

**WELCOME**

**Charlotte Chapter  
North Carolina World Trade Association  
Charlotte, North Carolina  
12 October 2006**

**east**  **west**  
associates

**Guilin, Guangxi Province**

**NCWTA**



# **‘Doing Business In the People’s Republic of China’**

**Presented To: Charlotte Chapter  
North Carolina World Trade Association**

**Presented By: Art Yarzumbeck  
Sr. VP & Principal  
East West Associates**

**Date: 12 October 2006**

**Location: Charlotte, North Carolina**

# 'Doing Business in China'

## AGENDA

- Introduction to EWA
- Background
  - ✓ Types of Business Entities
  - ✓ 'Opening Up'
  - ✓ Investment Trends
  - ✓ Financial Performance of U.S. Companies
- Lessons Learned
- EWA Approach...The Value Chain
- Closing / Q&A's

BUT FIRST... **"The Golden Rules Of China"**

## Doing Business in China

### **“The Golden Rules Of China”**

By Robert Ma of McDonald’s of China

\*\*\*\*\*

1. Everything is possible
2. Nothing is easy
3. Western business logic does not apply ←
4. It is a fun project if there is no deadline
5. You must persist - things will come your way eventually
6. Patience is the essence of success
7. There are no secrets in China ←
8. “You Don’t Know China” means they disagree ←
9. “New Regulation” means they found a new way to not do something
10. “Internal Regulation” means they are mad at you
11. “Basically, No Problem.” Means BIG PROBLEM ←
12. When you are optimistic, see Rule #2
13. When you are discouraged, see Rule #1

**President & Principal  
Alex Bryant**

**Sr. VP  
Sales & Marketing  
Steve Baker**

**Administration**

**Sourcing**

**Finance**

**Legal**

**Sr. VP & Principal  
VP, Operations  
Art Yarzumbeck  
(10 Associates)**

Mission: East West Associates (EWA) delivers business solutions through development, evaluation and execution of global growth strategies for manufacturers and distributors, primarily mid-sized U.S. companies and divisions of multinationals.

Our core services include:

- *Strategic Consulting*
- *Project Management*
- *Sourcing/Procurement*

-Background-

# ***Shenzhen, Guangdong Province***



# ***Doing Business in China*** **-Background-**

## **Types of Business Entities (FIE's)\***

- **Representative Offices (RO)**
- **Equity Joint Venture (EJV)**
- **Co-operative (Contractual) Joint Venture (CJV)**
- **Wholly Foreign Owned Enterprise (WFOE)**
- **Foreign Invested Commercial Enterprises (FICE)**

\*FIE=Foreign Investment Enterprises

# ***Doing Business in China***

## ***-Background-***

### **'Opening Up'... 'To Get Rich is Glorious**

- **Since 'opening up' in 1979, the PRC has enjoyed incredible economic growth**
- **Initial focus (1980's)...Low Cost Manufacturing for Export**
  - ✓ Low technology-labor intensive goods / labor savings for export
  - ✓ JV primary business formation model / SEZ's were primary locations
  - ✓ Defining business approach/rules/laws/practices
- **Intermediate focus (1990's)...Moving Up the Technology Curve**
  - ✓ Higher technology subassemblies & more complex end item assembly
  - ✓ In addition to export, the China market potential being tapped
  - ✓ Many choices of locations w / incentives but most on eastern seaboard
- **Current Focus (2000's)...Establishing World Class Technology Capability**
  - ✓ Encourage high technology (Shanghai area & Guangdong Province)
  - ✓ Develop a viable banking sector
  - ✓ Address the problem of the SOE's
  - ✓ Address distribution of wealth / emphasis shifting to western China

# ***Doing Business in China***

## ***-Background-***

### ***'Opening Up'***

#### ➤ **Status**

- ✓ Achieved WTO membership / focus on growing while meeting obligations
- ✓ Considerable wealth generated in the major cities
- ✓ Large number of major foreign firms have China operations
- ✓ WFOE model replaces JV (when allowed)
- ✓ Moving away from low cost export-only (Vietnam assuming that role)
- ✓ Local firms becoming very competitive
- ✓ Government encourages 'National Champions'
- ✓ Government emphasis shifting to developing western infrastructure

#### ➤ **Current Western Business Focus**

- ✓ Chinese Consumer
- ✓ Business & Industrial Customer
- ✓ Low Cost Sourcing

# Doing Business in China

## -Background-

### Investment Trends...FDI by Type of Business Entity ( 2004 and 2005)

	<u>Number of Projects</u>				<u>Utilized FDI Value (\$ billion)</u>		
	<u>2005</u>	<u>2004</u>	<u>% Change</u>		<u>2005</u>	<u>2004</u>	<u>% Change</u>
Total FDI	44,001	43,664	0.77	↔	\$60.33	\$60.63	-0.5
EJVs	10,480	11,570	-9.42	↔	\$14.61	\$16.39	-10.81
CJVs	1,166	1,343	-13.18	↔	\$1.83	\$3.11	-41.15
WFOEs	32,308	30,708	5.21	↔	\$42.96	\$40.22	6.81

**FDI dropped by 0.5 % in 2005, but increased by 6.4 % in 1Q06 to US\$ 14.2 B**

# ***Doing Business in China***

## ***-Background-***

### **Investment Trends...Top 10 Origins of FDI, 2005**

<b>Country/Region of <u>Origin</u></b>	<b>Amount Invested (<u>B US\$</u>)</b>
Hong Kong	\$ 17.95
Virgin Islands	\$ 9.02
Japan	\$ 6.53
South Korea	\$ 5.17
United States	\$ 3.06 billion
Singapore	\$ 2.20 billion
Taiwan	\$ 2.15 billion
Cayman Islands	\$ 1.95 billion
Germany	\$ 1.53 billion
Western Samoa	\$ 1.35 billion

Source: PRC Ministry of Commerce

Obtained From: US-China Business Council

# Doing Business in China

## Background...Financial Performance

Amcham-China Survey, 2006 ([www.amcham-china.com.cn](http://www.amcham-china.com.cn))

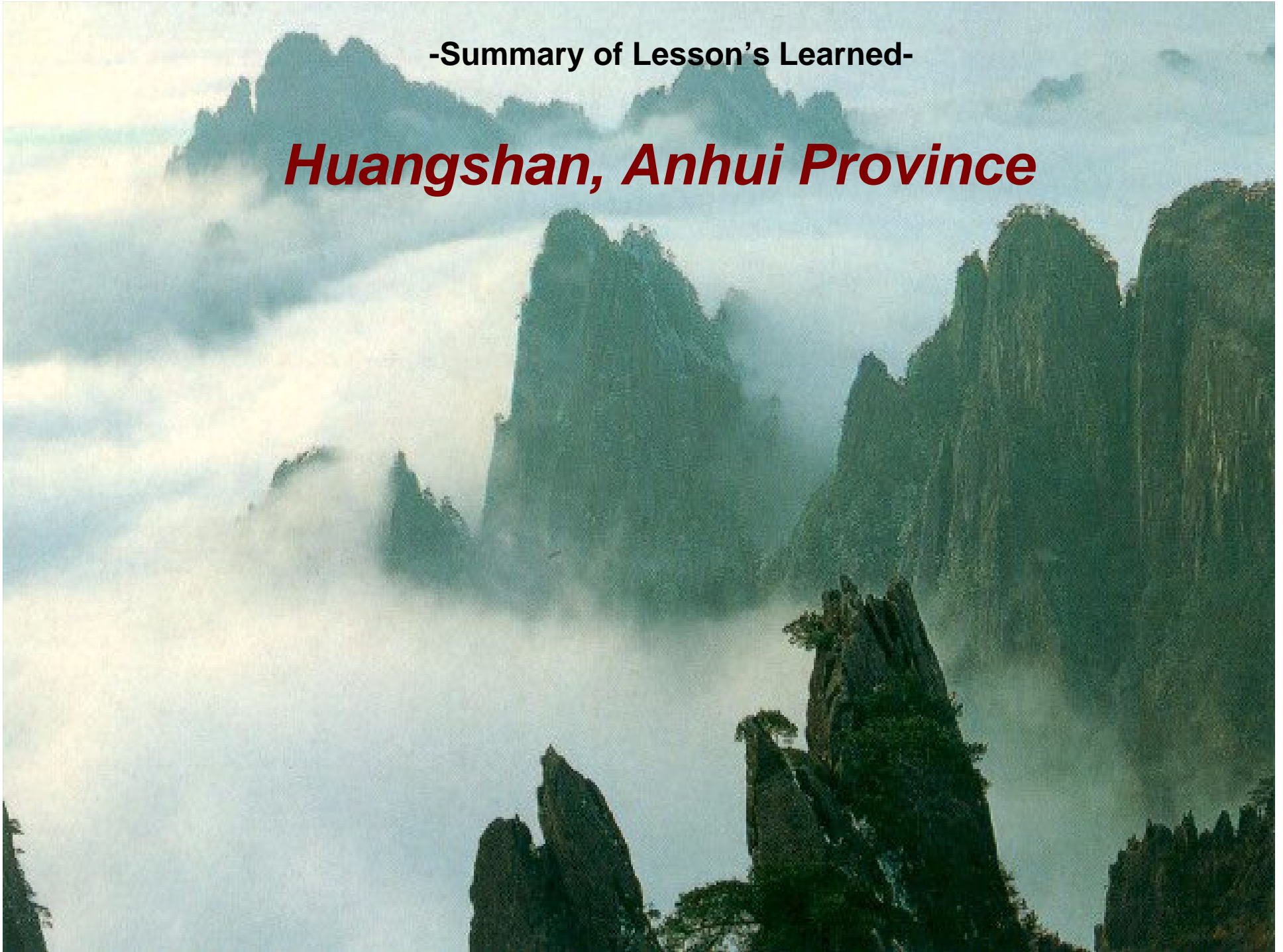
### 214 US Invested Companies in China

- 83% WFOE/JV (55%/28%)
- 43% Manufacturing, 37% Services, 7% IT, 3% Retail/Distribution, 10% Other
- <2 to >20 years in operation
- From 1 to >500 employees, (1-50 employees 47%...51-100 12%...101-500 21%...>500 21%)
- 2005 revenue from <1M to >100M (29% <1M...23% from 1-9M...19% >100M)
- **64% indicated 2005 results were either profitable (50%) or very profitable (14%)...32% B/E**
- **For profitable or very profitable**
- 21% in China <2 years (of 24 companies)
- 45% in China 2-5 years (of 35 companies)
- 75% in China >6 years (of 143 companies)
- **YTY margin growth ('04 to '05)**
- **14% substantial growth**
- **47% some growth**
- **23% same**
- **China margins vs. worldwide margins**
- 5% significantly higher
- 28% somewhat higher
- 32% comparable

} Weighted average=64%

-Summary of Lesson's Learned-

*Huangshan, Anhui Province*



# ***Doing Business in China***

## **Summary of Lessons Learned**

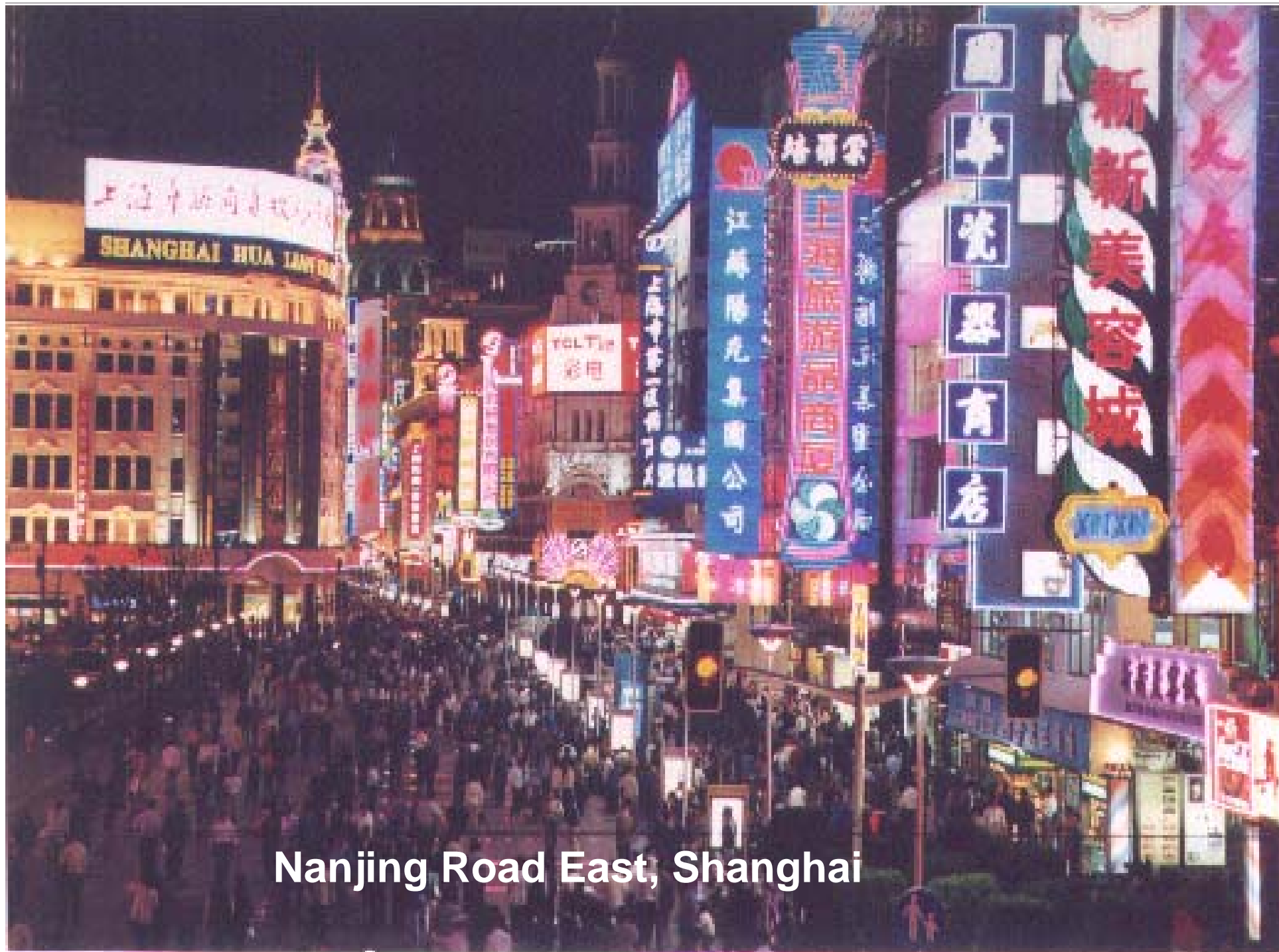
- **Poor definition & communication of China 'Vision' and 'Strategy'**
- **Inadequate support from within the organization**
- **Poor / No 'Business Plan'**
  - ✓ **Complete / detailed**
  - ✓ **Assumptions valid**
  - ✓ **Continually updated**
- **Poorly defined Project Plan / Weak Project Execution**
  - ✓ **Understanding of requirements**
  - ✓ **Delineation of responsibilities**
  - ✓ **Establish budget & schedule**
  - ✓ **Routine tracking against plan parameters**
  - ✓ **EXPERIENCED ON-THE-GROUND LEADERSHIP**
- **Poor / No planning for China unique considerations**
  - ✓ **Negotiation strategy**
  - ✓ **Business / post business formation requirements**
  - ✓ **Knowledge & use of China based support**
  - ✓ **Role of culture & the CCP**
  - ✓ **X-Cultural leadership**
  - ✓ **What part does this project play in the larger China strategy?**
- **In General... 'Don't know what they don't know'**
  - ✓ **Naïve**
  - ✓ **Uninformed**
  - ✓ **Pass up opportunities (royalties, commissions, tax protection strategies)**
  - ✓ **No use of existing infrastructure or plans to develop infrastructure**

-EWA Approach...The Value Stream-

## ***The Bund, Shanghai***

*(Looking West towards Puxi)*

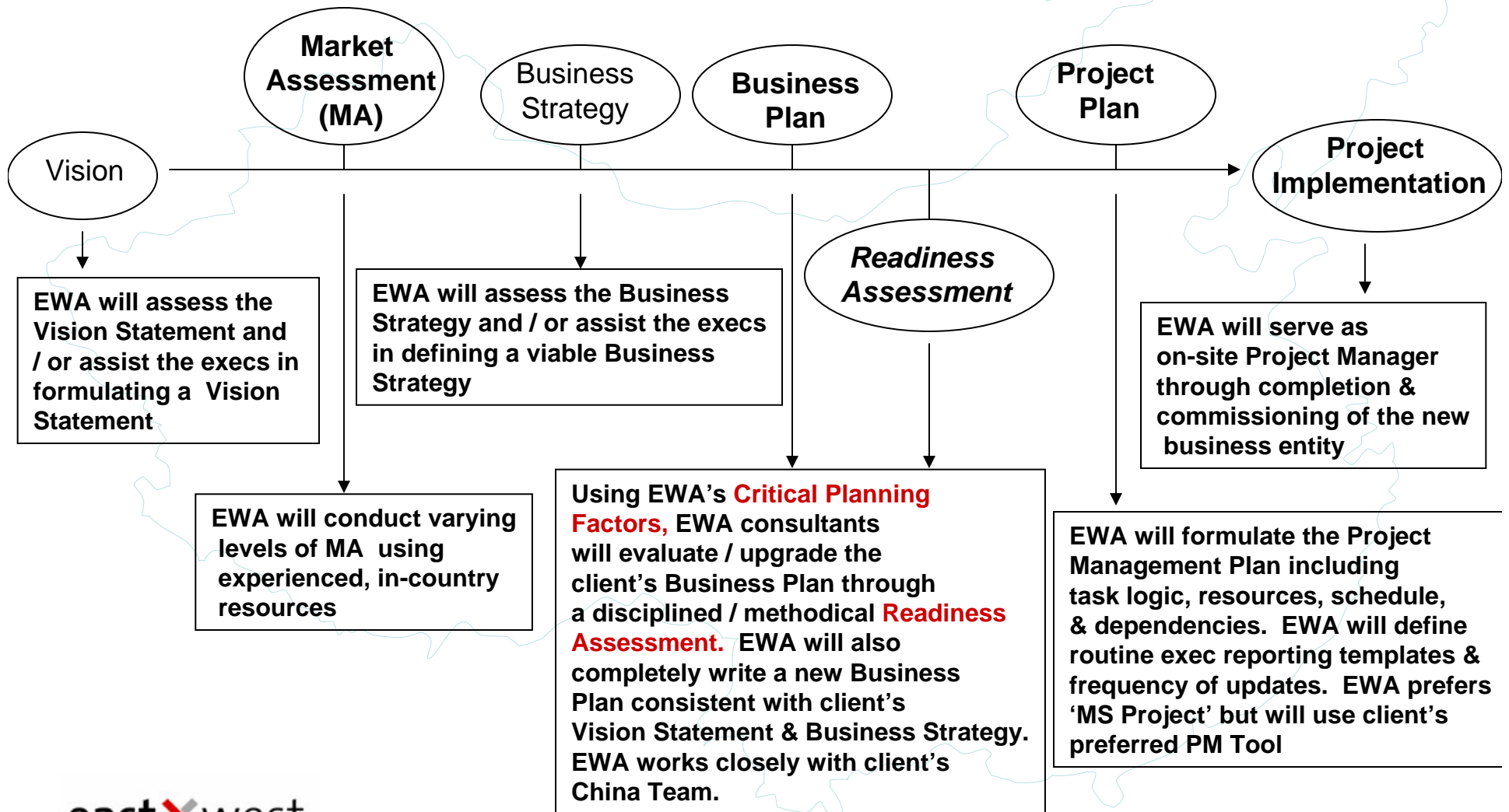




Nanjing Road East, Shanghai

# EWA Approach...THE VALUE STREAM

Where Is The Client in the Business Formation Process?



**Critical Planning Factors  
Used for Business Plan Assessment / Formulation  
(22 Factors & Over 800 Sub-Factors)**



**-Closing-**

**Tian'anmen Square, Beijing**



Near Tian'anmen Square, Beijing, June 1989



# ***Doing Business in China***

## ***Closing***

- **Incredible Opportunities**
- **Tough Place to Operate**
  - ✓ **Culture**
  - ✓ **Government**
- **Need**
  - ✓ **Committed Organization**
  - ✓ **Solid Planning**
  - ✓ **Experienced Project Leadership**

**AND REMEMBER...**

## *Doing Business in China*

# **“The Golden Rules Of China”**

By Robert Ma of McDonald’s of China

\*\*\*\*\*

1. Everything is possible
2. Nothing is easy
3. Western business logic does not apply
4. It is a fun project if there is no deadline
5. You must persist - things will come your way eventually
6. Patience is the essence of success
7. There are no secrets in China
8. “You Don’t Know China” means they disagree
9. “New Regulation” means they found a new way to not do something
10. “Internal Regulation” means they are mad at you
11. “Basically, No Problem.” Means BIG PROBLEM
12. When you are optimistic, see Rule #2
13. When you are discouraged, see Rule #1

# ***The Great Wall, Near Beijing***

*China,*

*Anything is possible...*

*Nothing is easy*

*The End...*

[www.eastwestassoc.com](http://www.eastwestassoc.com)

**east**  **west**  
a s s o c i a t e s