Case Studies: Japan-China Business Relationships

Fuzhou Hitachi

By Hiroshi Sasaki

People used to associate the southern Chinese city of Fuzhou with the famous Buddhist remains on its outskirts. But in recent years Fuzhou has become the site of another important landmark. The city is home to Fuzhou Hitachi Television Co., Ltd., one of the top electrical appliances manufacturers in China. Last year alone, Fuzhou Hitachi turned out 230,000 color sets and 100,000 black-and-white sets.

Founded in February 1981 as a fifty-fifty joint venture between Hitachi, Ltd. and the Provincial Government of Fujian, the venture entered operation four months later. Capitalized at 3.6 million yuan (about $1.3 million), the plant employs 1,214 workers and is run under the leadership of a Japanese president and a Chinese board chairman. The operation has been so successful that it is now often cited as a star example of Sino-Japanese cooperation.

The four-story building on its 1,500-square-meter site is as easily recognizable from the name in huge, bright red characters on its roof as by the constant flow of trucks loaded with TV sets that leave it. But busy as it is, the factory has none of the helter-skelter atmosphere of most Chinese factories. Rather, lines and lines of workers concentrate on their own tasks, keeping pace with the flow of parts that move by in front of them.

Except for the fact that there are more workers and less automation to take full advantage of China's comparatively low wages, the Fuzhou plant is no different from most other Hitachi factories in Japan. Its products, among the most popular with Chinese consumers, are up to the company's high standards. The factory is running at full capacity, but still it can hardly keep up with demand.

Chinese demand for Fuzhou Hitachi's TVs keeps growing.

Fuzhou Hitachi is now planning to raise its capital from 3.6 million yuan to 12 million yuan to build a second production line. A site has already been chosen about 1 kilometer away. When the new plant goes into production sometime next year, Fuzhou Hitachi will be able to ship an additional 600,000 TV sets to the market yearly.

The company can well afford the new investment. Because of their high quality and popularity among Chinese consumers, Fuzhou Hitachi products fetch a high price on the market, so much so that the profit margin is unimaginably high by Japanese standards. Strong sales have been reflected in the company's balance sheet, as recurrent profits consistently top 20% of total sales. As a result, the company has been able to announce dividends of around 16 to 20% for the last several years.

Consumer preference apart, Fuzhou Hitachi President Yoshihisa Nomoto can name a number of other reasons for his company's phenomenal success. The first and foremost, he says, is location. Fuzhou is an ancient, historical city with a high standard of education. And the city has a considerable industrial base too. While Fuzhou is not one of China's coastal cities, it is a busy river port easily accessible by river transport.

Fuzhou Hitachi, Nomoto says, also enjoys the advantage of an early start. Rent was still low when it opened shop, and even today, the company pays the government less than 2 yuan (70 cents) a month per square meter. Construction costs were also low, just about half of what it takes to build a similar factory in China today. Hitachi was able to capitalize on such favorable conditions in return for the high risks it accepted as one of the first foreign enterprises to set up a manufacturing concern in China.

The booming business is not without problems. The biggest headache is the lack of suitable parts suppliers nearby. The low technological standard of local industries has made parts procurement difficult, and as a result, Fuzhou Hitachi must buy components from Japan. With China charging heavy customs duties on parts imports, there is no way the company can price its products competitively in the world market. Although Fuzhou Hitachi tries to export half of all output, company officials say the goal remains elusive.

Efforts to increase local procurement sometimes have unexpected drawbacks. Changing models, for instance, can trigger a sharp drop in local parts procurement, for the simple fact than local suppliers are unable to keep up with new technology. The adoption of a new TV set chassis last year was a case in point. After engineers decided to use a new chassis in 1984 models, local procurement plummeted from 65% to under 30%. Fuzhou Hitachi's local suppliers were unable to come up with the parts needed for the new chassis, and the company was forced to turn to imports.

Changing models is extremely difficult under such circumstances. Without significant improvement in the technological standards of local suppliers, Fuzhou Hitachi products will be unable to keep up with fast-changing international demands. Hitachi's policy is to encourage its affiliated parts makers in Japan to participate in technology tie-ups in China that can boost the skills of local industry.

The last, but not least, of the company's headaches is the taxes it has to pay for some locally procured parts. When the company buys from non-government parts suppliers, it has to come across with a 13 percent commercial tax. Over the long run, Fuzhou Hitachi must tackle these and other problems if it is to make its products truly competitive in the world market. ●

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