

CHINA NEWS

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CHINA: TOO MUCH, TOO FAST?

The Middle Kingdom transforms itself in a world power with far reaching consequences for its citizens and the world. Is this sustainable?

Not a single month goes by without news that China has become the biggest market for this product or the most important market for that service. China is increasingly at the center stage of the world. Is the country ready to deal with this or is all happening too quickly?

GDP growth is what counts in China. People not so much; a recent case illustrates this brutally when we look at the destiny of a 2-year-old toddler overrun by two vans and left to die by 18 passersby. China builds high rise buildings, shopping malls, apartments, villas, streets, highways, airports, dams and bridges as there is no tomorrow. Every year, GDP grows between 8 to 12 % and that's what is needed to keep the 1.3 billion people busy and working. Some sources say construction makes up between 30 and 40% of total GDP.

But China is not only developing necessary infrastructure, it is also building ghost cities, hundreds of vacant malls and 64 million vacant apartments. China also wants to go to the moon (again) and expand its influence in Asia, Africa Europe, Australia and the U.S., on land and sea, by flexing its muscles hopping smaller nations give in. China aspires to be big and powerful wherever it counts.

Today, China is the biggest or certainly a top 3 market worldwide for cars (Bentley, Porsche, BMW, VW, Audi), luxury products (LV, Gucci, Prada, Omega, Rolex), natural resources and minerals (copper, iron ore, coal, gold), oil, steel, computers, smart phones, soya beans... and pig's feet, and of course the largest exporter



and the second largest importer. And in some years, the IMF says by 2016, China will have the largest economy in the world.

Pax Sinica?

Not too long ago, British passport holders could go anywhere in the world and they were greeted (mostly) with respect and could demand services other citizens couldn't. The British Empire was everywhere, in Africa, Asia, on the American continent and it was the center for finance and trade.

After the pax Americana, which some say could come to an end when China boasts the world's largest economy, the Chinese could demand the same admiration, power and rights that the UK and the United States did in the last two centuries. But will China be ready for this?

Yes, the question is: Can China deal with this? Or will it be overwhelmed? Will the economy and the political apparatus be able to sustain the steep rise? Because, let's not forget, China faces internal problems that

no other country wants. Its urban centers are getting flooded with rural workers and their families. More people demand more infrastructure and more space, and interestingly wages still go up in cities as skilled and semi-skilled workers are demanding higher salaries on a yearly basis. This goes in hand with the government's idea of making health care mandatory, giving companies another burden of 30% of continues on page 2

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HOW TO DEAL WITH THIS: CHINA AND ITS EVERYWHERE



How to do business with the Chinese. Many books have been written about this topic and countless experts have said what they think how to best deal with the people of China. We do not want to repeat these suggestions but rather offer you a different perspective.

It is very likely we all "do business" with China without even noticing it. A lot of the stuff we buy in our supermarkets are 'made in China' or are put together with parts coming from there. You may find it rather difficult to live a day 'without China' because wherever you go and whatever you buy, chances are China is somehow part of it. China is the largest exporter in the world; there simply is no tomorrow without it.

China invests in your country

We have to accept this fact. And while some, justifiably or not, criticize Beijing for this or that, we need also to keep in mind that China is becoming a major outbound investor. While the U.S. is not (yet) a major recipient of China's investment, a mere USD 1.3 billion have been invested there in 2010, China's investment worldwide topped USD 68 billion in the same year. China left Japan and the UK behind and ranks 5th on a worldwide basis. And there is no sign that

China's outbound investment will go anywhere but up. What does this tell us? Whether you are in Asia, Africa, Europe or the Americas, you are likely to be confronted with China in some way in your country. This was not possible 10 or 20 years ago, but now we live in China's time. It is China's century and we can only hope that China continues to do well because if not, we all will feel the pain.

Take advantage

With this in mind, we should welcome China's investment and Chinese companies. See what they want and find out how to best do business with them. It does not mean we

give in and accept whatever they ask for. On the contrary, you have a big advantage over them because they come to you, they want to play in your backyard. It is the same backyard you have known for years and that's what counts.

China today buys land in Africa to grow and ship back food, and it buys airports, ports, island and even parts of entire countries as in the case of Iceland. We can't stop this, but we can learn how to make the best out of it. Be firm and take advantage of everything you can to negotiate the best deal possible, just the way the Chinese do it with us in their home country.

GLOBAL OUTBOUND FDI (in USD billion)

	2009	2010	2011*
1. U.S.A.	283	329	300
2. Germany	78	105	110
3. France	84	103	108
4. China & Hong Kong	64	76	88
5. China	57	68	78
6. Japan	75	56	61
7. Russia	44	52	55
8. Switzerland	33	58	44
9. Canada	42	39	33

* estimates

Source: UNCTAD, World Investment Report 2011

the salary. As a result, in many industries, the so-called China price is gone. Prices for daily goods go up, apartment prices are skyrocketing and inflation is out of sync. Bribery, embezzlement, fraud, lack of intellectual property rights and nepotism are widespread and deeply rooted and often accepted in the society. But the economy is still growing above 9%; or so say the figures published by Beijing.

Can it go on like this? The optimists say yes, because China is special. The number of USD billionaires has reportedly reached 400 (the most in any country), while the number of USD millionaires has also increased, to 960,000. These super rich and the 400 million strong middle class have the power, meaning the demand, to grow the economy even further.

If you think the Chinese market is saturated, consider this fact: Today, only 4% of the population, or about 55 million people, own a car. There's plenty of space to catch up looking at the U.S. (over 80%) or Europe (on average 40%).

The China price might be gone, but the China dream will continue for some time.

CHINA BUSINESS NEWS

GDP grows 9.4%, inflation hits 5.7%

China's gross domestic product totaled USD 5.03 trillion in the first three quarters of 2011, up 9.4 percent from the same period last year, the National Bureau of Statistics said in a statement. The third quarter saw the lowest growth this year with 9.1%, followed by the second quarter with 9.5% and the first quarter with 9.7%. Inflation rose to 5.7% in the first 9 months of the year.



600,000 foreign nationals live in China

593,832 foreigners are officially living in China as of December 2010, data from the latest national census revealed. Compared to the countrywide population of over 1.3 billion, foreign nationals make up less than 0.05% of the total. The biggest foreign population comes from South Korea, followed by American and Japanese citizens. The data also showed that 231,700 foreigners work in China. Shanghai is the most international city, with roughly 210,000 foreign residents (including Taiwan and Hong Kong passport holders). The number equals to about 1% of the total city population of 22 million.

Foreigners are obliged to pay for social insurance

A new insurance law requires foreigners with a work permit to pay 11% of their monthly salary for social benefits. The services include pension (8%), medical insurance (2%) and work-related injury insurance (1%). Employers are required to pay between 30% and 40% of the total salary, depending on the city and province a company operates. Both, the employee and the employer contributions are capped, but this also depends on the location of the company. The new law was to be implemented as of October 15 but some cities indicated they need more time to set up the necessary infrastructure to accept payments. The new law puts pressure on companies as the cost for employing foreigners increases substantially.

CHINA EVERYWHERE

What media, business people and politicians around the world recently said about China:

"To a great extent, the export economies of China and the U.S. complement each other. If there were a trade war, it's unclear who would win."

- The Securities Daily, China.

"The domestic China market for Internet-based service is, in essence, closed... The Chinese government is not going to allow a non-Chinese Internet company to succeed in China... it is a weapon in national security."

- John Donahoe, CEO, eBay.

"China's economy will encounter a hard landing by 2013 or 2014."

- Nouriel Roubini, chairman and co-founder of Roubini Global Economics.

"In 2007 China funded USD 18 billion worth of aid programs in Africa and USD 7 billion in Southeast Asia."

- U.S. Senator Tom Coburn.

"As China loses its edge, buyers have started looking at India for competitive prices."

- John Baby, CEO, Funschool.

"People say that China is changing Africa. It's the other way around - Africa is changing China."

- Chris Alden, department of international relations, London School of Economics.

"China in particular has learned the extraordinary advantage of cheating. And it has had a positive effect on China, and a very seriously negative effect on us."

- Mitt Romney, Republican presidential candidate.

"China's current business environment is causing growing frustrations among foreign business and government leaders, including my colleagues in Washington."

- Gary Locke, U.S. Ambassador to China.

CBC Services & Contacts

Since 1995 in China

Market Research

CBC Marketing Research uses a variety of quantitative and qualitative methodologies ranging from traditional focus groups and in-depth interviews to CATI surveys and internet-based research.

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| <p>Quantitative Research:</p> <ul style="list-style-type: none"> ▶ Telephone interviews (CATI) ▶ Personal interviews (CAPI) ▶ Street intercept interviews ▶ Central location testing ▶ Online research ▶ Mystery shopping ▶ Car clinic | <p>Qualitative Research:</p> <ul style="list-style-type: none"> ▶ Focus groups ▶ Mini focus groups ▶ In-depth interviews <p>Other:</p> <ul style="list-style-type: none"> ▶ Desk research ▶ Retail research |
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CBC offers movable web-streaming technology in Japan and South Korea.

Business Consulting

CBC Business Consulting helps you to successfully setup your company and find the right partners for your expansion in China. We also provide feasibility and industry studies and offer sourcing and office-in-office services.

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| <ul style="list-style-type: none"> ▶ Market entry strategies ▶ Industry studies ▶ Location evaluation ▶ Partner evaluation | <ul style="list-style-type: none"> ▶ Company registrations ▶ Feasibility studies ▶ Office-in-office ▶ Sourcing |
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Executive Search

CBC Executive Search works with a large number of companies to meet their talent and executive needs in China. We directly approach all our highly educated and experienced candidates working in different business sectors including the following.

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