Chinese construction equipment

Building a brighter future

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In the last few decades we have seen Asian markets open up to the world in terms of trade and cross-border collaboration. With a softening internal view to Western values and a slow adoption of key characteristics of more open economic models, we've seen an explosion of Asian economies pumping manufactured goods into both Europe and the rest of the world.

Just wandering around cities such as Bangkok, Hanoi, Phnom Penh and Ho Chi Minh City (originally Saigon) you see a phenomenal amount of ongoing construction projects, all of which, of course, require a mixture of machinery to complete.

Particularly in Hanoi, modernization has seen an incredible construction boom with skyscrapers popping up like weeds all around the old city. This boom has put Hanoi on the map at 46th position on a list of world cities with the most skyscrapers over 100 meters tall (ranked by Emporis). This is indicative of Asia-Pacific in general, with similar stories seen in large cities all across the continent, and not just in your traditional powerhouse cities like Tokyo, Shanghai, Hong Kong and Beijing.

China is undoubtedly the heavyweight of Asia, with an environment perfect for a budding manufacturing industry. They exhibit beneficial factors such as low overheads (wages, rent, bills), lax laws, minimal red tape and a young, large and hardworking populace. This allows for cheaper and easier production of goods when compared with Western economies, which are more geared toward service industries such as finance.

With this we've seen unprecedented levels of growth in recently liberalized economies such as Vietnam, Taiwan, India and China. But taking a closer look at China in particular, we see that since the 2008 economic crisis, which was caused mainly by overextension of subprime mortgages in the United States, the rapid growth in the gross domestic product of China has been fueled by an unsustainably fast-growing level of debt. Particularly international investments funded by debt, with marginal or no profitability, has stemmed the tide of a decreasing global demand for their products. But how long can this continue?

Evidence of this can be seen in the global market for construction equipment where China's sales have dropped from 14.4% of market share in 2013 to just 13.3% in 2014. The top ten rankings of construction equipment manufacturers in 2012 have Sany in sixth and Zoomlion in seventh by overall sales. However, 2014 saw Zoomlion completely drop out of the top ten with Sany dropping to ninth and a new contender, government-owned XCMG, report an impressive turnover of $6.2 billion to acquire the eighth spot.

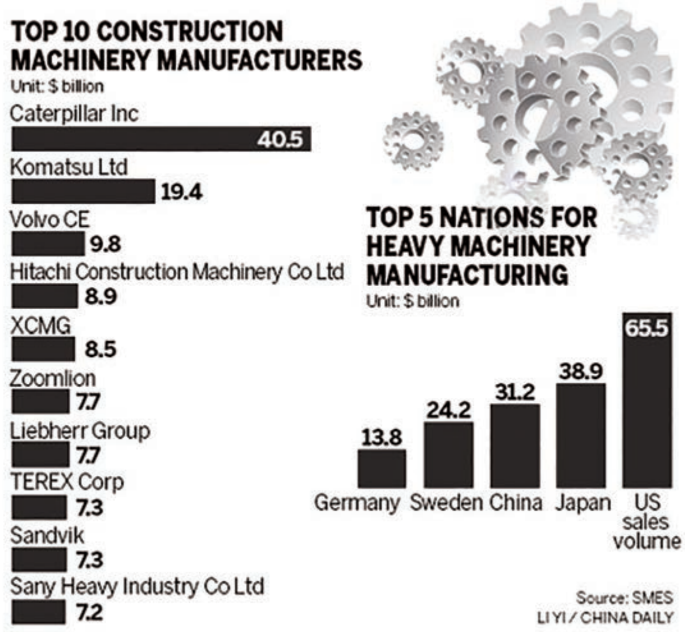
Many would explain this simple jostling of position to swings and roundabouts, but upon deeper investigation, the statistics show that most of the other smaller global players in the construction equipment industry are gaining ground, and fast. Many of the Chinese companies in the top 50 are dropping, while traditional US-headquartered corporations such as John Deere, Caterpillar and Terex are picking up more of the market share.

Some of the slowdown may be attributed to stronger traditional branding, such as JCB, Caterpillar and John Deere, all being some of the most well-known construction equipment manufacturers. With being well-known comes being a brand that people trust. Combine this with a growing sentiment that "made in the US" is better, and you have a valid reason for Chinese manufacturers' slight downturn in fortunes.

The strongest explanation for this is that China has slowly been turning itself into more of a consumer of goods, not only domestic but also commercial, pushed by domestic government policy and mouth-watering levels of government investment in construction projects. Such projects, of course, need heavy machinery. What better way to continue the circulation and flow of money than to encourage Chinese companies to purchase equipment from other Chinese manufacturers?

Language and culture

China has been slowly accepting and adopting Western values and principles of business; however, this process is not fully complete. Large swathes of the economy and country in general are still closed off to foreign participation. Continued government investment in state-owned enterprises often means a conflict of interest in opening up the market to competitive foreign participation, which results in loss of government investment profitability.



So while English is still the most widely accepted international business language in the world, the gap is progressively getting tighter and tighter. With nearly 900 million native Mandarin speakers and over 1.2 billion speakers of all Chinese dialects in total, China can be a lucrative yet difficult market for nonnative businesses to access. This alone gives local corporations a natural edge for sales, leading to internal market domination. Companies such as Caterpillar have a large-scale localization strategy backed by sufficient funding and effective productivity software giving them full access to exporting.

As such, the most confusing part of building links with Chinese businesses for non-Chinese speakers is of course the language. The country is so large and so populous with so many different territories and areas, that many different variations of spoken dialect have evolved. These have been classified into seven to ten groups, the largest being Mandarin (Beijing dialect), Wu (Shanghainese), Min (Taiwanese) and Yue (Cantonese).

In addition to this, the traditional writing style was the only written form of Chinese up until the 20th century when written Chinese divided into two forms called Simplified Chinese and Traditional Chinese. The simplified version was developed on the mainland to increase the writing speed and ease of learning to help improve literacy rates. As a guide for localization purposes, the simplified version is used mainly in the People's Republic of China, Singapore and Malaysia. Traditional Chinese is used predominantly in Hong Kong, Taiwan, Macau and all other overseas Chinese communities.

Furthermore, business culture in China is often confusing for foreigners. In the United States and most European countries, business relationships are more casual, short-term and easy to initiate. In China, however, it is very much the opposite. Relationships often take years to form and build, meaning business is not done until the personal relationship is on a sound footing. Guanxi (the system of social networks and influential relationships which facilitate business and other dealings) is a major influence in most business relationships in both China and Chinese owned operations in Southeast Asia. It is central to the basis for business relationships and is often difficult for outsiders to understand. Confusion aside, this can often lead to bad business and may even cause offense, however unintentionally.

This kind of specialist linguistic and cultural knowledge is essential for understanding the people you are doing business with. If this is understood then it will of course give you a better position to win new and existing business and grow the China-based operation. Large foreign construction equipment manufacturers know this and tend to employ the help of language service providers to assist not only with the translation but also the guidance and advice through in-country native speakers. Local-based manufacturers such as XCMG, Zoomlion and Sany, of course, already have this knowledge and so have a slight advantage.

Getting ahead

The good news for China's construction equipment manufacturers is that they are geographically well positioned to take advantage of a sector that is expected to grow from around $145 billion in global sales for 2015 to over $230 billion by 2022. In a new report published by Credence Research Inc., Asia-Pacific being the largest regional market and China being the largest individual market means that location and competitiveness can be leveraged to further boost sales revenues and take advantage of the global positive outlook on construction. Steady sales from Europe and North America as construction companies look to replace outdated equipment with the latest technology will also keep Chinese companies ticking over nicely.

There is no simple cure that Chinese policymakers can apply to solve the issue of loss of ground in the global market, but the opinions of key economists such as Martin Wolf suggest that internal consumption needs to rise, while the crutch of debt-fueled investment needs to be lessened. Once this happens, economic conditions will improve and allow not just Chinese construction equipment manufacturers, but most companies operating within the secondary sector, to improve their positions on the world stage and to make the most of the head start they have for the best possible economic outcome.

In order to fully capitalize on the current market trend and to stay ahead of their Chinese competition, other world players need to find a balance between a few factors. For example, it is essential for them to tap into both the Chinese market and the wider Asia-Pacific. At the same time they need to cross the multiple language-barriers and get the cultural aspects correct for all of these localities. They should also aim to continue being competitive in offering value-added services and extras such as affordable machinery financing and service plans. They then need to leverage their strong brand names and brand values such as high quality products, long shelflife and great customer support. But they also must simultaneously continue their focus on key consumer markets and continue to dominate production in the United States, South America and Europe. This then needs to be used as a springboard to increasing sales in key growth markets such as China.

The future looks fantastically bright for construction equipment manufacturers. Their industry took a battering during and after the 2008 financial crisis when people were struggling to maintain their current operations, never mind building and expanding. They have not only managed to weather the storm, but have succeeded in coming out stronger for it. The market conditions are encouraging, as is global participation and the levels of cross-border cooperation on large construction projects.