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The 'Rise of China': redefining critical business priorities

The Asia Pacific region will be home to many of the world's fastest growing economies in the 21st Century. Having rapidly recovered from the global emerging markets setback of the late 1990's most East Asian economies are once again enjoying rapid rates of economic growth and are becoming even further integrated into the global economy. Indeed, the Asia Pacific region already represents more than 30% of the global economy on a purchasing power parity basis – and 6-7% average annual growth rates.

The 'Rise of China' – which since 2001 accounts for fully one-third of the world's economic growth – is destined to be seen as one of the most important economic social and political trends of the first half of the 21st Century. Indeed, China's emergence is already being compared in its potential impact to the similar emergence of Britain and Germany over the 19th Century and the United States and, arguably, Japan, in the 20th Century.

Today, any company with international ambitions must inevitably engage with Asia and, by extension, China. It follows that designing and successfully implementing competitive business strategies in Asia Pacific is fast becoming the new strategic imperative. This is particularly true for many of today's growth industries being driven by science-based innovation (the bio-sciences, non-oil energy, the ICT sector, environmental solutions, et al).

Formulating the right strategy is a matter of asking the questions: "What is changing?", "What is different?" "What are the best companies doing about it right now?" It is especially necessary to ask these questions when operating in China because of the speed with which changes occur.



Alan Child, Chairman, Chesterton Petty Limited, Hong Kong, and Neall Ryon at the China Access 2008 September 2005 Business Visit Program in Beijing

The networks that matter

Making successful international investments is not just a matter of identifying business opportunities. They are best made when they occur within true peer-to-peer networks that are based on reciprocity, evolving trust and partnerships. China Access 2008, an initiative designed to help form such networks using the Beijing Olympic Games as the centrepiece, is moving quickly to form cross-border networks in China, North America, Europe and Australasia.

The macro-economic case for investing in China has become unassailable. The country now has more than \$US600 billion of foreign direct investment, making it the second largest repository in the world with almost all of this occurring over only the past 12 years. Most global companies now adopt a "China plus one or two other countries" strategy to take advantage of the most seminal economic change in the global economy of the last 50 years.

But what of the micro-economic linkages that make the difference between success and failure for most businesses? Should companies locate offshore via wholly owned foreign invested enterprises, or do joint ventures? What are the banking requirements? What are the legal needs? How can useful access be gained to the people who matter?

China Access 2008, which has the formal backing of the Beijing government, is designed to help with these more refined issues, by providing a source of candid and practical information for business leaders, and a forum in which business relationships can be forged. The intention is to form a robust network of senior executives (both inside and outside China) and appropriate government representatives whose mutual interests and shared knowledge will create a context in which more informed business decisions can be made. The access that is implicit in the peer networks will greatly improve the chances of profitable ventures being brought to fruition.

"If anybody anywhere is thinking about investing in China in any way they cannot afford to miss attending a China Access 2008 Visit Program. When I entered business discussions in China I was equipped with knowledge that gave me clarity and negotiating power that would have been impossible to learn without a lot of time and undoubtedly a lot of money. The investment I made in attending your meeting in Beijing gave me the knowledge and power to enter a very dangerous business environment and feel able to achieve my China strategy".

Neall Ryon, President, Stratex Ltd, Canada

The new strategic imperative in Asia Pacific: Building China plus one/plus two strategies

Professor Michael Enright
Sun Hung Kai Professor of Business
Hong Kong University



“Asia Pacific strategies these days are increasingly reading to me like China strategies. Without a China strategy today, you simply don’t have an Asian strategy, but for very different reasons than when this was also said about Japan 10-15 years ago.

The emergence of modern communications technologies is driving dramatic changes in the way multinationals are managing their activities around the region. Companies are now able to manage more at a distance, able to aggregate some things geographically, and able to deal with information and knowledge that is much more fine-grained than would have been the case only a few years back.

We are witnessing Western multinationals shifting their focus from South East Asia to North East Asia and the emergence of what I call “China plus one” and “China plus two strategies”, where the focal point for – production or even market development – is increasingly being China plus one or two other economies in the region.

China would be a much simpler place to do business if it were a single market growing at 9% a year. But of course it is not. It is multiple markets. Some of them growing at nearly twice that rate and some of them hardly growing at all. And there are barriers between these different markets within China. This reality forces companies to think about China not so much as a single market as a series of individual, regional markets. The question then becomes which sequence of regions do I enter, and how wide are my individual regional boundaries within China?

The notion of even being able to access the three main regions (the Pearl River area, around Hong Kong/Guangdong; the Shanghai Delta area; or the Bohai Bay region from Tianjin to Dalian) as viable markets from a single location is now almost impossible.

The key is to build replicable and scaleable positions in the many emerging markets within China over the next ten to twenty years. And there are no more excuses in China, it is profits or else.”

Beijing’s rising importance

“We have identified unique development opportunities,” says Lu Hao, Beijing Vice Mayor, referring to the biotechnology and information and communications technology (ICT) sectors. Speaking at a recent China Access 2008 business visit program in Beijing, Mr Lu laid out the plans to transform Beijing’s industry base and physical infrastructure using the Olympics as the centrepiece.



Beijing Vice Mayor Lu Hao

Beijing is not a mostly governmental city like Washington or Canberra. It is the strategic heart of the world’s most populous nation and many of the most important business decisions about the future economic direction of China will come from Beijing.

Mr Lu says:

- Last year, Beijing’s GDP grew by 13% annually which was the highest growth rate of the past decade.
- Fiscal revenue grew by 26% and trading volume by 38%.
- Industry corridors will be bolstered to take advantage of the city’s educational and technological capacity.
- A new development layout for the city is based on two vertical and two horizontal corridors. The aim will be to develop modern service industries and high-tech manufacturing capacity.

Beijing’s strategy will be to invest heavily in building internal capacity and to attract investment. One particular aim will be to make Beijing the “bio-engineering capital of China,” says Mr Lu. He says Beijing is blessed with rich educational and technological resources and the learning in the pharmaceutical and biocetical industries has been rapid. Beijing also has 530 hospitals, including 50 of the best in China. Mr Lu said he is confident that the exchanges between Beijing and other world cities and businesses will mean Beijing “will surely make headway” in the bio-engineering and health industries.

“Thank you for a great meeting in Beijing. There was a fantastic distillation of a lot of information and a stimulating group with whom to explore new ideas.”

*Keith Williams, Founder Director
Proteome Systems Ltd, Australia*

The China Access 2008 business initiative

China Access 2008 is the economic 'legacy' program for the Beijing 2008 Olympic Games. Comprising a growing consortium of international businesses and governments, China Access 2008 is utilising the years leading up to the Beijing Olympic Games to:

- expand the international profile of China's rapidly emerging capabilities in the key growth industries of the 21st Century. The main focus will be on the biosciences - in energy, industrial biotechnology, agriculture, environmental remediation and healthcare - along with the important converging information and communications technologies. These industries have been clearly identified by the country's leadership as fundamental to the development of China's future prosperity. There will be additional focus on 'best-in-class' examples from other selected key growth industry sectors;
- facilitate international partnering opportunities (both within China and overseas) and attract additional foreign participation in the identified Chinese growth industries;
- provide tangible strategic positioning and business development opportunities for both Western companies and their Chinese counterparts.

Over the four years to August 2008, the China Access program will consist of:

- approximately 80 high quality business forums - utilising various formats - in selected cities of Europe, North America, Asia and Australasia. These forums will be used to highlight China's rapidly emerging capabilities and opportunities utilising various exemplary case studies, highly respected speaker resources and recognised business leaders;
- up to 20 'reciprocal' investment and business partnering missions held in China;
- selected other key regional business events in China; and
- a major business event in Beijing at the time of the 2008 Olympic Games. This event will be the culmination of the four-year China Access 2008 process.



China Access 2008 Business Visit Programs



Hin Hiong Khoo, Chairman, China Voice Corp., USA, and Peter Carre, Managing Director, Burrill Australia Life Sciences Fund, Australia

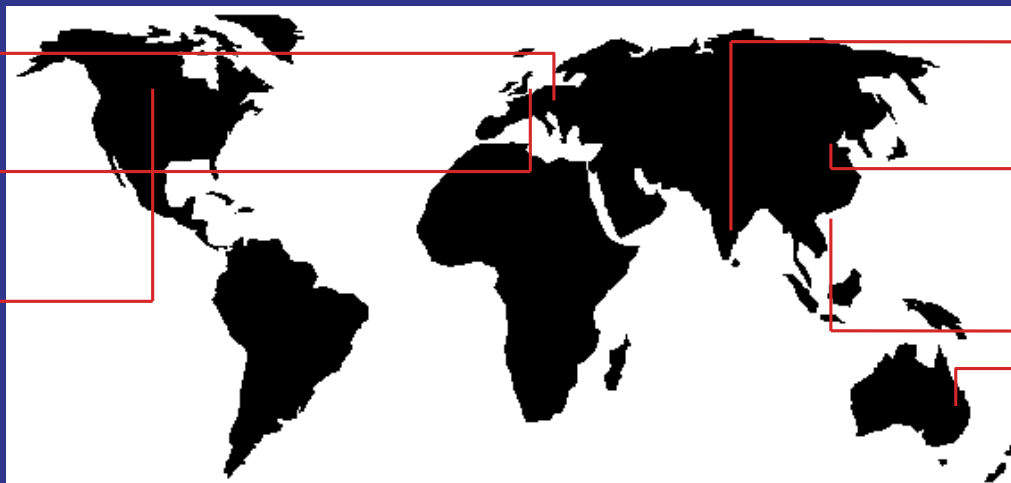


2006's Integrated Program of Business Events

CONTINENTAL EUROPE
Paris, Munich, Brussels, Stockholm, Milan

UK
London, Canterbury, Edinburgh, Glasgow

NORTH AMERICA
Vancouver, Edmonton, Calgary, San Francisco, San Diego



INDIA
New Delhi, Kolkata, Mumbai, Chennai, Bangalore

BUSINESS VISIT PROGRAMS IN BEIJING
3-4 April
15-16 May
18-19 September
23-24 October

ASIA / AUSTRALASIA
Tokyo, Osaka, Seoul, Shanghai, Hong Kong, Singapore, Sydney, Melbourne, Auckland

INTERNATIONAL BUSINESS FORUMS

BUSINESS VISIT PROGRAMS IN BEIJING

China 'by the numbers': Its growing corporate implications

- 1** In 2003 China reached US\$1,000 per capita income, up from US\$200 in 1980. Over the same period India's per capita income rose from US\$200 to US\$500. Today, income per capita in China is US\$1,500 (India US\$700)
- 2** Since 1992, China has received more than US\$600 billion of foreign direct investment (FDI). Its total stock of FDI is expected to surpass Britain's by the end of 2005, making it the second largest recipient in the world, behind only the US (US\$1.3trillion since 1950).
- 3** Average import tariffs in China will have declined from 45% in 1992 (55% in 1982) to 6.5% at the end of 2005. Indian tariffs are still 45%.
- 4** The average value added component in Chinese exports rose from 17% in 1992 to almost 40% in 2004. FDI has been the key lever in this process as foreign companies move their Chinese operations up the value chain. As a consequence, 55% of China's imports and 60% of the country's exports were generated by foreign affiliated companies in 2004.
- 5** China has accounted for one-third of global growth over the past three years. Average growth in Asia would have been 4% without China's contribution. With China, growth was 6% over the past two years. China takes half of the rest of Asia's exports and accounts for almost all of the export growth in Japan, Taiwan and South Korea.
- 6** The International Monetary Fund (IMF) estimates that China's economy in purchasing power parity (PPP) terms is twice the size of Japan's and larger than the whole of East Asia (including Japan).
- 7** China's share of global GDP, on a PPP basis, rose from 5.5% in 1990 to 13.6% in 2005, whereas Japan's has declined in the same period from 8.7% to 6.7%.
- 8** China's share of world trade has quadrupled from 1.6% in 1990 to 6.2% in 2005. In the same period, Japan's fell from 7.5% to 5.5%.
- 9** 90% of the Chinese economy is domestically generated. The country will not adopt the mercantile strategy of relying on exports for growth that has been used by the rest of Asia since the 1960s. The country is too big for such a strategy. More than two-thirds of foreign affiliate sales are made in the domestic market.
- 10** China was essentially "born global" from 1992. As a consequence it has become:
 - A substantial G3 trading partner
 - The largest destination for FDI
 - An important driver of world growth
 - A force in global commodity markets
 - A growing influence in world financial markets
 - A critical link in global production networks
 - An integrator in East Asian supply networks
 - A global price setter for lower-value-added products and is moving up the value chain by using FDI

Increasingly China will also become a global player in the anticipated growth industries of the 21st Century (eg. biosciences, information and communications technologies, non-carbon energy alternatives, environmental remediation)



Ella Li, Relationship Manager, Creative Industries, Standard Chartered Bank, Hong Kong, and Hal Josephson at the China Access 2008 September 2005 Business Visit Program in Beijing

"China Access 2008 is the definitive entrée program for anyone who needs to fast-track doing business effectively in China. The program delivers the most current information about what's changing in China and focuses on best practices to achieve one's business objectives. Most importantly, China Access 2008 offers access to a savvy network of professionals who know how to best operate in this enormously complex and rapidly evolving economy. Sign up for the next scheduled program and see for yourself."

Hal Josephson, President, MediaSense Inc., USA

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