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Touwai China Newsletter

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Touwai (pronounced *toe-why*) Introduction

Touwai was developed by Seth Harlem to facilitate Sino-Global business between small and mid size entities (SMEs), including businesses, municipalities and other organizations. Touwai will help Chinese entities find overseas investment and partnership opportunities, enable foreign* entities to attract Chinese overseas investment, and provide the tools to foreign SMEs to develop or expand their *in* China strategies, such as increasing the visibility of their product and service offerings in China. Chinese companies are interested in pursuing global investment and partnership opportunities. Furthermore, as the Chinese government encourages a “go global” strategy, resources are needed to facilitate China’s internationalization goals and to help direct Chinese overseas investment to the numerous opportunities around the world. Also, as China continues to develop, China is looking to foreign product and service companies for expertise. Touwai is developing the tools needed to increase the visibility of foreign product and service offerings to Chinese entities. Touwai has connections with American SMEs, municipalities and business associations, as well as with Chinese SMEs, municipalities and business associations. These connections will help facilitate Sino-Global business. Touwai will offer several resources for facilitating Sino-Global business. We are pleased to announce the introduction of the first of Touwai’s tools, the Touwai China Newsletter (TCN). The Touwai China Newsletter will provide information about China business issues, economic updates and articles/reports about various industries written by experts in China. The goal of the newsletter is to provide SMEs access to information that they may not otherwise have the time and resources to access. Increased information and insight will only add value and efficiency as foreign SMEs explore their numerous China options, and Chinese SMEs internationalize and develop.

*“Foreign,” means non-Chinese.

About Seth Harlem:

Seth Harlem graduated from Trinity College in Hartford, Connecticut with a degree in International Studies, Asian Studies concentration, and a minor in Chinese. Seth has also studied at Zhejiang University in Hangzhou, China, and at Fudan University in Shanghai, China. Seth has worked for General Motors China in Shanghai, and has consulted with CITIC Capital Partners, the private equity affiliate of CITIC Group, China’s largest industrial and financial services company. Seth, who speaks Mandarin Chinese, has been featured in the *Shenzhen Daily*, Shenzhen, China’s largest English language newspaper and is a frequent guest on Voice of America’s (VoA) mandarin broadcast to China.

Available soon:

CHINA AUTO PARTS INDUSTRY REPORT/SNAP SHOT

With information on:

- Opportunities for Foreign Investors in China’s Auto Parts Industry
- China’s Auto Parts Industry Growth

To inquire about this report, email Seth.Harlem@touwai.com

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Chinese Companies “Going Global” and Investing Overseas:

The Chinese government is encouraging Chinese companies to “go global.” This “go global” strategy “reflects a desire on the part of the Chinese government to create world class companies and brands, whereby Chinese firms are seen as more than secondary nodes in production networks ultimately controlled by multinationals based in industrialized countries.”¹ Furthermore, Chinese companies (including SMEs) have the desire, and financial ability to internationalize. “Chinese companies whose fortunes have been boosted by a booming domestic economy are increasingly buying companies in the US and Europe...”² Chinese companies want and need to internationalize for many reasons, including:

- Escape brutal domestic [China] market
- Access foreign distribution and sales networks (incentives offered by China – part of the “Go Global” policy)
- Increase foreign exports (Incentives offered by China – part of the “Go Global” policy)
- Build international brands
- Bring a brand name back to China
- Acquire technology
- Acquire management and know-how
- Seek safe place to preserve wealth, diversify portfolio to reduce risk

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Chinese *SMEs* are very interested in pursuing international investment and partnership opportunities with foreign entities. Over the past few years, the Chinese government has liberalized international investment approval. China’s overseas direct investment (ODI) will increase substantially in the coming years. “China’s Ministry of Commerce predicts outward investment will maintain an average annual growth rate of over 22%, exceeding US \$60 billion in new ODI between 2006 and 2010.”³ **It is essential for American and other foreign entities to increase their visibility in China in order to benefit from China’s internationalization goals and needs.** “Chinese companies are suddenly bidding on U.S. businesses the way George Steinbrenner goes after free agent baseball stars.”⁴ A major benefit of Chinese investment in the US is job creation. For example, China International Marine Containers became the largest private employer in Monon, Indiana when it purchased a bankrupt manufacturer of containers. Municipalities in the US are gearing up to attract Chinese investment. “Across the country [US] mayors are brushing up on their chopstick skills in an effort to win Chinese investment.”⁵ Also, American entities are opening offices in China to increase their visibility. As reported in the East Bay Business Times, the Port of Oakland just opened an office in Shanghai. Also, the Cincinnati Business Courier reported that Kentucky recently opened an office in Beijing. Maryland has had an office in Shanghai for years, and recently opened an office in Beijing. It is important for foreign entities to increase their visibility in China because they may benefit from what’s been coined the “New China Price.”

The “Old China Price” vs. the “New China Price”

The “Old China Price” is what “*Business Week* calls ‘the three scariest words in U.S. industry,’ the absurdly low rate at which a good or service can be provided by the Middle Kingdom [China].”⁶ The “New China Price” is the premium that “Chinese are willing to pay to acquire struggling or second-tier American companies.”⁷ Chinese global investment creates jobs abroad. As we saw above, jobs have been created in Monon, Indiana. Also, Nanjing Automobile Group (NAG) of Nanjing, China announced that it will be the first Chinese carmaker to open a factory in the US. After acquiring MG Rover, NAG announced plans to open a factory in Ardmore, Oklahoma to produce MG Rovers. Given the overwhelming benefits to Chinese investment in the US, it is “imperative for businesses, indeed all government departments even, to develop a ‘China Strategy’, whether or not these entities do any direct business with China.”⁸ Touwai will enable businesses and government departments to develop or expand a China strategy.

China Southern joins SkyTeam Alliance

China Southern, China's biggest air carrier will join the SkyTeam Alliance. China Southern joins: Aeroflot, AeroMexico, Air France, KLM, Alitalia, Continental, CSN Czech Airlines, Delta, Korean Air, and NWA. Keep this in mind when booking your next flight to China.

Number of Broadband Users and Total Number of Internet Users in China Skyrocketing

As of the end of June 2006, the number of broadband users in China climbed to 77 million. 77 million users marks a 45% 12-month increase in users. Many Chinese small and mid size enterprises have broadband access. The total number of Chinese Internet users is estimated to be around 123 million, up from 26.5 million over the past 5 years.



Packing Tip for China Business Travelers: Take your BlackBerry

Research in Motion (RIM), the Canada-based maker of the BlackBerry announced on May 11, 2006 that it will launch service nationwide in China. RIM has partnered with China's largest cell phone company, China Mobile Communications Corporation to provide the service.

Paris, Milan & Shanghai?

As reported in the China Daily, Worth Global Style Network (WGSN), a fashion and style industries research firm, predicts that "China is poised to take a stroll on the international catwalk."⁹ According to WGSN's editor-in-chief, Roger Tredre, "we believe a number of Chinese fashion companies may become global brands in the near future."¹⁰ WGSN also noted that most of China's garment manufacturers are SMEs. With so much of the world focused on China's economy, interest in Chinese fashion, art, design, furniture is likely to continue to grow.

China's Semiconductor Industry Suffering Talent Shortage Growth Pains

Workforce constraints and talent shortages in China's semiconductor industry may curb current rapid growth. "Despite China's large work force, relatively few workers have the advanced skills to support a thriving electronics industry."¹¹ As reported in *Solid State Technology*, the Organization for Economic Cooperation and Development (OECD) stated "China overtook the US as the world's largest exporter of information technology goods in 2004." However, despite China's extensive experience in discrete semiconductors, OECD noted that "integrated circuits made in domestic fabs are a fairly recent phenomenon. As a result, an experienced local work force to support world-class semiconductor manufacturing is in its infancy."¹² Approximately only .001% of China's annual engineering graduates are semiconductor design graduates. From 2000 to 2005, China's share of the world's semiconductor market skyrocketed from 7% to 20%. This rapid success is not expected to continue unless major changes are made to produce the necessary skilled workers.

\$125 Billion Worth of Opportunities in China for Foreign Water Companies

"We welcome water companies from all over the world to participate in the Chinese market," Qiu Baoxing, vice minister of construction, said at a news conference in Beijing."¹³ As reported by Bloomberg News, "China's government plans to spend \$125 billion by 2010 to build wastewater treatment plants and upgrade water distribution infrastructure around the country."¹⁴ According to the Ministry of Construction, "as many as 278 cities lack proper treatment facilities."¹⁵

For information regarding opportunities in China for water companies, email Seth.Harlem@touwai.com

Touwai's China Survival Cards

Visit Touwai.com to download the Touwai China Survival Cards. In China use them to help you order food, get around in a taxi, etc. Print them out on business card templates, or cut them out from regular sheets of paper. The Touwai China Survival Cards will make getting around China a little bit easier.

Example:



In Future TCN Issues

Hear from the experts:

Touwai will offer industry snapshots from experts in various industries. China's Auto Parts Industry Snapshot available soon.

TCN will write about:

- Manufacturing in China
- Economic Reasons for Chinese Overseas Foreign Direct Investment (OFDI)
- Intellectual Property in China
- Chinese Investment in Africa
- Chinese SMEs
- China's Internet Industry
- China's Special Economic Zones (SEZs)
- *Guanxi* or Connections in China
- China's Banking Industry
- China's Automotive Industry
- Infrastructure Development in China
- Foreign Service Companies Benefiting from China's Development
- Etc.

****To suggest a topic for a future issue, or ask a question about a topic in this issue or anything related to China, email: Seth.Harlem@touwai.com****

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Endnotes

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- ¹¹ "Work-force scaling challenges loom as China goes global." Solid State Technology 1 March 2006
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