
Opportunities and Challenges

Michael Barbalas
President
April 15, 2009
Is China an Opportunity?

- January 1, 2009 – 30 years of diplomatic ties
  - Bi-lateral trade
    - $755 million in 1973
    - $409,000 million in 2008
    - US exports to China up over 100-fold

- Looking at the next 30 years
  - China as factory of the world
  - China as consumer of the world

- What should we expect?
China an Important Market

- **Since 2000**
  - Exports to China are up 341%
  - Exports to the rest of the world are up 60%

- **In 2007**
  - Overtook Japan to become 3rd largest export market

### Top US Export Markets 2008 ($ billion)

<table>
<thead>
<tr>
<th>Country</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canada</td>
<td>260.9</td>
</tr>
<tr>
<td>Mexico</td>
<td>151.5</td>
</tr>
<tr>
<td>China</td>
<td>71.5</td>
</tr>
<tr>
<td>Japan</td>
<td>66.6</td>
</tr>
<tr>
<td>Germany</td>
<td>54.7</td>
</tr>
</tbody>
</table>
China – Large and Growing Market

US Exports to China and US Imports from China
2000-2008 ($ billion)

Exports 20% CAGR
Imports 16% CAGR
Impact for Indiana

- Total 2008 exports to China: $930 million
- Growth in Indiana exports 2000 to 2008:
  - To China – up 458%
  - To rest of world – up 68%
  - CAGR of 24%
- Exports create and sustain jobs

Future US Exports to China

US Exports to China Forecasts by 2050
3 Scenarios ($ billion)

Low case: US Exports to China is 2% of China GDP
Base case: US Exports to China is 2.5% of China GDP
High case: US Exports to China is 3% of China GDP

Future US Exports to China

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One Trillion USD opportunity

Next 30 Years

What about next 30 years?

- $1 trillion in US exports to China
- $1 trillion in US company production and sales in China

“I'm sure that some young person in this room or elsewhere looking back 30 years from now will say gee, that was all we were doing then? Look at what we're doing now. I'm very hopeful.”

Deputy Secretary of State John Negroponte remarks to AmCham-China, January 8, 2009
AmCham-China

- 1,200 companies & 2,700 business people
- Member driven
- Socially responsible
- Beijing headquarters with chapters in Tianjin & Central China (Wuhan)
- NOT part of US government
White Paper / Business Climate Survey

- **Annual Business Climate Survey – March 2009**
  - The pulse of the American business community
  - Extensive (45-60 minutes) survey
    - Survey open mid-Nov/mid-Dec., 2008
  - Follow-up survey for economic crisis
    - Update survey February 11-19, 2009

- **White Paper**
  - Over 100 policy recommendations
  - Targets US and China government
  - Bi-lingual, 40 chapters
  - 11th year
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Small/Medium-Sized Enterprises

- Growing component of AmCham membership
- Growing presence
  - New entrants
  - Entrepreneurial startups
- Traditional challenges

Would you identify your company as a Small/Medium-sized Enterprise?

- Yes: 56%
- No -- We are not a company/enterprise: 38%
- No -- We are a large company: 6%
Why China?

- 63% in China for Chinese market
  - Up from 51% last year
- 17% for import to China
- 5% for non-China, non-US markets
- 9% in China for US market
Global Investment Priority

- 22% rank China #1

- Since 2004 as #1
  - High of 51% (2007)
  - Low of 22% (2009)

- Since 2004 in top 3
  - Consistently narrow range of 75 – 78%
### Top 10 Business Challenges

- **HR issues at top**
- **Government issues next**
- **New challenges emerging**
- **IPR drops from 6th to 8th place**

#### Comparison between 1999 and 2007:

<table>
<thead>
<tr>
<th>Challenge</th>
<th>1999</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management-level human resources</td>
<td></td>
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<tr>
<td>constraints</td>
<td></td>
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<tr>
<td>Inconsistent regulatory interpretation</td>
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<tr>
<td>Bureaucracy</td>
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<tr>
<td>Unclear regulations</td>
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<tr>
<td>Lack of transparency</td>
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<tr>
<td>Obtaining required licenses</td>
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<td></td>
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<tr>
<td>National protectionism</td>
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<td></td>
</tr>
<tr>
<td>Intellectual property rights infringements</td>
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<td></td>
</tr>
<tr>
<td>Corruption</td>
<td></td>
<td></td>
</tr>
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</tbody>
</table>

*(Data for 2009 in 2008 colors and for 2008 in 2009 colors)*
Top Challenges

**HR Issues**
- Bottleneck to growth
- More management time required
- Invest in best people practices
- Have high expectations
- One key to success

**Government Relations**
- Invest regularly (like fire insurance)
- Understand policy priorities
- Communicate a win-win strategy
- Build a partnership
- One key to success

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The American Chamber of Commerce People's Republic of China
Operation Changes

How have your company’s operations changed in the past year?

- Design and R&D operations/facilities: 19% Increased greatly, 80% Increased somewhat
- Products/services provided in China: 14% Increased greatly, 82% Increased somewhat
- Production capacity: 23% Increased greatly, 70% Increased somewhat
- Investment: 31% Increased greatly, 61% Increased somewhat
- Export volume from China: 7% Increased greatly, 75% Increased somewhat
- Import volume to China: 10% Increased greatly, 71% Increased somewhat
Reasons for Expansion

Why did your company expand beyond Beijing, Tianjin, Shanghai (Yangtze River Delta), and Guangzhou (Pearl River Delta)?

- Increase market reach: 71%
- Partner or facilities located there: 32%
- Establish manufacturing operations in lower-cost location: 23%
- Gain access to talent: 14%
- Political reasons: 8%
- Gain access to raw materials: 6%
Revenue Expectations

- Revenue growth expectations down
- Drivers
  - Economic downturn
  - Uncertainty

Year on year revenue projections for 2008 and 2009

Data Source: February 2009 Update Survey
Looking Ahead – Human Resources

- Both Expatriate and Total employees considered
  - More companies planning to increase overall workforce size

**In 2009, how do you project the size of your China-based workforce to change?**

![Bar chart showing percentage of companies planning to increase, decrease, or keep their workforce the same.]

Data Source: February 2009 Update Survey
Looking Ahead – Investment

- 37% are postponing investment
- Majority continuing to invest
  - 61% have no change
- Only 2% of companies canceling projects

Data Source: February 2009 Update Survey
Overall Business Confidence

- Long term
  - Confidence remains high
  - 81% optimistic

- Short term
  - Recognition of challenges
  - Rapid rebound

How would you describe your business outlook in China?

Data Source: February 2009 Update Survey
China Operations Profitability

• US companies are winning in China!
  - Despite operating challenges

**Profitability of China operations (calendar years 2002-2008)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Very profitable</th>
<th>Profitable</th>
<th>Break even, small loss</th>
<th>Large loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>9%</td>
<td>65%</td>
<td>22%</td>
<td>4%</td>
</tr>
<tr>
<td>2003</td>
<td>16%</td>
<td>57%</td>
<td>23%</td>
<td>4%</td>
</tr>
<tr>
<td>2004</td>
<td>15%</td>
<td>53%</td>
<td>26%</td>
<td>6%</td>
</tr>
<tr>
<td>2005</td>
<td>14%</td>
<td>50%</td>
<td>32%</td>
<td>4%</td>
</tr>
<tr>
<td>2006</td>
<td>11%</td>
<td>62%</td>
<td>23%</td>
<td>4%</td>
</tr>
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<td>10%</td>
<td>64%</td>
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<td>9%</td>
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Opportune Time

- Near term:
  - All Chinese economists – POSITIVE numbers
  - “Slow” growth in China (<8%) higher than EU or USA in good times
- Opportunities for investment initiatives
  - Government incentives and enthusiasm
  - Land, construction prices falling
  - M&A – sellers becoming more flexible
- Opportunities to optimize operational costs
Where to Get Help

- **US Commerce Department – Foreign Commercial Service**
  - Mission – Help US companies export
  - Network of US offices (109 in USA)(14 nearby)
  - Network in China (Embassy, 4 Consulates, 14 cities)
  - **Help you get to China**

- **American Chamber of Commerce in China**
  - **Help you be successful in China**
• American companies are competing and winning

“Our success in China is evidence that where the playing field is even, GM can compete aggressively with the best and win.”
Questions and Answers

- On the web:
  
  www.amchamchina.org
  - White Paper downloads
  - Business Climate Survey
  - Other business resources

- Contact us:
  - Phone: +86 (10) 8519-0800
  - Email: amcham@amchamchina.org
Thank You!