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"Predicting the Unpredictable: What You Should Know Before Doing Business in China"

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Let's get right to it: China is a gold-mine, loaded with outstanding business opportunities. The problem is what do you as a savvy finance professional need to know *today* to get started doing business in China -- and get a piece of that gold mine.

China's Blistering Growth Means Big Opportunity

Why China? Simple: It is by far the most explosive growth story around. It's hotter than the rest of Asia, Europe, and the U.S. combined. In fact, it could be the biggest economic opportunity of the 21st century, bar-none.

In fact, according to Craig Allen, Senior Commercial Officer with the U.S. Embassy in Beijing, "China is one of the United States' fastest growing trading partners. Two-way trade between the U.S. and China totaled over $285 billion in 2005, with American exports up nearly 21 percent over 2004."

And the best part: China shows little sign of pulling back anytime soon. Take a look ...

==> China is expected to pack on 9% GDP growth next year, about the same blistering pace as last year. Meanwhile, retail sales are expected to grow 12% to 13%, investments 20%, imports 16% to 20%, and exports a staggering 13% to 27%. That's a heck of a backdrop for doing business. Now, figure this in ...

==> China is the most populous country on the face of the planet with 1.3 billion people. Yet, it boasts per capita income (GDP) of just $6,200. That's a measly one-seventh of the U.S. figure ($41,800) and means the potential for Chinese consumption is massive indeed. Likely result ...

==> If China even *begins* to approach consumption levels similar to those in the U.S., demand for practically every type of good or service imaginable is going to explode. And that means huge opportunities for just about anybody doing business with China.

Have U.S. companies gained any traction so far? You bet ...

==> U.S. exports to China increased 28% in 2003, 22% during 2004, and 19% in 2005. Although that shows some slowing recently, a growth rate in the high teens is explosive enough. In fact, last year China surpassed the U.K. to become the fourth largest export market for the U.S.

==> What industries have participated in this export explosion so far? Take your pick: energy ... chemicals ... machinery ... telecom ... medical equipment ... construction ... services -- they've all gotten a piece of the pie.

Need a bigger list? According to Mr. Allen ...

"Top U.S. export prospects to China include information technologies, telecommunications equipment, software, oil and gas, medical equipment, pharmaceuticals, pollution control, airport and ground support equipment, consumer products, grains, cotton, building materials, automotive parts, agricultural chemicals, and plastic materials and resins."

No doubt about it: That's a broad and robust collection of sectors. And that means opportunity for a wide cross-section of U.S. businesses. Plus, it means that the commitment of U.S. businesses to invest in China isn't limited to a group of niche-players or specialists. Across the board, U.S. businesses think China is a really good bet.

==> Here's the kicker: If China continues to implement its commitments under the World Trade Organization (WTO) that it started five years ago, the likelihood is that sector representation in China is going to expand, not contract. And that means even more opportunity down the road.

China's Gold-mine Could Turn Into A Land-mine

Okay. I can picture you sitting there going over your latest cash report, or this quarter's numbers, or the variances in budget vs. actual for the latest product launch and thinking to yourself, "Sure, there's opportunity in China But what about the risks?"

You're right. If doing business in China was a no-risk or low-risk deal, then everybody and their brother would be succeeding and getting very little money for it. After all, the lower the risk, the lower the reward. But the reality is some companies are making money in China and some aren't. Here's the low-down ...

==> China has made tremendous progress, especially after joining the WTO. But the fact remains that it is still a *developing country*. That means paltry demand for products driven by low consumer consumption. And while 1.3 billion Chinese have the *potential* to become huge consumers, they aren't there yet.

Plus, when people don't make much they tend to save more than consume. So, the average Chinese consumer is also struggling to move toward a *buying* mind-set from a *saving* mind-set. And that's not about to happen overnight.

==> The meager disposable income for the average Chinese is just that: both meager and average. People living in urban centers like Beijing enjoy a much bigger piece of the pie than their rural brethren. The middle class in only about 200 million and the Chinese government admits that several hundred million Chinese are very poor.

But it's not just low consumption that screams risk ...

I tell you, most financial professionals, myself included, put unpredictability at the top of their "can't stand" list. In fact, I'd trade just about anything for a little predictability in my business-life. Heck, I love it when a brand new contract loaded with locked-in terms buzzes over the fax machine It gives me some assurance that one revenue source is going to stay put for a while.

And I know many of us spend countless hours pouring over spreadsheets, trying to making our companies financial futures somehow manageable. We fine-tune our sales projections, put a pencil to our future cost appropriations, try to figure out next year's capital requirements. In essence, everyday financial professionals battle to make the inherently unpredictable predictable.

In China, predictability is a problem. It's legal and regulatory system can be inconsistent, arbitrary, and unclear. Rampant problems with intellectual property rights are just one example.

"What many companies fail to realize," Mr. Allen says, "is that doing business in China is not like doing business in the U.S., or any other western market-oriented economy for that matter. Concerns over doing business in China include, but are not limited to, lack of effective intellectual property rights protection, the sanctity of contracts, repatriation of profits, government interference and overall lack of market transparency."

There's more ...

==> China has made progress toward a market-based economy, no doubt about it. But parts of its massive bureaucracy still protect local businesses as well as state-owned firms from imports. In the meantime, the government gets behind exports like there's no tomorrow. WTO rules are helping matters, but that's an excruciatingly slow process.

==> China still holds onto a bunch of its planned economy remnants. That means that the free-floating mechanism of supply and demand can get stymied. And without that mechanism freely working, all sorts of over-production, supply imbalances, and over-investment problems occur. And that zaps the economy of precious resources, labor, and missed opportunities. Plus, it piles on debt while encouraging lousy price appreciation, a double-whammy for business.

==> The government retains control over major banks and financial intermediaries. And that can translate into poor allocation of capital across businesses, industries, and sectors. Those that need money to forge into high-demand industries may not have it. And those operating in already price-deficient industries can't swing the revenue to make hefty bank payments.

==> The State and the Communist Party directly manage the only legal labor union around. That can translate to poorly allocated human resources, just like capital resources. Plus, fixed labor contracts can spell headaches for companies trying to adjust to a dynamic and robust demand environment.

==> No doubt about it: 1.3 billion potential consumers and huge growth stats have lured thousands of firms into the Chinese market. But, loads of them don't fully investigate the market for their products or services and do little to calculate potential risk. Others have even failed to get legal counsel.

To most of us, these are bone-head mistakes, but the fact remains that poor preparation has caused many U.S. companies to ink lousy deals and squander big investments.

==> To fully participate in the world trading community -- and to keep driving its massive growth potential -- reforms in China have to be made. And while steps are being made, the job is far from over. Companies that succeed in China know that the country is a work-in-progress. So, they deal with its quarks and risks. Companies that figure those risks are too great should look into other markets.

Here's A Finance Professional's Winning Strategy in China

By now, you've gotten a taste of the opportunities in China. And you've gotten a peak at the headaches, too. So, you think you're ready to investigate further. Here's a few things every finance professional needs to get you started ...

==> **Make a Plan.** I know it sounds simple, but the last thing you want to do is venture into China half-cocked. That means you have to have a plan before doing any other thing. Take a good, hard look at your target market and its economic and strategic potential. Write out the plan, put numbers to your ideas, and flesh it out with colleagues, bosses, or the insiders on your team.

"Doing business in China can be very complex," says Mr. Allen. "And so U.S. businesses looking to enter this potentially lucrative market must be prepared."

==> **Consider a partner.** Before jumping head first into the water, why not try dipping a toe in? Strategic relationships could give your products/services exposure to Chinese markets while off-loading a decent portion of risk. But make sure that your legal team crafts the contracts correctly so there are no misunderstandings and so everyone gets paid.

==> **Build a team.** Find out who's on your team. The biggest hitters here in the U.S. are the U.S. Embassy and the U.S. Department of Commerce. (See sidebar.) Both these organizations are committed to helping you succeed in China. And the reason why is simple: They want to pump up the U.S. economy by increasing exports to China. This not only creates loads of opportunity for U.S. companies, it also helps ease the trade imbalance between China and the U.S.

But that's not all. The U.S. government is also trying to keep the playing field *level* between Chinese and U.S. companies. That means they'll pressure the Chinese government to comply with its WTO commitments. Sure, that's a diplomatic game. But so far, so good.

==> **Buy a ticket.** There's no substitute for being on the ground. You can do all the research in the world but the best way to get a feel for your China plan is to buy a ticket and go there. I know as a finance professional that nothing fills in the blanks like getting up close and personal with a market's country, people, and culture. Plus, face-to-face meetings in China are highly valued, more-so than in the U.S. It also shows that you and your company are committed enough to get out of the office and press the flesh with potential Chinese business partners.

There are other reasons to get on the ground in China. China is a vast country with many different regions and customs. In fact, each province has unique social and economic factors that may or may not fit with your project. Check them out. It will do a world of good.

==> **Network.** It's one of the most over-used concepts in the business, but the fact is networking solid long-term relationships in China is a big key to success. That means forming and nurturing bonds with a broad range of organizations, from bankers to vendors to potential customers. As with all successful networks, your Outlook or Palm address book could already be loaded with potential leads. Open it up and start dialing.

Plus, the U.S. Commercial Service supports a broad array of services aimed at helping U.S. companies find the right Chinese partners. Their agents have local knowledge and contacts. Plus, they can help break down the language, cultural, and other barriers that you're bound to run in to.

Bottom-line

Right now, China is poised to become one of the great economic stories of this century. It's chock-full of outstanding growth stats as well as a potential mind-boggling consumer market. Sure, things are not all up and running in China just yet and the country is definitely a work-in-progress. But with the right team and strategy -- along with a healthy appetite for risk -- a finance professional can trek to China with confidence and adventure.

Doing Business in China: Key Links

Here are some great links that can help financial professionals get started doing business in China.

Association of Chinese Finance Professionals

http://www.acfp.net/

This is the site for the Association of Chinese Finance Professionals, a San Francisco based group dedicated to helping finance professionals connect with their counterparts in China. It offers good resources for cross-cultural business opportunities, studies and research, and education and training.

Banking in China

http://www.buyusa.gov/china/en/bank.html

A good site from the U.S. Commercial Service for getting the low-down on banking in China, including background on the "big four" state-owned banks, banking reforms, and market opportunities.

China.gov

http://english.gov.cn/index.htm

This is the official government site for China. It's a good place to get acquainted with how the Chinese government is structured. Plus, it boasts good links to facts about China, including the culture, politics, and sports.

Export.gov

http://www.export.gov/china/index.asp

With the help of the U.S. Department of Commerce, Export.gov can help you get started doing business in China. The site has good resources on how to getting started, U.S. export rules, and Chinese law and regulations. Plus, it has links to other U.S. agencies that can lend a hand.

Export.gov FAQ

http://www.export.gov/china/exporting_to_china/faq.asp#bsp

This is a great FAQ (Frequently Asked Questions) about business and China. You'll find answers to many of the key questions you have right now, from trade stats to the best trade shows to resolving disputes.

U.S. - China Business Council

http://www.uschina.org/

The United States-China Business Council has been around since 1973 helping U.S. companies do business in China. The site provides good information on trade stats as well as meeting, events, and advisory services.

U.S. Commercial Service

http://www.buyusa.gov/china/en/

This is the China homepage for the U.S. Commercial Service, part of the U.S. Department of Commerce. The site offers loads of information on markets and industries, trade events, and potential networks and partners.

U.S. Embassy Beijing

http://beijing.usembassy.gov/

The site for the U.S. Embassy in Beijing offers good information about passports, visas, and living in China. Plus, it has great links to other organizations and services.

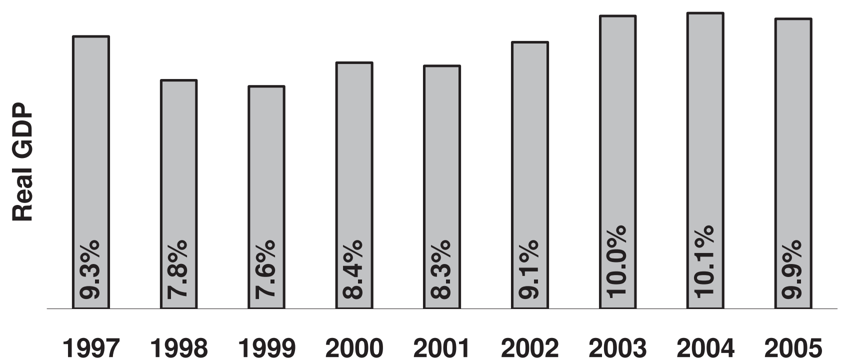
Keys to Success in China

Doing business in China can be very complex, and so U.S. businesses looking to enter this potentially lucrative market must be prepared. The majority of U.S. exporters selling to China have had prior experience exporting to other countries. For example, many choose to get experience in selling to easier markets like Mexico, Canada, and the United Kingdom before pursuing opportunities in China. The U.S. Commercial Service in China lists essential China advice on our website www.buyusa.gov/china/en/. They include:

- *Have clear contract terms*
- *Make certain your project is economically viable*
- *Know your partner*
- *Know the rules*
- *Search for problems before they materialize*
- *Do a thorough risk analysis*
- *Mind the store*
- *Expect virulent competition, pricing pressure*
- *Get Paid*
- *Watch your intellectual Property Rights*

Craig Allen, U.S. Department of Commerce, Senior Commercial Officer with the U.S. Embassy in Beijing

China's Blistering Growth Spells Opportunity



Source: US-China Business Council