



**The Growing China Market:**  
***What It Means for Alaskan***  
***Exporters***

**Commercial Service**  
**U.S. Department of Commerce**

# The China Opportunity



- **320 million of China's 1.3 billion people live in 'urban' areas; nearly half of China's population is expected to live in cities by 2010 – have incomes over US\$3,000**
- **Chinese economy grew 9.5% in 2004, 9.5% in Q1 2005**
- **China's GDP has quadrupled since 1978. GDP is expected to further quadruple in 20 years, equaling average annual growth of 7.3%**

# China: The Gold Rush Syndrome

- Allure of 1.3 billion consumers (1.6 billion in 2030)
  - ❑ 850 million Chinese remain impoverished
  - ❑ 36% or 502 million live in the 88 cities with more than 750,000 people
  - ❑ 247 million earn more than \$5,000 annually
  - ❑ The USA has 290 million people and average disposable income of \$25,000
  - ❑ China has 40 million earning more than \$25,000 annually
  - ❑ China's business market is fragmented regionally, climatically and by preferential tastes

## **CHINA: The Gold Rush Syndrome (cont'd)**

### Chinese View of Westerners:

Too Direct

Culturally Arrogant

Difficult to Tell if They are Serious

Expect Quick and Simplistic Responses

### Western View of Chinese:

Don't Express Disagreement Openly

Opinions not Expressed Strongly

Don't Show Visible Signs of Urgency or Excitement

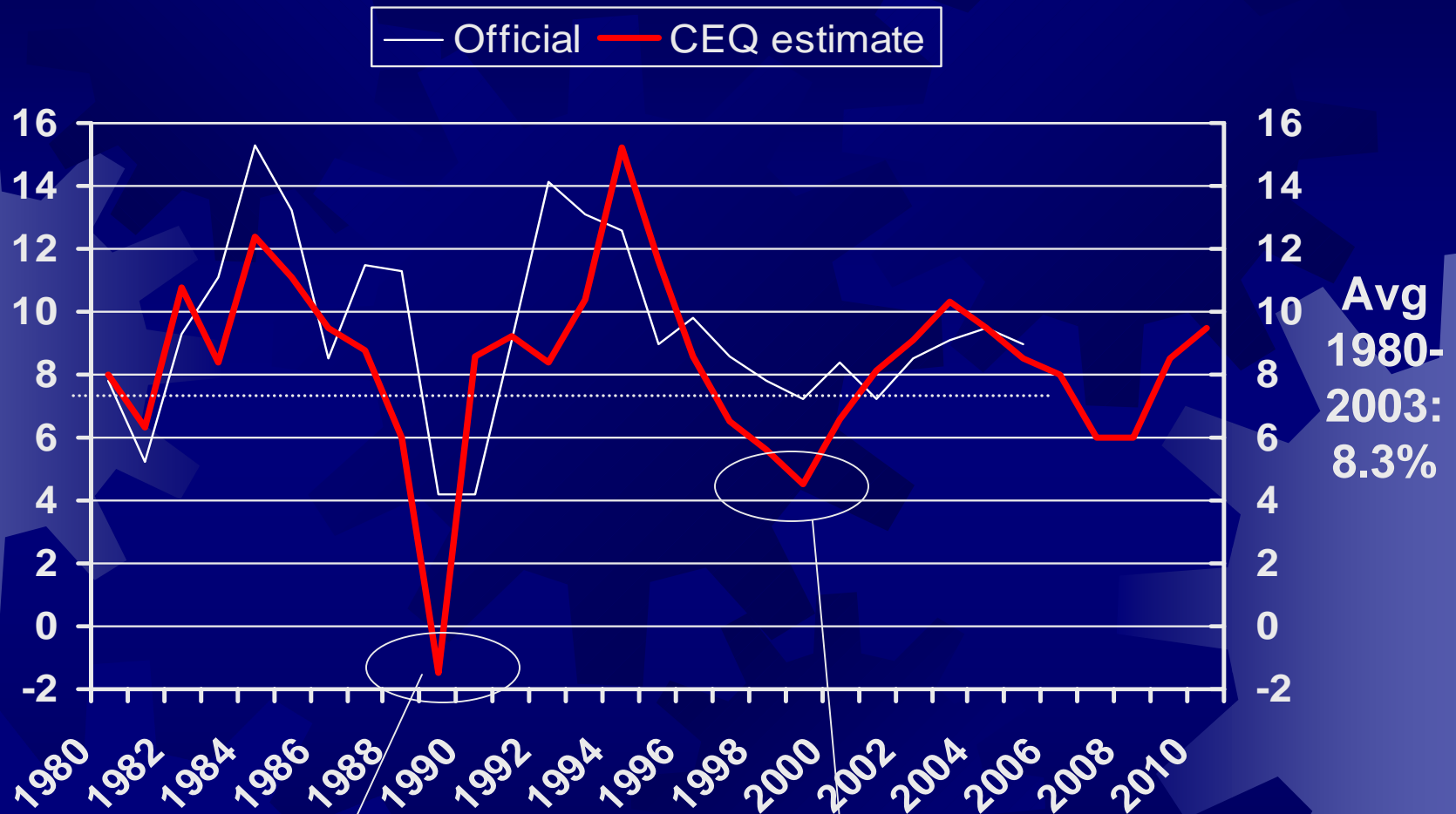
- **Imprudence & Impatience Due to China's Opaqueness**

**Summary:** High Market Potential & High Market Risk

✱ **“China, like statistics, can be made to supply apparent proof of any preconceived notion.”**

**- traveler Stephen King-Hall  
1924**

# GDP Growth, 1980-2010



**Tiananmen**  
Avg growth 1987-91:  
6.2%

**Asian crisis**  
Avg growth 1997-2001:  
6.3%

# Level of Affluence

2003 China Statistical Year Book

## URBAN

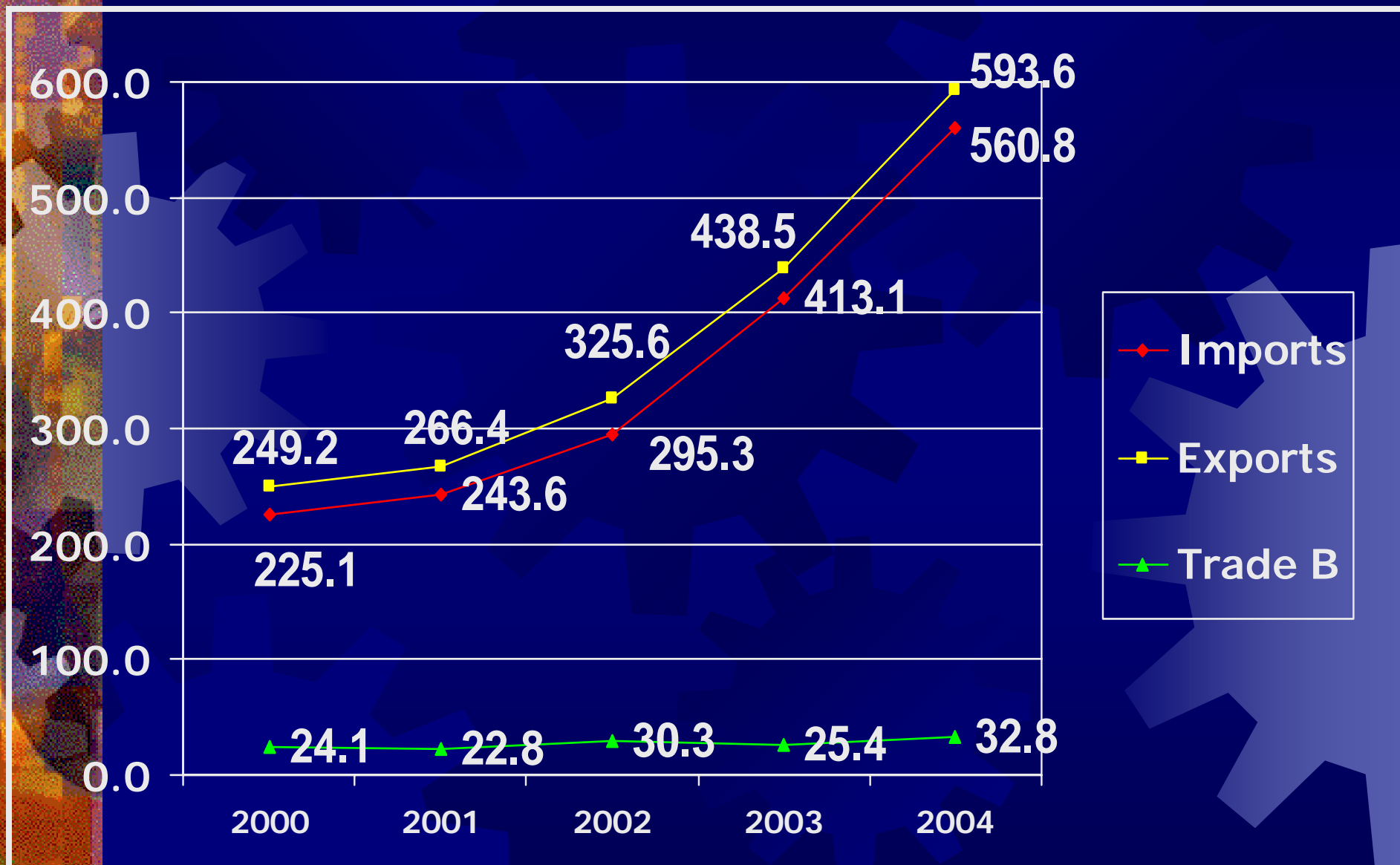
Car	1.4
M.cycle	24.0
W.machine	94.4
Color TV	130.5
PC	27.8
Shower	66.6
E. Cooking Ap.	101.2
Telephone	70.1

## RURAL

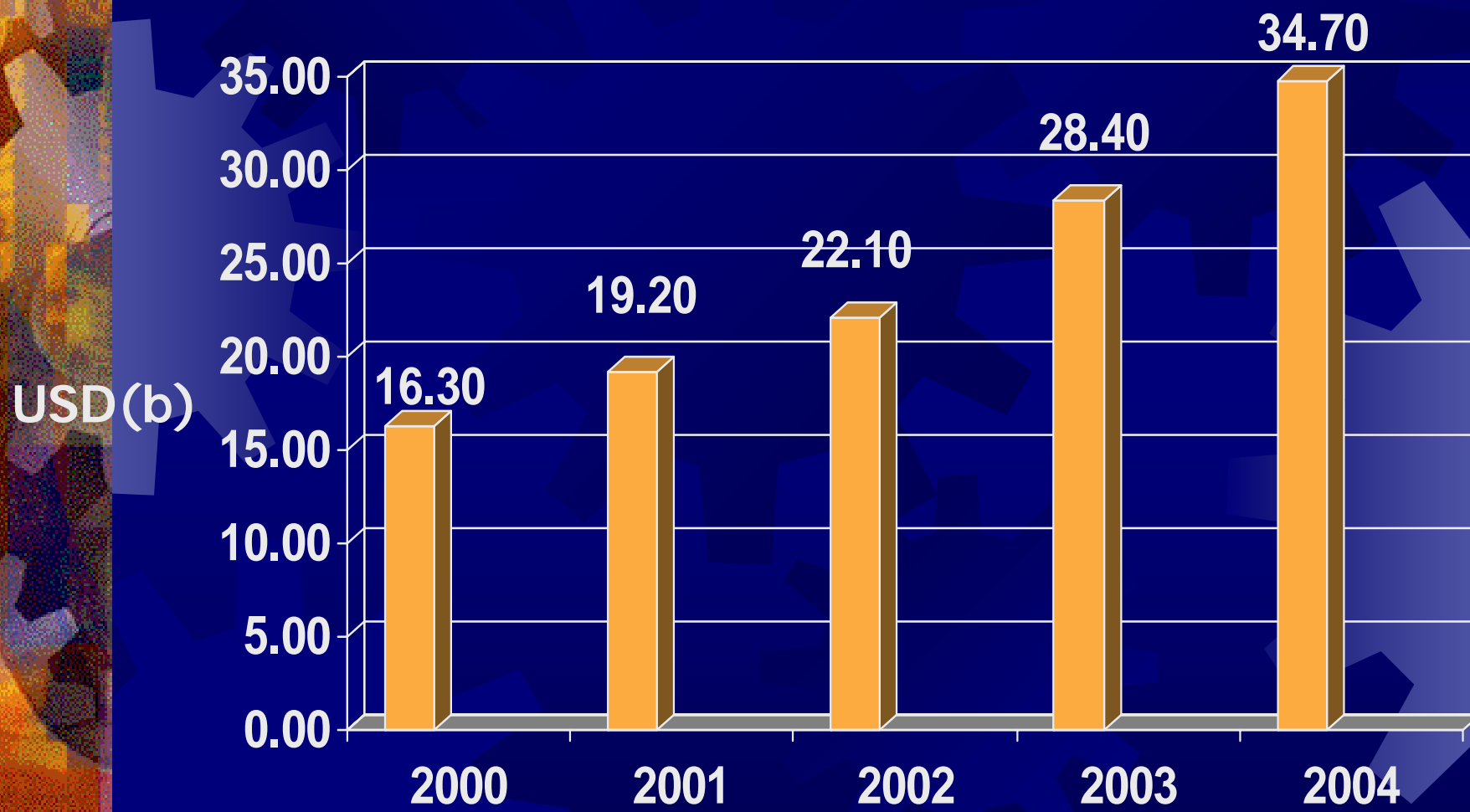
M. cycle	31.8
Color TV	67.8

(# Units / 100 households)

# China Trade Trends



# US Exports to China



# What the US Sells to China

digital integrated circuits	1,983	18.6%	+
soybeans	1,934	17.7%	-
aircraft and parts	1,560	20.5%	-
cotton	1,345	174.3%	+
auto data processing equip.	505	10.2%	+
machinery	504	87.6%	+
copper scrap	479	15.9%	+
wheat	460	1,207%	+
ferrous metal scrap	418	25.7%	+
non-digital integrated circuits	341	50.1%	+
aluminum scrap	334	47%	+
telecom apparatus / parts	280	35.8%	+
fertilizers	279	20.7%	-
auto parts / accessories	274	10.3%	+

In millions of US\$      % increase from  
2003 to 2004

# AmCham Survey Results

- 16% say they are “very profitable”, up from 10% last year
- 57% say they are profitable, down from 65% last year
- 23% say they are “breaking even or have a small loss”, 22% in 2003
- Only 4% say they have a “large loss”, the same as in 2003

**\*2004 AmCham member survey results**

# Best Prospects for US Companies in China

## ★ Agro-Chemicals

- ★ Pesticides and Fertilizers

## ★ Airport & Ground Support Equipment

- ★ Have +140 airports today, going up to 240 by 2010

## ★ Aircraft Components

- ★ Buying 700 new commercial aircraft in the next 5 years
- ★ Go after Boeing & Airbus subcontracts
- ★ China is building their own regional jet

## ★ Auto Components

- ★ In 2005, will build 5 million vehicles

# Best Prospects for US Companies in China

## ★ Coal Mining Equipment

- ★ 75% of electricity is generated by coal, will be going up to 85% in the next 7 years

## ★ Computers and peripherals

## ★ Commodities

- ★ Minerals
- ★ Agriculture
- ★ Scrap

## ★ Construction Equipment

- ★ Building boom going on in China
  - 2008 Olympics, 2010 World Expo, 2010 Asian Games

# Best Prospects for US Companies in China

## ★ Cosmetics and Toiletries

- ★ As income has risen, so have sales

## ★ Education and Training

- ★ 10% of income is spent on education
- ★ E-learning

## ★ Environmental Protection and Clean-Up

- ★ Water, solid waste, medical waste
- ★ Scrubbers, de-NOX, de-SOX

## ★ Financial Services

- ★ Banking, Insurance, and investment vehicles open up to foreign investment
- ★ Credit Cards

# Best Prospects for US Companies in China

## ★ Franchising

- Food and beverage are doing well
  - Starbucks, KFC, McDonalds, Schlotzky's

## ★ Integrated Circuits & Semiconductors

## ★ Machine Tools

## ★ Medical Equipment

- 70% of medical devices are imported

# Best Prospects for US Companies in China

## ★ Nuclear Power

- ★ Start building 30 new reactors over the next 15 years

## ★ Oil & Gas Exploration & Processing Equipment

- ★ Pipeline and Storage
- ★ Compressors
- ★ Offshore Exploration Equipment

## ★ Retail

- ★ Wal-Mart, Office Depot, Home Depot, Ikea

# Best Prospects for US Companies in China

## ★ Software

- ★ Specialty software is 70% imported

## ★ Telecom

- ★ 3G applications
- ★ Equipment
- ★ Wireless LAN
- ★ On-Line Gaming

# The Golden Rules of Do's and Don'ts in China

# **① Preparing for Business in China**



- **Develop a practical business strategy. Stick with it**
- **What is your level of acceptable risk?**
- **Do extensive market research**
- **Hire an expert to survey the competition**
- **Read books on Chinese negotiating behavior:**
  - **Negotiating China, Case Studies & Strategies by Carolyn Blackman**
  - **The Life & Death of a Joint Venture in China by Asia Law and Practice, ed. Kathy Butler**
  - **Managing International Business Ventures in China by J.T. Li**
  - **Myths About Doing Business in China by Harold Chee**
- **Talk with US-China Business Council, FCS, AmCham and companies with China experience**

# **DO NOT**



- Do not go in cold.
- Do not rely on your past record of success in other cultures.
- Do not do in China what you won't do in New York or London.
- Do not fail to understand the critical importance of FACE in China. Respect is everything.
- Do not assume that a Chinese citizen graduate of a U.S. university is loyal to your company.
- Do not allow potential Chinese partners to determine how you investigate business prospects.

## **2 Preliminaries to Launching Business in China**



- Shop extensively for the best business location.
- Fully understand the advantages and disadvantages of local infrastructure.
- Take advantage of the fierce city and provincial competition for foreign investment.
- Business location must be relevant to domestic suppliers & distributors or easy product export abroad.
- Perform due diligence at least TWICE on all potential joint venture partners, suppliers and distributors.
- Get to know your potential Chinese counterparts.

## Preliminaries to Launching... (cont'd)

- **Establish a company China Team and keep it together until your investment is established.**
- **Establish minimum goals before negotiations begin and stick to them with Chinese counterparts.**
- **Instruct your team about security: telephones, faxes, emails and laptop computers.**
- **Begin to develop the patience of Job.**

# **DO NOT**



- **Do not limit due diligence to bookkeeping insights and financial performance. Conduct extensive reputational checks.**
- **Do not let the Chinese supply the interpreter. Hire your own. Remember interpretation is a skill.**
- **Do not lose control of the agenda. Insist on mutual agreement on subjects for discussion.**
- **Do not be seduced by traditional Chinese hospitality. It is not always sincere.**
- **Watch out if the Chinese label you a Friend of China. They will ask for favors later.**

### **③ Negotiating Agreements**

- **Retain a China-based law firm.**
- **Avoid agreeing to broad principals that lack clarity. The Chinese will use them against you later.**
- **Recognize that to a Chinese a handshake is more important than a contract.**
- **Keep complete records and have them available throughout all phases of negotiations.**
- **Insist on English and Chinese texts of written agreements and have a lawyer review them.**
- **Maintain the patience of Job. You will need it.**

## **DO NOT**



- **Do not fail to realize Chinese start with minimum positions and then enlarge them.**
- **Do not rely on written agreements Chinese interlocutors don't fully understand.**
- **Do not assume that when the agreement is signed that the negotiation is over. It has just started.**
- **Do not allow lack of time to force your hand. Expect to hear their bottom line at the airport departure lounge.**
- **Do not lose your patience. Chinese rely on western impatience to leverage concessions.**

## **4** Over the Long Term

- **Cultivate relations with Chinese who have managerial or regulatory say over the company.**
- **Guanxi or relationships need to be broadly based. Guanxi is created and cultivated.**
- **Develop robust in-house government and public relations capabilities or retain appropriate consultant(s).**
- **Make your Chinese managers feel like insiders. Avoid the outsider syndrome.**
- **Offer a good benefit package. It will help you retain employees.**

## Over the Long Term... (cont'd)

- Remember what works in Peoria rarely works in Beijing.
- Remain alert to the daily stresses on expatriate managers.
- Be cognizant of cultural adjustment problems experienced by expatriate family members.
- Be patient on all fronts.  
China is routinely vexing and frustrating.

# **DO NOT**




- **Do not drop your guard after the enterprise is established. Constant tending is needed.**
- **Do not forget the importance of friendship and trust between you and the Chinese who count.**
- **Watch out for corruption; have your person act as CFO whenever possible.**
- **Do not try to solve all operational problems. That is what experienced consultants are for.**
- **Do not frequently rotate foreign managers. Continuity is important.**

## Major Causes of Business Problems in China

- Inadequate vetting and due diligence of Chinese partners, distributors and suppliers.
- Giving away too much in joint venture arrangements.
- Absence of contract clauses guaranteeing licensing compliance spot checks & arbitration reviews.
- Lack of appreciation of what differentiates a commission from a kickback in the Chinese context.
- China is in a league of its own in terms of intellectual property infringement.
- Failure to register patents and copyrights in a timely fashion.
- Failure to keep a detailed eye on the always changing legal and regulatory environment in China.

## **Major Causes of Business Problems... (cont'd)**

- **Failure to understand that any technology brought into China cannot be protected from theft.**
- **The rule of law is weak & JV partners inconsistently support legal action against wrongdoing.**
- **Inadequate IT security procedures.**
- **Inattention to fraud and collusion between JV partners, distributors, suppliers and competitors.**
- **Failure to appreciate widespread Chinese commercial espionage.**



**To sum it up:  
THIS IS THE TOUGHEST  
MARKET IN THE WORLD TO  
OPERATE IN**

# IPR Toolkit

- ✓ The US Embassy in Beijing has an IPR Toolkit website

Address:

*[www.usembassy-china.org.cn/ipr/](http://www.usembassy-china.org.cn/ipr/)*

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### What's New

[Read the latest China Market Intelligence.](#)  
August 17, 2005

[Read the latest Washington Update.](#)  
August 9, 2005

[Press Release: USCBC Statement on China  
Currency Change](#)  
July 21, 2005

[Comparison of House Republican and Democratic  
China Trade Bills](#)  
July 20, 2005

### China Business Forum Releases Report on China Trade

- [Press Release](#) (June 14)
- [Report: US-China Trade in Perspective: Asia's Emerging  
Union and Implications for the United States](#) [pdf]

### PRC Laws and Regulations

[Notice on Certain Issues Regarding Trade  
Management in Bonded Zones and Bonded  
Logistics Parks](#) [pdf]  
August 01, 2005



### Events

#### USCBC Upcoming Events

Conferences, Issues Luncheons, & Meetings

Member Events  
USCBC members, list your events here



### Features



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#### China Business Forum US-China Legal Cooperation Fund

[China and the WTO](#)  
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#### Corporate Social Responsibility



# The American Chamber of Commerce in Shanghai

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Overcoming the challenges of doing business in China

### UPCOMING EVENTS

→ **Customs Workshop**  
**Date:** Thursday, 18 August 2005  
**Time:** 08:00 to 12:00  
 AmCham Shanghai Logistics and Transportation Committee is delighted to be hosting a Customs Workshop in conjunction with Shanghai Customs Authority. This event is part of our ongoing strategy for your... [▶ More...](#)

→ **The 2005 AmCham Shanghai Human Resources Conference**  
**Date:** Thursday, 25 August 2005  
**Time:** 08:30 to 20:00  
 Getting Ahead of the Curve 人无远虑，必有近忧 The 2005 AmCham Shanghai Human Resources Conference August 25 – 26, 2005 Radisson Plaza Hotel Hangzhou Thank you to everyone who purchased tickets for the 2005... [▶ More...](#)

→ **U.S. Consulate Briefing (Members Only)**  
**Date:** Tuesday, 06 September 2005  
**Time:** 17:30 to 19:30

### NEWS

- [Fissures Appear In China Revamp Of Equity System](#)  
**Date:** 08/12/2005
- [China's Central Bank Provides Glimpse Into New Yuan Policy](#)  
**Date:** 08/12/2005
- [Online-Payment Firms Target China](#)  
**Date:** 08/12/2005
- [U.S. Gives China Sign Of Patience on Yuan Change](#)  
**Date:** 08/11/2005
- [Big Foreign Investors Are Courting Bank of China](#)  
**Date:** 08/11/2005

▶ For more news

### ANNOUNCEMENTS

AmCham Shanghai Introduces New Chamber

# THE AMERICAN CHAMBER OF COMMERCE - CHINA

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## Events

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### Event Type

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### Calendar

#### July 2005

S	M	T	W	T	F	S
					01	02
03	04	05	06	07	08	09
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

#### August 2005

S	M	T	W	T	F	S
	01	02	03	04	05	06
07	08	09	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

#### September 2005

S	M	T	W	T	F	S
				01	02	03
04	05	06	07	08	09	10
11	12	13	14	15	16	17

### Upcoming Events

- 19th August, 11:30 am*  
**Cancelled: AmCham-China & Returning Scholars Summer Golf Tournament**  
 Beijing CBD International Golf Course
- 25th August, 9:00 am*  
**Professional Secretary Training**  
 Plaza Business Center (5/F, China Life Tower)
- 25th August, 15:00 pm*  
**Clearing Up Trademark Infringements**  
 Beijing American Club, 28th Floor
- 26th August, 11:30 am*  
**U.S. Embassy Briefing**  
 Beijing Hilton Hotel, Ming Ballroom, 3rd Floor
- 30th August, 15:30 pm*  
**AmCham Olympics Forum Panel for the 2008 Games**  
 Beijing American Club, 4th Floor
- 31st August, 7:45 am*  
**U.S. Consumer Products Commissioner to Speak at AMCHAM**  
 Beijing American Club, 28th Floor
- 31st August, 16:00 pm*  
**Designing and Implementing Competency**

### Recent Events

- 18th August, 7:30 am*  
**Quarterly Economic Briefing**  
 Beijing American Club, Function Room, 28th Floor
- 16th August, 17:30 pm*  
**Foreign firms under fire-Confronting negative Chinese media coverage**  
 Beijing American Club (4F)
- 28th July, 18:00 pm*  
**AmCham-China Olympics Cocktail on July 28**  
 Beijing Hilton Hotel, Lobby Bar
- 27th July, 16:00 pm*  
**Sharing "recipes" for Retaining Your Key Staff**  
 FESCO Customer Service Centre at Oriental Plaza
- 20th July, 20:40 pm*  
**AmCham Delegation Trip to Qinghai**  
 Qinghai
- 20th July, 15:30 pm*  
**Is the Market Ready for the Enterprise Annuity Plan?**  
 Beijing American Club, 28th Floor

# Commercial Service Offices in China



**Thank You  
&  
Good Luck!**