

Real Estate Strategies

Doing Business in China

The One Constant is Change

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Any businessperson who has looked recently at the explosive economic growth of business in China will realize that there are incredible opportunities to make money, despite common misconceptions to the contrary.

For those who may think the opportunity train has left the station, you will be pleased to learn that this train is more like a cruise ship in a vast ocean of opportunity--there is still time to get onboard and become a player in China.

It is still shocking to find that some businesses are finding reasons not to approach the Chinese market. The largest misconception is the "Can't-Make-Money-in-China Myth." There is no better counter to this than the facts:

- According to most recent AmCham survey, 75% of foreign companies in China are profitable, up from 64% in previous survey.
- According to a Goldman Sachs study \$30B repatriated in 2001, which translates to an 8% return on cumulative foreign investment of past ten years.
- Coca-Cola has been profitable for 10 straight years.



- Motorola recorded sales of \$4.9B and sent capital back to US to help with the cash crunch.

With a market this big, anyone with a product or service to sell should take a closer look at how they can do business in China.

For example, too many business people believe, falsely, that China is a one-way economic engine that is great to outsource manufacturing products to for export back to the home market. But the numbers tell a different story about the opportunities to sell products in China's domestic market:

- Unlike Japan, China represents a virtual global trade balance latest stats indicate .97 import to 1.0 export.
- Thru October 2003, China imported >\$320 B, 68+% from Asia, ~18% from Europe and <10% from N. America.
- Fastest growing countries selling to China in 2003: Venezuela, Argentina, Brazil & India.
- Unlike Taiwan companies, U.S. companies seldom go to China just for low cost labor but for the market.

- A major chemical company employs more than 3500, sells 98% of what they make inside China and imports another equivalent amount into China.

Here is a quick view of China's market today. It represents an urban population of more than 300 million out of an approximately 1.3 billion total global population (23%). As China becomes more urbanized and industrialized, this market will expand, and the opportunities for commerce will rapidly increase. Consider:

- China has 200 million cell phone users. That makes it the largest market in the world that still represents less than 25% market penetration.
- China is the world's largest cable TV subscriber base but less than 30% of the market has been penetrated.
- At 13million PC's purchased per year, China has surpassed Japan as the world's second largest PC market.
- There are now more than 16 million globetrotting Chinese tourists, soon to overtake the U.S. & Japan.
- Suddenly, China is the hottest automotive market with prospects of double-digit growth and on its way to becoming the world's lowest cost provider of components.
- China has become the major alternative purchaser to the U.S. for commodities and goods from Latin America and Asia.

The growth in both manufacturing and domestic consumption has been an overnight phenomenon. Those who do not keep an eye on this

growth can rapidly lose track of industries that sprout up and become major market forces that can rapidly take global market share from long-established producers. That's why the one constant in China is change:

- According to *Wall Street Journal* (7/17/03), China went from having the poorest made furniture to 35% of America's wood furniture market in 3 years.
- China's export of bedroom furniture to the U.S. went from \$169 million in 1999 to \$1.2 billion in 2003.
- China had 5 million cell phone users in 1996 to now 200 million.
- In 1998, Motorola, Nokia and Ericsson had greater than 90% of the market. By first half of 2003, Ningbo Bird had the largest market share.
- In 2003, China overtook Japan and Mexico to become the largest supplier of IT products to the U.S.
- In agricultural products, China's exports have more than doubled in the world's market share to reach 33% in five years.

Here are some important trends that anyone keeping an eye on China should follow:

- China is in process of establishing a highway grid modeled after the U.S. Interstate system.
- China is building more airports, and Avic, a domestic company will be building their own jetliner with fewer than 100 seats.
- Three milestone events are happening in China over the next five years: Shanghai Universal Amusement Park in 2006, Beijing

2008 Olympics, and Shanghai 2010 World Expo.

- China's national goal is \$2 trillion GDP by 2010 and \$4 trillion by 2020.
- Sectors to watch: Semiconductors, Automobile & Flat Panel Displays

The argument for doing business with China is quite compelling. Besides the obvious one, "to make money," here is a quick rundown of the advantages:

- To source lower cost raw materials, components and products
- To build a competitive production base to serve global markets including China's domestic market
- To follow the major clients who are building plants there
- Over 2M college graduates, 25% in science & engineering every year
- Abundant direct labor @ roughly 1/10 of U.S. cost
- Low cost of capital
- Myriad of tax incentives
- Too big of a domestic market to ignore

To learn more about overseas market opportunities, visit the ITRA website at www.itraglobal.com.

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