China Orient Leasing

By Hiroshi Sasaki

China Orient Leasing Co., Ltd., an equipment leasing firm based in Beijing, is the first Sino-Japanese joint venture to test the waters of China's service industry.

Established in equal partnership between Japan's Orient Leasing Co., Ltd. and a consortium of Chinese partners that includes Beijing Municipal Machinery and Electrical Equipment Company and China International Trust and Investment Corporation (CITIC), China Orient is the forerunner of leasing in China. Its business primarily involves leasing out plant and equipment to Chinese industries.

Sensing the sharp demand in China for the modern plant and equipment essential to carrying out its modernization program, Orient Leasing executives first proposed setting up a joint leasing venture in late 1979. The move came shortly after China had promulgated its new joint venture laws, but the Japanese leasing business was still generally skeptical about setting up shop in a non-capitalist country. Orient Leasing, however, thought otherwise. Long years of running a string of successful leasing businesses in Southeast Asia had convinced the company that equipment leasing had a great future in countries seeking rapid industrialization. China filled the bill.

Leasing's future looks bright at China Orient's inauguration.

Actual negotiations on the deal began in March 1980. The Chinese were indeed interested in the project, but progress was slow. China had no law governing leasing deals and its commercial codes are quite different from those in capitalist industrial countries. Orient Leasing negotiators had to start from scratch, groping their way through unfamiliar territory. Nonetheless the two sides reached an agreement by November of the same year, and business started the following spring.

China's response proved far better than Orient Leasing's wildest dreams. The Four Modernizations program was in full swing, and both state enterprises and local businesses were desperate to obtain low-cost plant and equipment through leasing. China Orient's business boomed almost from the start.

By and large, demand is still heaviest for equipment used in textile, food processing and plastics manufacturing. Demand for computers and related machinery, now one of the hottest parts of the market in Japan, has remained relatively low. But demand for high-tech items is expected to grow as Chinese industry grows in sophistication.

Turnover at China Orient has grown spectacularly in the last few years, leaping from $13 million in fiscal 1982 to $40 million in 1983 and $100 million in 1984. A market with such growth potential could hardly go unnoticed by other leasing companies forever. In fact, five other companies are now treading the trail blazed by Orient Leasing.

Yet thanks to sustained growth in the leasing market, competition is still not too severe. China Orient, in particular, has no lack of new orders, and has been able to keep an edge over the newcomers. The company, moreover, can move boldly because it enjoys the backing of CITIC, China's most resourceful investment company and one of the partners in the joint venture. A second advantage is Orient's centrally located headquarters in Beijing, which it was able to get hold of at a low rent.

Beijing is not the company's only stronghold. Since 1982, China Orient has had a sales outlet in Guangzhou and has outpaced competitors in extending its business network. The company began turning a profit by fiscal 1984, and has decided to pay dividends in fiscal 1985.

One key factor in China Orient's rapid growth is the rational way its partners have adapted the Japanese style of management to the joint venture. The chain of command, as well as the process of making business and wage decisions, all follow Japanese practice. For instance, employees are evaluated by their superiors for promotions and raises once a year. As in Japan, they get bonuses twice a year, the amount depending on individual performance. With such a wage structure, everyone naturally tries his best.

As wages are good, the company has no problem getting well-qualified staff. In addition to regular pay hikes and bonuses, China Orient's staff of 40 also get allowances for clothing (50 yuan/$18 annually) and lunch, which help boost their overall incomes 30 to 50% above those working for Chinese enterprises.

Another source of strength is the rational way key business decisions are made. The company is run by a troika: the board chairman, the president and the executive vice-president. Management issues and policies are discussed among the three until a consensus is reached. In the five years since China Orient Leasing was founded, they have had no occasion to ever depart from this formula. "Since we agree on every decision, we do our very best to make it work," says President Kenji Kajiwara, "We are no longer in the age of 'friendship first' and similar nice words. This is an age for making decisions in a business-like manner in the pursuit of our common interests." There is little doubt that joint ventures like China Orient will help boost Chinese management capabilities, even as they carry Sino-Japanese economic relations toward new heights. ●

Note: The exchange rate used in these six case studies is 2.8 yuan/$1.