



China: Opportunities, Challenges & Market Entry Strategies



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The China Opportunity and Challenge

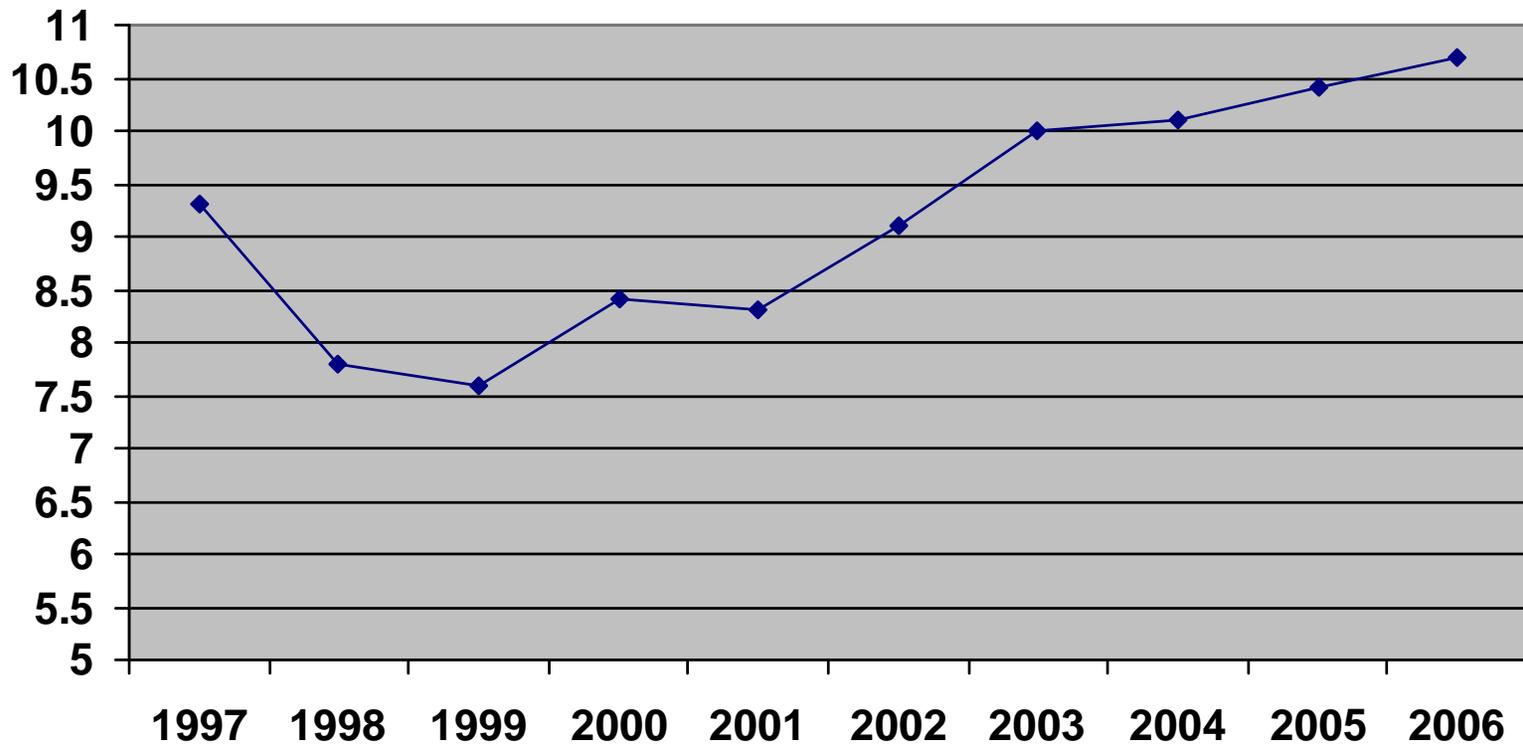
The China Dream

- China consumes 40% of the world's cement, 41% of the iron ore and 35% of the coal
- Second largest consumer of oil after the US
- Second largest market for vehicles after the U.S. with sales of 7.22 million units
- 100 million mobile phones were sold in 2006
- 140 million internet users – 77 mil via broadband
- China's GDP growth continues at over 10% and will likely continue at that level for some years to come

Long-Term Dimensions

- China has been the world's largest manufacturer for at least 3,000 of last 4,000 years.
- In 1820, China represented 33% of world GDP, vs. 2% for USA. In 2006, China 15% vs. U.S. 20%
- Historic tide shifted in 1842 with Opium War, colonialism, disintegration, WW2 and Communism.
- In 1979, Deng Xiaoping introduced economic reforms and opening to the outside world. Confirmed in 1992.
- Initiated a 28 year process of 6–14% annual GDP growth. Average 9% growth.

Annual GDP Growth (YoY, %)



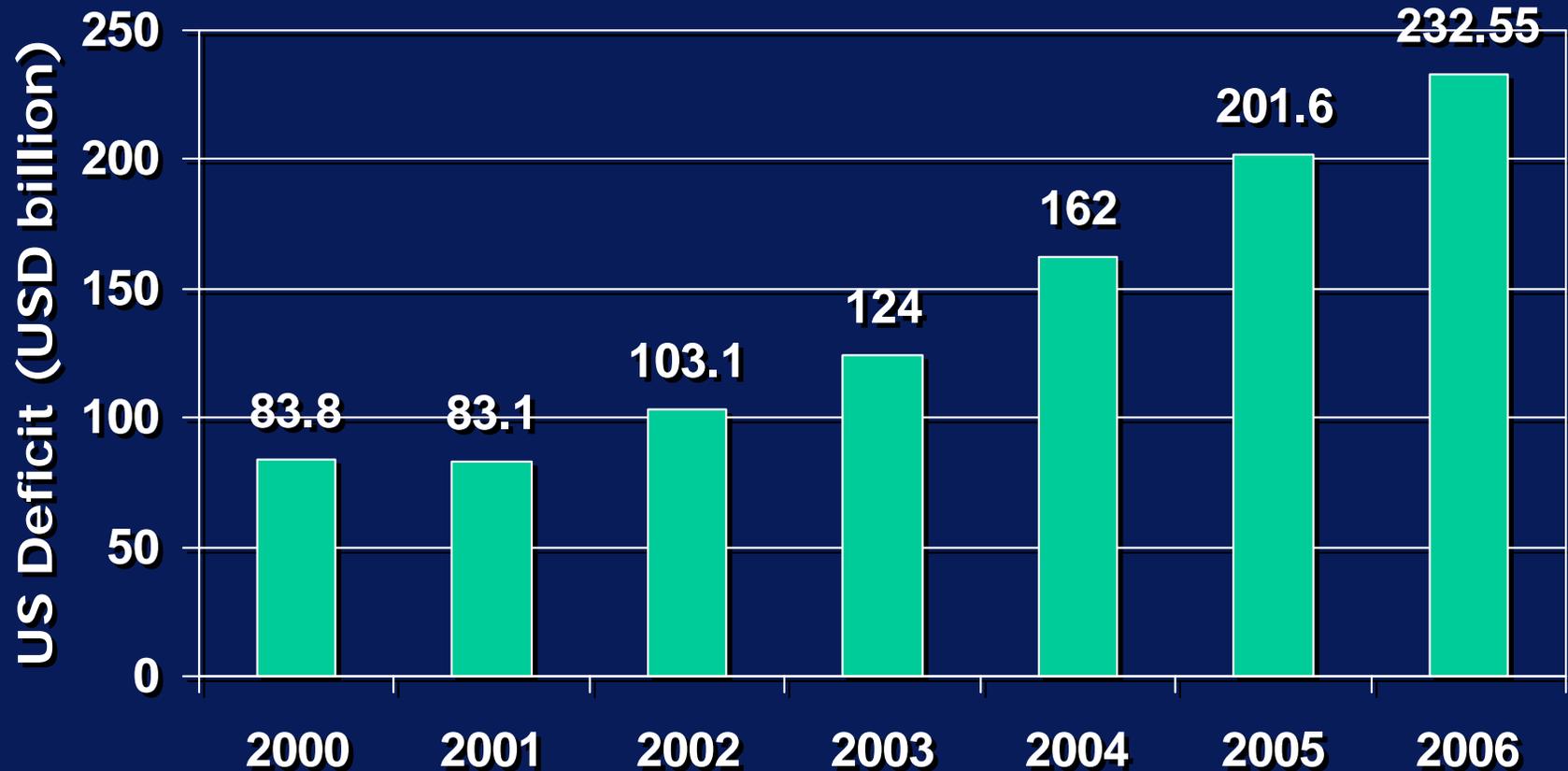
China in a Time of Transition

- Confucian to modern
- Communist to market-driven (not capitalist)
- Rural and agrarian to urban and industrial
- Development of Rule of Law
- Economic Autarchy to global integration
- Rise in expectations -- “consumer culture”

Headline News – 2006

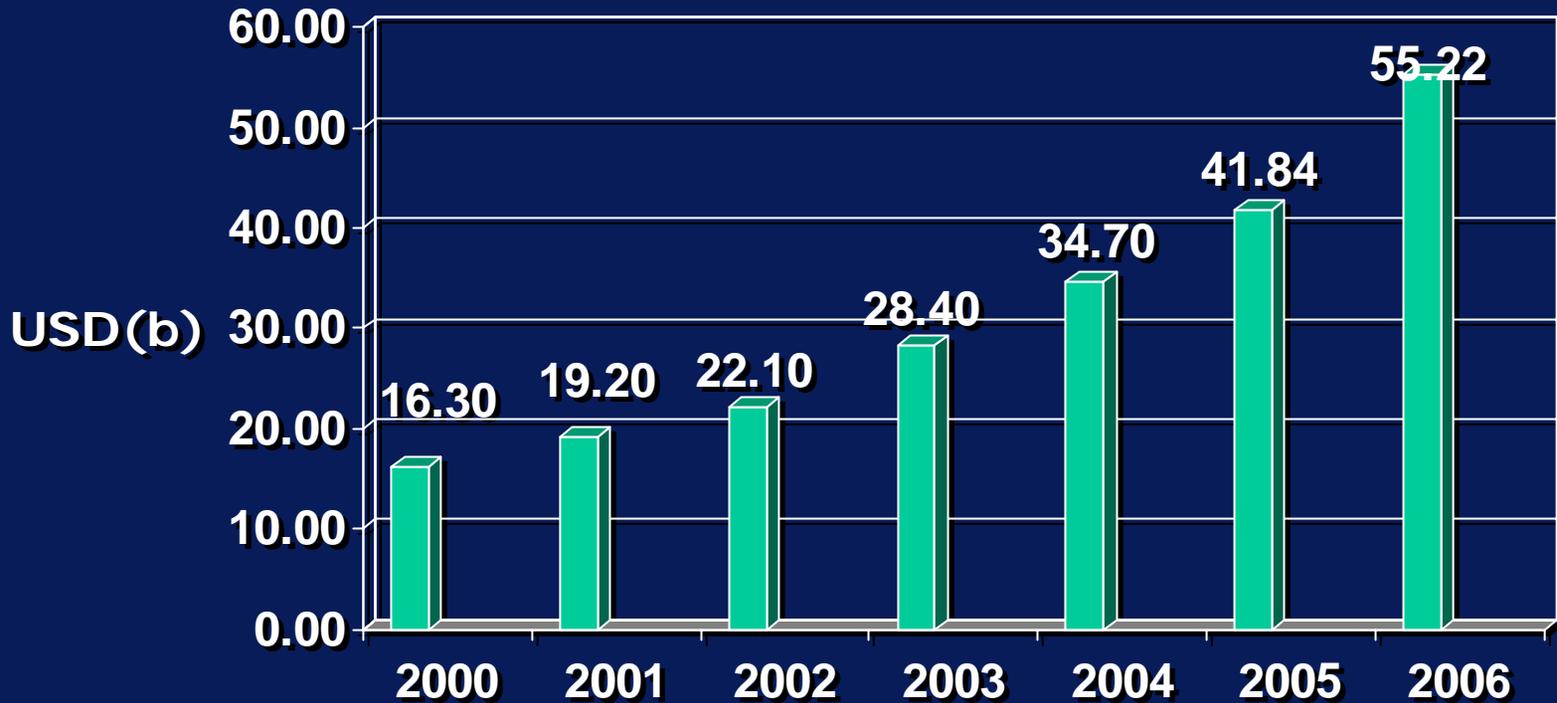
- Fastest growing export market for the US
- U.S. exports to China \$55 bn. in 2006, up 31%
- Trade deficit record \$233 bn. FX reserves \$1 trillion
- Per capita GDP up to approximately \$ 1740 (nominal)
- China's goal is to quadruple GDP in 20 years, which implies an average 7.3% annual growth.

U.S-China Bilateral Trade Balance





U.S. Exports to China Jan – Dec (year on year)



Composition of U.S.- China Trade 2006 Top 12 (2 digits)

	HS	U.S.-Exports to China	(m USD)	% Change		HS	U.S. Imports from China	(m USD)	% Change
1	85	Electrical Machinery, Etc.	10177.9	48.2	1	85	Electrical Machinery, Etc.	64905.5	22.3
2	84	Machinery; Reactors, Boilers	7704.3	21.1	2	84	Machinery; Reactors, Boilers	62266.1	18.1
3	88	Aircraft, Spacecraft	6089.6	40.3	3	95	Toys and Sports	20891.81	9.1
4	90	Optical, Medical Instruments	2941.3	22.5	4	94	Furniture and Bedding	19358.48	13.5
5	12	Misc. Grain, Seed	2584.6	13.1	5	64	Footwear	13890.02	9.2
6	39	Plastic	2715.6	20.0	6	62	Woven Apparel	11857.62	15.9
7	72	Iron and Steel	1800.3	12.8	7	73	Iron and Steel Products	8366.51	35.0
8	29	Organic Chemicals	1418.3	-6.3	8	61	Knit Apparel	8010.007	21.8
9	52	Cotton and Yarn, Fabric	2081.8	46.9	9	39	Plastic	7464.863	12.5
10	47	Woodpulp, Etc.	1473.6	48.1	10	42	Leather Art; Saddlery, Etc.	6835.478	9.2
11	76	Aluminum and Articles Thereof	1735.4	83.4	11	87	Vehicles, Not Railway	5134.472	22.0
12	87	Vehicles, Not Railway	1291.0	37.3	12	90	Optical, Medical Instruments	4787.12	16.0



Economic Challenges

- Unemployment → Rural Migration
- Over supply → Bad debt → Deflation
- Poor legal environment → Corruption
- Strengthening the financial system
- Pollution control and lack of water
- Electric Power demand / supply equilibrium

Market Drivers - Rising Middle Class

- China's GDP has exponentially increased in the past 10 years, resulting in a larger portion of the population in the Middle Class.
- They are able to consume non-essential goods.
- Pent up demand for housing: 253 sq ft vs. 793 sq ft
- Domestic tourism growth: 25%
- Higher disposable income provides firms with a larger market.



Keeping up with the Chans

- 20-year olds have known nothing but upward mobility
- Luxury goods hot – from caviar to Harley-Davidson to Louis Vuitton
- Western brands sell
- ‘Hypermarkets’ and retail chains booming along with new construction
- Studies show most consumers planning big ticket item purchases in next 12 months





Sectors to Watch: Lifestyle

- Health and beauty
- Travel and related services
- Entertainment
 - music, movies and related accessories
 - outdoor activities & sporting goods
- Home furnishings, fixtures and appliances



Market Drivers – WTO Implementation

- Banking, financial services, insurance
- Logistics, distribution, trading rights, retail
- Architecture, engineering and urban planning services

Improvement in Market Conditions

- Most AmCham companies are doing quite well in China. 73% of companies say they are profitable, while only 4% say they are experiencing large losses.
- Year over year results show more companies moving from profitable to very profitable.
- Ten years ago, the results would have been reversed.



Source: 2004 AmCham White Paper, American Business in China

Trends To Watch

- **Second Tier Cities**
 - Growing 2% faster than national GDP
 - 260+ cities with populations over 1 mil
 - Surging demand – half of all US exports go to 14 second tier cities
 - Less competitive
 - Policy momentum

Anticipate Problems - Macro

- Intellectual Property Rights
 - Patent - Trade Secrets
 - Copyright - Trademark
- Industrial Standards and Certification
- Transparency/Corruption
- Payment issues and Dispute Resolution
- Price Controls and competition
- Approvals and certifications

Anticipate Problems - Micro

- Management-level human resources
- Navigating Bureaucracy
- Unclear Regulations / Inconsistent Interpretation
- Lack of Transparency
- Contract Enforcement
- Economic nationalism: “Indigenous Innovation” and Local Protectionism



Market Entry Roadmap

- **Direct Exports**
- **Sales Agent / Distributor**
- **Representative Office**
- **Wholly Owned Foreign Enterprise**
- **Foreign-Invested Commercial Enterprise (FICE)**
- **Joint Venture / Acquisitions / Various Partnering**
- **Gateways**



In China...
Everything is possible, nothing
is easy. ~ McDonald's theorem

Where to go
for help?





Find the right markets and partners with our proven products and services

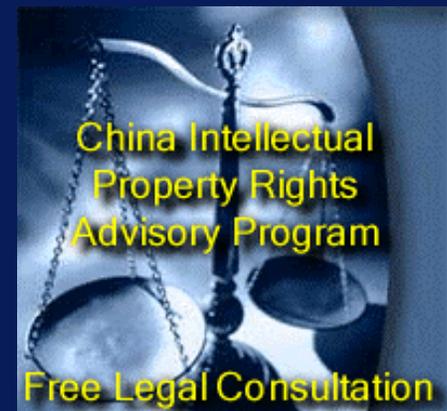
- Trade counseling
- Major project advocacy
- Customized Market Research
- Tailored appointments
- Partner searches
- Basic due diligence
- Marketing promotions
- Trade Missions, Trade Fairs and Catalog Exhibitions





IPR Resources

- ✓ The US Embassy in Beijing has an IPR Toolkit website <http://beijing.usembassy-china.org.cn/ipr.html>
- ✓ China IPR Advisory Program - one hour of free IPR consultation with a legal expert
- ✓ US Patent & Trademark Office offers free China conferences
- ✓ IP webinar series (www.stopfakes.gov)





14 Secondary Cities with American Trading Centers

More Market Access. Same Quality Service.

- Dalian
- Chongqing
- Hangzhou
- Harbin
- Kunming
- Nanjing
- Ningbo
- Qingdao
- Shenzhen
- Tianjin
- Wuhan
- Xiamen
- Xian
- Zhuhai





We have trade experts on the ground in China who can help you succeed

The U.S. Commercial Service has approximately 125 Commercial Service officers and trade specialist living and working in China.

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- Beijing
- Shanghai
- Guangzhou
- Shenyang
- Chengdu
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