

## China and Asia in 2012 Strategic Imperatives for SA Businesses in the Year of the Dragon

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### The Beijing Axis – Four cross-border businesses



- Founded in 2002; has successfully worked with many international and Chinese/Asian MNCs
- Operates in four synergistic cross-border China/Asia businesses
- Provides services across various sectors, with a core focus on the MINING, RESOURCES, INDUSTRIAL and ENGINEERING sectors
- Provides solutions to international firms as they act in unfamiliar territory in China/Asia
- Provides solutions to Chinese/Asian firms as they venture out and 'go global'



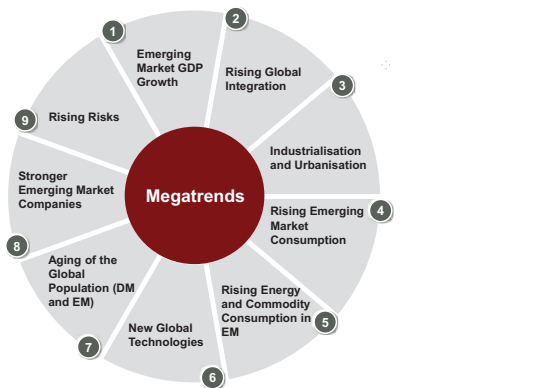
### Africa Axis – Four cross-border businesses



- Founded in 2010; has successfully worked with many international and African MNCs
- Operates in four synergistic cross-border African businesses
- Provides services across various sectors, with a core focus on the MINING, RESOURCES, INDUSTRIAL, ENGINEERING and OTHER SERVICES sectors
- Provides solutions to international/African firms as they go global
- Provides solutions to Asian/International firms as they venture into Africa



### A number of megatrends are reshaping the global landscape



Source: Deutsche Bank; The Beijing Axis Analysis



### Key global factors

#### The backdrop

- China's rise ... labour market and supply shock as a producer ... engine as a consumer ... investor
- New competitive lines and forces, winners/losers – the rise of Asia, BRICS, etc
- A two-speed global economy over the medium and long term
- A lasting GDP trajectory in Asia, Africa and Latin America – governance, growth, stability, infrastructure, confidence, etc.

#### The issues now

- Europe broken ... fragile developed markets – and knock-on effects?
- China's landing – soft or hard? Implications for growth and resource demand?
- Tapping into the China story vs. over-reliance on China and need to diversify economic ties
- Strategic intelligence – to make decisions in boardrooms around the world in order to reposition

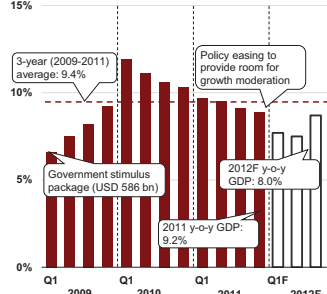
Source: The Beijing Axis Analysis

Agenda

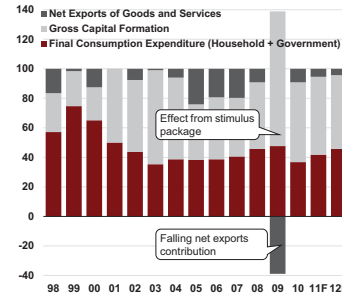
- China's Economic Slowdown – Soft or Hard Landing?
- Business Opportunities in China and Asia
- Challenges in Doing Business in China and Asia
- Final Word

China's economy is heading for a soft landing – more moderate and more sustainable growth

China's Quarterly Y-o-Y GDP Growth Rate (2009-2012F)

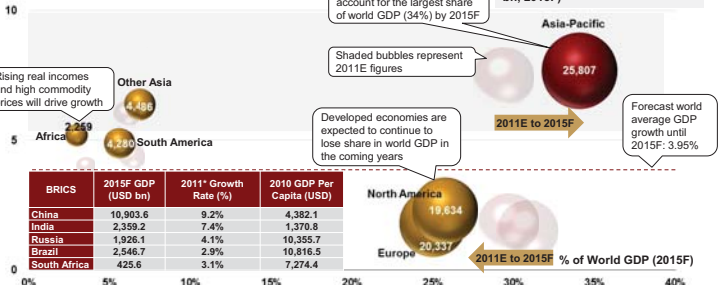


Contribution of Components to China's GDP (% 1998-2012F)



Emerging economies are outperforming the developed world in terms of economic growth. Asia is leading this transformation in the global balance

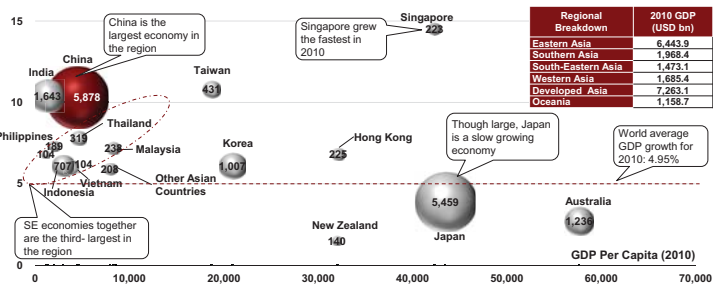
Regional GDP Comparison (USD bn, 2015F)\*



\*Note: Data based on IMF World Economic Outlook  
 \*Note: Other Asia includes Bangladesh, Sri Lanka, Nepal, Pakistan, Bhutan, Burma, North Korea, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan.  
 Source: IMF 2012; The Beijing Axis Analysis

On the back of large and growing infrastructure investments and emerging consumer markets, the Asian economy has significant growth and development potential – China leads the way

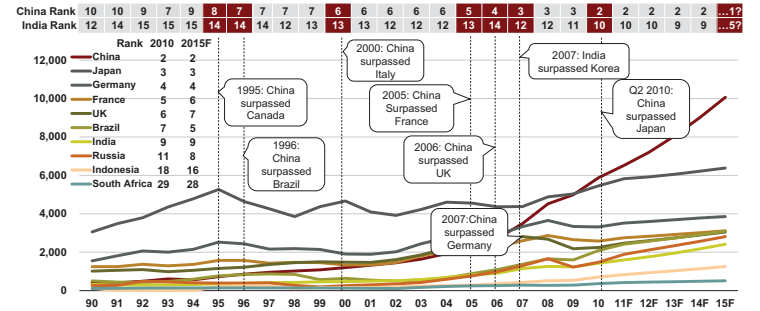
GDP Comparison of Asia-Pacific Economies (USD bn, 2010)



\*Note: The regional breakdown accords to UNCTAD. Regional Breakdown numbers will not add to the total due to overlap  
 Source: IMF; The Beijing Axis Analysis

China became the world's second-largest economy in 2010 and is likely to overtake the US around 2025 to become the world's largest economy

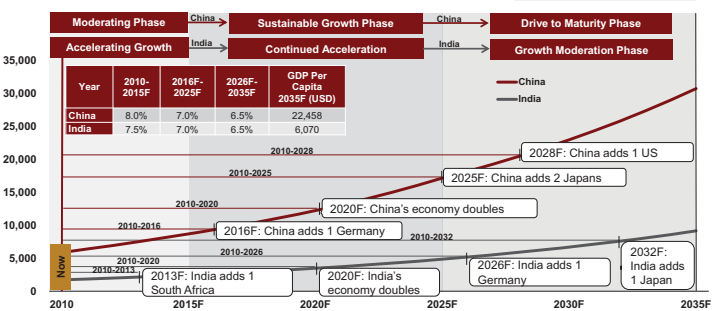
Top Economies' GDP, excl. US (USD bn, 1990-2015F)



Note: Forecast GDP based on IMF Economic Outlook  
 Source: IMF; The Beijing Axis Analysis

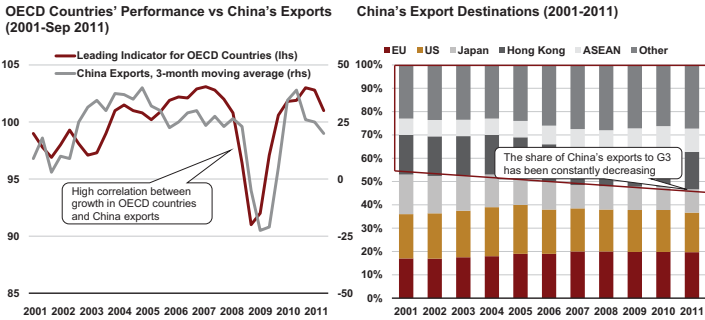
China and India will add significant nominal GDP over the next 10 years and beyond, yet the type of growth will differ

China's and India's Forecast Nominal GDP (USD bn, 2010-2035F)\*



\*Note: Forecast GDP growth rate for each period listed in the graph above  
 Source: IMF; The Beijing Axis Analysis

Weakening demand in the developed world, especially in the EU and US, will continue to weigh on China's export growth – though their overall share of China's total exports has been reducing over time



Key takeaways

- China is striking a fine balance between curbing inflation and maintaining growth in the context of a fragile global economy – look for more moderate but sustainable growth
- China's demand drivers remain intact, but there are clearly more risks in the supply/demand picture
- Dynamism in emerging markets is altering the global business landscape
- Asia occupies a far more crucial role in the global economy – the world has changed and is changing still, with many far-reaching implications
- Heightened market volatility and redistribution of global influence require a more informed and strategic decision-making process

Agenda

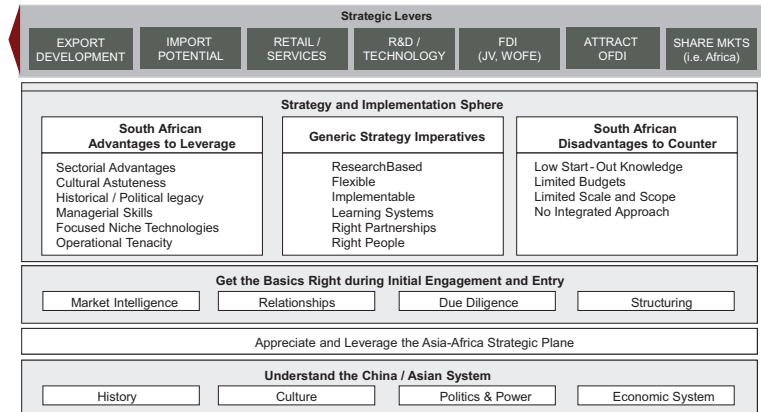
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Final Word

Towards a model for thinking about strategic options in China / Asia

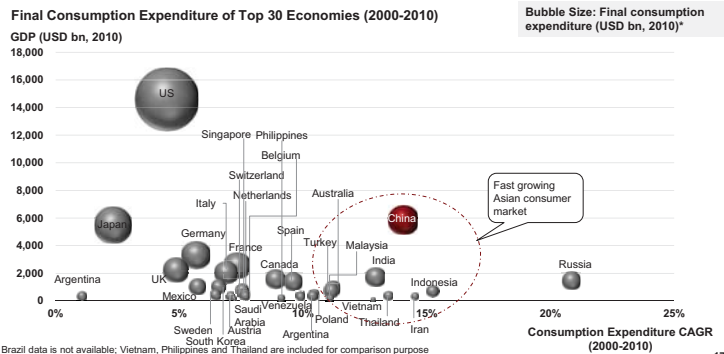


Asia is not homogenous – Appreciate Asia's variability and understand the economic structures and sectorial breakdowns

GDP Shares of Major Sectors in Selected Asian Economies (2010)

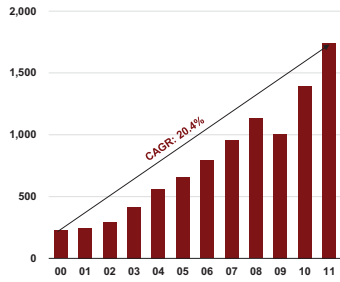
Country	Agricultural	Industrial	Services
China	13%	47%	40%
Hong Kong, China	0%	10%	90%
South Korea	3%	36%	61%
Taipei, China	2%	24%	74%
Indonesia	13%	46%	41%
Malaysia	8%	50%	42%
Myanmar	51%	14%	35%
Philippines	14%	33%	53%
Singapore	0%	33%	67%
Thailand	10%	44%	46%
Vietnam	21%	41%	38%
Bangladesh	19%	26%	55%
India	19%	24%	57%
Sri Lanka	17%	27%	56%

Asia's increasing consumer market will continue to provide favorable market opportunities over the next few years – tap into the China / Asia opportunity

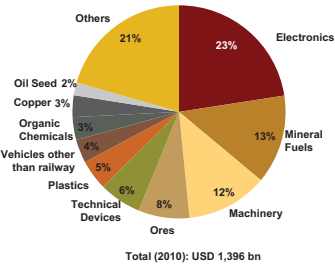


To fuel the growing economy and meet local consumer demand, China is relying heavily on imports

China's Imports (USD bn, 2000-2011)



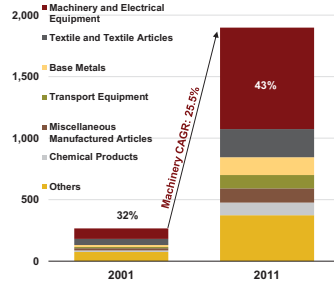
China's Imports Breakdown (2010)



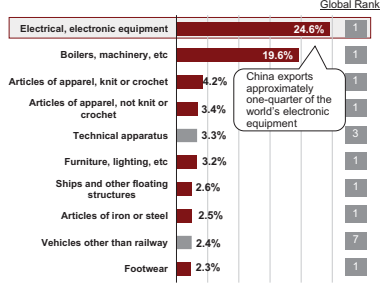
\*Note: Total means China's total imports based on trade value; Mineral fuel includes coal  
Source: CNBS; UN Comtrade; The Beijing Axis Analysis

China is not only the large consumer market but a leading exporter of many categories of goods, mainly apparel, electrical and heavy machinery

Exports of Commodities Produced in China (USD bn, 2001-2011)

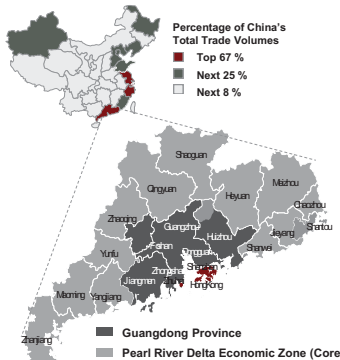


China's Top 10 Export Commodities and % Share of World's Total Exports (HS 2007 2-digits, 2010)

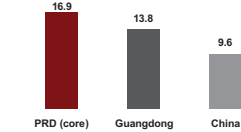


Source: UN Comtrade; The Beijing Axis Analysis

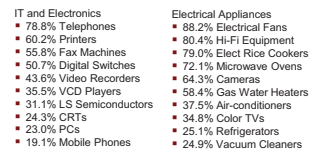
Various manufacturing clusters exist in China - Drill down for best sourcing results



GDP Average Growth Rates (% 1980-2010)

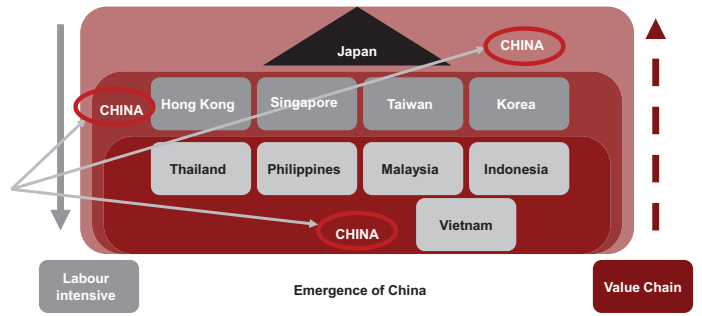


Delta's Portion of Mainland Output



Source: Guangdong Statistical Yearbook; China Statistical Yearbook; The Beijing Axis Analysis

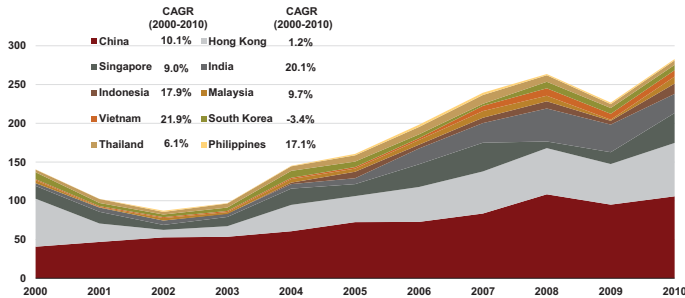
China is defying the 'flying geese formation'. The Chinese economy is simultaneously active across the entire spectrum of the value chain from labour-intensive industries all the way up to high-tech



Source: The Beijing Axis Analysis

In the last decade, Asia has emerged as an attractive destination for foreign investments – China has attracted the most inflows

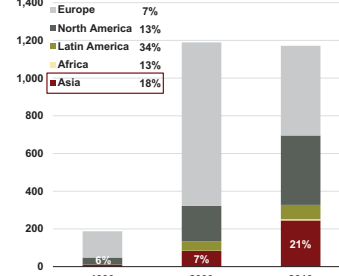
FDI Inflows in Selected Asian Economies (USD bn, 2000-2010)



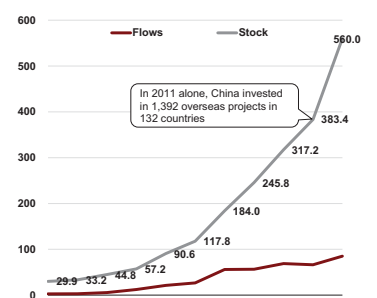
Source: UNCTAD; The Beijing Axis Analysis

The Asian region is gradually also becoming a prominent source of OFDI - China's OFDI stock is expected to reach USD 560 billion by 2015

OFDI Flows by Source (USD mn, 1990, 2000, 2010)



China OFDI Stock and Flows (USD bn, 2002-2015F)



\*Note: China OFDI flows for 2011 do not include financial investments from September-December 2011  
Source: UNCTAD; The Beijing Axis Analysis

### Key takeaways

- New emerging opportunities in China / Asia as development intensifies and a new class of consumers emerges on the global economic platform
- China / Asia is also becoming more important as new supply base
- China / Asia has emerged not only as an attractive destination for foreign investments but also as a prominent source of OFDI – Expect the trend to continue
- Balance risks/ opportunities – right product/services, market entry strategy, channels to market, marketing strategy

### Agenda

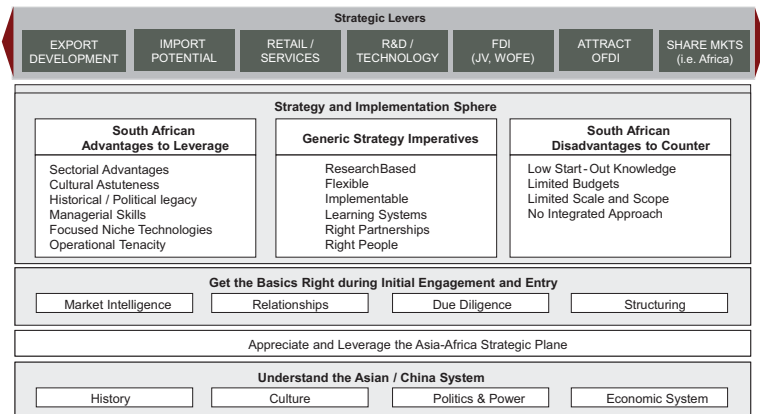
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#### Final Word

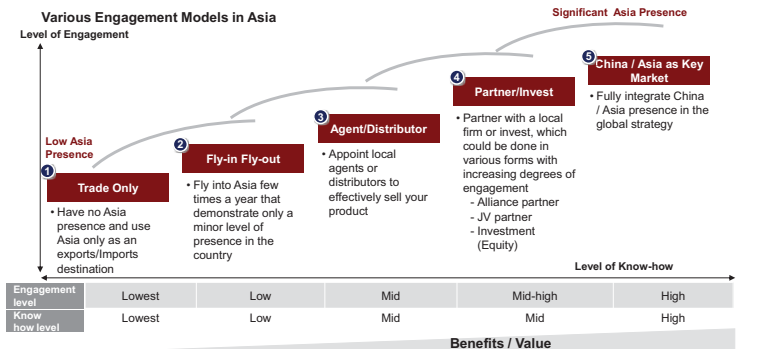
### Towards a model for thinking about strategic options in China / Asia



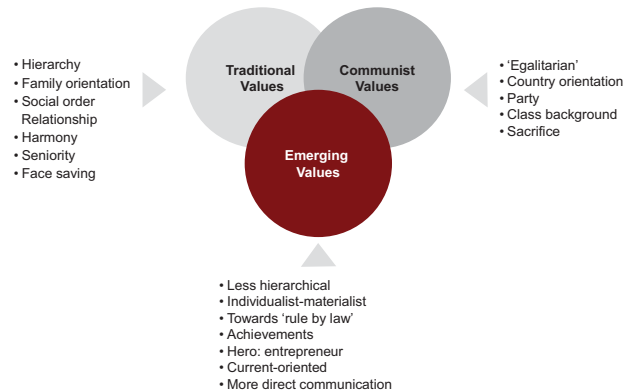
### Be completely informed about the practical challenges and understand the critical success factors

Challenges	Description	Critical Success Factors	What needs to be done
1 Language and culture barriers	• Language barrier is a significant barrier while conducting business in China / Asia • Management style, ways of doing business are different	1 Appreciate and adapt culture differences	• Cultural astuteness, be on the ground • Work towards diminishing the impact of cultural differences in regards to ways of doing business
2 Intense competition from domestic players	• Increasing consolidation is further strengthening the domestic players • Better understanding of the market, clients, consumers	2 Determine the right entry strategy	• Understand the market realities and determine the right mode of engagement • Invest in relationships and seek advice • Threat vs. opportunity (Partner, client, competitor)
3 Complex government rules and tax regulations	• Regulatory requirements vary across industries, provinces and across cities • Frequently regulatory change requires a thorough know how	3 Engage with Key Stakeholders including govt. bodies	• Familiarise with the local requirements • Understand what key stakeholders will be relevant and what they mean for you • Invest in building relationships
4 Finding the right partner	• Restrictions on the extent of foreign participation • Difference in management styles of the Chinese partner	4 Conduct a rigorous due diligence	• Due diligence, due diligence, due diligence • Fully comprehend and understand the risks • Seek advice from international firms in China
5 Finding the right talent	• Managers and skilled labour are in short supply • Retaining talent is difficult	5 Right steps from recruitment to development to retention	• Non-financial motivation is just as important • Do your best to retain key people • Seek advice from international firms with China experience on whom and how to hire

Nevertheless, a successful Asia strategy often starts with a low level of engagement and gradually becomes more complex as companies increase their China / Asia know-how



### The Chinese culture in flux - merger of ideas, principles and multiple values





### Exporting to China – A check-list

- Segmentation: Big Tier-1 cities are NOT always the core of the market
- Adapt to the scale: Change the business model
- Needs across sectors: Resources, industrial, manufacturing, consumer services
- Get to 'know' China
- Face challenges (next slide)
- Pointers for entering (next next slide)



### Challenges to anticipate

- (True) market intelligence
- Doing due diligence and setting up
- Focus and segmentation is difficult
- Finding and retaining business partners
- Change is drastic and continuous
- It's going to cost



### Pointers for entering (i)

- Channel-to-market: The model
  - One to one
  - One to many
  - Many to many
- Commitment and strategy must be clear
- Second-level exploration, or taking a second look (deep-dive; full due diligence)
- Geographic and product focus



### Pointers for entering (ii)

- Use good intermediaries
- Develop your partnership(s)
- For YOUR strategy: Is HK necessary? Useful? Redundant?
- Marketing and business development
- Logistics
- Get into the system
- Fairs and exhibitions
- Export development missions




### Realities about the China market

- China is not a single large market, but many smaller dissimilar markets
- Many MNCs have shown that entering is easy, making money is very tough
- Long-term commitment is key – and don't bank on near term payouts
- Joint ventures often harbor more problems than the benefits that they bring(1)
- Transition to local execution is vital to sustainable success
- Regulatory issues are a key consideration
- Chinese management decisions are complex
- Local competition can be fearsome and do rise very quickly
- Without a clear strategy things are tougher, so have a "Day 1" agenda and not merely a "let's go" attitude
- China's sourcing advantage is undisputed, but be strategic



### Key takeaways

- Right information
  - Right people in the team
  - Integrate (become an insider)
  - Due diligence
  - Right partners for success
  - Right service providers
- 
- Right strategy formulation
  - Appropriate operational business model



## Agenda

**China's Economic Slowdown – Soft or Hard Landing?**

**Business Opportunities in China and Asia**

**Challenges in Doing Business in China and Asia**

**Final Word**



## Final Word

- There are new markets that matter – a new competitive landscape is unfolding
- Asia is the foremost up-and-coming developing region in the world, led by China, India, Indonesia. Indo-China is a long term phenomenon, with many side-effects
- Tap into the China / Asia opportunity - China matters more and more and is high on the agenda for businesses around the world and it is not impossible
- Doing business in China is relatively complex and needs a systematic approach – understand the variability, volatility and exceptions
- Be strategy (horizon) led, not operations (today) led - good strategy implementation is key (Processes, systems and people (and partners in China / Asia)
- All about people – right people, right attitude, right skills, right leadership, right focus
- Analysis, strategy formulation, engagement and implementation

## THANK YOU!

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