10 routes to gro

Global recession, inflation and resource depletion threaten China's rapid growth curve. The Futures Company's **J Walker Smith** highlights ten considerations for doing business in China today

Rapid GDP growth has made China stronger, yet more vulnerable, too. Environmental degradation, resource pressures, production capacity gluts, real estate spikes and inflation all threaten China's future prosperity. The challenge facing China in the coming decade is one of ensuring that its rate of growth can be sustained. To do so, these sorts of imbalances in its economy will have to be addressed.

The upside of these imbalances, though, is opportunity. Both the steps needed to address them and the markets created when these steps are completed will provide companies, brands and sectors with strong growth potential. The knot of imbalances and opportunities defining China's future is the focus of a recent Future Perspective white paper from The Futures Company entitled, China's Challenges: From Necessity to Opportunity in the Next Phase of Chinese Development.

It is worth remembering that the recent global downturn brought into question all of the old ways of doing business. China, especially, now has permission to blaze a new trail forward, one that will challenge companies looking for growth opportunities in China in at least ten ways.

1 China's economy is not an unstoppable force. Its momentum is at risk of being slowed, not just by its own imbalances but by the weak economies in slow-growth developed countries, too. For all its independent strengths and potential, China remains tightly coupled to the economic welfare of its trading partners in distressed Western developed markets. China is watching the developed West with bated breath because it is not immune to economic troubles there.

In its June 201 1 'spillover' report on China, the International Monetary Fund noted that China's economy remains very dependent on exporting goods, not importing them. In other words, it sells stuff to other countries more than it buys from them. If China's trade partners cannot buy from it, China will feel the effects. Indeed, China has already reported slowing growth, due in no small part to weak demand from the EU. For China to better insulate itself from the declining fortunes of other markets, it must put the imbalances in its own house in order.

2 For the imbalances in China's economy to be properly purged, three structural and institutional factors must be addressed - quality control, logistics and sustainability. Structural reforms in these areas will have the greatest impact on China's future and thus will offer the best prospects for companies and brands.

Considering everything that China must address, the scale of the challenge is much bigger for these factors. They are problems created by three decades of barely managed growth in disposable income, manufacturing, e-commerce and heavy industry. Indeed, the fact that the Chinese government is prioritising these three areas is evidence that these factors constitute the primary risks to continued growth and prosperity.

3 Quality control is a big issue because of a flurry of safety scandals that have raised alarms about domestic Chinese firms. This has provided an

unexpected benefit to non-Chinese firms. Many now make safety messages to Chinese consumers the core of their marketing platforms, a competitive pitch that comes at the expense of domestic Chinese producers.

To rebuild confidence in Chinese products, domestic brands will have to invest heavily in independent certification. Foreign brands, meanwhile, can sustain an advantage over local rivals by emphasising reputation, resisting price pressure and promoting the independent quality standards of their home markets.

While certification by the Chinese government is important, only quality standards that are independently monitored and enforced will improve a brand's competitive position. Such standards can be promoted as core benefits for consumers.

4 The stage is set for an escalating marketing war. Many Chinese brands want to compete with premium foreign brands. Chinese consumers are willing to pay more if they can be assured of quality and safety. For both domestic and imported brands, such assurance is best provided by transparency. Chinese

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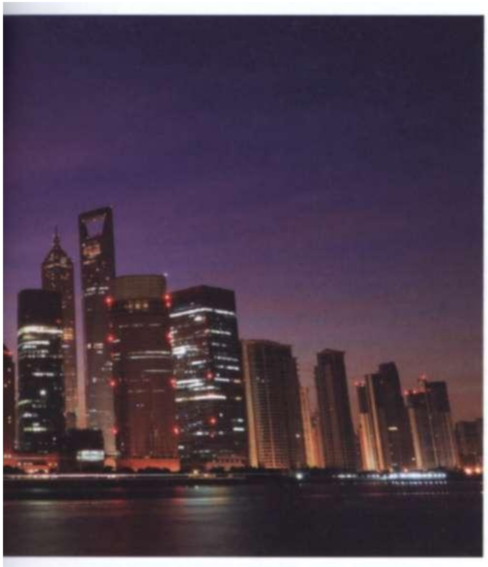

consumers have years of experience with closed doors, so transparency is a genuine advantage that will provide a distinctive and self-validating cue that no corners are being cut.

5 Logistical improvements can open up vast opportunities in the Chinese marketplace. With rising disposable income in lower tier cities, inland opportunities are becoming sizeable. Better transportation and communications networks are key to penetration of second- and third-tier cities. The old rule-of-thumb has been that foreign companies should start on the east coast, and only after consolidating on the east coast move out to the provincial cities. In the past, this was perfectly sensible. Poor distribution and communications networks meant that brands well known in one part of the country could be completely unknown to consumers elsewhere.

Nowadays, it is e-commerce that is most at the mercy of logistical improvements. Efficient distribution systems are vital to doing business online. Consumers are less willing to buy over the internet if delivery is delayed or problematic. Improved logistics could light a rocket underneath the Chinese e-commerce marketplace. Better distribution would establish a more democratic consumer economy in which people, though still limited by price, would no longer be limited by access.

6 Despite the recognised advantages of better logistics, the costs of logistics remain high. Local protectionism, industry fragmentation and rising oil prices are contributors, all of which further exacerbate the inherent difficulties associated with the scale and complexity of the Chinese market. Many Chinese companies recognise that the only way to deal with these problems is to make their own investments in logistics. The next several years are sure to see furious activity in the logistics sector, supported by government policy. A number of forward-thinking Chinese companies are building proprietary distribution and communications platforms.

Increasingly, foreign companies will find themselves in competition with local rivals for distribution resources. Foreign companies will be at a serious disadvantage in interior Chinese markets if they fail to match the logistical investments of local rivals by building their own networks.

7 Even with improvements in cross-country networks, long-distance distribution from a small number of warehouses on the east coast will be costly and inefficient. Foreign companies looking to capture lower-tier markets will do best by securing local infrastructure through acquisitions or partnerships. At the very least, this means investing in local rivals for access to distribution and communications networks.

8 China is making substantial investments in sustainability, many of which are tied to quality-of-life goals that explicitly eschew Western-style consumption and waste. China now leads the world in clean energy technologies. In 2010, China's total clean energy investment was more than one-fifth of the world's total. Such investment is not sentimental. The government sees the environment as part of a system that affects manufacturing, agriculture and defence, not to mention social stability. This is embodied in the recent Chinese concept of a 'circular economy,' meaning an economy in which resources recycle and recirculate, rather than being used then discarded.

9 China has set an objective of improving resource utilisation efficiency ten-fold. During the next decade, the Chinese government has budgeted billions for the aim of reducing carbon intensity by 17% and water intensity by 30% no later than 2015. If China succeeds, this will create long-term advantage for China across a wide range of sustainability industries, including renewable energy, smart grids, IT efficiency and LED lighting (in which China already leads the world).

10 Sustainability is a source of competitive advantage in the Chinese marketplace. Foreign businesses will have to measure up to higher sustainability standards in China. They must recognise that sustainability in their Chinese operations has to be at least as high, if not higher, than what's commonplace in their home markets.

Chinese consumers have a heightened awareness of environmental impact, as is clear from data collected by The Futures Company in its Global MONITOR study. Yet, most Chinese consumers do not see environmental protection as within their control. They want companies and brands to do it. They will respond well to brands that assume this responsibility.

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Fonte: Admap, Washington, v. 47, n. 6, p. 14-15, Jun. 2012.