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The boom China had to have

John Lyons | March 15, 2008

FOR many Australians "the China boom" is an expression that has come to explain the nation's economic boom over the past decade.

But for an increasing number of Australians, the term underpins the success, or otherwise, of their small businesses in one of the most competitive countries on earth.

Mark Rutherford typifies the group, moving from the Sydney suburb of Baulkham Hills to Beijing.

Visitors to Beijing will see his efforts the moment they touch down. His company Ilum-a-lite has a contract to fit low-energy lighting at the airport and the lights are said to have resulted in an energy saving of 25.7 per cent.

The company has recently installed the lights in the office building of Air China International and later this year will move on to the baggage building.

Paul Moriarty is another Australian businessman in China.

Head of Artisan Consulting, Moriarty says the saying that it takes 15 years to become an overnight success in China is accurate.

These two businessmen are among those coming together on Wednesday in Sydney for a conference to discuss breaking into China. The group has been brought together by Chris Smith, radio 2GB's afternoon presenter and himself a former broadcaster and executive in Beijing.

Another Australian element in the group is executive Mark Lollback, chief marketing officer of Pepsi Lipton International.

"The Chinese are in spend mode," he says. "They have been restricted for many years and now they want the best of everything and want all of the modern comforts and symbols of success that the West has desired for the last 25 years."

Ilum-a-Lite designs, manufactures and distributes energy-efficient fluorescent lighting products and services.

The company's next target is India. Rutherford says the Chinese and Indian Governments want to support energy-saving technology but the flip-side is the large number of unscrupulous operators who produce copied, inferior or fraudulent products.

In China, he says, language and cultural differences can pose a challenge but can also prompt parties to "cut to the chase", leading to quick decision-making.

Rutherford's first attempt to break into China resulted in one of the products being badly copied -- and sold in Australia.

"We moved away from the low risk, low-cost route of having a distributor buy our products from Australia to promote in China, and decided to invest in a joint venture operation.

"We made great progress once we decided to take equity in a Sino-Australian joint venture and become master of our own destiny," he says.

Rutherford says many Australian businesses fail to recognise that China is many different markets. "Another common mistake is not seeking and using resources in China such as Austrade and consultants ... support from government is seen as very important to Chinese businesses, many of which have originated from state-owned enterprises."

A challenge for any foreign firm trading in China is to try to protect the product from being copied by local firms.

While Ilum-a-Lite has three or four major competitors in Australia and Europe, in China the figure is close to 100 -- only three or four of which Ilum-a-Lite regards as "credible".

Rutherford says that in the early stages of the venture, he found the market bureaucratic and sometimes inconsistent. The company was warned it would take more than a year to set up a joint venture, but they did it in four months by drawing on local consultants.

"India appears to have greater issues with infrastructure than China and, at face value, this could affect the pace of change and growth," Rutherford says.

"China's growth is somewhat vulnerable to the emphasis on cutting carbon emissions as the increasing wealth of the country makes for a ravenous appetite for power, most of which is coal-generated.

"The cost of clean air for the Beijing Olympics is a case in point and is suggestive of the extent to which China must go to cut carbon emissions.

"During the Olympics there will be massive shutdowns of polluting industries, a ban on trucks in the city, and half of all cars will be taken off the road."

According to Rutherford, India's growth is more service-based and fuelled by a "fantastic" education system.

Paul Moriarty has seen Australia's strength switch from wool to minerals. His company, Artisan Consulting, is a project consultant now advising a major foreign broadcaster as it prepares for the Beijing Olympics later this year.

"The business was born doing residential design and construction management, expanded into commercial and facility projects and we are currently working with a number of international and Chinese Fortune 50 companies," he says.

Moriarty's introduction to China came through its great nemesis Taiwan. He encountered a boom there while travelling in the early 1990s.

After studying Chinese in Australia, he returned to China to work in the Australian Embassy in Beijing, then moved into private enterprise, working in events management and marketing. Moriarty says China is "awash with funds" and has "opportunities on every corner but few guides".

One of the most common mistakes Australian firms make, he says, is having no committed presence in China.

He says China operates on five-year plans and has a sense of timing that extends for decades.

"To come in and try and rush a deal to the timetable of the home board's next meeting insults the other side and gives them a huge tactical negotiating advantage," he says.

The other major mistake is not realising that negotiation is an art to be learned.

"Nothing that is said can be understood in absolute terms, and the entire process, from beginning to end, is in a constant state of flux and negotiation," he says.

Mark Lollback has worked on several projects in China spanning more than seven years and is still overseeing Pepsi Lipton International's push into China.

He was the marketing and innovation head for the Unilever ice cream business in China for three years. "China is like a great big roller coaster," he says. "You go from the highest of highs to the lowest of lows all in 24 hours."

The big question, of course, is how long the China boom will last.

Mark Rutherford says there is a potential for "explosive growth".

He expects this growth to continue for five to seven years, fuelled by domestic demand.

"However, as more people become better off, growth will slow in much the same way as it did in Hong Kong and Singapore through the 70s and 80s.

"It's not so much a boom, but the economy ramping up from a very low base. It will keep growing strongly for another decade, slow down gradually over the next 20 years after that, but remain strong for

another 50 at least."

Moriarty says predictions are that China's currently cheap labour costs will start to "equalise" around 2020.

"That will slow the growth to some extent. You still have decades of market penetration after that, and the 'keeping up with the Zhangses' factor is already driving consumerism here just like everywhere else," he says.

Lollback predicts the China boom will last "for a long time yet", saying it is well controlled by Beijing. "And millions of people every year are coming out of poverty and becoming consumers," he says.

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