



# “The 9 rules of doing business in China”

- Everything is possible
- Nothing is easy
- Patience is the essence of success
- "You do not know China" means they disagree with you
- "There is a new regulation". Means there is a new way to avoid doing something
- "There is an internal regulation". They are mad at you
- "Basically no problem". BIG problem

# Market Overview

- World's second largest economy
  - GDP \$1 trillion, \$4,400 per head (PPP), growing at 8% per year
- Driven by domestic demand
  - Middle class -- over 100 million
- Market system established
  - Supply and demand rule
  - Non-state owned companies most dynamic
- Regulated sectors remain
  - “Selective relaxation”
  - Monopoly of state-owned enterprises
- Corporate restructuring and industry consolidation
- World's largest markets
  - Mobile phone
  - Machine tool
- High growth sectors
  - Automotive
  - Housing
  - Machinery
  - Steel and cement
- Deregulated and recently opened sectors:
  - Retailing
  - Distribution
  - Insurance
  - Portfolio investment
- Regulated and closed sectors:
  - Banking
  - Telecom services
  - Electricity, water supply

# Operating Costs

- **Labor:**
  - High productivity -- 10-300% higher than India's
  - Non-rigidity of labor rate
- **Land:**
  - State ownership combined with market for land use
  - Low cost due to incentives
- **Capital:**
  - High savings and low interest
  - Underdeveloped equity market
- **Tax:**
  - Tax holiday, reduction, rebate
- **Cost items that concern companies in Shanghai (in decreasing order)**
  - Tax liability
  - Office rent
  - Salary for office workers
  - Land cost
  - Government fees
  - Wage for workers
  - Utilities
  - Communications costs
  - Prices of motor vehicles

# Developing Regions

- **Yantze river delta:**
  - Population: 136 million
  - GDP: 20% of national total
  - Focused on domestic market
  - Long term, orderly conduct
  - Industrial base -- capital intensive
    - Automobile industry, IC manufacturing, IT industry, engineering industry, International and national financial center
  - Western investment



## Major cities:

Shanghai, Nanjing, Hangzhou, Ningbo

# Developing Regions

- **Pearl river delta:**
  - Population: 120 million
  - GDP: 13% of national total
  - Export oriented, dependent on international market
  - Labor intensive contract manufacturing
    - Household appliances manufacturing, tool&machine industry, textile industry, clothing industry
  - Hong Kong/Taiwan investment



## Major cities:

Guangzhou, Shenzhen (Hong Kong),  
Xiamen (Taiwan), Dongguan

# Developing Regions

- **Bohai rim:**

- Population: 181 million
- Per capita GDP: above average but trailing south
- Beijing:
  - Policy making
  - Information center
- Industries
  - Heavy industry, chemical industry, optical industry, telecomm, clothing industry, and national R&D center
- Western, East Asian investment



Major cities:

Beijing, Tianjin, Qingdao, Dalian

# The five Organizational Structures in China

- Listed companies
- State owned enterprises (SOE)
- Private Chinese companies
- Foreign invested enterprise (FIE)
- Wholly foreign owned enterprise (WFOE)

# Business opportunities in China

- Market development
- Production outsourcing
- Back office relocation
- Production for Chinese and international markets

# Structural Options

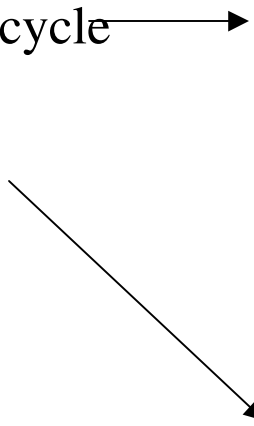
- Contractual
  - Marketing representation
  - Production agreement
  - Technology licensing
  - Contractual JV
- Equity investment -- greenfield
  - Equity JV
  - WFOE
- Equity investment -- M&A
  - Acquisition -- stake, entire co.
  - MBO/LBO
  - Holding company
  - QFII
- Influences on entry mode
  - *Profit potential*
    - *ROI*
    - *Sales growth*
    - *Cost savings*
  - *The declining markets in US are growing in China*
    - *No need to acquire additional competency*
    - *Competitive landscape*
    - *Regulatory barriers to entry*
    - *Importance of entry speed*
    - *Risks of entry*
    - *Cost of entry*

# Structural Options

	Strategic Purpose	Mode Of Entry	Major Advantages	Issues To Overcome	
Less Control	Sourcing Or Distribution	<b>Alliance</b> <ul style="list-style-type: none"> <li>▪ Licensee</li> <li>▪ Contract Manufacturing</li> <li>▪ Sub-Contractor</li> </ul>	<ul style="list-style-type: none"> <li>▪ Speed Of Entry</li> <li>▪ Cost Savings</li> <li>▪ Cost Effective</li> </ul>	<ul style="list-style-type: none"> <li>▪ Limited Manufacturing Control</li> <li>▪ Ip Risk</li> <li>▪ Middlemen Costs</li> <li>▪ Logistics Issues</li> <li>▪ Quality</li> <li>▪ Development Of Supplier W/O Equity</li> </ul>	Less Cash Outlay
	Market Assessment	<b>Representative Office</b>	<ul style="list-style-type: none"> <li>▪ Speed Of Entry</li> <li>▪ Inexpensive</li> </ul>	<ul style="list-style-type: none"> <li>▪ Commercial Limitations</li> </ul>	
More Control	Import/Export (International Trade)	<b>Trading Company</b>	<ul style="list-style-type: none"> <li>▪ Good For Import &amp; Export Functions</li> <li>▪ Possible To Site In Free Trade Zone</li> </ul>	<ul style="list-style-type: none"> <li>▪ Costs (Required Minimum Capital)</li> <li>▪ Not Manufacturing</li> </ul>	More Cash Outlay
	Manufacturing For Export And/Or Domestic Market	<b>Joint Venture</b>	<ul style="list-style-type: none"> <li>▪ “Traditional” Route</li> <li>▪ Speed Of Entry</li> <li>▪ “Buy” Market Share And Contacts</li> </ul>	<ul style="list-style-type: none"> <li>▪ Relationship Problems</li> <li>▪ Ip Risk</li> <li>▪ Market Risk</li> <li>▪ Development Of Supplier</li> </ul>	
	Manufacturing For Export And/Or Domestic Market	<b>Wholly Foreign Owned Enterprise</b>	<ul style="list-style-type: none"> <li>▪ Control Of Manufacturing, Quality &amp; Customers</li> <li>▪ Tax Advantaged</li> <li>▪ Possible To Site In Free Trade Zone</li> </ul>	<ul style="list-style-type: none"> <li>▪ Longer Entry Time</li> <li>▪ Costs (Required Minimum Capital)</li> <li>▪ Sales And Employee Risks</li> <li>▪ “Corporate” Resources Required</li> </ul>	

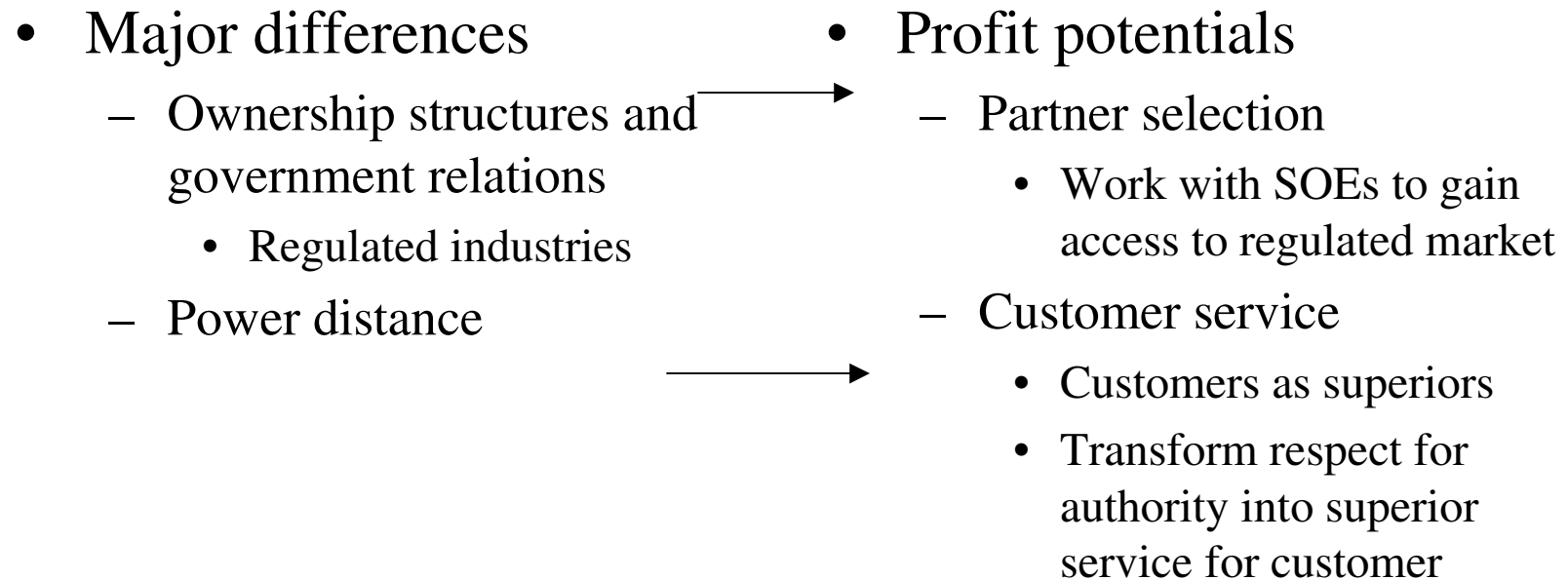
# Creating Value by Exploring Differences

-- Market Development

- Major differences
    - Stages of product life cycle →
    - Customer tastes
  - Profit potentials
    - Customer targeting and segmentation
      - Growth market for mature products
      - Technological leadership
      - Fill in the vacuum
    - Value proposition
      - Same product, different appeal
- 

# Creating Value by Exploring Differences

-- Market Development

- Major differences
    - Ownership structures and government relations
      - Regulated industries
    - Power distance
  - Profit potentials
    - Partner selection
      - Work with SOEs to gain access to regulated market
    - Customer service
      - Customers as superiors
      - Transform respect for authority into superior service for customer
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# Creating Value by Exploring Differences

## -- Production Outsourcing

- Major differences
    - Cost structures
    - Ownership structures and government relations
      - Trading rights
- 
- Profit potentials
    - Supplier selection
      - Accessing qualified manufacturers for substantial cost savings
    - Supply chain configuration
      - Consolidating capabilities into single entity to shorten supply chain
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# Creating Value by Exploring Differences

## -- Production Outsourcing

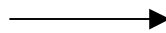
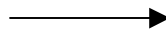
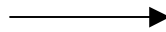
- Major differences
  - Power distance
- 
- Profit potentials
  - Suppliers as subordinates
  - Improve supplier performance through instruction, training, and control

# Creating Value by Exploring Differences

## -- Strategic Acquisitions

- Major differences

- Assets
  - Production
  - Distribution
- Capabilities
  - Manufacturing
  - Marketing
- Resources
  - Local financing
  - Government relations



- Profit potentials

- Complementarity of assets/capabilities
  - Low cost production in country
  - Existing customer base/brands
  - Distribution network
- Support
  - Financing
  - Government
- Strategic fit

# Acquisitions and Greenfield

	Major Advantages	Issue To Overcome
Acquisition	<ul style="list-style-type: none"> <li>▪ Quicker Startup (Existing Operation)</li> <li>▪ Capitalize On Existing Market Access And Relationships</li> <li>▪ Less Capital Than Greenfield Possible</li> </ul>	<ul style="list-style-type: none"> <li>▪ Costs Of Retooling Equipment , Systems And People</li> <li>▪ “Baggage” Of Acquired Firm</li> <li>▪ Corporate Integration Resources</li> </ul>
Greenfield	<ul style="list-style-type: none"> <li>▪ Clean Startup With Current Systems</li> <li>▪ Capitalize Equipment</li> <li>▪ Complete Control Of Systems And Processes</li> <li>▪ Control Of Location</li> <li>▪ Control Of Hiring And Training</li> </ul>	<ul style="list-style-type: none"> <li>▪ “Corporate Resources</li> <li>▪ Investment – Money And Time</li> </ul>

# Thank you

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