

# GOING GLOBAL: ASIA

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Since Deng Xiaoping assumed the reins of power in the late 1970s, no country has modernized as fast — or as drastically — as China. During the last quarter century, China has transformed from a collective agricultural society to a juggernaut of capitalism, investment and high-tech manufacturing. This rise from a mainly agrarian economy to one which boasts 200 urban centers with a population of at least a million people each is truly staggering and unequaled in the history of modern civilization. Coupled with the reunification of Hong Kong and the mainland in 1997 and the growing financial inter-dependency with Taiwan, China is looming on the horizon as a leader in the new world business order. In 2002, China accounted for 16% of the growth in the world economy, ranking second only to the United States. And since 1970, China's gross domestic product has ballooned from \$106 billion to a lofty \$1.3 trillion, all of which provides both optimists and pessimists with food for thought. As the Asian market, primarily mainland China, continues to open its doors of opportunity to western businesses, many will find that their first experience into China will be ripe with obstacles and pitfalls. These difficulties stem from the fact that many companies fail to pay proper respect to the intricacies and nuances of this new and emerging market because in China, business is guided by a culture and history centuries in the making. This is often overlooked by those of us from the western world.

Where many companies have faltered or have outright failed when approaching China is that they underestimate the market. When thinking of China, these companies get caught up with dollar (or euro) signs in their eyes as they view a large and potentially lucrative marketplace. The truth of the matter is that companies cannot simply walk into this market and start making money. The process of establishing a successful business venture requires a willingness to endure an adoption by the public and the building of connections (*guanxi*) with local government officials and members of the business community. While understanding a country's culture and history is always an advantage in doing business abroad, an understanding of the culture and history of China is a must when dealing with China. Companies need to understand that to the Chinese Diaspora the drive to economic achievement is not just about money, but rather it is a reawakening of nationalistic pride.

# Preparing to Enter the China Markets

Terry Shidner

## Understanding the Past

Upon approaching China, it is first important to understand that the rise in capitalism and entrepreneurship in China is nothing new. Those who truly understand China realize that the country is now emerging from a 150-year slumber that saw China go from one of the centers of world culture to a society that had been carved up and exploited by the West. This emergence is merely a once-proud nation regaining its stride and reestablishing its prominence in the world.

Arguments can be made that the Chinese empires of the past are much different than the China of today. The spirit of the Chinese people, however, has endured through the good times and the bad times. They are a people proud of their culture and history and eager to shake off a temporary feeling of insecurity to once again regain their role as a dominant society. According to a finely written article by long-time China watchers Evan S. Medeiros and M. Taylor Fravel, a series of provocative articles have recently run in major Chinese newspapers and journals that advocate China abandon its victim mentality (*shouhaizhe xintai*) and instead reaffirm its standing in history. This view was endorsed in 2001 by the former President of China, Jiang Zemin, who in a speech marking the 80th anniversary of the Communist party urged China to adopt a "great-power mentality" (*daguo xintai*). Emerging sentiment such as this continues to gain traction and combined with the impressive economic growth of the last two decades is an important thing to consider when engaging in business relations with China. China today brings more resources and influence to the table than at any point previously in its 3,000-year history.

## Understanding China Today

When approaching China, western businesses should always remember that as China

becomes more engaged with the West, it is also growing more adept at using its new economic clout and business savvy to better serve Chinese interests. Today's China is certainly smarter and more sophisticated, but not necessarily kinder or gentler. China is also rapidly emerging as the engine of growth in Asia, which means that it is increasing its influence and leverage within the region.

Chinese growth has been fueled by a willingness from the Chinese government to allow foreign investment into Chinese enterprises and the establishment of centers of development for global, multinational corporations. Beijing has allowed foreign corporations to pump over \$450 billion into its economy, which makes China tied for fifth in total foreign direct investment (FDI) behind the United States, United Kingdom, Benelux Economic Union countries and Germany. And according to recently published accounts in *Foreign Affairs* magazine, China could surpass all but the United States in FDI by 2004. This influx of investment is also enhanced by cash remittances from China's large expatriate community and through the recently reunited Hong Kong Special Administrative Region (SAR).

While the majority of Chinese investment is directed into China, it is also important to note that China, like other Asian nations, has been investing heavily, not only into other countries within the region, but also into the West. In an attempt to stabilize its national currency, China has been buying US dollars en masse. According to the US Treasury Department, China has purchased over \$100 billion in US Government Securities in a recent 18-month period (2002-2003). In doing so, China has itself become a primary source of funding for United States' growing fiscal deficit and current account deficit. In the 1980s Japan played a similar role, but this marks the first time that China has played an active part in fueling US debt. This is also a reason that the US has been lobbying the



Chinese government to remove its currency peg to the US dollar.

What does this mean for companies that do business in China? Mainly it means that China has embraced economic growth over its previously held ideological model and now has the capital means to reinvest into its infrastructure. Because of this, China is creating a cyclical economic model, which has led to investments into China's infrastructure, which directly enhances its ability to fuel further business growth and recruit additional FDI. China has devoted a large amount of capital into expanding its education system, strengthening its IT infrastructure and reforms in its banking and finance sectors. China's increased business capacity has made China an essential link in the global production chain for many multinational corporations.

Education, in particular, has become a main focal point for China as its citizens have seen that an educated workforce has a direct influence on the prosperity of their country. Chinese universities are now creating a highly educated labor force that is beginning to rival that of many of the traditional world development centers such as Ireland, India and other once low-cost nations. The benefit for western companies is that China provides a resource for low-cost but highly reliable development. It is education that is helping to drive China's goal to match and eventually exceed other nations in the region as a prime exporter for software development, IT services and product testing. According to a report by the World Affairs Council, Beijing hopes to capture 60% of the regional software development and testing market for local firms and to multiply current exports by a factor of ten by 2010. Many companies view India as a prime market for low-cost outsourced development, especially testing services. India has enjoyed significant growth in this sector because it invested heavily in technical colleges during the 1970s and 1980s and because many of its citizens speak English. Although China does not have India's linguistic advantage, it has no shortage of engineers: some 325,000 new engineers graduate from Chinese universities every year. This yearly output is three times greater than the graduation rate of India for the same skill sets. Coupled with the fact that FDI into India is a mere fraction of what is currently being infused into China, it's easy to see why China is rapidly becoming a prime choice for western businesses to push development and investment into China.

In addition to its focus on education, China has gained distinction for its commitment to IT and physical infrastructure development. This reinvestment in its physical capabilities is being sponsored by both the central government and private investment. Investment in infrastructure is also an area where having a centrally planned government does have its benefits. One of the things that plagues western countries is that our communications backbone is rapidly aging and is becoming unable to handle the new throughput levels needed for today's business and technical development. The copper wire twisted pair that makes up the majority of America's short haul communications network is woefully inefficient and unable to handle high traffic volumes. And due to government bureaucracy and public entitlements, it is very difficult and costly to go back and update this transport medium with newer, more efficient networks.

China, however, does not have this problem. Since Deng Xiaoping moved the country to adopt a capitalist approach in the late 1970s, China has been installing high-capacity fiber and wireless networks at a staggering rate. Since China's traditional telecommunications network was almost nonexistent prior to the 1980s the country does not have to support old telecommunications networks while adding new technologies in the same way that the West needs to. Evidence lends support to the claim that by 2010, China will have one of the most advanced telecommunications networks in the world. Not only will China's telecommunications capacity continue to grow, but its citizens will also take advantage of the new wave of technology that IT infrastructure investment brings with it. Already, 69 million Chinese access the Internet through personal computers and even more log on via mobile telephones. In fact, China has become one of the largest and fastest growing mobile phone and personal computer markets in the world.

One only needs to look at the large business parks that have risen up in urban areas such as Beijing, Nanjing, Shanghai and Guangzhou to understand the massive investment that China has made into its business future. And nothing shows this trend in Chinese investment quite like the city of Shenzhen, which is located opposite of the former English colony of Hong Kong. Quite simply, 25 years ago, Shenzhen did not exist. Rather it was a tiny fishing village that has become a major point of entry into China, by way of its close proximity to

Hong Kong. Shenzhen now boasts a population of over 8 million inhabitants, all of whom have come to Shenzhen to work in the many technical and industrial parks that have come into existence over the last quarter century.

Furthering Chinese growth is its recent invitation to join the World Trade Organization (WTO) and the awarding of the 2008 Summer Olympics. Both of these events are significant because they symbolize China's coming of age, not only in world business but in the global community as a whole. And events such as these continue to fuel China's nationalistic pride to continue the drive to prominence. Anyone who discounts the importance of this statement needs only to wander the streets of any Chinese city to see the civic pride that the Chinese take over the awarding of the Olympics or the acceptance into organizations such as the WTO.

## China and the Rest of Asia

The economic boom that China has been enjoying over the past quarter century has been mainly due to its being used as a low-cost production center for western corporations. That trend has, however, been slowly changing in recent years. China is now actively growing its own domestic corporations, which are continuing to fuel an expanding domestic and export market. Chinese corporations such as computer manufacturer Legend are leading this charge to establish China as a major trading partner around the globe. In fact, China has recently surpassed the United States as the main trading partner for South Korea. It is also a leading investor into countries belonging to ASEAN.

How does this affect the rest of the region? Mainly, it is allowing China to move into a position once held solely by the Japanese, that being of an economic powerhouse in the East and Southeast Asia. China is now actively engaging other Asian countries as a competitor for western FDI and also as a major consumer for imported goods. This has been troubling for many Asian countries, especially those from other emerging markets that are competing with China for foreign investment. They see China's good fortune as a threat to their own economic development. When faced with the staggering amount of FDI and interest being paid to China, it is easy to understand why these countries feel a bit uneasy regarding China's continued growth. Another threat that China's neighbors are facing is the fact that China to this point has been



largely insulated from the downward trend in the world economy. Because of the currency peg and a then protectionist government, China was largely unaffected by the Asian market crash of the late 1990s. It was this crash that crippled countries such as Korea, Malaysia and Thailand, many of which are still trying to recover.

Furthering China's growth in the region, the reunification of Hong Kong is also helping to shore up areas of expertise that were once lacking in China — banking and corporate finance. These two areas are what have been troubling China for many years and have also made doing business in China difficult for other countries. In the past, Chinese banks have been largely mismanaged, often floating bad debt on inefficient state enterprises. The result has been to limit the amount of capital available in which to fuel private enterprise. The reunification of Hong Kong in 1997 has not only added a valuable market to Chinese products, but has also provided the mainland with a valuable commodity not previously seen — knowledge of how to manage a business. Coupled with China's massive production capability, this is enough to make some of China's neighbors cringe at what is rapidly becoming seen as a superpower in Asian economic terms.

When approaching business in the Asian region, companies need to pay attention to this dynamic and how it plays into intercountry dealings within the region. Political, economic and nationalistic feelings play a heavy part in how countries in the region interact with one another. Engaging with China without this knowledge is not a wise undertaking.

### The Chinese Language and the Chinese Marketplace

When entering into the Chinese market, it is important for western companies to be aware of the diversity and nuances of the Chinese language and subsequently its influence on particular regions within the country. The Chinese language has more than 20 identifiable spoken dialects that are mutually exclusive to one another, in addition to having two distinct written forms. The combination of dialects and writing conventions will vary depending on where the speaker or entity is located. Additionally, aside from the three major areas where Chinese is spoken (PRC, Taiwan and

Hong Kong), the Chinese language is also a major influence in just about every country in the world. And it's essential to remember that historically, China has more expatriates living in more countries than any other society in the world.

When a company attempts to market a product or service that will require Chinese localization, it is very important to find out the target market since the distinction between the written and spoken word is not always well known. Differences depend greatly on the type of industry that the product or service is focused on. However, the differences are not too great an obstacle to overcome as long as a company appreciates and understands the Chinese market. As mentioned earlier, research needs to be done prior to launching a product into the Chinese marketplace.

The Chinese Diasporas speak a myriad of different forms or dialects of Chinese. Most of the western world is familiar with Mandarin and Cantonese, which are the two main Chinese “business” languages. When discussing Mandarin and Cantonese, it is important to remember that these are *spoken* dialects and for the most part do not differ in their standard *written* form. The written form does differ, however, depending on what country the language is being used in. The two written forms of the Chinese language are classified as Simplified and Traditional. As a general rule, Simplified Chinese is used exclusively in mainland China (PRC), whereas Traditional Chinese is used throughout the rest of the Chinese world.

### Mandarin and Cantonese

Mandarin is the official language of the People's Republic of China (PRC) and of Taiwan. Remember that Mandarin is only the spoken language. It evolved from the North of China where the seat of Chinese government had historically been located. With the reunification of China following the 1949 Communist Revolution, Beijing established Mandarin as the official language of the PRC.

In Taiwan, Mandarin is the official language largely in part to the relocation of the

Chinese National Government to Taiwan following their defeat by the Communists in 1949. The native language of Taiwan is not Mandarin. The establishing government adopted Mandarin as the official language in 1950, however, and it has been taught ever since.

The Cantonese dialect is exclusively spoken in the South of China and in the now reunified Special Administrative Region (SAR) of Hong Kong. Cantonese is still a major dialect and is one of the more widely spoken dialects in Chinese communities worldwide, especially in America and Europe, which is due to historical reasons.

Both dialects use the same written form — either Simplified or Traditional. However, the pronunciation of the written characters is completely different. Some similarities for words exist, but largely the difference is quite noticeable. Comparing the two dialects would be similar to comparing English to Spanish.

### Simplified and Traditional Chinese Writing

Simplified and Traditional Chinese are largely similar in many respects. To best understand the differences, it is important to know the origins of the Chinese language.

The Traditional form of Chinese has evolved over the past 3,000 years. Unlike western (Latin-based) languages, Chinese does not use a phonetic alphabet when creating words. Rather, the language is created by characters that represent whole or parts of words. These characters have ideographic roots, which over time have evolved to their current state.

Although Traditional Chinese characters are visually appealing, the practical usage has historically led to a largely illiterate Chinese population. High illiteracy rates culminated from the population's difficulty in having to memorize the stroke orders for some 50,000 characters. Because the language is non-phonetic, each character combination needs to be memorized and cannot be spelled out.

The Simplified Chinese writing style was a creation of the Communist Chinese government. Implemented in the early 1950s, the Simplified Chinese writing style was an attempt



by the government to decrease illiteracy rates. The main difference in the two writing conventions is that the Simplified version tries to limit the intricacies of some of the key characters that are used most commonly — the theory being that it would be easier for the population to learn to write if the language were simpler to memorize, hence the term *Simplified Chinese*.

For mainland China there are also grammatical and stylistic differences of the written language across the major cities and latitudes, especially among Beijing, Shanghai and the Southern Economic Zone (which includes Guangzhou and Shenzhen).

Issues with marketing products and services in Hong Kong are quite different than those for mainland China. Even though the mainland has established Mandarin as the official language in Hong Kong, its grip on the population is slow in

coming. Many older Hong Kong residents do not speak Mandarin (business people do, but many consumers don't). They rely heavily on traditional Cantonese instead. The "official" language tag came only after reunification in 1997 saw Beijing install a mandate that required students to learn Mandarin as the official language. As for the Simplified form of writing, it is not widely used, due to historical reasons, although that is also changing. Hong Kong is part of China, but it runs on a one-country, two-rules model in which Hong Kong operates almost completely autonomous of Beijing. Since 1997, however, Beijing has been increasingly exerting control over many parts of Hong Kong society. In the future, it is reasonable to expect that the written and spoken form of Chinese will gradually homogenize in order to fuel continued business growth by removing barriers to communication.

## Conclusion

When contemplating entering the Chinese marketplace, western businesses can never do too much planning. On one side of the coin, China is a market ripe with opportunities due in part to its strong labor force and low cost of doing business. But the other side of the same coin shows that it is important not to take China lightly. It is not by happenstance that China has grown to be an emerging economic giant. The Chinese have a long history and are a very proud people. To underestimate them by not appreciating the nuances that go into their society is a dangerous proposition. Ω

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