



Opportunities in China after WTO

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Economic Success of China

- ◆ Economic growth rate:
 - ◆ 1992: 13%, 1993-2000: 7%
 - ◆ Income per capita: \$3,000 in Shanghai
 - ◆ \$800 on average
- ◆ Foreign exchange reserve: \$120 billion
- ◆ Foreign investment: \$100 million a day
- ◆ \$450 billion since 1979
- ◆ Savings rate: 30%



Opportunities

- ◆ A huge market: population 1.3 billion
- ◆ After joining WTO, huge opportunities will emerge
- ◆ After WTO, China will go through major changes:
 - ◆ Industry structural change
 - ◆ Employment structural change
 - ◆ Business structural change



After Joining WTO: Industry structural change

- ◆ Structural change:
 - ◆ Agriculture: global: 7%, China: 17%
 - 750 million billion rely on ag. , 370 million farmers, need only 90 million, and low quality labor force
- ◆ Modernization of agriculture sector:
- ◆ 35% traded through open market, 65% self contained.
- ◆ No industrialization, low added value
- ◆ Low internationalization: 10% int. trade, 3% of foreign investment in agriculture sector



Agriculture Sector

- ◆ Overdevelopment of farm animal sector, as a result, a lot of natural disasters. Relief funds have increased dramatically in the last few years.



Structural Change: the rise of service sector

- ◆ Service industries are underdeveloped: global: 61%, China: 40% (Third Industry: services plus construction)
- ◆ Business services: Open foreign entry after one year but with a limit, foreign laws firms can set up after 2007
- ◆ Accounting and tax services: ownership restrictions before 2004 and open to foreign firms after 2007 .
- ◆ Engineering design: open after 2004
- ◆ Computer services: open after 2004 .
- ◆ Leasing: Foreign partial ownership after 2003, open to foreign wholly owned subsidiary after 2006 .
- ◆ Infrastructure construction: open 2004, lift geographical restrictions after 2007 .



Service Industries after WTO

- ◆ Value added telecommunications: open after 2004 without area restrictions.
- ◆ Distribution: retail and wholesale: liberalization degree is high. Walmart claimed to open 200 stores in two years.
- ◆ Educational services: open
- ◆ Finance and insurance: Ownership restrictions in the first two years, open to foreign ownership after 2007



Service Industries after WTO

- ◆ Securities: More conservative. Foreign ownership limited to 35%, no wholly-own subsidiary.
- ◆ Information services for financial sector: no restriction .
- ◆ Tourism: \$16 billion revenue., open to foreign entry after 2001 with restrictions and complete open after 2007
- ◆ Transportation services: gradually release restrictions after 3 years.



Structural Change: business and employment change

- ◆ Business structural change: more private business
- ◆ More professional managers: need 1.35 million MBA now
- ◆ Urbanization and the rise of medium cities
- ◆ Industrial structure, employment structure, business structure will change (private businesses will increase to 83%).
- ◆ Open to foreign competition after 2007, Can China be ready in five years?
- ◆ No, then why WTO?



Opportunities for Taiwan Businesses

- ◆ New China: The size of Chinese economy in the future: The case of Motorola in 1992
- ◆ Competitive advantages of Taiwan businesses?
 - ◆ Chinalization for food and consumer products
 - ◆ Quality of manpower
 - ◆ Language and culture: information industry (e.g. Linux based system)



Opportunities of Taiwan businesses

- ◆ 1. Industries with “Chinalization” elements:
Food, agriculture, entertainment, consumer goods.
- 2. Transparency and M&A of medium size companies
- 3. “Asset” management: dam, airports, science park,
- 4. The largest opportunities lie on industry evolution in China



Industry Evolution

- ◆ China: . Continental economy with a huge potential to exploit economies of scale and scope .
- ◆ 2. Fragmented industry structure
- ◆ The current industry structure of China is similar to that of US 100 years ago!
- ◆ Can we learn from US experience?



US Industry Evolution

- ◆ 100 years ago US: fragmented industry structure
- ◆ Industry revolution: machineries replaced labor, realized economies of scale
- ◆ But scale economies were restricted by the market size
- ◆ Railroad system (1910) and Telegraph changed the business landscape.



US Industry Evolution

- ◆ Economies of scale and scope then drove the industry evolution and economic growth.
- ◆ Market concentration increased in many industries through merger and acquisitions.
- ◆ Industry structure transformed to oligopoly.
- ◆ Managerial Capitalism thus emerged
- ◆ These oligopolists then dominated US for the next 100 years.



US Dominant Firms Emerged 100 Years ago

- ◆ Mail-order houses: Montgomery Ward (1872) and Sears, Roebuck (1890)
- ◆ Oil: Standard Oil Trust (1881)
- ◆ Food: Quaker Oats (1882)
- ◆ Branded products: Proctor & Gamble (1885)
- ◆ Machinery: Singer (1880s), Eastman Kodak (1890)



US Dominant Firms

- ◆ GE (1892), Westinghouse (1880's)
- ◆ 3M (1902)
- ◆ Gillette (1890's), DOW, Union Carbide,
- ◆ Du Pont, GM, Ford,.....
- ◆ Strategy: Enjoyed first move advantages,
- ◆ vertical integration, M&A, internationalization, product diversification by leveraging R&D and organizational capabilities.



Impact of the Consolidation

- ◆ The need for capital and the development of efficient capital markets.
- ◆ The diminishing role of family business
- ◆ The rise of professional managers. Wharton School of Commerce and Finance (1881)
- ◆ The rise of modern management as competition changed to marketing-based.



US and Chinese Industry

Evolution

- ◆ Will China duplicate 100 year ago US experience?
- ◆ Dominant players in different industries will emerge in the next five to ten years.
- ◆ These dominant players may dominant the Chinese market for the next 50-100 years.
- ◆ What should Taiwan businesses do?
- ◆ Presidential Enterprise vs. General Mill, 大潤發 vs. Walmart.



Problems

- ◆ Insolvent banks
- ◆ Triangle debts
- ◆ Retired persons
- ◆ Governance structure of SOEs:
stockownership, Chien-Bao(承包制), or
Township businesses ,
- ◆ Unemployment after WTO
- ◆ Compete with MNCs.