



China's Business Environment: A View From Shanghai

US-China Business Council Annual Meeting
June 5, 2012

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Rising Costs (aka, “pay me more!”)

Energy & Environment Targets

Central & Western China

Macro Business Environment

Government Affairs



Rising Costs

Rising Costs...the Long Term Trend

	2010	2010 - 2015	2010 - 2020
Gross Industrial Cost Increase	8% YoY	40 – 80%	120 – 200%
Salary Increases	15%	50 – 75%	120 – 150%
Land Appreciation	10%	50 – 70%	100 – 150%
Utility Supply Cost Increases	10%	> 50%	>100%
Environmental CAPEX	10%	50%	100%
Tax Burden	5%	10 – 15%	20 – 30%
RMB Appreciation	3%	15%	30%

Costs to increase 3-4x by 2020

Monthly Minimum Wages, US\$

	2010	2011	2012	2012 vs. 2010 % Increase
Beijing	\$152	\$184	\$200	31%
Shanghai	\$177	\$203	\$230	29%
Shenzhen	\$174	\$209	\$238	36%
Wuhan	\$142	\$174	\$174	22%
Chengdu	\$135	\$135	\$166	23%
Guangzhou	\$174	\$206	\$206	18%
Xi'an	\$120	\$136	\$158	31%
Nanjing	\$152	\$181	\$209	37%
Chongqing	\$108	\$138	\$138	27%

Blue collar wages are rising.....

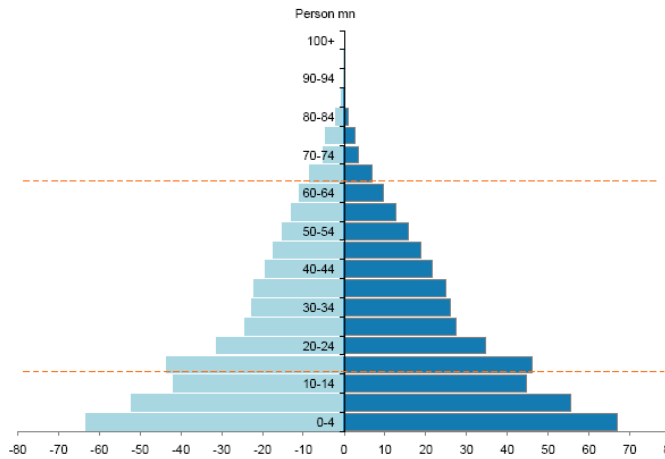
Average Salary Ranges for Select Positions in China

Position	Annual Salary
Engineering Supervisor	\$25K - \$42K
General Manager	\$130K - \$330K
R&D Director	\$100K - \$167K
Procurement Director	\$67K - \$150K
Quality Director	\$67K - \$150K
Chief Technology Officer	\$167K - \$330K
Marketing Director	\$100K - \$130K
PR/Comms Manager	\$34K - \$67K
Regional Sales Manager	\$67K - \$100,000

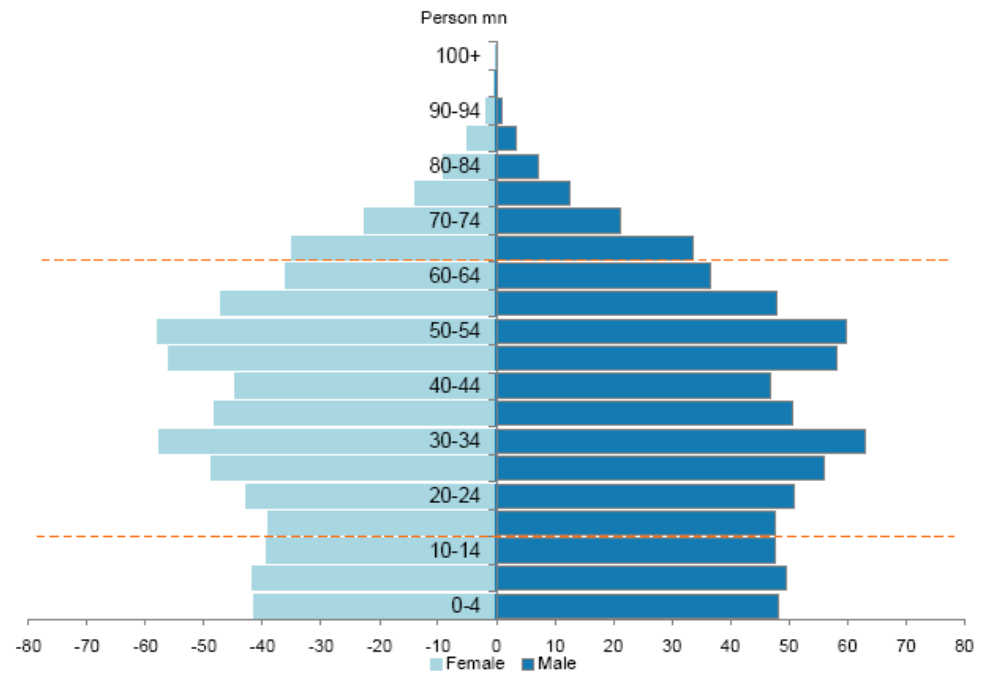
.....As are wages for top talent

Population Shifts Development Challenges

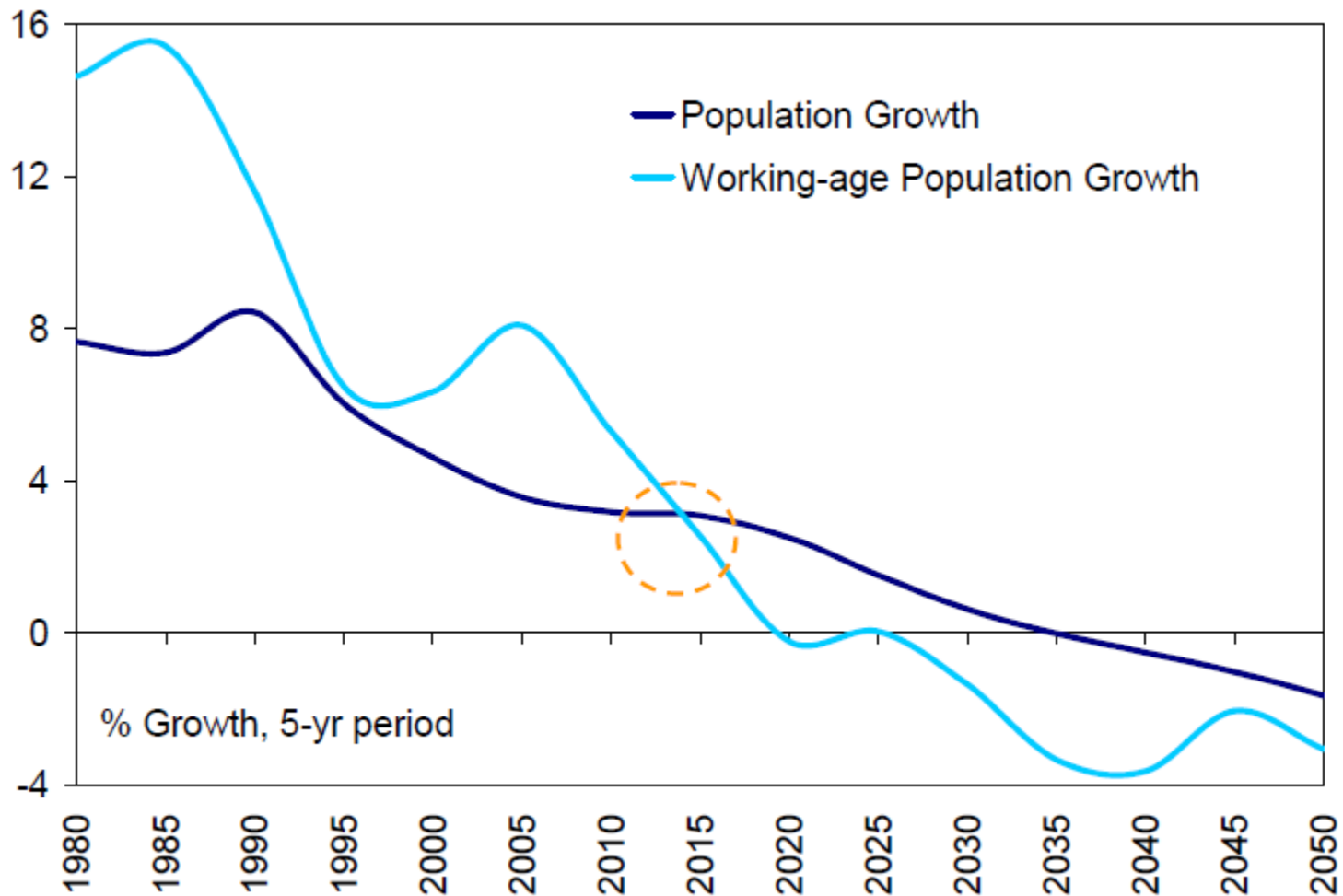
China Population Pyramid: 1970



China Population Pyramid: 2020



Slowdown in Working Age Population Growth





Energy & Environment Targets

How to Achieve These Goals?

Top-down energy management

- National energy consumption limit
- Assignments to provinces

Enterprise classification by energy consumption

Commitment letters to reduce usage

Penalties for non-compliance

Scrutiny of new investments

Relocation w/out compensation

Example Provincial Targets

	GHG Emissions Reduction Targets by 2015	Energy Consumption Reduction Targets
Guangdong	19.5%	18%
Shanghai	19%	18%
Jiangsu	19%	18%
Tianjin	19%	18%

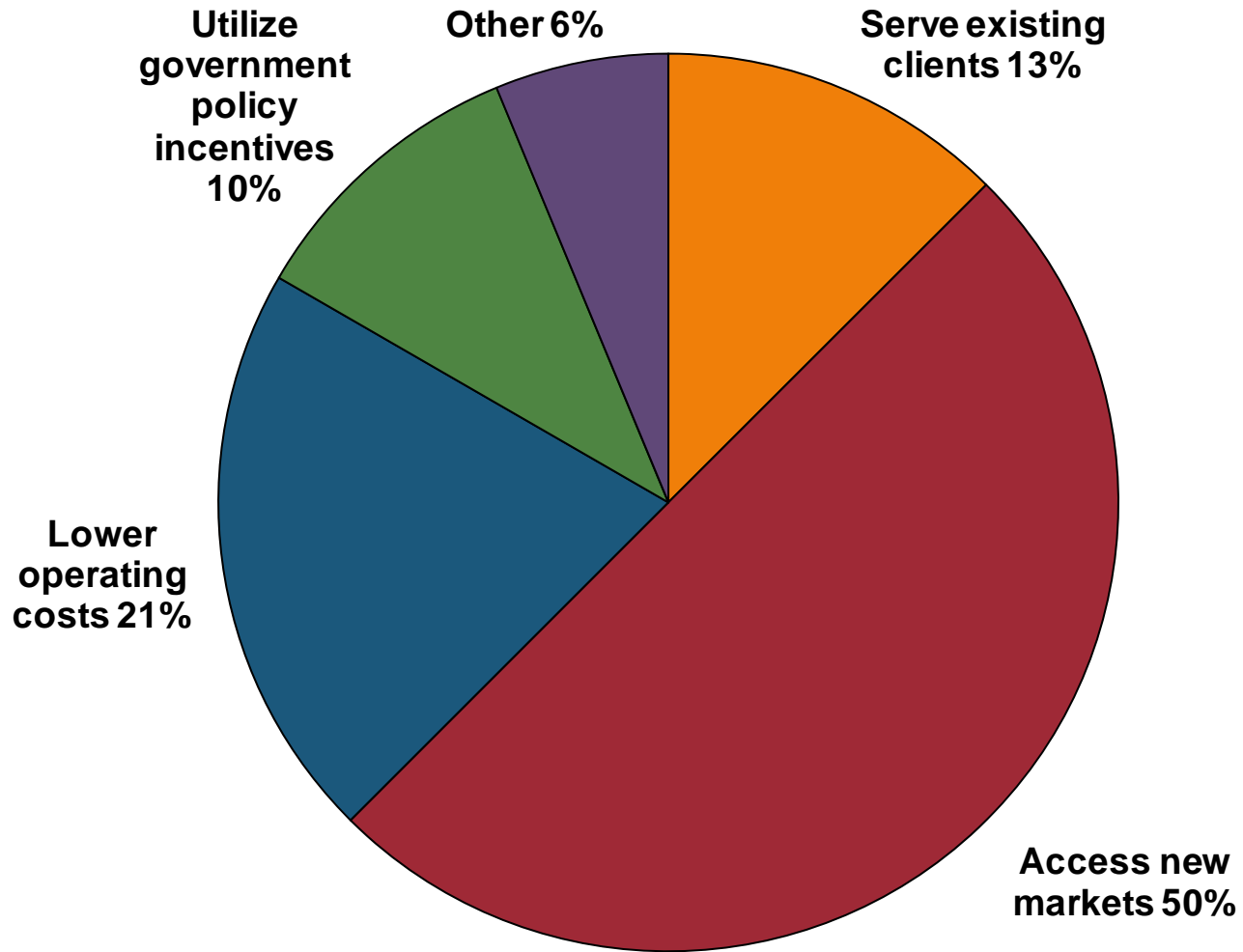
Carbon trading pilot projects

- Beijing, Tianjin, Shanghai, Chongqing, Guangdong, Hebei
- Incorporate aspects of EU, Aussie, & JP models



Central & Western China

Why Go West?





McKinsey & Company

McKinsey Global Institute

CHINA Urbanization: Preparing for an Urban Billion

POPULATION GDP FLOOR SPACE PUBLIC TRANSPORT ENERGY WATER JOBS

Trendline

Supercities

Hub and spoke

Distributed growth

Townization

POPULATION GROWTH

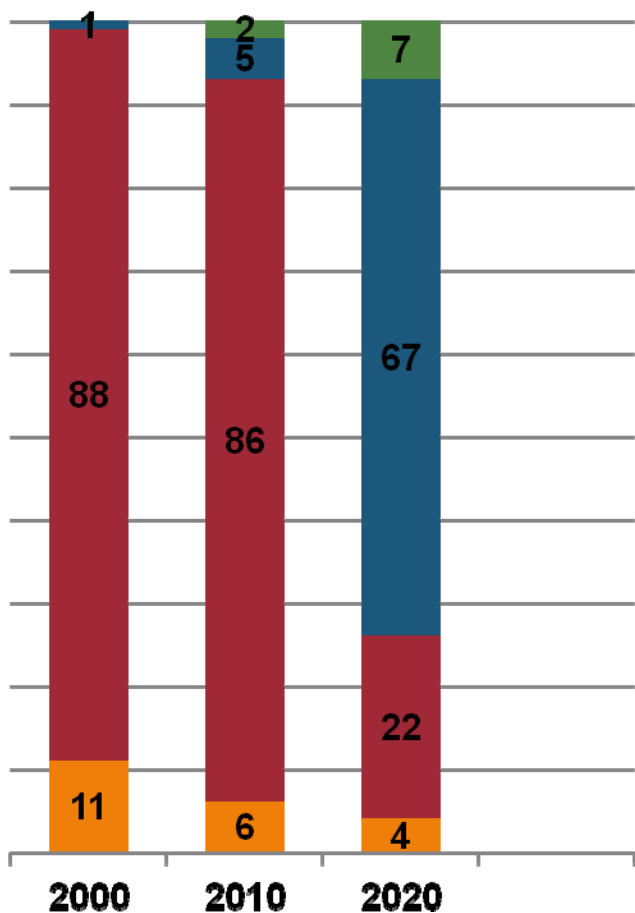
If current trends continue, nearly one billion people will live in China's cities by 2025. The urban population will grow by some 350 million people—more than the population of the United States today. Some 240 million of China's city dwellers will be migrants. China will have 221 cities with more than one million inhabitants—compared with 35 in Europe today—of which 23 cities will have more than five million people. There will be eight megacities with populations of more than ten million.



Income Distribution as % of Population

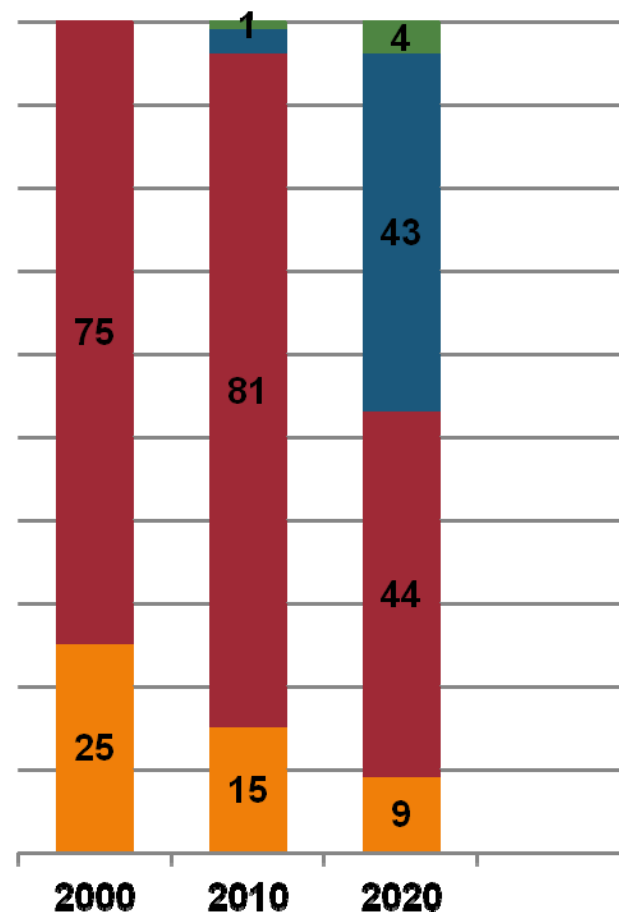
Developing Cities –

Roughly 80 cities comprising 25% of the population



Emerging Cities –

Roughly 369 cities comprising 45% of the population



USCBC Member Perspectives

- **Consumer market:** growing but buyers still value-focused
- **Human resources:** costs less than coastal areas but increasing
- **Logistics:** lots going in but little coming out; trains are passenger-centric
- **Supply chains:** most complete in Chengdu but improvements still needed
- **Govt. attitudes:** 15 years behind coastal areas





Macro Business Environment



Recent Investment Activity



Announced in April it has invested an additional US\$490 million at its passenger-vehicle assembly plant in Chongqing



Announced in April new \$7 billion investment to build semiconductor chip factory in Xi'an



Announced it will increase stake in Yihaodian, a fast-growing online retailer, from 18% to 51%



Recently became the first Western bank to be approved to issue credit cards in China, and the second foreign bank, after Bank of East Asia



Announced in late 2011 plans to open two new stores per month in China through mid-2013, and to launch Banana Republic and Old Navy brands

Opened its largest interactive technology center, the only one outside of the US

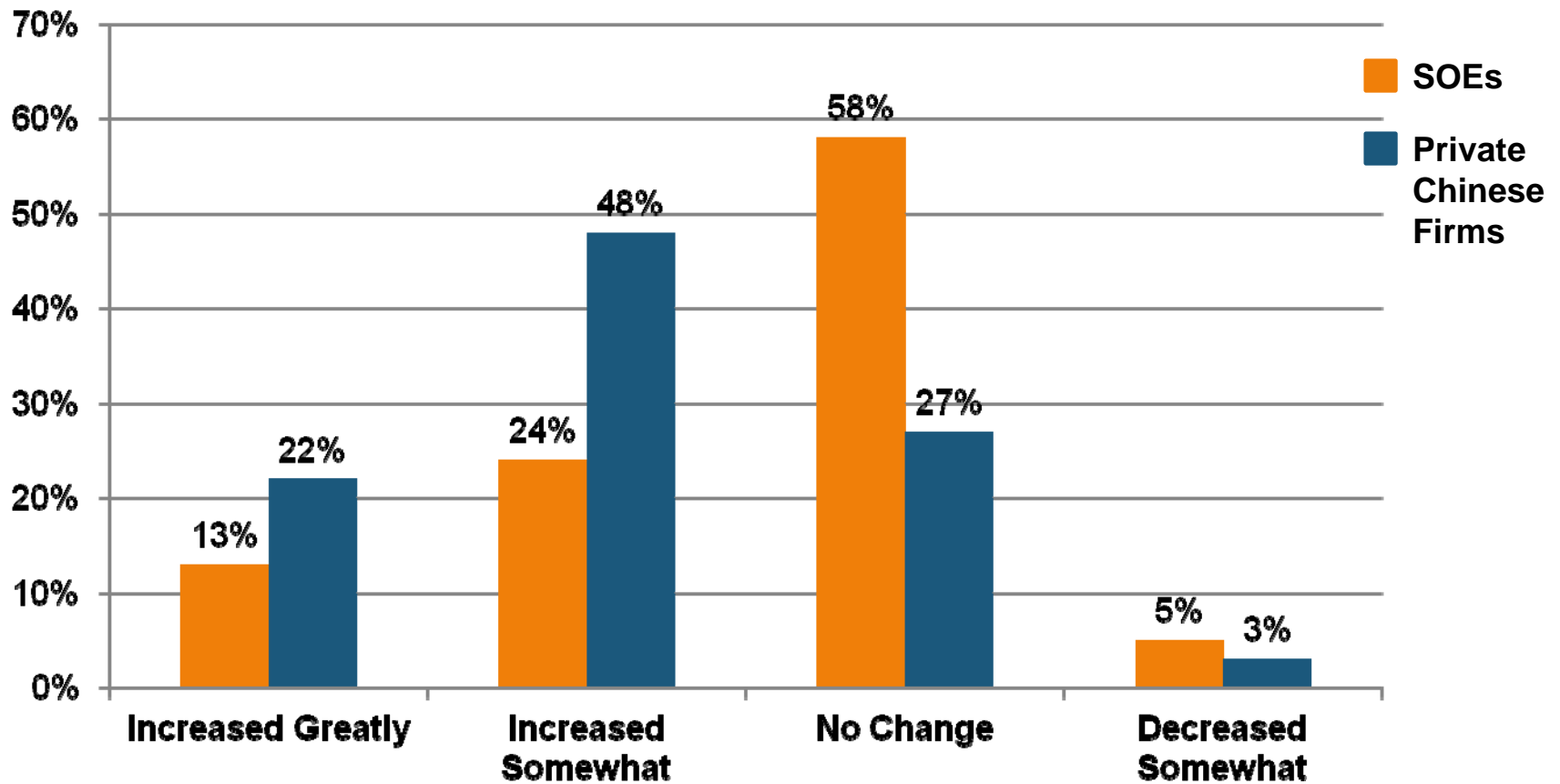


Announced completion of \$125 million phase II expansion and launching of phase III expansion



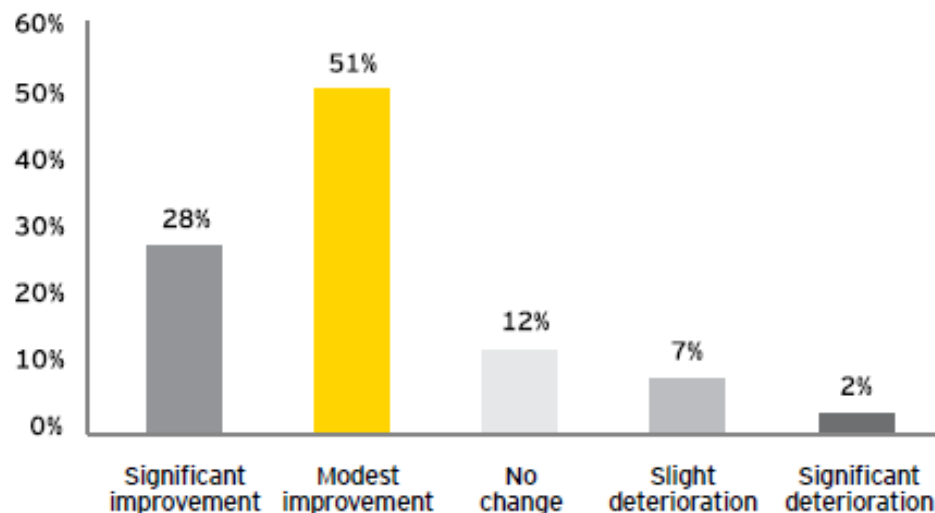
Plans to open 250 new restaurants in 2012, and may hire upwards of 70,000 more employees

Competition with Chinese Firms Has...

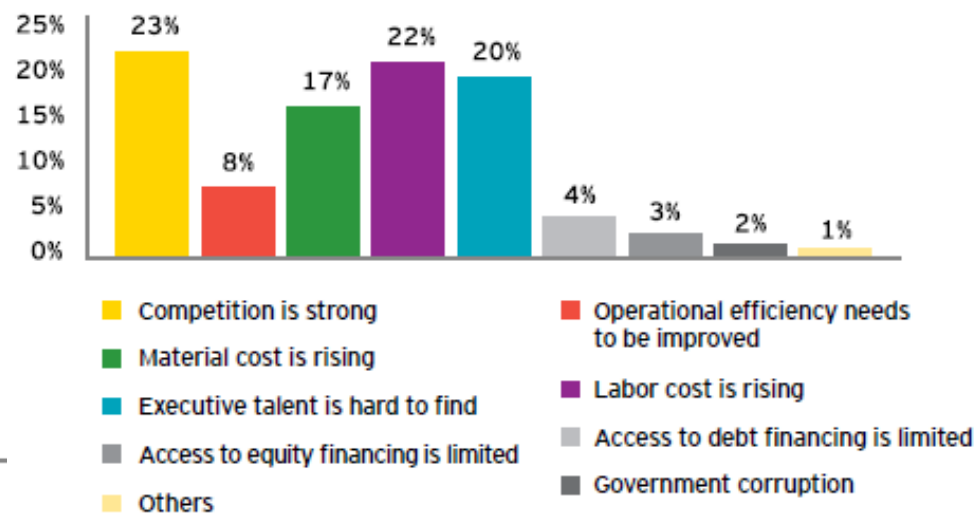


Executive Viewpoints – Private Chinese Companies


What is your business forecast over the next 12 months?



Key Problems in Your Business...



World Bank Business Environment Rankings

Country	Overall Rank - 2012	Overall Rank - 2010	Starting Business (2012, 2010)	Investor Protection (2012, 2010)	Taxes (2012, 2010)	Cross Border Trade (2012, 2010)	Contract Enforcement (2012, 2010)
US	4	4	13, 8	5, 5	72, 61	20, 18	7, 8
Malaysia	18	23	50, 88	4, 4	41, 24	29, 35	31, 59
Germany	19	25	98, 84	97, 93	89, 71	12, 14	8, 7
Mexico	53	51	75, 90	46, 41	109, 106	59, 74	81, 81
China	91 	89	151, 151	97, 93	122, 125	60, 44	16, 18
Brazil	126	129	120, 126	79, 73	150, 150	121, 100	118, 100
Indonesia	129	122	155, 161	46, 41	131, 127	39, 45	156, 146
India	132	133	166, 169	46, 41	147, 169	109, 94	182, 182



Government Affairs

Top Citizen Concerns People's Daily Survey – Feb. 2012

1. Social security
2. Income and wealth gap
3. Healthcare availability and price
4. Government administration
5. Education access & quality
6. Rural issues
7. Corruption
8. Commodity prices
9. Food safety
10. Housing prices

Source:

<http://npc.people.com.cn/BIG5/28320/80575/17259662.html>



...Reform on the Horizon?



Source: *The Economist*

All Politics is LOCAL: Government Relations & Communications

- Tracking local implementation & viewpoints of policies affecting operational subjects such as tax, EHS, labor, etc.
- Pushing licenses & approvals through the system
- Regular attendance at zone, district, or municipal events
- Mapping personnel changes & local govt. restructuring
- Identifying specific tasks, issues, & projects relevant to local officials

Focused on day-to-day relationship & company brand management



Information Sources.....What Does Implementation Look Like?



In Conclusion...

Rapidly evolving, highly competitive operating environment

Rising costs vs. 30 years of historical expectations

National policies vs. local governments?

Growth & geographic emphasis is changing

What is reform?

Structure of the relationship needs to match the size of the relationship



Thank you!



The US-China Business Council

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