China 101 Facts, Trends & Opportunities

David Gilbert - January 2008

China 101

Key facts

- **Full Name** – People's Republic of China (PRC)
- **Population** - 1.3 billion (July 2007 UN estimate)
- **Size** - 9.6 million square kilometers
- **Capital** – Beijing (14 million people)
- **Languages** - Mandarin (mainland 70%), Cantonese (Hong Kong) & local dialects
- **Politics** - Communist (president Hu Jintao)
- **Army** – 2.5 million troops, nuclear capability
- **Environment** - Pollution "like no other"
- **Living Standards** – Vast gap between rich & poor
- **Education** - 400,000 technical graduates pa.
- **Economic Growth** - 8-10% annually approx.
- **National Sport** – Ping Pong

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Geography – Tier 1&2 cities

Tier 1
Beijing (Capital)
Shanghai
Hong Kong

Tier 2
Chengdu
Hangzhou
Guangzhou
Ji'nan
Nanjing
Shenyang
Shenzhen
Tianjin
Wuhan
Xi'an

China 101 Great Wall

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Political situation

- Chinese Communist Party (CCP)
  - Slowly becoming more democratic under the principle of “democratic centralism”
  - Issues with corruption at lower levels
- “1 Country, 2 Systems”
  - Hong Kong / Taiwan / Tibet tensions ongoing
- Media censorship & monitoring extensive
- Maoism has a strong hold in peoples’ minds
- Respect of basic human rights still a concern

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When Yes means No! (or Yes or Maybe!)

Old **vs** New

10 Years **vs** 1000 Years

Learning **vs** Memorising

“Freedom” **vs** “Harmony”

Independence **vs** Family / Collectivism

Goal orientated **vs** Process orientated

Knives & forks **vs** Chopsticks

Understanding is the key to avoiding confusion -
respect each others cultures & do not expect change

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Beijing 2008 Olympics

同一个世界 同一个梦想
One World One Dream

- China's big coming out party
- Chance to impress world & improve image
- Vast area of Beijing cleared to make way for Olympic park - effectively rebuilt city
- $40bn cost (official estimate)

China 101 Nanjing

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Innovation

- Many people regard China as a copycat
  - However *innovation arbitrage* is a global phenomenon; ideas and models are adapted for local markets
- Currently little/no disruptive innovation
  - Chinese innovation will emerge in sectors suited to the demands of China's market
- Already strong in
  - IM (70% penetration – used more than email)
  - P2P streaming (few IP restrictions)
  - Mobile (over 520m mobile users in China)
  - Online gaming & virtual goods

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Web companies to watch

* images from “An Overview of Web Innovations in China” by Tangos Chan - China Web 2.0 Review

China 101 Temple of Heaven

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Outsourcing trends

- Chinese outsourcing market is growing at approx 30% annually [IDC]
- India is leveraging China for low-cost outsourcing
- Outsourcers are spreading risks by choosing a number of geographic locations based on cost, quality and markets
- Chinese firms will be creating major new market opportunities in the next few years by strategically acquiring business outsourcing companies
- Many Asian-Pacific headquarters across industries are currently relocating to China from places like Australia, Hong Kong, and Singapore

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Outsourcing opportunities

- Using China-based outsourcers can result in savings of around 37% over comparable India-based companies [PricewaterhouseCoopers]
- Foreign clients account for just 10% of total revenue currently [McKinsey]
- There are no clear market leaders yet
- Outsourcing service providers could generate $56 billion in revenue and create 4 million jobs by 2015 [EDS]
- China is India's major challenger - the government, clients and suppliers are discovering and developing China as outsourcing destination

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Interesting facts

- Infosys has committed to spending $65 million over the next five years to build consultant campuses in China
- Salary level of an engineer in 2nd tier cities around $250+ a month ($500+ in Beijing/Shanghai)
- Japanese clients account for about 60% of the non-domestic outsourcing work in China (US/EU 22%) [Analysys International]
- Companies such as Accenture, IBM, Hewlett-Packard, and Indian vendors Wipro and Tata Consultancy Services are ramping up in China

China 101 Wuhan

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Pros of outsourcing to China

- **People** - abundant supply of raw talent (largely untapped in second-tier cities)
- **Education** - good universities provide strong training and basic skills
- **Language** - English and communication skills are swiftly catching up
- **Infrastructure** - more robust than India (roads, water, electricity, bandwidth, office space…)
- **Cost** – up to 5x cheaper than US, 2x than India with tax incentives for “clean industries”
- **Law** – new laws protect private ownership, IP & public/private or foreign/domestic partnerships

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Cons of outsourcing to China

- **Communication** - English skills uneven
- **Quality** - graduate skills uneven
- **Intellectual Property** - poor protection
- **Time Zone** - GMT+8 (9am UK, 5pm CN)

None of these are insurmountable but require careful attention – the main solution is **training**

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Recommendations

- Gain a clear understanding of the Chinese law and government policies associated with foreign business activities
- Find local partner(s)
- Establish comprehensive contractual terms
- Conduct a trial project before transferring critical work to any outsourcing partner
- Periodically reassess the relationship and monitor stability of the political environment
- Be Chinese (be patient!)

China 101 Lama Temple

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Conclusions

- China & India likely to dominate the next decade in terms of providing low-cost labour and key technology skills
- The challenge is to overcome language / cultural / IP concerns
- Market opportunities will continue to grow

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Further reading

- The China Vortex - chinavortex.com
- China Web 2.0 Review - cwrblog.net
- China Law Blog - chinalawblog.com
- China Economics Blog - http://china-economics-blog.blogspot.com
- China Success Stories - chinasuccessstories.com
- All Roads Lead to China - allroadsleadtochina.com

randomwire.com