

CHINA

El mercado más grande del Mundo

PART TWO

BUSINESS OPPORTUNITIES



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Outline

- Chinese culture
- Export opportunities
- Import opportunities
- China – Ecuador, current situation and opportunities
- Investment
- Business skill



Part one:

Chinese culture



Population

- China is the most populous country in the world, with 1.27 billion people at the end of 2001, one fifth of the world's total. This figure does not include the Chinese living in the Hong Kong and Macao special administrative regions, and Taiwan Province.
- **Religious Belief:**Buddhism, Islam, Christianity



Employment

- Employment presents a great pressure on China due to its huge population, abundant labor resources and economic restructuring. The Chinese government regards increasing employment opportunities as a major strategic task in economic and social development, and controlling the rate of unemployment as a main target in macro-economic regulation and control.



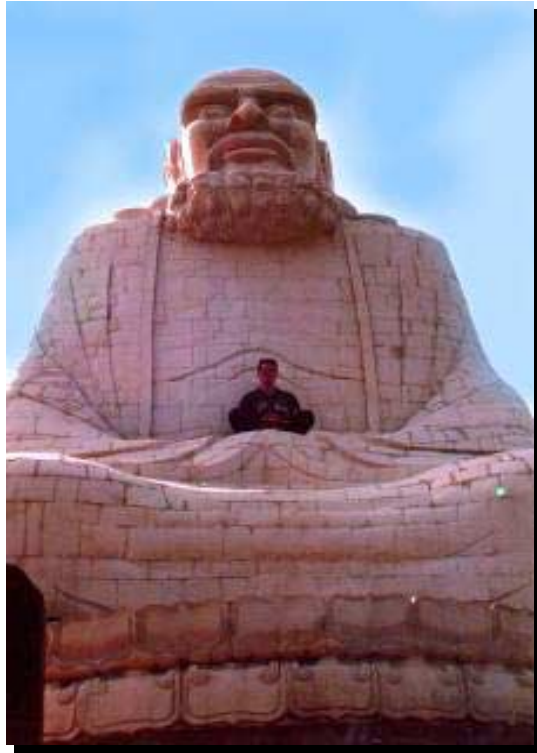
Employment (2)

- The employment structure, too, has changed dramatically. In 2000, employees in the primary, secondary and tertiary industries accounted for 50 percent, 22.5 percent and 27.5 percent, respectively. In recent years, the employment percentage of the primary industry has dropped markedly, while the employment percentages of the secondary and tertiary industries have risen rapidly.



Flag





Chinese silk and silk road

- It is well known that silk is discovered in China as one of the best materials for clothing - it has a look and feeling of richness that no other materials can match.



Chinese silk and silk road (2)

- To build a road becomes priority to trade silk. For nearly 60 years of war, the world famous ancient Silk Road was built up at cost of many losses of life and treasures. It started from Chang'an (now Xi'an), across Middle Asia, South Asia and West Asia. Many countries of Asia and Europe were connected.



Chinese silk and silk road (3)

- From then on, Chinese silk, along with many other Chinese inventions, were passed to Europe. Romans, especially women, were crazy for Chinese silk.



Chinese silk and silk road (4)



Now, live in style

- The fashionable youth would have their breakfast in McDonald's. Sitting near a window, they can feel the warm sunshine in winter. Young ladies think it worthy to buy those famous brands on sale, and a silk scarf or long socks will add to their femininity. Theaters are an often-visited place since modern operas and ballet are graceful. In the afternoon if they have spare time, Starbucks is a good place to enjoy coffee and loneliness. When dining with strangers, they would tell the waiter to bring a glass of water, or of course, it is also a proper choice when they cannot read a French menu.



Issues ahead

Two examples

- Social gap
- Jobs



Social gap

- Social cohesiveness can be measured by inequality.
- China's rapid economic growth has been concentrated in the coastal regions, which have opened up the most to international trade and foreign direct investment, resulting in a growing gap between urban and rural areas and between the coastal, central, and western provinces.



China regional income disparities 1998, US dollar

	Eastern	Central	Western
Urban Disposable Income	790	546	591
Rural Net Income	353	244	188



Jobs

- China's labor force will grow by 80 million people over the next decade—from 742 million in 2000 to 822 million in 2010.
- After accounting for continuing employment declines in agriculture, TVEs and SOEs, and retirees, it is expected that the Chinese economy needs to create about 8 to 9 million new employment opportunities annually.



Jobs (2)

- The main sources of new job creation will continue to be labor-intensive sectors, such as textiles (where China is projected to increase its global market share from 20 to 40%) and the service industries (including building and construction).
- The bulk of the labor force is still in agriculture, traditional low and medium technology industries and low skill services.



Part Two:

Export opportunities

- LEADING SECTORS FOR FOREIGN EXPORTS AND INVESTMENTS



1. Pharmaceutical

- China's pharmaceuticals market has been one of the fastest growing markets in the world. From 1990-1999, the western pharmaceuticals market grew almost 20% annually and has now expanded into a \$22 billion market. While overall demand should continue to grow at 10%.



Pharmaceutical (2)

- The domestic industry is characterized by non-branded generic production, overproduction and losses. The government is undertaking the consolidation of the over 6,000 pharmaceutical enterprises, of which 71% are state- and collectively-owned.
- More than 70 - 85% of all medicines are sold through hospital pharmacies.
Hospital is the main channel.



Pharmaceutical (3)

	1998	1999	2000
Total Market Size	20,116	22,469	24,718
Total Local Production	19,728	23,920	24,716
Total Exports	693	625	687
Total Imports	387	628	691

The figures are calculated in \$ millions from Chinese Customs statistics



2. Insurance Industry

- The insurance industry has shown rapid growth within the past few years, particularly the life insurance market, as Chinese citizens' average annual income has grown. In addition, the increase in private businesses, coupled with the decline of job opportunities in the state sector as a direct result of China's state reforms, has sparked people's interest in buying all types of insurance ranging from property to life.



Insurance Industry (2)

- The industry has been growing at an average annual rate of 26.7% since 1980. According to insurance specialists, in the next five years China's insurance industry should maintain a growth rate of 13%.



Major foreigners in China (3)

- The United States (AIG and Aetna in operation, and Chubb Group and John Hancock pending approval by China Insurance Regulatory Commission),
- Two from Britain (Royal & Sun Alliance in operation and Prudential UK pending approval),
- Two from Canada (Manulife in operation and Sun Life Assurance pending approval)
- One from Japan (Tokio Fire and Marine in operation), Switzerland (Winterthur in operation),
- One from Germany (Allianz Dazhong in operation),
- One from France (Axa-UAP in operation) and
- One from Australia (Colonial Mutual in operation).



Major foreigners in China (4)

- WTO commitments include:
All geographic restrictions will be phased out within three years of accession; internal branching is permitted consistent with the phase-out of geographic restrictions; reinsurance, master policy insurance and large-scale commercial risk insurance can be provided nationwide upon accession; health, pension and group products can be sold two and three years from accession, respectively; and brokerage services will be permitted.



3. Retail industry

- Strong economic growth, along with economic reform, has resulted in a tremendous expansion of China's retail industry in the past two decades.
- China's consumers are very open to experimentation with American-style shopping and food & beverage outlets. They are seeking higher standards of service, better product quality and wider selection, and more comfortable and sanitary venues in which to spend and consume.



4. Telecommunications Equipment

- Best subsector prospects within this sector include:
 - Cellular networks;
 - Access network products;
 - Internet telephony networks;
 - Broadband transmission technologies;
 - Transmission media such as fiber optic cable and satellite;
 - Telecommunications consulting services, especially management, billing, and customer care.



5. Cable Television Equipment

- China has the world's largest number of cable TV subscribers; expected 150 million by 2010.
- Chinese households have 264 million TV sets and the average cable fee per month is \$1-2 for a typical 20-channel system.



Cable Television Equipment (2)

- The value of China's cable TV equipment market reached \$1.6 billion in 2000. Growing at a 45% clip, the equipment market is expected to be worth \$6 billion by 2005 and the size of the entire cable TV market, including cable TV programming services, will reach \$12 billion by that time.



6. Pollution-Control Equipment

- Quantifying the Chinese environmental market is difficult because accurate data are scarce and environmental goods and services do not fit cleanly into standard customs classifications. China spent roughly \$10 billion on environmental protection in 1999, equal to 1% of GDP .



Pollution-Control Equipment (2)

- As income levels rise in a huge country with acute environmental needs, China's environmental market may grow to become one of the world's largest.
- Korean company's story



7. Plastic Materials and Resins

- The plastic materials and resins market in China is being driven by the demand end-user industries for higher quality products. According to the 1999 statistics, imports accounted for 2/3 of the total market demand.
- Special engineering plastics and other resins, which possess special physical and chemical properties, are used widely in various industries as special materials.



Plastic Materials and Resins (2)

- WTO will provide significant benefits to foreign plastics and resins exporters. China will reduce average chemical tariffs by more than 50% by January 1, 2005. Specifically, the average rate of 14.74% will be reduced to a final average rate of 6.9%. Quotas will be eliminated on virtually all chemical products upon accession.
- The quotas on polyethylene terephthalate slices or chips was eliminated in 2002.
- China has also agreed that any entity will be permitted to import most products, including plastics and resins, into China after a three-year phase-in period.



8. Building Materials (BLD)



Building Materials (2)

- China's commercial houses were sold at an average of 2,091 RMB (\$253) per square meter in the first four months of 2000, up 3.8%. Housing prices for the selected regions of Beijing, Shanghai and Guangdong reached 4,704, 3,282 and 2,864 RMB (\$570, \$397, \$347) per square meter, respectively.
- My house, 6200 RMB per square meter.
- The housing mortgage system currently is able to help the average person purchase a home.



9. Power Generation

- According to official statistics, China invested 18.5 billion RMB (\$223 million) in the sector during the first quarter of 2000. This represents a year-on-year rise of 17.6%.
- This year, power becomes a big issue.



Power Generation (2)

- China will begin building a few new nuclear power plants over the next five years. Fuel storage, transportation and handling equipment will continue to be in demand during this period.



10. Fine and Specialty Chemicals

- The fine and specialty chemical industry is a development priority for China's chemical industry. Domestic producers of specialty chemicals lack the technology, financial resources and research staff to develop a variety of high quality and innovative chemicals with appropriate environmental standards. As a result, China relies on the imports of fine and specialty chemicals to meet the increasing market demand for a wide variety of high quality chemicals. China is looking to import very efficient multiple function fine and specialty chemicals with low heavy metal ingredients.



Fine and Specialty Chemicals (2)

- Fine and specialty chemical additives are mainly used in industry sectors such as agriculture, textiles, health care, electronics, food and feed, medicine, household and industrial cleaning, automotive, paper, and plastics and rubber.



Fine and Specialty Chemicals (3)

- China will reduce average chemical tariffs by more than 50% by January 1, 2005. Specifically, the average rate of 14.74% will be reduced to a final average rate of 6.9%.
- Quotas will be eliminated on virtually all chemicals upon accession.
- China has agreed that any entity will be permitted to import most products, including fine and specialty chemicals, into China after a three-year phase-in period.
- Foreign chemicals companies operating in China will also be able to freely distribute products in China.



11. Agricultural Chemicals

- US is China's major trader. China imported \$1,182 million in diammonium phosphate (DAP) from the United States, accounting for 93% of the total imported.
- On WTO accession, tariffs will drop 4% to 6% from the current 11% import duty rate.



12. Best Prospects for Agricultural Goods

- Although the volume of trade is likely to fluctuate depending on domestic production, China's demand for wheat, corn and barley is expected to grow in the next few years.



Unit: Million Metric Tons

(Wheat, Corn, Rice)	MY1998/99	MY1999/00	MY2000/2001
Total Market Size	239	243	249
Total Local Production	245	244	226
Total Exports	4	11	4
Total Imports	3	4	6



Soybeans

- Long-term prospects for soybeans and soybean products will remain strong in future years.
- US-China soybean disputes.



Hides & Skins

- China is a major market for imported bovine hides and skins which are processed and used in finished leather goods for export. Over 50% of hide imports enter China via Hong Kong as re-exports.



Fresh Fruits

- Although China's fruit production is huge, important export opportunities still exist thanks to the country's poor post harvest storage and handling practices and facilities.
- Imported ASEAN varieties that have done well in the past two years.



Seafood

- China has been one of the largest producers of seafood products in the world for several years, making the country also one of the world's biggest seafood exporters.
- However, China's ocean fishing fleet catches and inshore fishing resources are facing difficulties meeting demand. China also imports a large amount of seafood from other countries. The United States, Russia, Argentina, Japan, and South Korea have been major seafood exporters to China. Seafood to China include salmon, pollack, squid, flat fish, sole, king crab, and yellow croaker. For higher value products such as crustaceans and molluscs.



Forest Products

- Forest products imports have continued to grow, and the prospects for continued growth are excellent. Increased import demand is being driven by growing consumption and declining domestic supplies.
- The story of Sun Paper.



Part three

Import opportunities

- China's major export products.



Jan. and Feb.2004 China major export products

Product	Units	Value (10,000US\$)	Price/per ton...
Corn	10,000 tons	102	115
Coal	10,000 tons	1,399	31
Shoe	10,000 sets	86,589	2.4
Steel	10,000 tons	98	502.6
TV	10,000 sets	669	89.3
Camera	10,000 sets	625	7.3
Motor cycle	10,000	128	166.8
Bike	10,000	654	31.7
Plastic products	10,000 tons	84	1384.8



Part four:

discussion

- China – Ecuador, current situation and opportunities.



Ecuadorian Imports from China

Year	Number of codes	weight Kg.	Change in %	FOB - DOLAR	Change in %	CIF - DOLAR
2001	# de Partidas: 1718	94.899,08	73,77%	128.311,26	95,91%	148.634,7
2002	# de Partidas: 1968	149.389,59	57,42%	194.652,42	51,70%	219.747,9
2003	# de Partidas: 2138	245.953,12	64,64%	267.655,36	37,50%	301.451,4
2004*	# de Partidas: 1680	60.831,23	-75,27%	88.184,03	-67,05%	98.855,1

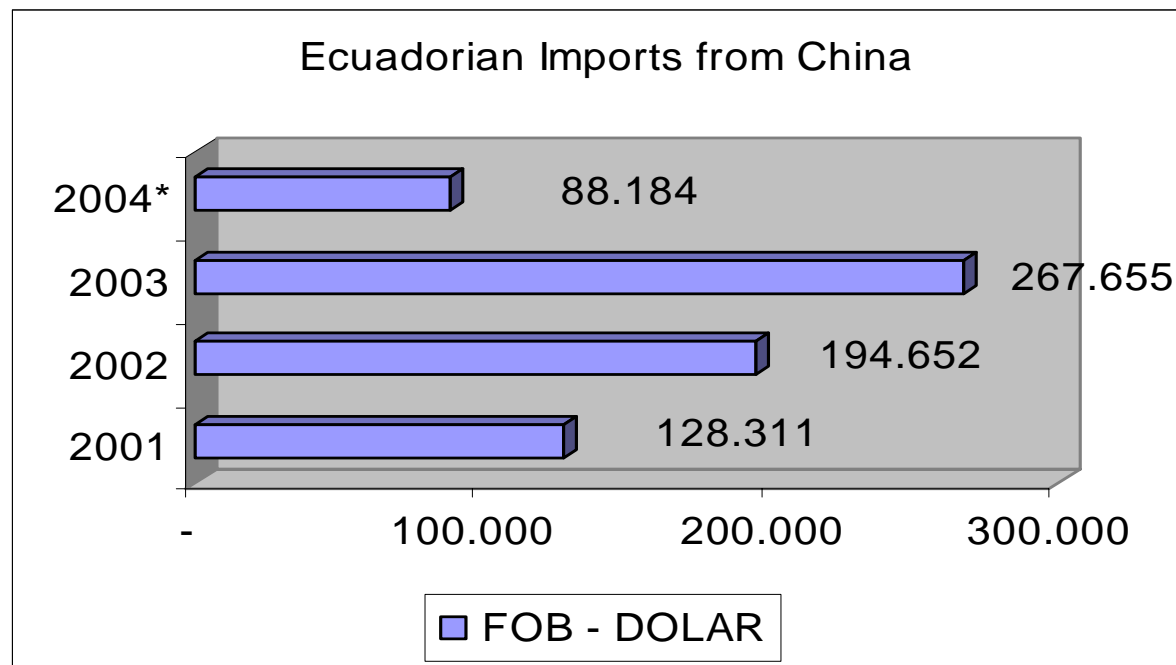
In thousand USD

* Period Jan – April 2004

Source : Ecuador Central Bank



Ecuadorian Imports from China



* Periodo Enero - Abril 2004

Ecuadorian Exports to China

Year	Number of codes	Weight in Kg.	Variation in %	FOB - DOLAR	Variation in %
2001	# de Partidas: 25	28.947,53	-88%	9.209,41	-84%
2002	# de Partidas: 31	59.796,56	107%	14.685,19	59%
2003	# de Partidas: 36	49.090,36	-18%	13.578,29	-8%
2004*	# de Partidas: 13	46.168,92	-6%	6.565,72	-52%

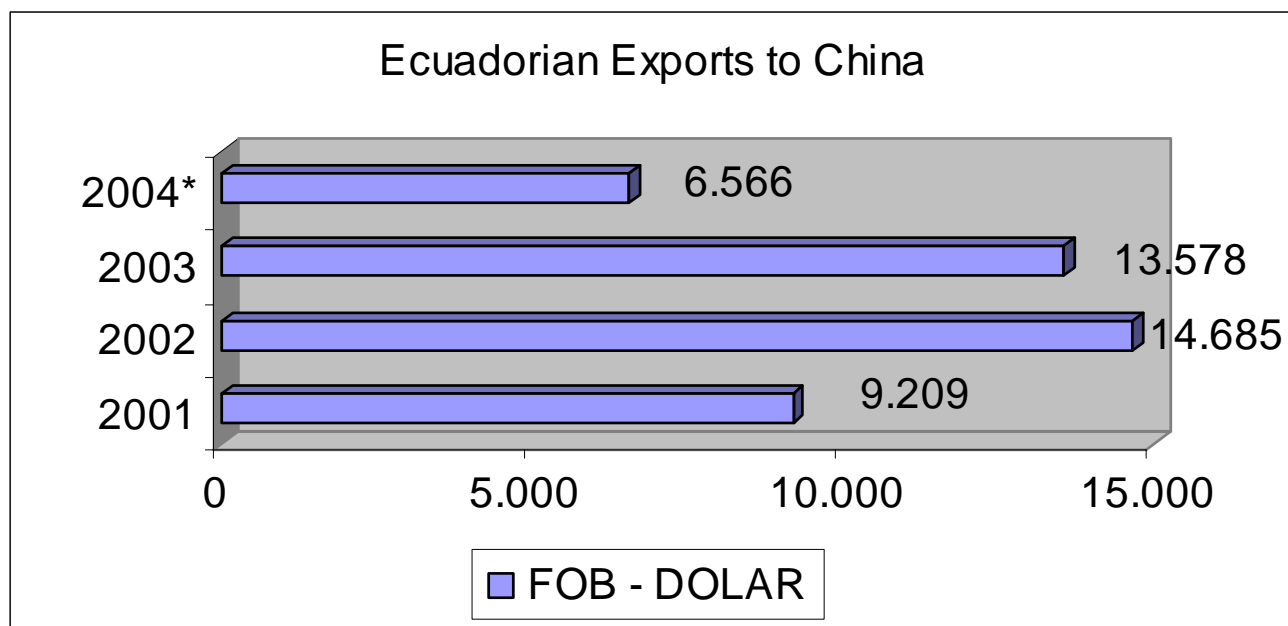
In thousand USD

* Period January - April 2004

Source : BCE



Ecuadorian Exports to China



* Periodo Enero – Abril 2004



Main Export Products from China to the world

Item
Bikes
TV sets
Radios
Dish Washers
Chemical Fibers
Yarn
Cloth
Silk
Wool
Clouthing

Fuente: china.org.cn

Elaborado por: Leisure S.A.

Main Export Products from China to Ecuador

Item
Nafta Disolvente
CD Players
T V sets
Toys
Bikes
Insecticides
Radios
Motorcycles
Snickers
Christmast goods

Fuente: BCE

Elaborado por: Leisure S.A.



Conclusions

- Big variety of products exported from China to Ecuador, it means a strong trade, the maximum level of share is 4 %.
- Ecuadorian exports depend on small amount of products.
- Growing exports in terms of volume is more than in terms of value, Ecuador is importing goods with less value in the last three years.
- We attached a complete analysis of the bilateral trade on the seminar CD



Opportunities

- Industrial sector has options with a new raw material supplier with better cos than other countries.
- This is the right moment for getting a strategic partner from China, the objective can be to have a complement with the production line, local production, or insert on the chain value for South America, Andean Pact or Ecuador only.
- Seminar Cd has information with contacts, trade shows and the possibility to get Chinese partners over the web page og USA CCG, Thomas register and CEPA



Part five:

Investment

- Foreign investment in China
- Chinese investment in the world.



FDI in China: Myths and reality

Different Key “attractors” for FDI

1. “Market seekers”

Size of the market in any industry

Rapid growth and diversification of domestic expenditures.

2. “Resource seekers”

Large production expenditures and deposits of mineral commodities.

3. “Efficiency seekers”

Low unit labor costs, relocation of labor intensive industries

4. New trend

Foreign investors are starting to notice China's huge potential for technological development.



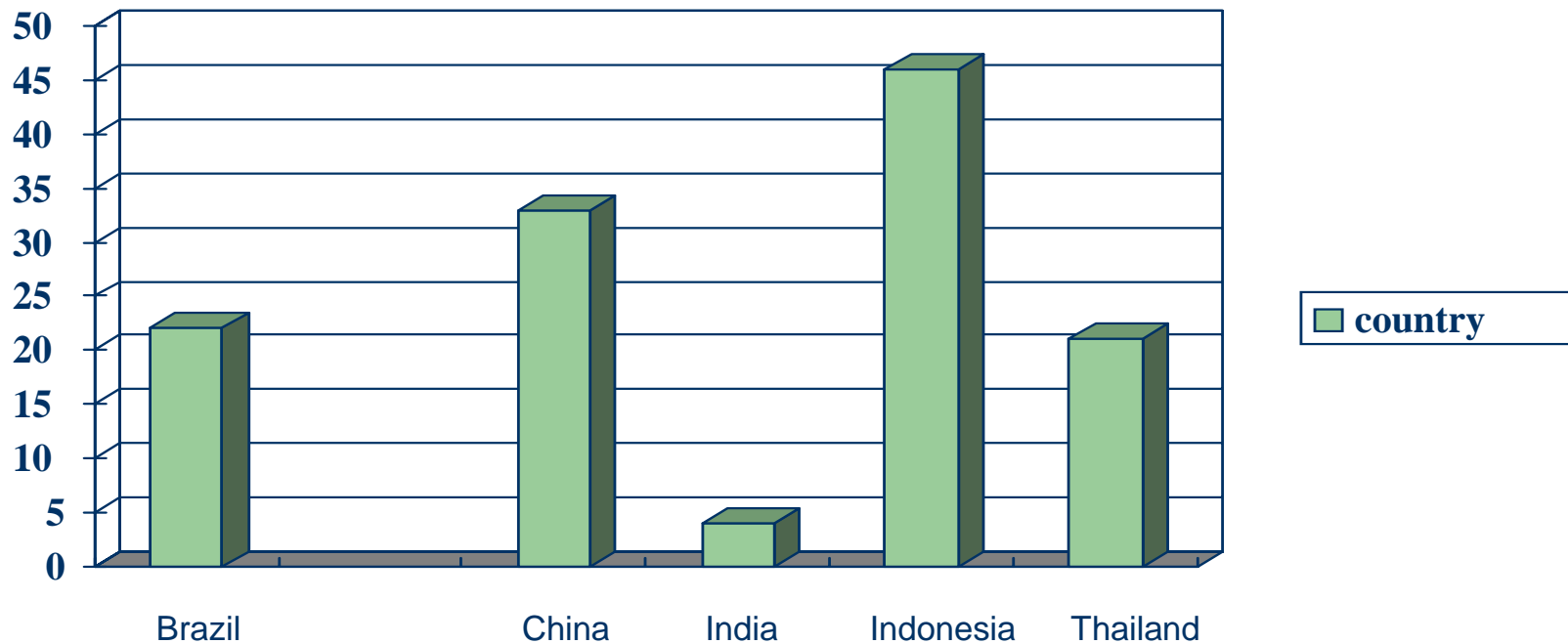
Myths

- Total cumulated stock of FDI at the end of 2000, 347bn us dollars, close to 32% of GDP, a very high proportion.
- Actual FDI in 2001 totaled 46.9 billion U.S. dollars.
- 2002, China is the number one country



Inward FDI as % of GDP

Brazil, China, India, Indonesia and Thailand



China is the best choice for global investors

- Foreign enterprises like Microsoft, Intel and Lucent have set up over 120 research and development centers in China. The number of China-based R&D centers for multinational corporations are likely to double within five years.
- An increasing number of multinational corporations are also moving their regional headquarters to China, to coordinate their businesses in China and nearby countries and regions. So far, Alcatel, HSBC, Citi Bank and Mckinsey have set up their regional centers in Shanghai while Motorola chose Beijing as its regional base.



Reality

- Costal versus inland: costal 90%.
- Significant changes within costal areas with a decline in Guangdong.
- Most US and EU investors are targeting the domestic market.
- Manufacturing: 53.7; Agriculture: 1.7
Real estate: 17.9; Distribution/trade:5.6
Construction: 2.8



Clear Benefits

- Integration into the world economic system
- Transfer Know-how
- Growth dynamics and creation of jobs



What is wrong with Latin America?

- Recent UN report shows that international FDI does not want to invest into Latin American countries.



Chinese investment in the world

- From one way open up to two way open up
- Chinese investment in the world: Trade, FDI(7725, permitted by DOC), and cooperation programs.



Part six:

Business skills

- Build up a good China team
- Find a Local Partner You Can Trust
- Be Prepared for Fast Growth
- **Identify strategic relationships within government and industry**



Build up a good China team

- It is important to have a good Chinese manager who needs to understand the culture of your company, and be able to explain the rationale for his plans to develop the China market.
- China has a great pool of talent , today, more overseas Chinese return , please keep them with you.



Find a Local Partner You Can Trust

- The smartest firms instead get a Chinese partner (sometimes the government, or a government ministry), set up a joint venture, and develop new technology or standards which they license throughout China. And they make sure that their Chinese partner shares in the earnings. This changes the incentive: before the Chinese partner was just a channel distributor customer, but now the Chinese partner shares in the earnings, and has a profit motive in pushing the new technology standard. At the same time, the western partner gains access to a low-cost, high quality labor pool and growing consumer market.



Be Prepared for Fast Growth

- A company must be prepared to quickly change to keep up with the pace of change in China, and to make decisive moves to help its business when the time is right. Opportunities can come and go very quickly.



Identify strategic relationships within government and industry

- To start with, you have to deal with several different governments, the Communist party, provincial governments, then city and local governments.
- Starbucks started its business by taking social responsibility.
- CD has many additional alternatives presented by american experts, one of those is chiese, CEPA advice to do that by Hong Kong.



Questions??



UN EVENTO DE:

