CHINA'S FOREIGN TRADE MARKETING STRATEGY:
PROBLEMS AND PROSPECTS

BY

Shi Weisan, Vice President
University of International Business & Economics, Beijing, China

John J. Hampton, Dean
W. Paul Stillman School of Business
Seton Hall University
South Orange, N.J.

Winston L.Y. Yang, Professor
Asian Studies & International Business
Seton Hall University
South Orange, N.J.

Cecilia L. Wagner, Assistant Professor
Seton Hall University
South Orange, N.J.
U.S.A.

LYON, SEPTEMBER 3RD, 4TH AND 5TH 1986

école supérieure
de commerce de Lyon
93, chemin des Mouilles / BP 26 / 69131 Ecully Cedex / France
Tel (7) 833.3711
Telex 900 486 ESC LYON ECUILY
C.C.P. Aecra Lyon 249 98 V
It has been seven years since the open door policy was officially instituted by the People's Republic of China. During this time, we have seen great changes, both within the Chinese society and in China's dealings with the rest of the world. The government has led the largest nation in the world on a course with profound implications for nations and firms involved in global trade. Sufficient time has passed to allow a retrospective examination of what has happened in a forecast of future developments in the era that will follow Deng Xiao Ping.

The authors have shared ideas to evaluate the problems and prospects for China's foreign trade marketing strategy. Three perspectives were brought to bear on the task. Shi Weisan is the Vice President and Academic Dean of the University of International Business and Economics (UIBE) in Beijing. In this capacity, he has participated in designing a business and economics curriculum that is developing the foreign trade specialists for China's government ministries and state-owned trading companies. John Hampton is Dean of the W. Paul Stillman School of Business at Seton Hall University. Trained himself in international finance, he is expanding a five-year faculty and student exchange agreement between UIBE and Seton Hall. Professor Winston Yang is a professor of international business and Asian Studies at Seton Hall. A biographer of Deng Xiao Ping in the early 1970's, he led Seton Hall into formal exchange agreements with Chinese Universities in the early 1980's. In 1981, he assisted in establishing a sister state relationship between the State of New Jersey and Zhejiang Province.

As a construct for this paper, the authors have identified five strategies for consideration by officials who are developing China's policies in the area of foreign trade marketing. These are (1) the need to increase exports; (2) changing the mix of exports; (3) a systems approach to trade; (4) emphasis on value added labor joint
ventures; and (5) priorities for assembly technology. Each strategy will be
identified and discussed in terms of its future prospects for implementation.

The Need to Increase Exports

In the past seven years, China has made impressive strides in the area of
international trade. Between 1973 and 1985, the volume of exports and imports has
tripled from 20 to 60 billion dollars. At the same time, absolute volume is still
quite small. China's exports, for example, account for less than 2 percent of the
world's total. The nation ranks 16th in world trade, a level that does not match
China's population or position in world affairs.

The increase in exports has been matched by an expansion in the kinds of
products available to other nations. This reflects a long term trend. In the 1950's,
China's exports consisted mainly of agricultural products, either directly or as
manufactured by-products. Industrial and mineral products accounted for only 10
percent of total exports. By 1985, the situation had changed dramatically. Over 70
percent of exports are now manufactured goods or minerals. The products include
textiles, food stuffs, electrical machinery, chemical products, silk, carpets,
porcelain, arts and crafts, tea, bristles, agricultural products, tung oil, and more.
With the aid of foreign capital, mineral exports are increasing. With the aid of
foreign technology, China is now selling machine tools, hardware, instruments,
medical apparatus, bicycles, sewing machines, cameras and similar products in
foreign markets. Prior to 1978, these goods were either not produced in China or
were not made available for export. In spite of China's success in international
marketing, serious problems exist. In 1983, China suffered a trade deficit of 7.6
billion dollars. This resulted in a shortage of hard currencies to finance the
purchase of technology, capital equipment, and strategic raw materials that are
essential to China's continued economic development.

China has begun a major program to improve its export performance. Some of
the key elements include:

1. Decentralized Responsibilities. The task to increase exports has been
decentralized to the provincial or municipal level. Concurrent with this
goal, the government has given local units widespread authority to
make decisions. This is particularly evident in Beijing, Tianjin, and
Shanghai, the most important trade cities in China. Each has developed
a specific strategy to sell goods abroad. The Beijing municipal
government, for example, has earmarked 40 million yuan for bonuses to
export companies and factories, with the exact level determined by the
level of foreign currency earnings. Tianjin export companies are
offering higher prices to manufacturers who produce goods that meet
quality standards for sale in foreign markets. The government has also
waived some tax payments for factories who produce such goods.
Shanghai has begun a program of resource allocation to support the
creation of exportable goods. Companies that produce goods for sale
abroad receive priorities in terms of price and availability for energy,
transportation, and raw materials.

2. Creation of Production Networks. The State Council has encouraged the
establishment of networks to facilitate the production and distribution
of exportable goods. Mines and farms that provide raw materials are
joined by transportation linkages to factories who work closely with
export companies. These networks are encouraged to work closely
together using more flexible management systems and avoiding some
bureaucratic approvals.

3. Systematic Programs of Export Management. A country the size of
China requires special skills to increase exports and reduce local consumption. A number of steps have been taken. The China Chemical Industry Import and Export Corporation established a control center in 1985 to achieve specific goals with respect to sales of petroleum products, paraffin, wax, and calcium carbide. Such commodities are now enjoying larger sales on foreign markets. The China Handicraft Import and Export Corporation has centralized controls over purchasing and sales. This has resulted in higher levels of exports of embroidery, porcelain, fresh water pearls, and other handicrafts. Similarly, the All China Association of Carpet Importers and Exporters has taken a firm hold on its areas. Carpet exporters must join the association and receive approval for export licenses. The Association has worked out standard prices for various types of carpets and worked on over 700 contracts in its first year of operation.

4. Reduction of Smuggling. The sale of smuggled goods outside government channels continues to be a serious problem. It is widely believed that a 1985 decline in the exports of cotton yarn, cloth, polyester fiber, and Chinese medicines was caused largely by the availability of competing products smuggled out of China. The government has taken major steps to check smuggling and punish offenders.

These steps and others are clearly necessary given China's current foreign exchange deficit. They are even more important as a result of the disappointing results thus far from off shore oil exploration. In recent years, some 30 percent of export earnings were tied directly to petroleum. If China is to realize its ambitious industrialization schedule, the loss of anticipated oil revenues must be made up by

the sale of other products.

Changing the Mix of Exports

The authors believe that China cannot stop with efforts to expand foreign sales. Additional sales of coal, oil, and other raw materials will provide badly needed foreign exchange. At the same time, it does not accomplish other goals, such as long term penetration in foreign markets. Three reasons may be argued for China to emphasize manufactured goods and finished goods rather than the easier sales of native products or raw materials. These are:

1. **Labor as a Comparative Advantage.** China's single greatest asset in the realm of international trade is its large pool of willing workers and its ability to produce goods at more than competitive wage rates. China has one of the lowest costs of labor in the world, with a full time worker earning roughly the equivalent of $45-75 a month. China can benefit from this comparative advantage only by producing goods that require a large labor component. Chemical production, steel mills, and similar enterprises requiring large capital and raw materials components are not wise investments compared to light manufacturing.

2. **Economic Development Skills.** An emphasis on light manufacturing with a large labor component offers high potential for increasing overall economic development. Foreign exchange earnings would be available to pay workers salaries, thus providing money in the economy to purchase consumer goods. In addition, Chinese managers would face the task of building organizations that can produce goods in a cost effective manner. This offers the potential to develop a management and supervisory class that can provide the organizational skills needed to improve the economic well being of the people.
3. **Presence in Foreign Markets.** The sale of raw materials and unprocessed products can achieve significant foreign exchange goals. It does not, however, give a country a marketing presence in other nations. When the coal runs out, the supplier is forgotten. Quality manufactured goods, on the other hand, allow sustained long term trade. The tremendous success of Japan, Korea, and Hong Kong in producing manufactured goods for the entire world are models that would serve China well. These areas have established reputations worldwide. China would be expected to build upon the Hong Kong connections as it establishes itself as an important player in light manufacturing.

**Systems Approach to Trade**

A deficit is a combination of exports and imports. Thus, correcting a deficit should be addressed in an overall systematic framework. With proper government policies, the deficit can be addressed on both sides at the same time.

To illustrate the import side, the authors believe that China should consciously allocate foreign exchange to a new mix of products. In 1985, China imported a large volume of luxury items. These raised consumer expectations without making a full contribution to economic development. From Japan alone, almost 300,000 automobiles were shipped to Chinese ports of entry. Some of the vehicles are used to meet important transportation needs but many are luxury items that do not contribute to further development. These items accounted for a substantial portion of the trade deficit.

Instead of consumer items, what would happen if China used a larger portion of its foreign exchange to import technology to produce domestic consumer items? Copiers provide a useful example. Over the past 5 years, China has used $20 million of hard currencies to import equipment for producing copiers. The technology was purchased from Japan, the United States, and Hong Kong. Now, 9 assembly lines and 11 special production lines are being installed in 10 major cities. When fully operational in 1990, the nation will have a production capacity of 350,000 copiers a year. Since projected domestic demand is estimated at 120,000 copiers a year, China is producing export capacity. This completes the systematic approach.

There are now indications that China is applying this model to other manufactured products. As new production facilities are opened to produce televisions, refrigerators, washing machines, and similar items, China will be able to cut its imports of these items and export surplus production.

In light of this argument, China should consider the priorities in its current 5 year plan. The Chinese government has embarked on a course to encourage foreign investors to compete in China for projects in a variety of areas. These include electricity, coal and petroleum, and other primary products. In the manufacturing area, projects range from sophisticated industrial equipment to light manufacturing. Given the constraints on foreign exchange, China's joint ventures might achieve greater results if priorities are reviewed and greater emphasis is given to projects that reduce the need for future imports, even as they offer the potential to increase exports.

**Emphasis on Value Added Labor Joint Ventures**

Since 1979, when China promulgated the Joint Venture Law, to the end of 1985, joint venture contracts worth billions of dollars have been signed. Although offshore oil exploration accounts for a major share of these projects, ventures have begun in machine building, fabrication of instruments, textiles, food processing, pharmaceuticals, and a variety of light manufacturing. These ventures are scattered in Beijing, Shanghai, Tianjian, Jiansu, Liaoning, Sichan, Anhui, Henan, Hubei, Hunan, Guangdong, and elsewhere. Some notable ventures that may
contribute to earning future foreign exchange are:

1. **Shemmei Daily Use Products Company Ltd.** Jointly run by China Shenyang Daily Use Metal Industrial Company and the U.S. Gillette Company, this venture was inaugurated in January 1983. Production began 7 months later. Gillette's Boston Research Center confirms that the teflon coated steel razor blades produced by the company meet all of Gillette's international standards. The products use Gillette's trademark in overseas markets and are selling well both in China and abroad. Perhaps more important for future prospects, the company's 1984 profits were 200 percent higher than originally estimated.

2. **Parker Hubei Seal Company Ltd.** This joint venture of Hubei Auto Industrial Company and Parker-Hannifin Corporation (USA) started production in August 1982. Working from U.S. designs, manufacturing technology, and materials testing methods, the factory produces high quality, leakproof rubber seals for hydraulic machines. In 1986, it is estimated that 70 percent of production will be exported. Although output has exceeded the original design capacity, market demand for Parker-Hubei seals far exceeds supply.

3. **Beijing Jeep Corporation Ltd.** One of the larger joint ventures in China, this is owned by the Beijing Automobile Works and American Motors Corporation. Production began in January 1984 when sophisticated technology and managerial expertise imported from the United States were used to upgrade the old Beijing jeep model. In 1985, its profit and productivity figures made it the top enterprise of its kind in China. Even the difficulties experienced in 1986 with management and supervision of the activity reflect only the problems of climbing the learning curve when Chinese culture and Western business styles must reach a national accommodation.

In recent years, China has continued to relax its policies on using foreign capital to develop the national economy. In 1985, the Chinese Foreign Ministry announced an extension of tax incentives for 5 more years, until 1990. These apply to foreign companies doing business in China. Success in attracting foreign investments is apparent. In the city of Tianjin, 144 joint ventures valued at $225 million have been established since 1980. Between 1979 and 1985, Jiangsu province set up 617 ventures capitalized at just over $400 million. In Guangdong province during the same period, 3,600 ventures worth over $2 billion were established.

In reviewing China's joint ventures, the authors would encourage a primary emphasis on projects that take advantage of China's large and dedicated workforce. Projects that require extensive capital and a high quantity of raw materials do not allow China to seek long-term competitive advantages in world markets. Since capital and materials resources are not unlimited, some of the most advanced technologies will not produce a sustained economic development. Two items of concern are:

1. **The level of technology.** China should take steps to ensure the maximum impact from capital investments. This may imply purchasing older technologies that require more labor-intensive processes. An example of the authors concern might be the Baoshan Iron and Steel Complex, where careful decisions are needed. In this project, a joint venture between Taiyuan Heavy Machine Tools Plant and Mannesmann-Demag A.G. of West Germany has produced a continuous seamless steel rolling mill that meets advanced world standards. Its rolling speed is the highest in the world. But does China really need
such capabilities? Might not older and more labor intensive technology
be a better choice at a lower capital cost? And might such a design
allow China to develop greater capacity with the same overall
investment?

2. Overdependence on mineral projects. China has encouraged massive oil
and other energy projects and has concentrated much of its national
policy on success in few areas. Petroleum production, coal mining, and
nuclear power are major examples. The authors perceive excessive
reliance on a few projects to generate foreign exchange in the future.
In 1983, one fourth of China's export earnings were derived from crude
and processed oil, over $6 billion in all. With problems developing in
offshore oil drilling and a steep decline in world oil prices, many 1986
projects are likely to be cancelled or delayed. Similarly, a major coal
project with Occidental Petroleum and gas and pipeline venture with
Atlantic Richfield Company may no longer be economically viable.
When these decisions are made in the future, allocating priorities to
more labor intensive projects that add value to manufactured products
should be evaluated as national policy.

Priorities for Assembly Technology

Chinese labor rates average between $45-75 per month, with family incomes
frequently under $100 per month. At the same time, China has a disciplined work
force that can be trained to perform specific assembly tasks in manufacturing.
Many such tasks require less than 3 months training and ventures can be established
with a relatively small capital commitment. For assembling consumer products,
basic tools may be all that is needed. For assembly of electronic components,
quality control and testing equipment is required. These are both examples of
capital costs that are relatively minor compared to the cost of labor.

Assembly technology offers several benefits of particular importance to
China's development.

1. Long Term Development. Without minimizing the importance of
locating and extracting raw material resources, building a skilled labor
force is a powerful element of economic development. As has already
been noted, the oil and coal will eventually run out. The ability to
manufacture will remain indefinitely. Japan is a case study of the
creation of basic assembly skills in the 1950s leading to sophisticated
manufacturing technology in the 1970s and 1980s.

2. Reduction of Foreign Exchange Needs. A fabrication operation requires
significantly less capital development that a fully integrated
manufacturing environment. If steel castings and computer chips are
transported to a factory, assembly can take place on little more than
workbenches, perhaps equipped with some electronic testing devices
and soldering guns. The building, a major cost, can be constructed with
native materials. Large expenditures for foreign technology are
minimized.

3. Minimize transportation and infrastructure demands. China has created
a number of special economic zones (SEZ) in coastal cities where trade
and transport have historically taken place. These zones receive
preferential treatment from the central government with respect to
ventures with foreign firms. If assembly operations are established
along China's waterways and in coastal zones, the nation minimizes the
Highways, electricity, water, railroads, and similar economic projects are not required to support new investment as is the case with shipyards, steel mills, chemical refineries and other heavy industry. This paper has addressed the export and import side of China's foreign trade.

4. Multiplier effects. Using foreign exchange to create the greatest possible number of jobs has important related effects on the economy. If money is spent to pay workers that produce goods, the workers have money to spend elsewhere. This stimulates the entire economy. If the money must be spent on equipment purchased abroad, the money is not available to stimulate further internal growth. For example, China does not have an automobile industry to assemble its own automobiles. If the government produces an automobile project with a venture to assemble world products, it is difficult to count the discussion's economic effect. China is not going to replace its industry of extraction projects.

The authors recognize that some aspects of this argument have been simplified to focus the discussion. Obviously, Exxon is not going to replace its petroleum exploration project with a venture to assemble word processors. At the same time, the point is valid. China does not have unlimited resources to participate in joint ventures and should make conscious choices that promote participation in joint ventures and should make conscious choices that promote economic growth. Such a policy will reduce the need for imports and create exports.

Conclusion

The authors recognize that more economic development than are heavy industries, such as oil exploration, are needed to sustain internal growth. China is a large consumer of raw materials and is vitally dependent on the outside world. It still has to be imported in existing programs. Increases in growing all at once may be an easier way. The Chinese recognize that its resources are not unlimited. The authors recognize the stress of economic development and do not stress.

This paper has addressed the export and import side of China's foreign trade.

The authors recognize that some aspects of this argument have been simplified to focus the discussion. Obviously, Exxon is not going to replace its petroleum exploration project with a venture to assemble word processors. At the same time, the point is valid. China does not have unlimited resources to participate in joint ventures and should make conscious choices that promote economic growth. Such a policy will reduce the need for imports and create exports.

Conclusion

The authors recognize that more economic development than are heavy industries, such as oil exploration, are needed to sustain internal growth. China is a large consumer of raw materials and is vitally dependent on the outside world. It still has to be imported in existing programs. Increases in growing all at once may be an easier way. The Chinese recognize that its resources are not unlimited. The authors recognize the stress of economic development and do not stress.

This paper has addressed the export and import side of China's foreign trade.

The authors recognize that some aspects of this argument have been simplified to focus the discussion. Obviously, Exxon is not going to replace its petroleum exploration project with a venture to assemble word processors. At the same time, the point is valid. China does not have unlimited resources to participate in joint ventures and should make conscious choices that promote economic growth. Such a policy will reduce the need for imports and create exports.

Conclusion

The authors recognize that more economic development than are heavy industries, such as oil exploration, are needed to sustain internal growth. China is a large consumer of raw materials and is vitally dependent on the outside world. It still has to be imported in existing programs. Increases in growing all at once may be an easier way. The Chinese recognize that its resources are not unlimited. The authors recognize the stress of economic development and do not stress.

This paper has addressed the export and import side of China's foreign trade.

The authors recognize that some aspects of this argument have been simplified to focus the discussion. Obviously, Exxon is not going to replace its petroleum exploration project with a venture to assemble word processors. At the same time, the point is valid. China does not have unlimited resources to participate in joint ventures and should make conscious choices that promote economic growth. Such a policy will reduce the need for imports and create exports.