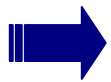




Welcome to the July-August 2009 edition of Pragma's China Newsletter, prepared by Jesa



## News from Jesa

China is not only one of the markets in which companies have to be present and active. It is also becoming an important showcase for products and industries that overseas companies should attend if they want to make the most of the Chinese market.



by Saro Capozzoli  
Founder and GM of  
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Exhibitions in China are gaining more and more importance worldwide and attending them is a good opportunity to meet this fast growing market.

As a company that has been dealing for more than 10 years with foreign companies willing to invest in China, we have taken part in different approaches and decision making processes that have allowed us to deeply analyse the reasons why many foreign companies decide to attend exhibitions in China.

Without any doubt, exhibitions allow companies to have a first contact with the market. However, according to our experience, this step is useless if it is not carefully targeted. Are exhibitions worthy investments? How to get the most profitable results from them?

Unfortunately, many companies approaching the Chinese market through exhibitions do not plan these events properly.

In Jesa, we believe that exhibitions are the key to success and that they must be properly organized. Attending an exhibition with the support of a domestic company can help foreign companies to get more added value from their attendance.

We do not only mean support in arranging the stand and dealing with interpreters or hostesses. These conditions are only one of the success drivers that have to be put coupled with upstream and downstream activities that can add value to the companies' participation.

We do believe that a preventive screening of potential Chinese clients and/or suppliers that the company wants to target is a suitable way to circumscribe the efforts and enhance the possibility of success.

Inviting them to visit the booth, preparing some useful material for them and taking time to explain the advantages and the strengths of the company is a way to catch their interest. If the product is unknown on the market, a conference can be organized inviting potential clients, media and industry associations to deepen the discussion and the explanations.

Once the stand has been dismantled and companies are back in their offices, it is the moment when everything starts. It is time to keep in touch with the potential clients/suppliers met during the exhibition in order to follow up the requests and the reciprocal interests.

We strongly believe that attending exhibitions in that way can be a successful added value approach and we are currently developing a range of services to support foreign companies during these events.

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## What is Jesa?



Pragma's and  
Jesa's logos in  
Shanghai

Jesa is a service company headquartered in Shanghai specialising in facilitating start-up of new industrial productions while providing reliable management and control solutions. We operate 4 main branches in China and a foreign office in Ulaan Baatar (Mongolia).

Since 1998, Jesa has built a team of 70 specialized employees in addition to 25 save technicians following "in loco" projects. Commercial relationships are exclusive and strictly confidential, ensuring the highest expertise on every single commercial and technical issue.

Jesa is a leader in managing manufacturing processes and eliminating any industrial and regulatory problems while helping our clients financial resources and time.

Jesa is currently expanding its services providing support to those companies seeking to develop distribution network and retail system in China as well as in Mongolia.

We also perform HR audit and investment analysis (trouble-shooting analysis) to verify performances in support to companies already established in China, and we provide tax and accounting consultancy.

## New opportunities arising in Chinese renewable-energy sector



Workers empty out trucks loaded with rocks and stones to block the Jinsha River at Xiangjiaba, southwest China. The third largest hydropower plant in China, which is expected to be completed by 2015, will be able to generate 30.7 billion kw hours of electricity a year.

Recent election of Barack Obama to the U.S. presidency together with the ongoing of global economic crisis has lead investor to give prominence to renewable energy as a stimulus for new economic growth. U.S. and China are striving their efforts in order to overtake Europe both in the production and implementation of renewable-energy power plants.

At present, U.S. occupies first position in implementation of green-fields but China follows up. Mr. Zhang Xiaoqiang, vice-chairman of China's National Development and Reform Commission (NDRC), the China's energy watchdog, announced to the London's press Telegraph that renewable-energy target will be set much higher than those established in 2005 plan. The aim is to produce 15% (from its current 7%) of its energy needs from non-fossil fuels by 2020, representing a compound growth of more than 50% over the period and becoming not only a producer but also a consumer (98% of current production is exported).

Beijing has several reasons to accomplish this task. First, the plan strongly contributes to the development strategy of the country since China was several times short on capacity, causing frequent blackouts and slowing down the fast-expanding manufacturing growth. Investing in renewable-energy will allow the Asian country to guarantee national economic security and energy development also by enhancing cooperation with other countries and boosting the innovation ability. The market is also expecting a cost reduction in component's costs as offer increase and competition will be tougher. Secondly, China relies on coal for the 70% of country's energy needs and the world is facing a dramatic increase in commodity's cost. Reducing its dependence on coal will allow the government to save money and invest in other projects.

A green change would also positively affect the working market in two ways: by creating new jobs and by closing coal mines where thousands of people remain injured every year due to the lack of security in their work environment.

Last but not least, is the theme of sustainability and environmental protection. Worldwide public and private organization are becoming more and more interested in climate change, leading governments to pass new regulation and laws about greenhouse gas emissions and re utilisation of waste which are becoming every times stricter. China is the second largest producer of carbon emission, in this way requiring the country to take some actions toward an improvement.

Numbers are the following: for the period 2009-2020 hydropower generation capacity will increase from 170 to 300 million kW; plant-based ethanol will be rising from 1 million tons to 10 millions; solar power generating from 1.3 million kW to 3 million kW; solar power, where China represent one-third of global solar component production, will reach 1,800 Mw. The plan will account investments for 2 trillion Yuan (US \$ 293 billion) and will lead to 1.2 billion tones less carbon emission per year in 2020. China is also planning to build 10GW wind power bases in the coming years and integrate them into the mainstream power grid in order to speed up the pace of wind power development in the country. Strong efforts are to be made to develop offshore wind power resources as offshore wind energy offers higher speeds, no occupancy of land resources and smaller impact on the environment.

Recently created NEA (National Energy Administration), the agency responsible for formulating and implementing energy development plans and industrial policy in China, is building eight new nuclear power plants whose reactors have a total installed capacity of 10 gW, in this way doubling current capacity of 9 gW within the next three years and supplying around 1% of the country's energy needs.

To show how the China's plan is appealing investors, Vesta, the world's leader in turbine manufactures, recently decided to shut down its manufacturing in U.K. and open new production plants both in U.S. and China.

Although numbers are incredible, some problems are occurring. Recent economic turmoil has caused a drop in energy consumption of 4% within the Chinese market during the first quarter of 2009. Secondly, energy enterprise's income have declined after a dramatic cost increase in 2008 due to the rising price of commodity (in summer 2008 the petroleum bar was at 140\$). These phenomena is delaying investments on new projects and focusing attention on cost reduction in order to re-establish margin and overcome the crisis. As an example, investment in renewable energy worldwide dropped by \$13.3 bn in the first quarter of 2009, down 53% compared to the same period in 2008.

Soon when the crisis will be absorbed by the economy, China will have a competitive advantage as it is already building solid foundation for a new economic growth according to a sustainable development and a new green awareness, leaving investors the possibility to discover a new economic stage.

## China's plan to stimulate export

Due to the global crisis, American and European consumers have recently lowered their levels of consumption driving China to a stake. In fact, China's exports in May 2009 were falling of a 26,4% compared to the same period of last year, going down to a value of US\$ 88,8 billions. Internal demand is not yet ready to absorb the high level of production industries still have. As we approach them, numbers are impressing, showing how strong and direct is

the effect of the credit crunch and the global financial crisis on China's fast growing economy.

Tax rebates represent one of the measures used by the government for stimulating foreign trade, going from a minimum of 5% to a maximum of 17% and involving up to 600 custom article, including: machinery, toys, textile products and steel. Total rebates amount to 102,4 million Yuan (\$ 15,1 billion) in the first quarter, representing almost a 20% increase on an annual base. By doing so, Chinese government is pursuing the final objective of retaining market shares and maintaining occupation rate over the crisis period. Moreover, according to consumer spending statistic, China is still producing and selling more necessities than luxury goods, this leading the country to a competitive advantage in this particular stage of the global economy.

Textile industry was one of the most affected by the dramatic drop in export. During 2009, tax rebates are going to increase up to 16% for apparel products. The program, started on April 1<sup>st</sup> 2009, has three main aims: stabilize exports to face the decline of international demand; securing domestic employment - the industry employs almost 19 million people and sales for US\$ 180 billion - and facilitate industrial restructuring. The last is achievable through a more intense self-use of capital which can be invested in technological innovations. The policy has been gone along since August 2008 when the Ministry of Finance and State Administration of Taxation of China announce a hike in tax rebate of 1%. Since December 2008 a series of reductions took place for the first time, representing a deep turnaround for the fiscal policy of the last 3 years. Furthermore, fiscal policy are much more effecting than any other because their effect is direct on firms influencing cash flows in the short period. This measure was necessary for the textile export because is undergoing a very tough period with exports falling of about 50% and profit shrinking in 2008 to 104.2 billion yuan (15.2 billion dollars), representing the first decline in over a decade.

Special packages had been established also for the auto industry, so to encourage cleaner technologies to be implemented. Since November 2008, the government is contributing with a stimulus package of 4 trillion yuan (\$ 586 billion) in order to increase infrastructure spending, earthquake relief and social safety net. According to the latest version, released few weeks ago, the 37,5% of the entire amount is going to infrastructure, the 25% to reconstructions in south west regions, and 20% to the rural areas.

But experts are critical about the stimulus pack heading to foreign demand. For instance, China should drive more efforts to expand its domestic market and ensuring its people higher standards of living, as well as reducing the levels of production. Creating a mid class is crucial for a steep growth within the next decade. Current policies are aimed more to solve the situation in the short period rather than establishing new opportunity for the long term. Therefore, something will have to be changed by the Government if the Asian country wants to maintain its growth rate.

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