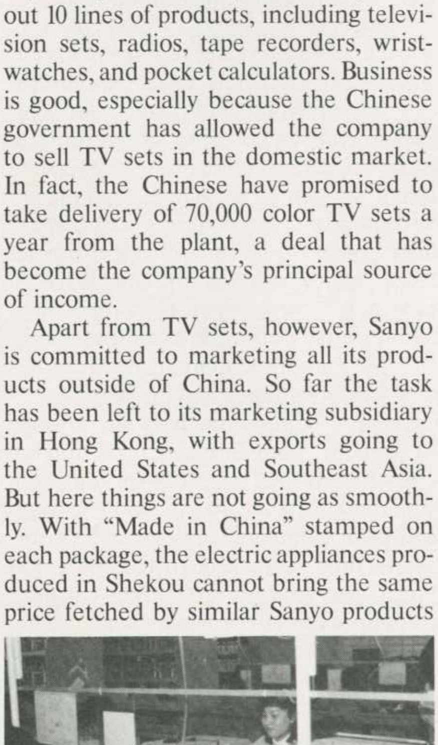
The Sanyo Electric Group in Shenzhen

By Ikuo Hirata

Among the four special economic zones in China, Shenzhen is by far the most favored by foreign investors. By all accounts, it is the most "Westernized" place in China. Here, the Sanyo Electric group has invested in two electric machinery assembly plants: Sanyo Electric (Shekou) Co., Ltd., a wholly-owned subsidiary in Shenzhen's Shekou industrial district founded in October 1983, and Huaqiang Sanyo Electronic Co., Ltd., a fifty-fifty joint venture set up in July 1984 between the Sanyo group and the Guangdong provincial government.

The Shekou Sanyo plant has 2,500 employees on its payroll. With floor space of 48,000 square meters, the factory turns out 10 lines of products, including television sets, radios, tape recorders, wristwatches, and pocket calculators. Business is good, especially because the Chinese government has allowed the company to sell TV sets in the domestic market. In fact, the Chinese have promised to take delivery of 70,000 color TV sets a year from the plant, a deal that has become the company's principal source of income.

Apart from TV sets, however, Sanyo is committed to marketing all its products outside of China. So far the task has been left to its marketing subsidiary in Hong Kong, with exports going to the United States and Southeast Asia. But here things are not going as smoothly. With "Made in China" stamped on each package, the electric appliances produced in Shekou cannot bring the same price fetched by similar Sanyo products made in Japan. Moreover, with the U.S. economic recovery going sour in the second half of last year, export business has slumped so badly that the company was forced to cut the price of its export tape recorders by as much as 15% late in the year.


Sanyo bet its future in China on Chinese trust.
photo: Nikkei Business

"Since we have a powerful overseas marketing network, we still can scrape out a living when things get tough," says Toshiyuki Tsujii, executive vice-president of Sanyo Electric (Shekou). "For other companies with weak overseas marketing links, I'm afraid it will be difficult for them to fulfill the export obligations imposed by China."

Huaqiang Sanyo (number of employees: 906; floor space: 12,500 square meters) is allowed to sell its entire output of TV sets in the domestic market, but has to export 75% of all its other products, including tape recorders and video cassette recorders. The slightly less burdensome arrangement can be explained by China's concern about the profitability of the Huaqiang venture, in which it has an equity stake. Huaqiang Sanyo managed to post ¥4 billion (nearly $16.7 million) in sales during the second half of 1984, mostly through earnings from color TVs, with the sales target this year set at ¥13 billion ($54 million). The profit margin is said to rival that of better-run companies in Japan.

Nevertheless, the reliance of both Sanyo operations on color TVs could prove an Achilles heel. The reason is that, in China, it is the government which has the final say in determining the size of domestic sales. And there is no guarantee that the Chinese will not, one day, clamp down on sales of color TVs in their country.

So far, the Chinese government has taken a lenient policy on TV sales, partly because extremely strong demand has created a huge gap between supply and demand. China's foreign exchange holdings have been high, standing at some $11.2 billion at the end of March 1985. There could be political reasons as well—the government regards TV as an effective means of getting its post-Mao policy out across the nation.

China has clamored about its "cheap wages and quality labor force" as attractions for potential investors, but these are not necessarily assets for an electrical appliance maker like Sanyo. Of course, at 240 yuan ($86) a month, including bonuses, wages in China are cheap. But it can also be a headache to get young workers acquainted with the production process. Besides, automation is already well advanced in Japanese factories, where the concept of quality control has already become a norm. In short, production efficiency in a Japanese factory far outpaces that of its Chinese counterpart. "In terms of overall production cost, Shenzhen is not that much cheaper than Japan or South Korea," admits a Sanyo executive in Shenzhen.

There is another reason Sanyo people worry about the future of their joint venture in Shenzhen: the duration of the contract, which is limited to 15 years. Some Chinese officials, notably State Councillor Gu Mu, have suggested that China may, as a matter of policy, extend the validity of the joint venture beyond its expiration date. But so far this has only been a suggestion, with no formal guarantee forthcoming from the Chinese government.

Yet, despite the uncertainties, the Sanyo group is keeping on with its investment plans in China. Sanyo considers China, as company president Kaoru Iué puts it, a "trustworthy country," and its investment plans there represent policy decisions based on long-term corporate goals. In fact, the company has said that "we will of course be concerned if we lose a lot of money in China, but it is okay if we don't make that much money."

This approach has won Sanyo friends within the Chinese government, and it has been reported that it was Gu Mu himself who intervened personally to help Sanyo win the approval it needed for the domestic TV sales by its Shekou plant.

The Sanyo Electric group has bet its future in China on Chinese trust as well as the potential of the Chinese market. In this sense, it is a very Japanese way of doing business overseas. Indeed, even in Shenzhen, most overseas Chinese investors from Hong Kong have put their money into hotels, leisure parks and office buildings promising fast return on capital. Whether the more responsible investments of the Sanyo group bear fruit will, in the long run, be directly linked to the fate of China's economic reforms.●