



Doing Business in China

Tuesday, May 3, 2011

4:00 PM - 5:15 PM

The world's second-largest economy

China at a glance, 2010

	GDP			
	Nominal	PPP	Growth rate	Per capita
Value	US\$5.745 trillion	US\$9.872 trillion	10.3%	US\$7,400
Global ranking	2	3	8	127

	Labor force	Industrial production growth rate	Imports	Exports
	Value	780 million	11%	US\$1.307 trillion
Global ranking	1	16	3	2

Ease of Doing Business, 2011

Rankings of 183 economies



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Economy	Overall	Starting a business	Dealing with construction permits	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders	Enforcing contracts	Closing a business
Singapore	1	4	2	15	6	2	4	1	13	2
Hong Kong	2	6	1	56	2	3	3	2	2	15
United States	5	9	27	12	6	5	62	20	8	14
Australia	10	2	63	35	6	59	48	29	16	12
Japan	18	98	44	59	15	16	112	24	19	1
Mexico	35	67	22	105	46	44	107	58	81	23
China	79	151	181	38	65	93	114	50	15	68
Russian Federation	123	108	182	51	89	93	105	162	18	103
Brazil	127	128	112	122	89	74	152	114	98	132
India	134	165	177	94	32	44	164	100	182	134

Source: Doing Business 2011, World Bank Group.

Major concerns of U.S. companies in China

USCBC member company survey, 2010



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Rank	Issue
1	Human resource: Talent recruitment and retention
2	Administrative licensing, business and product approvals
3	Competition with state-owned enterprises
4	Intellectual property rights enforcement
5	Cost increases
6	Market access in services
7	Transparency
8	Protectionism risks in China
9	Government procurement
10	Standards and conformity assessment

Source: The U.S.-China Business Council.

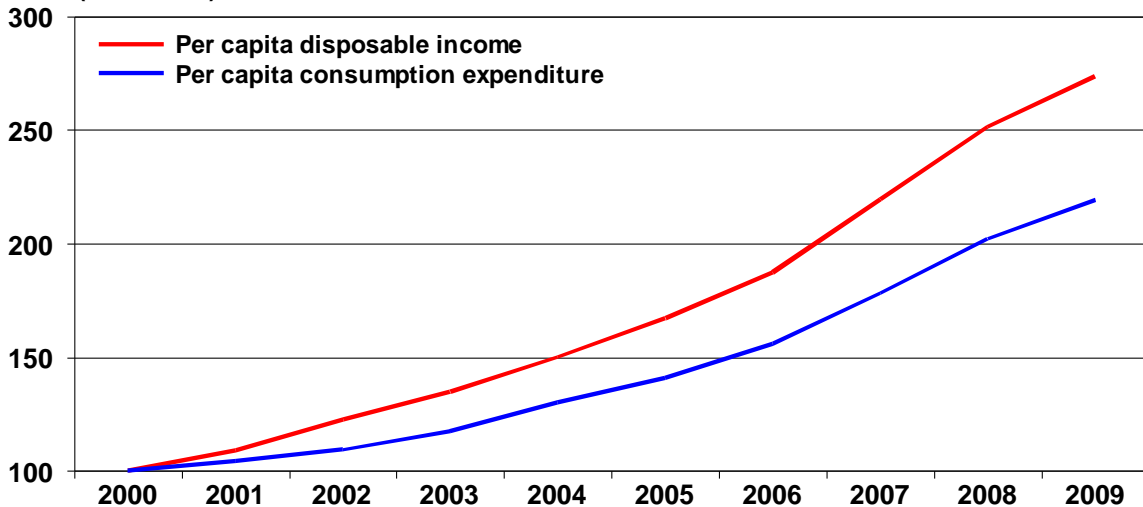
Consuming more. Earning even more.

Urban households in China



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Index (2000 = 100)



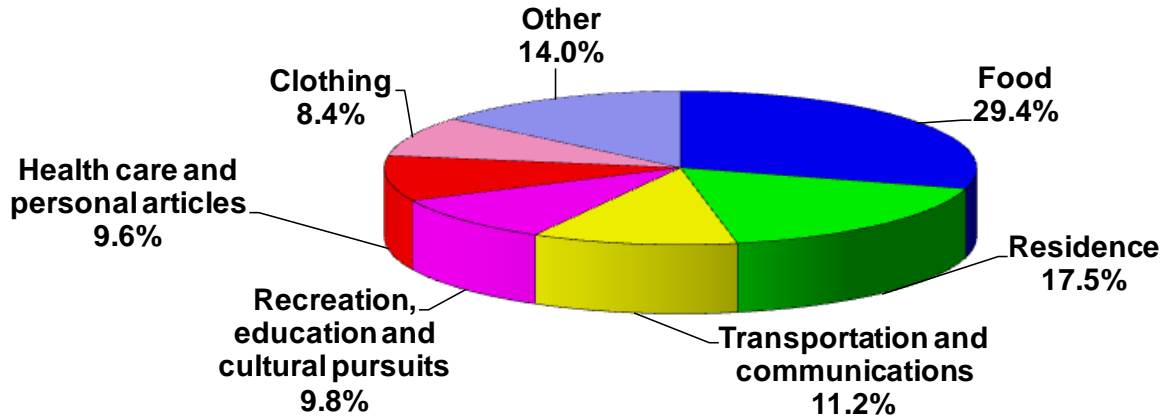
Source: National Bureau of Statistics of China.

Composition of household consumption, 2009

Urban households in China



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Source: National Bureau of Statistics of China.

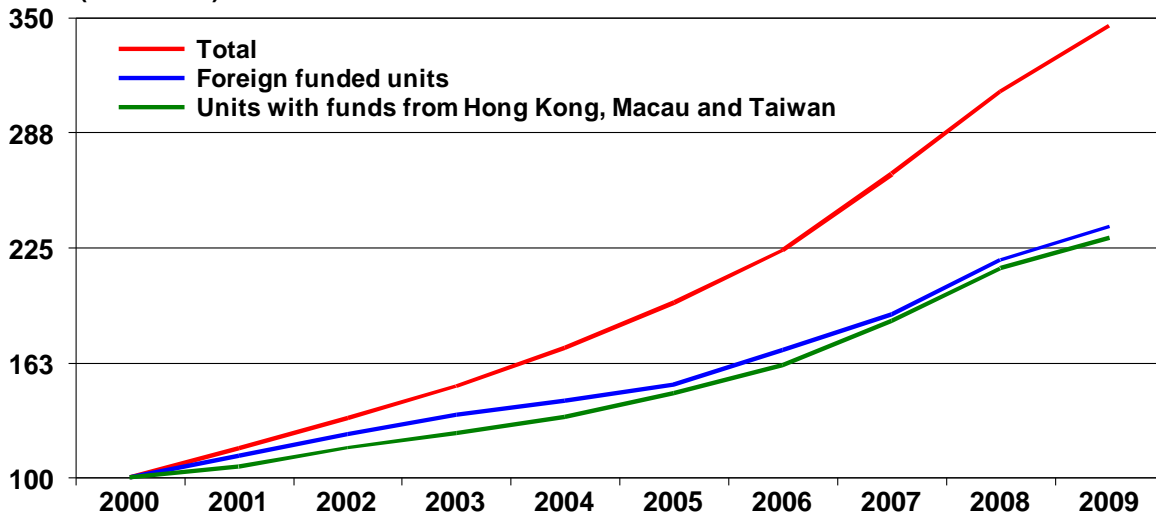
Wage growth in FIEs has fallen behind

Average wage in urban units, 2000-2009



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Index (2000 = 100)



Source: National Bureau of Statistics of China.

Soaring labor costs are inevitable



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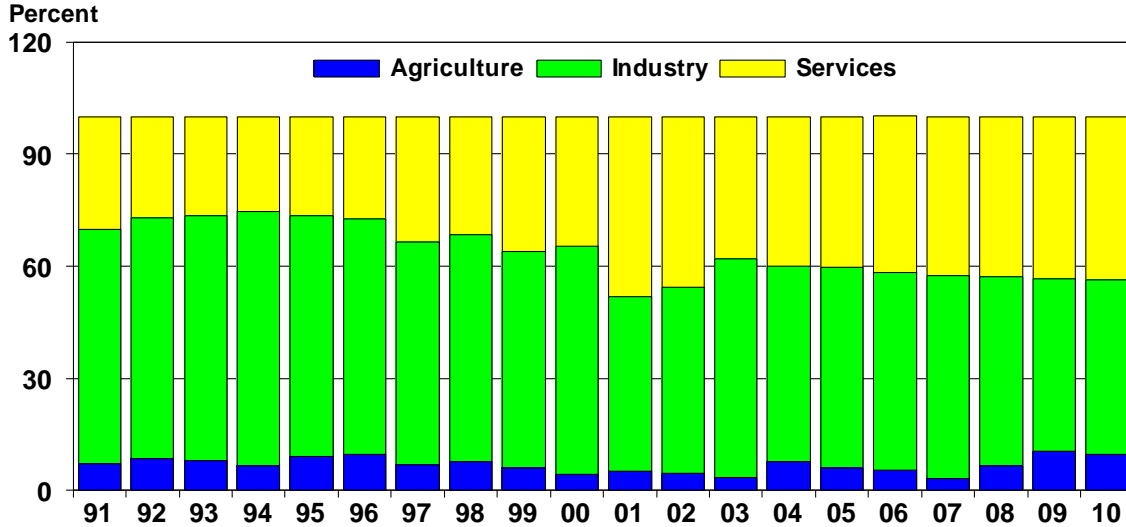
- In April 2011, more than 100 foreign-invested companies in Beijing agreed to offer at least 1.5 times the city's minimum monthly wage of RMB 1,740.
- In June 2010, Foxconn offered a 66 percent performance-based pay raise to RMB 2,000, following a rash of suicides in its Southern China factory.
- In June 2010, Honda agreed to increase pay by 24-34% to end a labor strike in Southern China.

Services are gaining momentum

Contribution to Chinese GDP growth by sector



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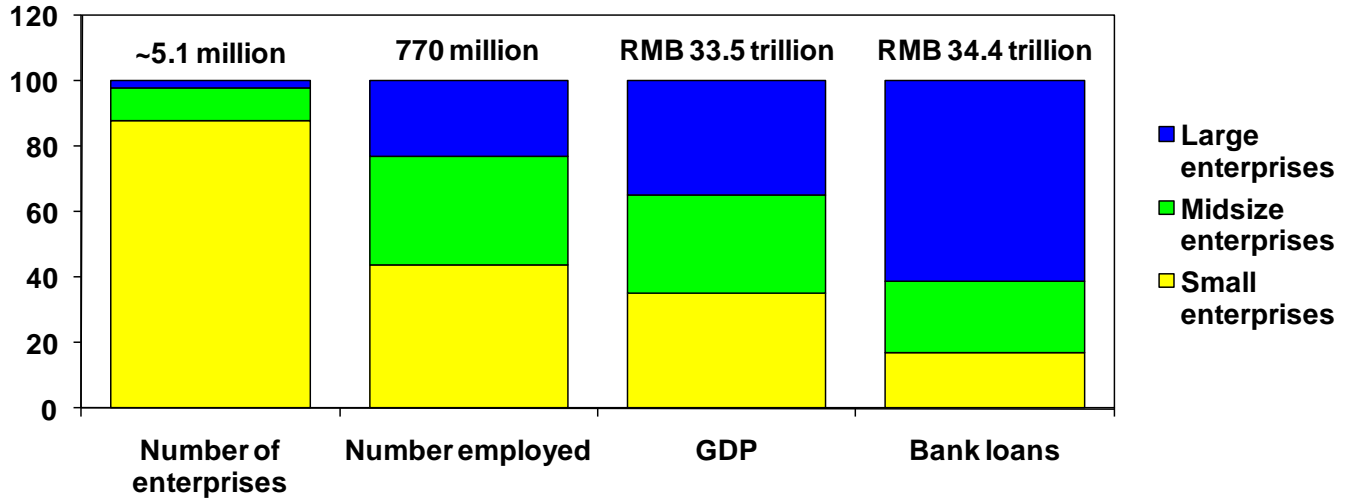


Sources: National Bureau of Statistics of China, CIA World Factbook.



Small enterprises underserved by corporate banks

Percent



Banking sector dominated by domestic names

Top consumer brands in China



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Rank	Bank	Country of origin
1	ICBC	China
2	China Construction Bank	China
3	Bank of China	China
4	Agricultural Bank of China	China
5	China Merchants Bank	China

Source: Credit Lyonnais Securities Asia.

Beauty and the ... PC!

Top consumer brands in China



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Beauty			PC		
Rank	Brand	Country of origin	Rank	Brand	Country of origin
1	Head & Shoulders	US	1	Lenovo	China
2	Rejoice	US	2	IBM	US
3	Olay	US	3	HP	US
4	Maybelline	US	4	Dell	US
5	Pantene	US	5	Apple	US

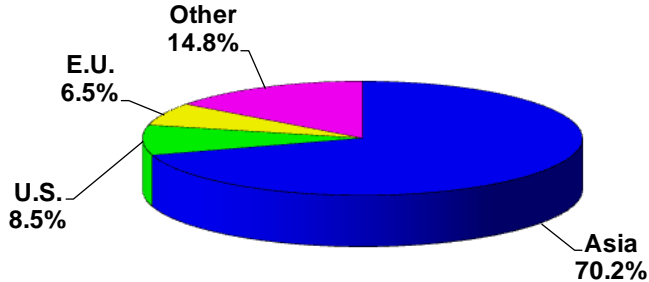
Source: Credit Lyonnais Securities Asia.



Majority of China's foreign investors are Asia-based

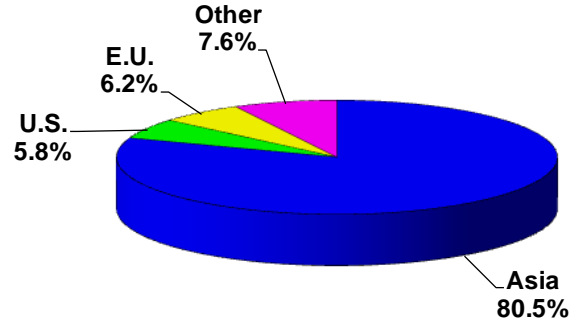
Newly approved foreign investment projects by investor region*

2005



Total: 44,001

2010



Total: 27,406

* Investment made through free ports was counted by origin region in 2010 but was considered as from "other" regions in 2005.

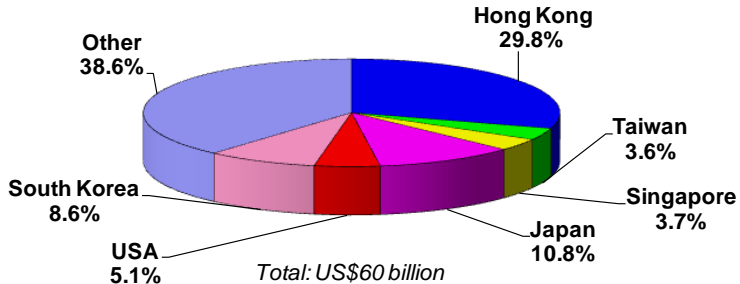
Source: Ministry of Commerce of the People's Republic of China.



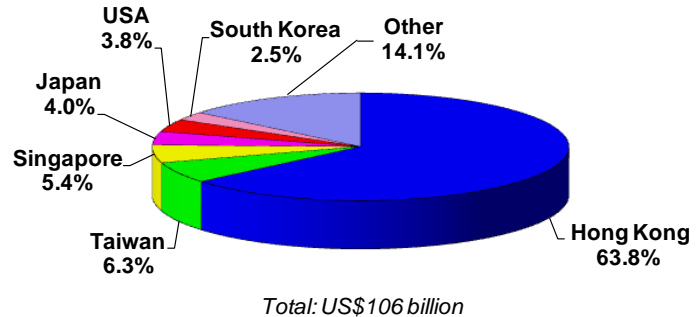
Cultural and linguistic proximities matter

Realized FDI by investor region*

2005



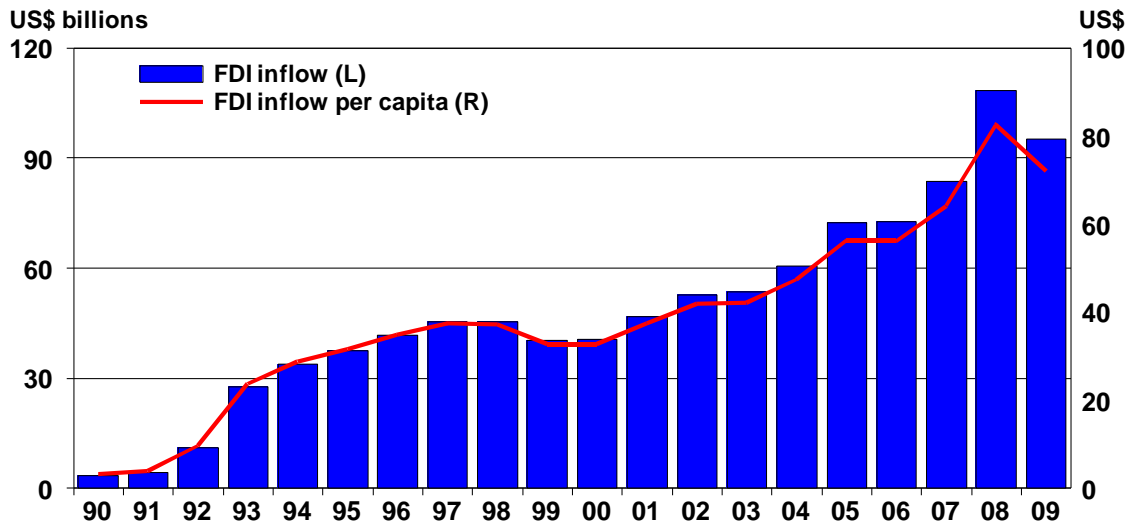
2010



* Investment made through free ports was counted by origin region in 2010 but was considered as from "other" regions in 2005.

Source: Ministry of Commerce of the People's Republic of China.

China's FDI inflows has grown in volume



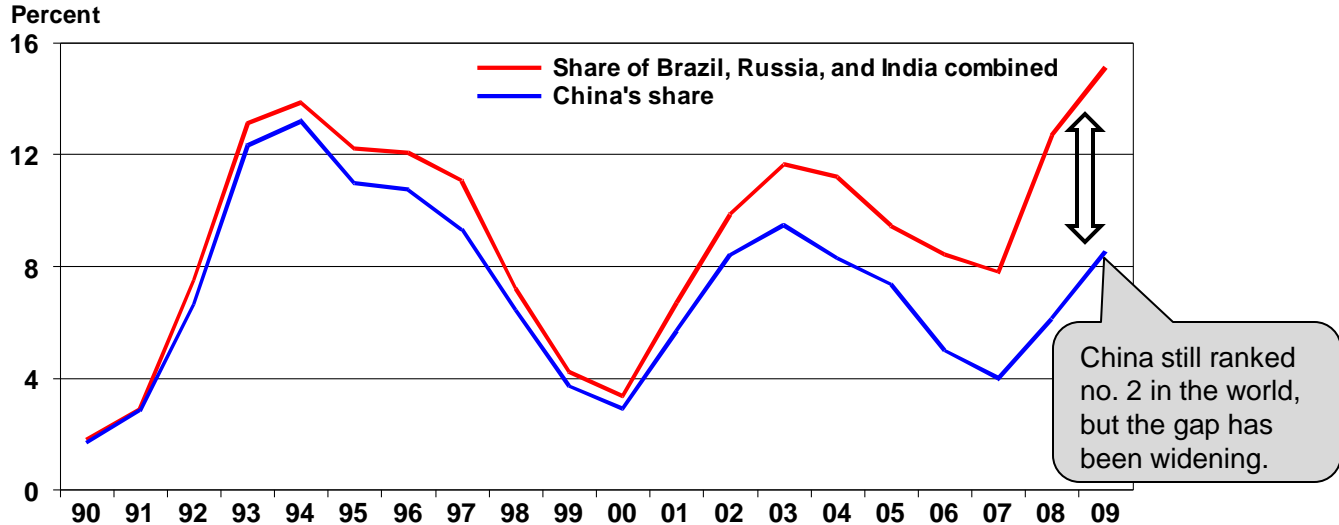
Source: United Nations Conference on Trade and Development.

China's FDI inflows declined in share

relative to other BRIC countries



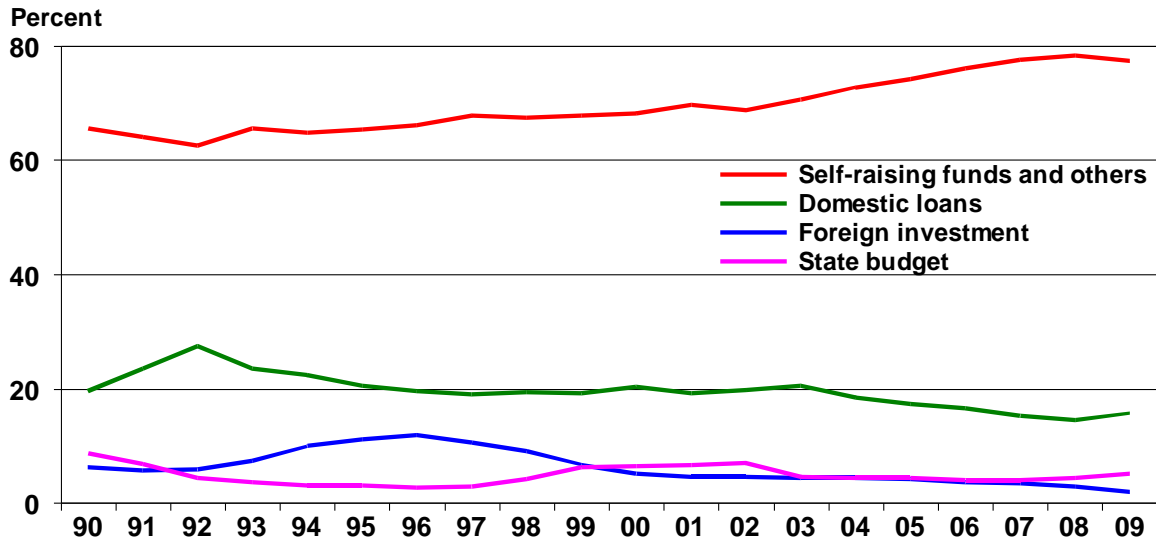
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Source: United Nations Conference on Trade and Development.



Sources of funds for fixed asset investment



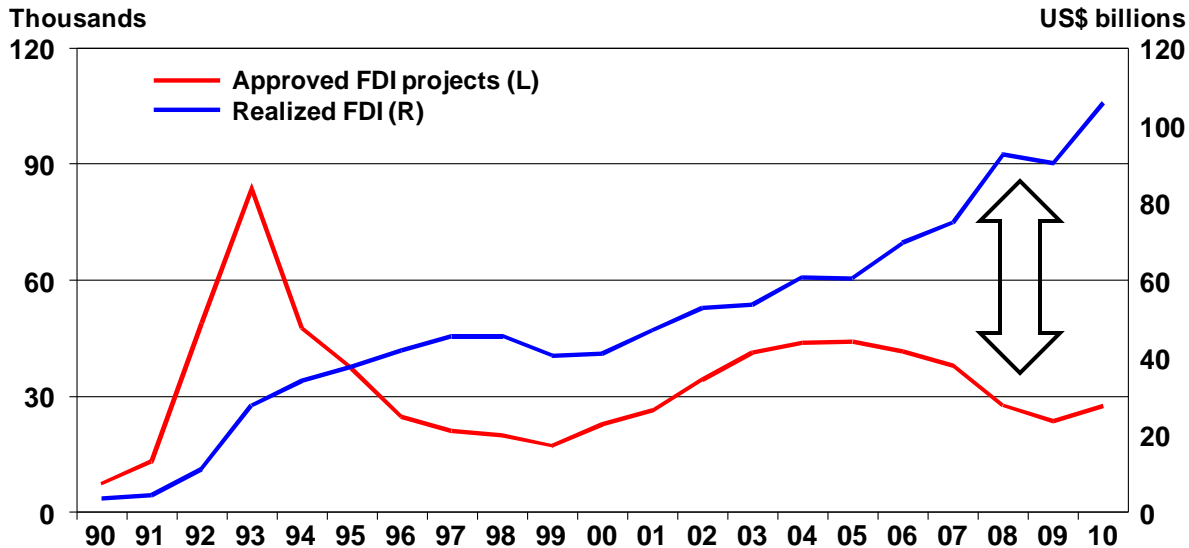
Source: National Bureau of Statistics of China.

Soaring investment in FDI projects

While the actual number of projects went down



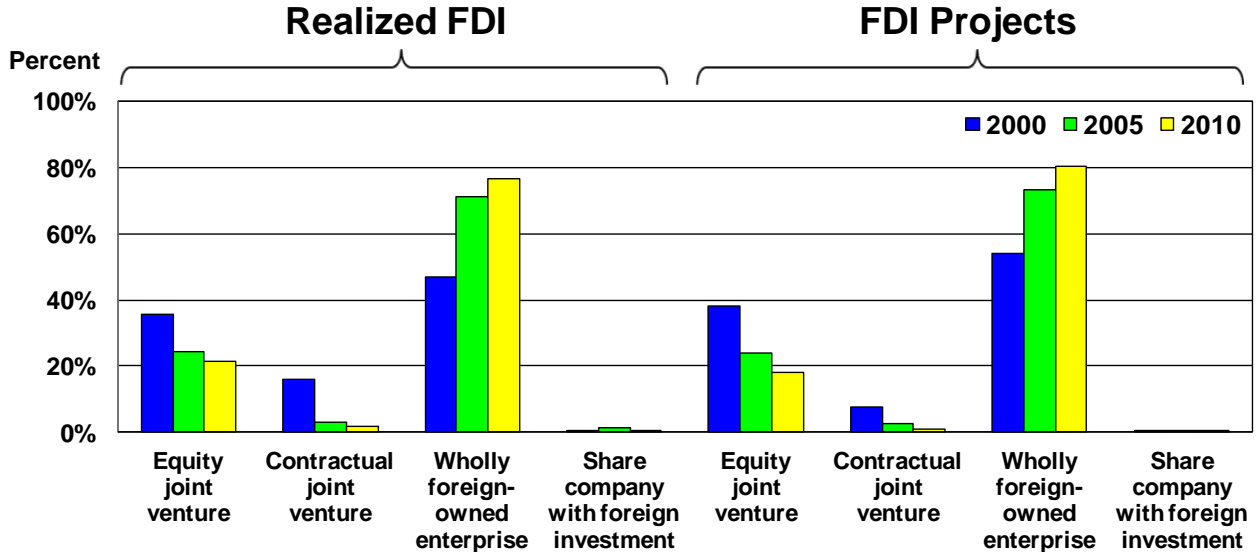
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Source: Ministry of Commerce of People's Republic of China.



Share of total FDI by investment type



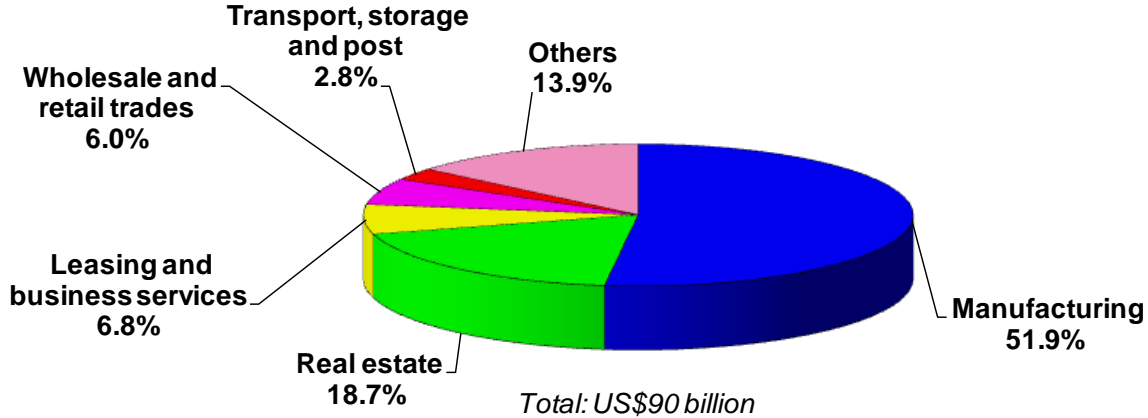
Source: Ministry of Commerce of People's Republic of China.

The world's factory



Half of realized FDI went into manufacturing

Realized FDI, 2009



Source: National Bureau of Statistics of China.

Government policies on foreign investment

Issued by the State Council in April, 2010



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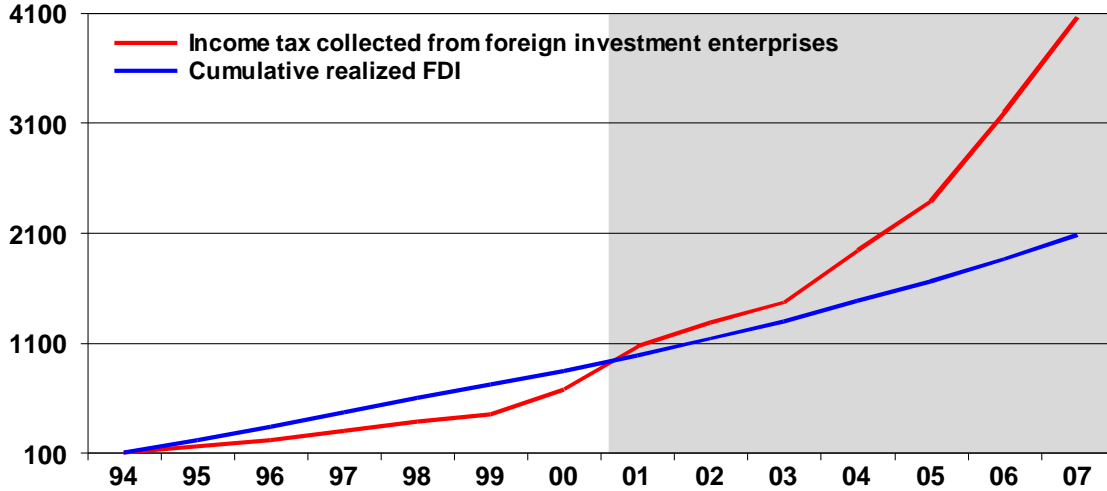
- Promoting FI in high-end manufacturing, high tech, advanced services, renewable energy, energy conservation and environmental protection sectors.
- Preferential policies and incentives for target sectors, encouraged projects, and for regional HQs, R&D and other centers.
- Continued incentives for investment in central and western China.
- Encouraging FI to participate in and acquire Chinese enterprises through restructuring or M&A.
- Streamlining regulatory approval procedures for FI.

Taxes paid by FIEs grew faster than realized FDI



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Index (1994 = 100)



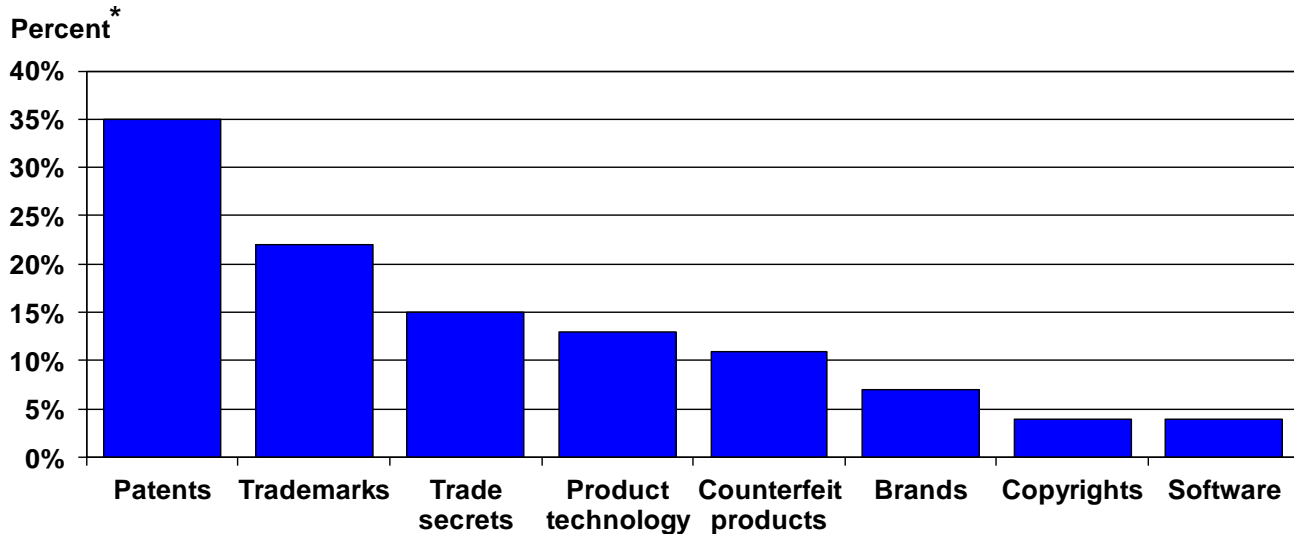
Sources: Ministry of Commerce, State Administration of Taxation of the People's Republic of China.

Business concerns regarding intellectual property

USCBC member company survey, 2010



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* Percentage of respondents expressing concerns over each type of IPR.

Source: The U.S.-China Business Council.

Technology transfer

High risks, low royalty rates

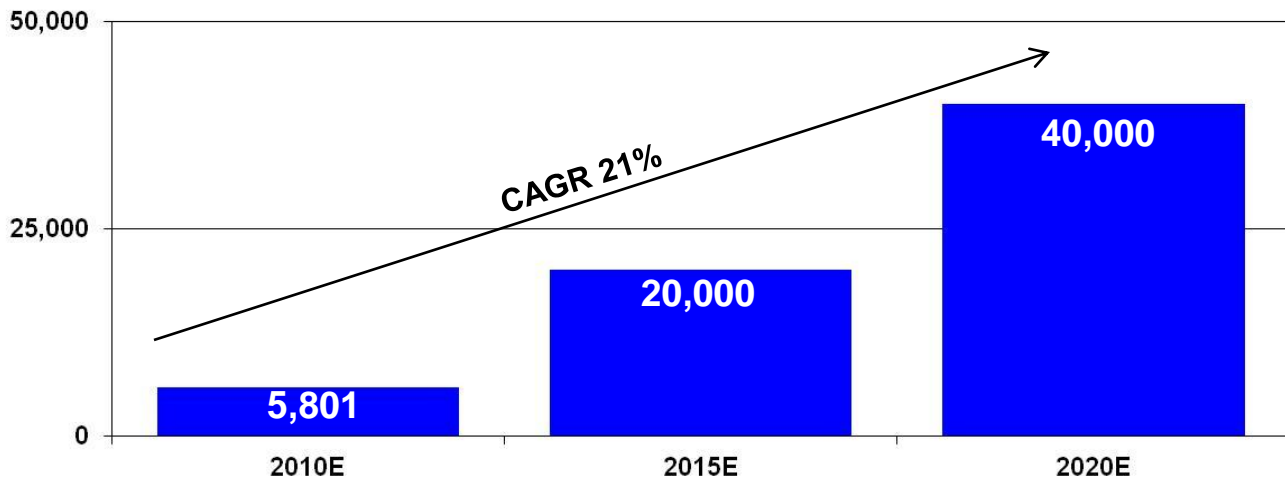


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- **Technology piracy and theft of trade secrets are rampant.**
- **2002 PRC Regulations on Technology Import and Export Administration**
 - **“An achievement made in improving the technology concerned belongs to the party making the improvement” (Article 27)**
 - **Prohibits contracts from “restricting the receiving party from obtaining technology similar to that supplied by the supplying party from other sources or from obtaining a competing technology.” (Article 29)**
- **No formal rules cap licensing royalty rates, but regulatory practice may set restrictions. Most rates fall around 2-6 percent.**

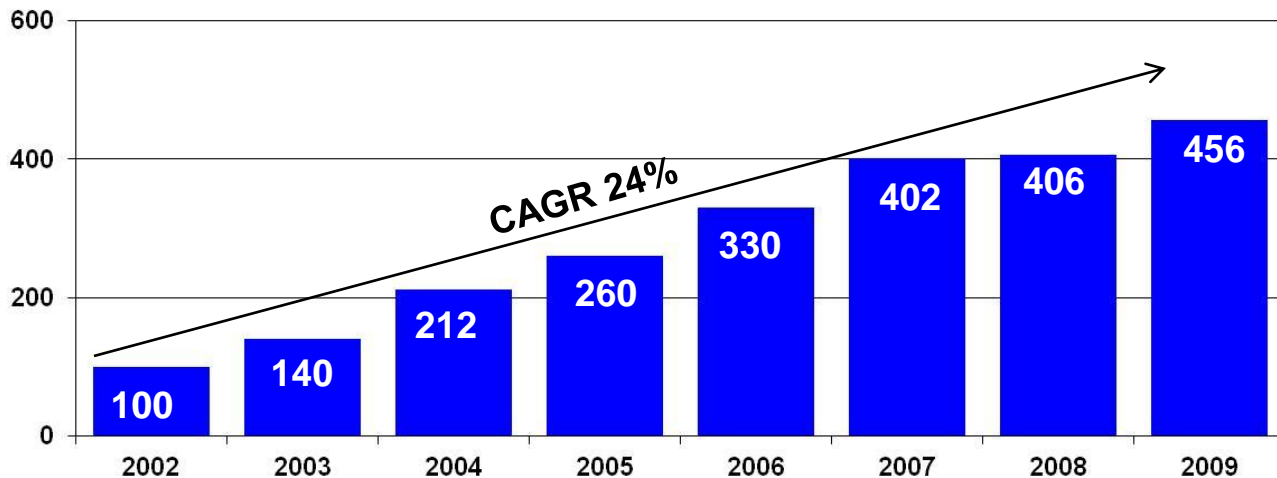
Impact on film and cinema growth

Number of screens in China



Impact on film and cinema growth

Number of domestic films produced



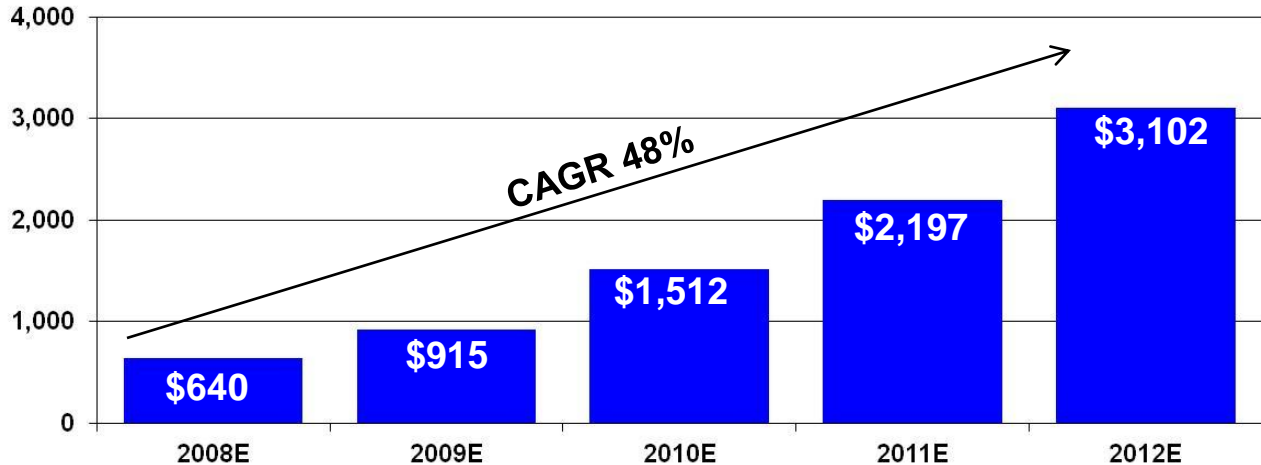
Impact on film and cinema growth



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Total China box office

US\$ millions



Source: Screen Digest, EntGroup.