

# **Clean Cities Conference 2004 China Commercial Brief**

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# Doing Business in China

1. **Have clear contract terms.**
2. **Make certain your project is economically viable.**
3. **Know your partner. Do your "due diligence," and do it well.**
4. **Know the rules; beware of offers to bend them in your favor.**
5. **Search for problems before they materialize.**
6. **Do a thorough risk analysis.**
7. **Mind the store.**
8. **Expect virulent competition, pricing pressure.**
9. **Get paid.**
10. **Watch Your Intellectual Property Rights.**

# Doing Business in China

- Myths – 1.3 billion people vs consumers
- Obstacles – IPR, contract negotiations, rule of law, Guanxi
- Opportunities – growth vs Italy, increasing consumers and spending
- Olympics

# China's Economic Situation through Q3 2003

- \* Economic growth ~8%, GDP reached \$1.3 trillion
- \* U.S. Exports to China up ~20% (est. 2003 USD 25 billion)
- \* U.S. Imports from China up ~20% (est. 2003 USD 150 billion)
- \* FDI 2002 >USD 50 billion up 10%, est. 2003 <USD 35 billion
- \* Urban Annual Per Capita Disposable Income (APCDI) 2002 ~ USD 1k, up ~10%, Rural APCDI 2002 ~ USD 250, up ~8%
- \* <759 million total employed

# Economic Impact of Outsourcing on U.S. Manufacturing

- U.S. is largest manufactured goods producer/exporter; Mfg sector alone is larger than all but four countries' respective economies (China not one of the four).
- Manufacturing generates 14 percent of the national gross domestic product and directly employs 14.7 million Americans, 11 percent of all American workers.
- U.S. manufacturing is most competitive, productive and through new technologies, more efficient, requiring fewer workers overall, but with a higher-skilled workforce.
- American manufacturing is facing one of the most significant competitive challenges.

# Adversity for U.S. Manufacturers

- The U.S. Commerce Department led a series of nationwide roundtables to hear firsthand, the concerns of manufacturers. While some of their concerns were about unfair foreign competition and low-wage overseas competition, most were of a domestic nature, including the high costs of health care, litigation, energy, and government regulations that make it more difficult for U.S. manufacturers to compete globally.
- Commerce has issued a comprehensive Manufacturing report outlining a strategy for addressing these issues.

[www.manufacturing.gov](http://www.manufacturing.gov)

# Create Jobs in the U.S. not Overseas

- U.S. President wants to create jobs in America – not overseas.
- “Off-shoring” versus job growth in the U.S.
- Overseas engagement – not economic isolation creates opportunity for U.S. jobs.
- Push for open foreign markets and help U.S. firms export their goods and services around the world.
- “Insourcing” - Open trade allows foreign companies to locate their plants here – U.S. jobs with foreign firms’ paychecks to Americans.
- Outperform the world, not isolate ourselves from it, by making sure that American workers have the best training and skills in the world.

# Chinese Economy



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- 8.5 percent growth in 2003, reaching USD 1.4 trillion and 7-9% annual growth during each of the next four years. Total worldwide imports into China grew 41 percent in 2003.
- Sixth largest U.S. export market, fastest-growing market, among our top-ten trading partners, USD 28.4 billion last year—up 29 percent from 2002.
- Post WTO accession, U.S. firms have better access to China and now playing catch-up compared to their Chinese competitors who have always had a comparably easier access to the U.S. market. The USG is working to ensure that China lives up to its WTO commitments (IPR, NTTB) so that U.S. firms receive the maximum benefits of trade (see JCCT outcomes sheet at [www.ita.doc.gov](http://www.ita.doc.gov)).
- Third largest trading partner. Means rising standard of living, disposable income in China.



# Look Worldwide – Not Just China

- 95% world's consumers live outside U.S.
- 2003 U.S. exports > USD 1 trillion goods and services, world's largest exporter.
- SMEs = 97% total U.S. exporting firms but only 30% total value of exports.
- Good opportunities to export to Mexico, Canada, and throughout Asia, Europe, South America.
- Look also to U.S. FTAs with Chile, Israel, Jordan, Singapore and the NAFTA countries of Canada and Mexico.
- Look also to U.S. negotiations that concluded on FTAs with Morocco and Australia and a U.S.-Central American Free Trade Agreement: Costa Rica, Honduras, Guatemala, El Salvador, and Nicaragua (also known as CAFTA). FTA negotiations with the Dominican Republic have also concluded.
- FTA negotiations are continuing with both Bahrain and the Southern African Customs Union. The U.S. has announced its intent to negotiate future free trade pacts with Thailand, Panama, and several members of the Andean community—Colombia, Peru, Ecuador, and Bolivia.

# Global Natural Gas Potential

- 200 million commercial vehicles in operation today
- Market drivers:
  - China and India mandates
  - North American natural gas mandates and incentives
  - EU Proposed Directive that 10% of transport sector to be natural gas by 2020
  - Global supply infrastructure development accelerating
  - LNG production/trade accelerating

# Beijing Market Conditions

- China's capital with 12 million people
- Economic growth of 8-10%
- Beijing to host the 2008 Olympics
- The “Greening of Beijing” was an important political part of the Olympic bid
- 2002 mandate that all buses in the inner city to run on CNG or LPG



# Marketing the Olympics ([www.beijing-2008.org](http://www.beijing-2008.org))

*“Green Olympics, High-Tech Olympics,  
People’s Olympics”*



# U.S. DOE-Chinese Ministry of Science and Technology Cooperation

Assist Beijing and the 2008 Olympics with the transition to the efficient use of natural gas by doing the following:

- Identify issues and build teams
- Organize a **US/China Natural Gas Coalition**
- Organize efficient natural gas technologies and policy workshops
- Develop a demonstration project

# Olympic Green

- Half of total venues, including National Stadium
- Olympic Village
- International Exhibition Centre
- Chinese Ethnic Culture Museum
- 1,215 hectares, inc 760 of woods/greenery

**Athletes village**

**Media Centre**



# Venue Construction

- 2008 games will require a total of 37 stadiums and gymnasiums
- 32 of the venues in Beijing and 5 outside of Beijing (Shenyang, Qinhuangdao, Lianjin, Qingdao and Shanghai)
- 15 venues are new constructions while 11 are renovation projects and 4 are temporary sites



# Key Players



## Beijing Organizing Committee for the 2008 Olympic Games (BOCOG)

Address: No. 24 Dongsishitiao, Beijing 100007

Telno: 00 86 10 8402 2008

Email: 2008@beijing-olympic.org.cn



# Environmental Concerns

- Recent industrialization and vehicle growth have resulted in poor air quality in most urban centers
- Since 1990 there has been a sharp increase in ambient NO<sub>x</sub> levels – coinciding with increase of vehicles
- Focus of government is to reduce emissions from mobile pollution sources



# Population Impacted

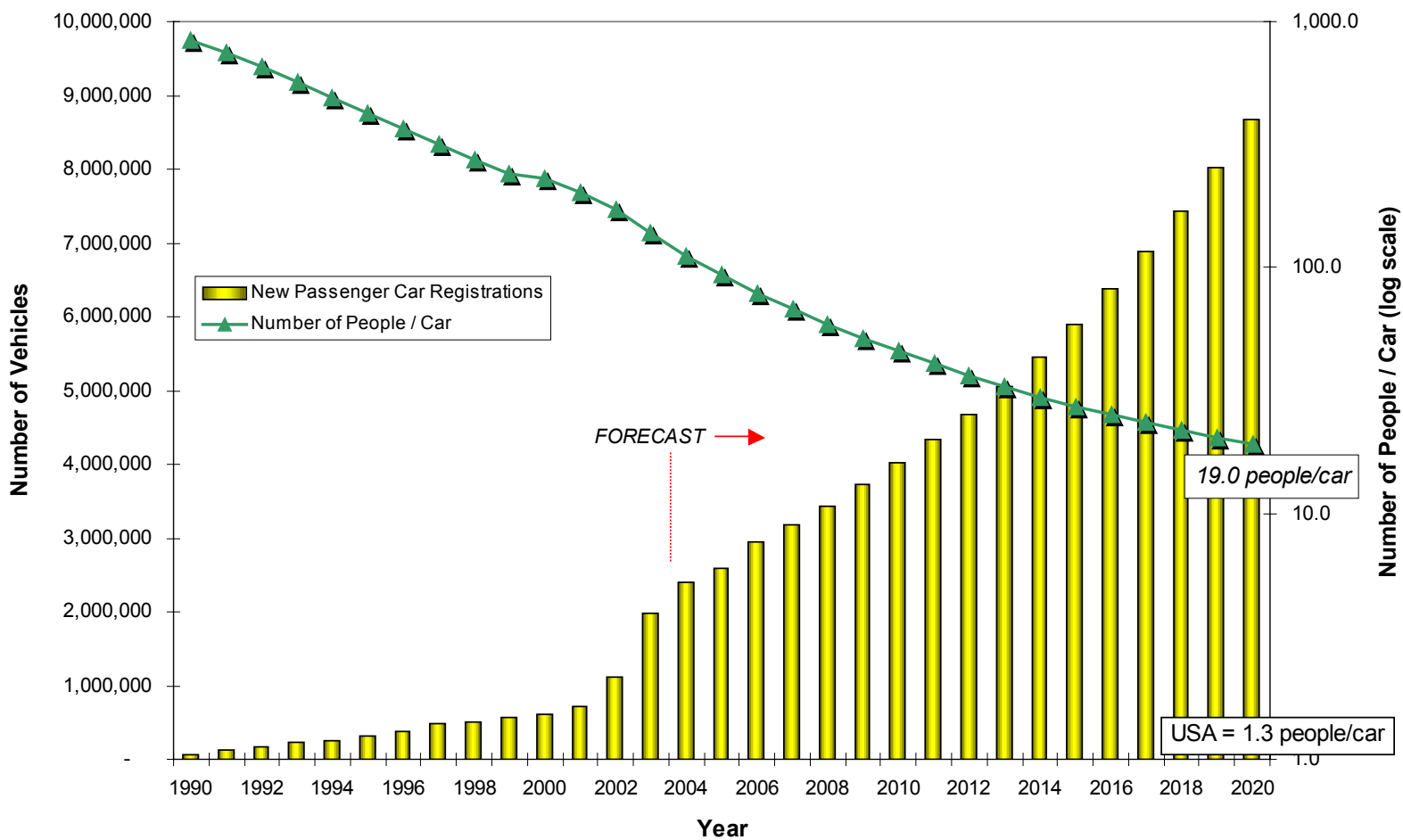
Country	Number of Cities Over WHO Guidelines	Population in Cities > WHO Guidelines
1 China	85	132.0
2 India	62	84.1
3 Japan	4	41.9
4 USA	6	41.1
5 Brazil	2	26.7
6 South Korea	5	21.2
7 Mexico	1	16.6
8 Pakistan		15.5
9 Turkey	5	13.8
10 Russia	2	10.5
11 Egypt	1	9.7
12 France	1	9.5
13 Bangladesh		9.4
14 Philippines	1	9.3
15 Germany	3	9.2
16 Indonesia	1	8.6
17 Vietnam		7.7
18 UK	1	7.6
19 Hong Kong		6.9
20 Iran	1	6.8

Over 132 million Chinese citizens live in regions with air quality below World Health Organization guidelines

Source: World Resources Institute (1993-1995 Data), Study on the Effect of Air Pollution on Children

# Increased Car Ownership

## Vehicle Population Growth in China - FORECAST

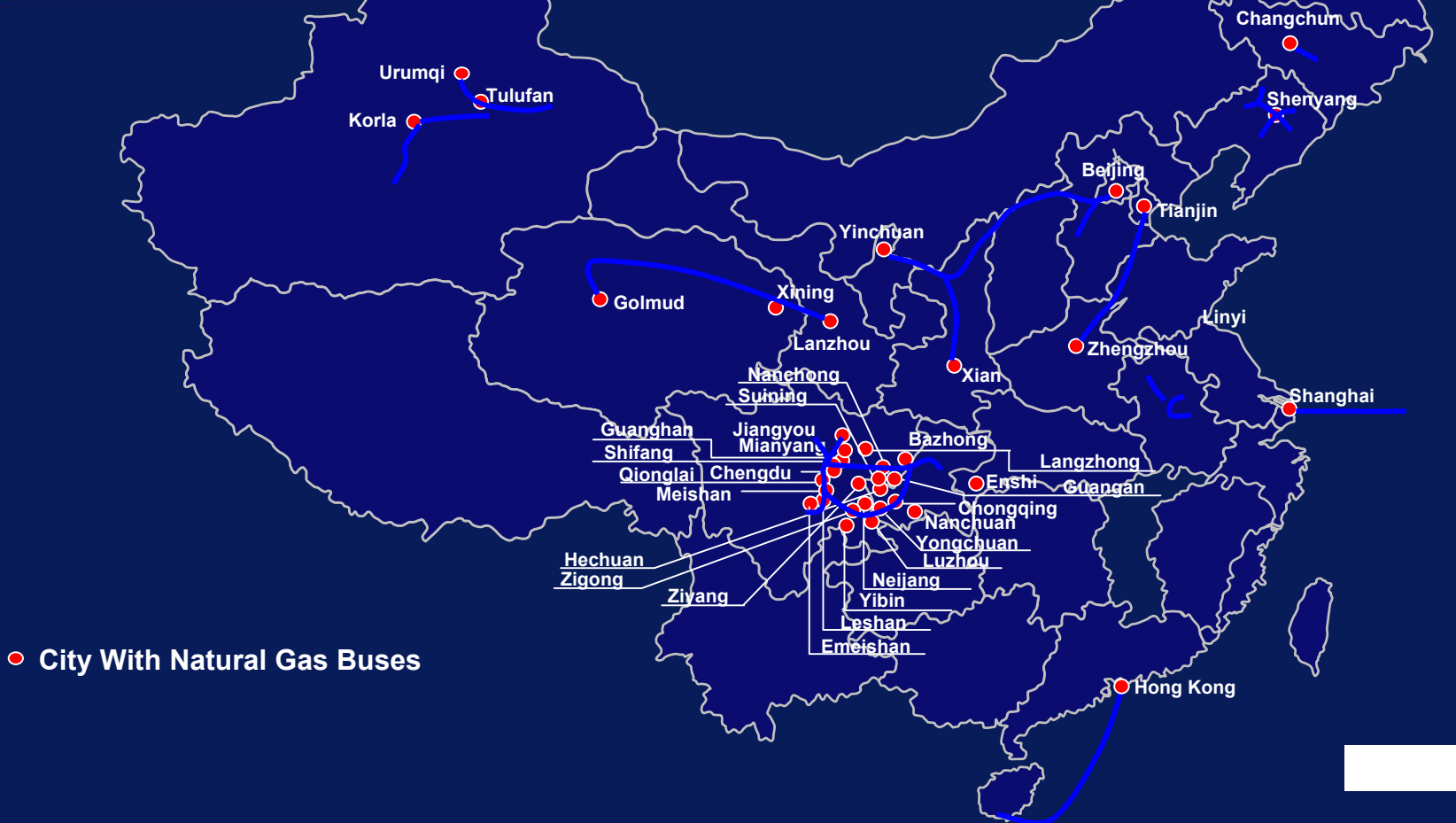


# Infrastructure Requirements

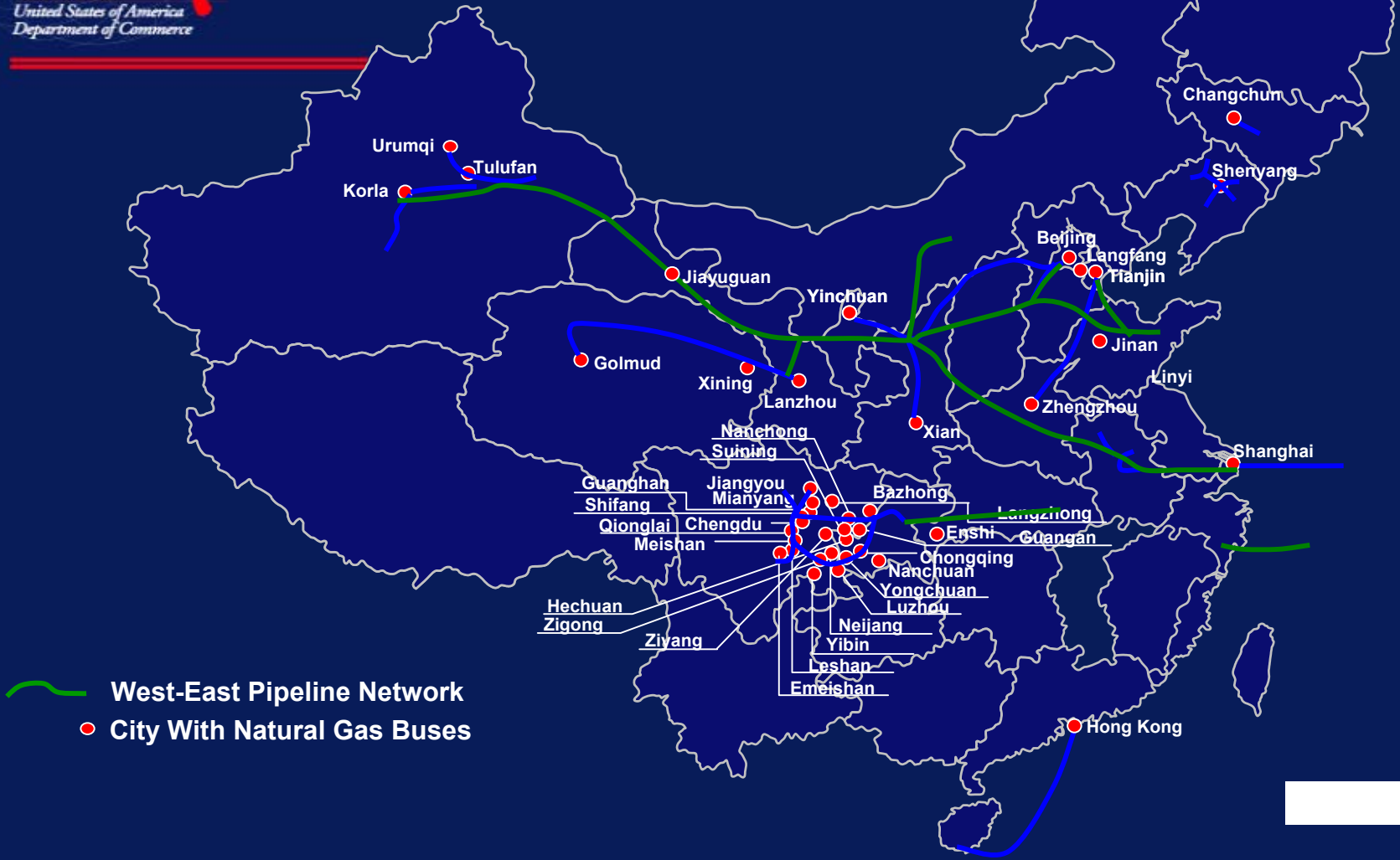
- Success of CNG vehicles is requires the availability of fueling infrastructure and economically priced fuel
- Chinese Government has committed US\$ 4.1 billion for NG infrastructure improvements
- Chinese Government is supporting the switch to NG in all regions

# Current Pipelines 2003

**U.S. COMMERCIAL SERVICE**  
United States of America  
Department of Commerce



# Proposed Pipeline Network 2005



# Future Requirements

China National Offshore Oil Corporation (CNOOC) GM Fu  
Chengyu quoted 26 April 2004 as stating that:

- China's annual natural gas consumption will reach 160-210 billion cubic meters by 2020; today China has 1,300-1,600 billion cubic meters of natural gas reserves
- 49% of that demand will be imported; 39% from LNG imports and 10% from Russia and Central Asian nation pipelines
- Average annual growth demand prediction of 12% to 2020





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