cross-cultural management book... It is once again a complex journey to achieve. Furthermore, having access to quality and responsive Chinese staff is a definite competitive advantage, instinctively reducing the amount of time lost and inevitably, the amount of hidden costs.

Fortunately, the Chinese business environment is gaining more and more flexibility, and business frameworks of foreign set up firms are available. Feedback and experiences are now accessible to have a clearer view of the does and don't while doing business in China. Likewise, there will always be ways to compress hidden costs, and by that, ways of gaining increasingly competitive positions.