San Jose Mercury News; San Jose, CA; circulation: 259,649; Sept. 27, 2005; pg 7C

San Jose Mercury News

Valley firms get advice on China

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Mercury News

Silicon Valley companies must have a three-pronged strategy regarding China, 300 executives and investors were told at a conference of Chinese software professionals.

Companies cannot just tap China to save labor costs but also need to offer their products and services to the Chinese market and compete with Chinese firms in the American market.

"Even companies not headquartered in China have to have a Chinese strategy," said Dixon Doll, co-founder of the venture firm Doll Capital. "The size and dynamics of the Chinese market is too important. No one can ignore China from day one of their business," he said.

The annual conference of the Chinese Software Professionals Association in Santa Clara Saturday brought together high-profile venture

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capitalists such as Lip-Bu Tan of Walden International and executives from Google, Microsoft and Yahoo as well as leaders of firms in China.

"China isn't just a cheap supplier of labor anymore," said Scott Tse, co-president of CSPA. "Now it's more about how to recognize China as a strong opportunity and what to do with Chinese companies going into your own market."

Many painted a picture of China radically different than just a few years ago. Only a handful of Silicon Valley venture firms were in China four years ago. Now, more than a dozen have invested there, with more on the way. Venture financing in China rose to $1.3 billion in 2004, nearly a 30 percent jump from 2003, according to Walden Ventures. In addition, more than 250,000 Chinese from abroad have returned to China, including many from Silicon Valley, to work and start new businesses.

China's market is among the fastest-growing in many sectors. Opportunities abound in semiconductors, software and telecommunications, particularly mobile services, speakers said. Though China has long been tapped to manufacture older generations of technology, there are growing numbers of firms working on cutting-edge products, particularly in the semiconductor sector, said Tan, founder and chairman of Walden. He and others predict that over the next decade, Chinese companies will be technology innovators.

Tencent, a popular interactive Internet messaging service based in Shenzhen, China, has been approached to bring its services, which include allowing users to design and customize their personal avatars, to the European market, said David Wallerstein, the firm's senior executive vice president of international business.. Chinese firms are expected to merge and acquire firms in markets they want to enter, he added.

They will increasingly look to Silicon Valley and the United States for technology, know-how and brand reach, such as Lenovo's acquisition of IBM's personal computer business or the attempted bid (eventually withdrawn) by Haier for Maytag. Such activity will result in increased competition from Chinese firms in the American market.

Though many are rushing into China, a host of challenges remain. Adding to obvious obstacles — intellectual property, legal structure and corruption — are a void of much-needed middle-managers, lack of transparency, fast-changing government policies and cultural barriers.

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"There are lots of opportunities, but there's also a lot of problems. You have to be there for the long-term," advised Walden's Tan, one of the earliest Silicon Valley venture capitalists in China.

Speaking of the rapid market and government policy changes in China, Tan added: "Just like flying a plane, you have to know where the emergency landing is. It's never a dull moment in China."

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