

CHINA: GETTING IT RIGHT



Ten years have passed since the handover of Hong Kong to the Peoples Republic of China. Former outsourcing manager for Arcam, Norman Milner, explores electromechanical outsourcing in the adjoining Guangdong Province

Adjacent to Hong Kong and bordering the Pearl River Delta, with its major cities of Guangzhou (once Canton), Shenzhen, Dongguan, Huizhou and Zhuhai, the Guangdong Province (over two thirds the size of England) including the Pearl River Delta, has been China's fastest growing province, with a staggering 15 per cent growth rate record. This district has accommodated much of the electromechanical global off-shore ventures and outsourcing.

China's enormous, growing, indigenous consumer market accounts for most of the new factories, roads, traffic and labour movement in this area. The UK, surprisingly, remains the main overall European investor in China. Whether investing as a Wholly Owned Foreign Enterprise (WOFE) or less popular Joint Venture (JV) or outsourcing products/subassemblies, many UK companies still choose the Southern provinces.

Older factories housed in multi-floor buildings (with worker dormitories included) are moving from city locations to the outskirts and busses are replacing pedal power. Adjacent dormitories house migrant workers and leisure facilities such as badminton and basketball.

Contract manufacturing

Accommodating the needs of export and mainland China, contract assembly for finished product, printed circuit board assembly, metal presswork, cable assembly and turnkey operations have kept pace with growth. Apart from new enterprises, whether foreign or Chinese, some pre-existing companies now have second or third factories. Well known

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international brand names light up factories and you don't have to travel far to see logos of western contract assembly plants.

I have just read the good news that ACW Technology has opened a new manufacturing facility in Zhuhai, complimenting its Southampton and Tonypandy factories, providing customers with flexibility, lower cost, assurance and security.

Having dealt with other Far Eastern areas, within and outside China, I have always preferred working in the Guangdong Province where management has been influenced by Hong Kong practices. Sometimes, it is more practical to negotiate and work with Hong Kong, English-speaking management who use the same manufacturing language, have similar qualifications and are familiar with other aspects of UK business.

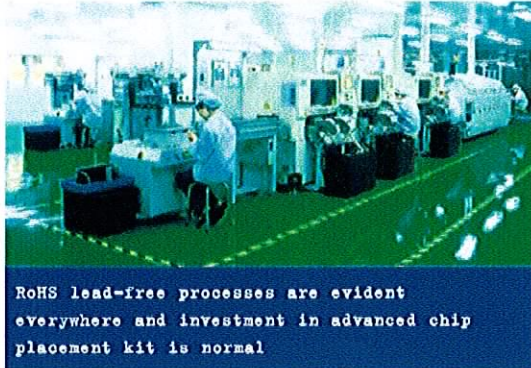
However, be aware that although Hong Kong owned or managed companies understand Western management they may not want to learn about Chinese labour laws, tax and finance. Reports suggest the Chinese see HK as elitist: adding little value, lots of cost and confusion. HK employees can demand high salaries (some equal to the West), additional benefits and virtually no income tax (seven per cent!).

Hong Kong businesses in Guangdong Province employ some 12 million people, mainly migrant and local Chinese, plus key staff from Hong Kong.

It's not all mass volume, with Chinese businesses eager for 1,000 to 2,000 PCBA batch (coupled with continuity) compared with 5,000 plus per day volumes.

Selected Chinese contract engineering companies offer: full turnkey; PCBA, SMT and through hole; box build; optical, in-circuit, functional and x-ray test; and it's normal to find services for BGA and COB assembly. RoHS lead-free processes are evident everywhere and investment in advanced chip placement kit is normal.

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Components

Most electronic components (integrated circuits and passive) are imported into China and Chinese contract manufacturers can't always buy at better prices than those in the UK. For both cost and operational control, it is best to negotiate long lead-time, high cost or sensitive components in the UK and Europe, to be sold/free issued and shipped direct to the Chinese assembly contractor.

UK buyers should work closely with their designers and suppliers to ensure they get factory price support, control and continuity. Handled correctly, there is duty relief to take advantage of.

Companies can source key made-to-drawing parts locally in China on behalf of their contractor. I have visited and set up contracts with excellent Chinese manufacturers making parts such as VFDs, LCDs, cable assemblies and tooled enclosures.

Getting started

In many respects, locating a suitable source in China or investigating a WOFE or JV is now a lot easier. Trade shows, trade councils, internet and commercial links have developed remarkably well over the last ten-years. Whether you are looking for full turnkey box build, PCBA, cable assemblies, enclosures, LCDs, power supplies or plastics, the big problem is short-listing from the many suppliers. Starting from scratch, the selection process may take many months. Specialist manufacturing advisors such as Far East Business Links can shorten the timescales and recommend vetted sources during start-up.

If considering your own factory or looking for a joint venture, plenty of time should be allocated to research (WOFEs and JVs can take one to two-years to set up and become operational). Getting it wrong and decoupling later can cripple a business, while getting it right brings great rewards.

Increasing numbers of Chinese companies claim ISO accreditation and, although this is a step in the right direction, your own audit and supplier appraisal is vital. We have developed and tested our own procedures and techniques for vendor selection, asking much the same questions as one would ask a western source. You have to be patient and determined to get accurate answers; for example their 'other' factory may be a joint venture or collaboration arrangement. The presence and influences of foreign multinationals such as Sony, IBM and Philips filtering throughout the supply chain has lifted standards enormously over the last decade.

Don't expect trading terms and conditions to be evident, most trading is carried out from a quotation simply providing description, price, delivery and terms of payment. Whereas many Chinese companies will honour a business arrangement

based on a simple quotation and handshake, it is always safer to set up a formal contract. Negotiating terms and conditions can be arduous: you can usually overcome this by explaining carefully why you need specific and unfamiliar terms.

I am a little biased towards Hong Kong managed businesses in Guangdong Province simply because communication is easier. I hear of many mistakes like selecting a Chinese mainland or Far Eastern company at a trade show, to later discover that only the people on the stand can speak good English.

Locating and selecting an established UK/European/Western (WOFE or JV) is probably the best solution, as opposed to my preference list of either Hong Kong, Taiwanese, Chinese, Korean, Malaysian owned or managed factories. Communication should remain top of your vendor rating appraisal.

IPR

In Mainland China, intellectual property rights protection has only marginally improved with laws spurred on by WTO access. The process of rooting out corruption, training of the judiciary, reducing the cost, time and uncertainty of fighting cases, are all slowly maturing. In many cases its Chinese v Chinese. There are safeguards to help protect your IPR and these should be taken on board and introduced.

Relationships and Guanxi

Subscribe to and understand the true value of business and personal relationships. Being yourself, treating China the same as anywhere else, offering compliments, being a little culturally sensitive and yet robust, all go towards a better working relationship. The Chinese have an expression called Guanxi which goes beyond our understanding of business and personal relationships: but don't think you will totally experience this, being a foreigner.

Small gifts are still a good bonding token, where you might receive tea, wine, porcelain or even moon cakes in the autumn. I find a reciprocal gift of red wine, a golf shirt, miniature marmalades or Wedgwood goes down well.

Workers and wages

Prices have been mainly affected by material increases such as oil, coal, gas, aluminium, copper and steel in the last two to three-years. Labour rates have increased about 75 per cent in the last ten-years and now seem to average approximately \$120 to 150 US/month for a start-up factory worker with dormitory accommodation and subsidised canteen provided. The assembly labour force comprises mainly migrant workers, mostly girls, who may come from 1,000 miles away.

Recent reports reflect that Chinese labour rates at Euros 5 per day, compared to India (9 Euros) and Europe (45 Euros), are still favourable.

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Companies can source made-to-drawing parts locally in China ranging from LCDs to cable assemblies