

China

How Do US Companies Compete in a Global Environment?

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Why China?

China a special market

- A market of significant **Size**
- A market of significant **Growth**
- A market of significant **Resiliency**
- A market with increasingly **Normal** business environment but not without **Risk**
 - * Maturization of reforms and opening up
 - * China's entry into WTO
 - * Business friendly government policies
- A global market with virtually all major MNCs present
- A global low cost manufacturing base
- Large reservoir of high quality low cost engineering talent, skilled labor and a developing management pool

China: The Opportunities

- **Manufacturing Base for the World**
 - * Low Cost labor, overhead and material
 - * Well trained hard working work force
- **OEM Exporting Center**
 - * Low end but climbing the ladder
 - * MNCs creating OEM network in China
- **Large Engineer and Scientist Pool**
 - * 60% of all University graduates
 - * Very focused National R&D programs
- **National Policy to Push Economic Growth**

China – US Companies

Profitability of US Companies

American Chamber of Commerce Survey in May 2005
Over 450 companies from Beijing and Shanghai responded

- 68 percent respondents report either profitable or very profitable
- Almost 25% report they have higher margins in China than globally and another 30% report that their margins are comparable - standard growth goal is 3X GDP
- While there was a slight decline in 2004, there has been a substantial improvement in profitability since 1999
- **Challenges** – Competition/Price Pressure – Battle for Talent – IPR - Red Tape

Challenges for Foreign Businesses

- The need to understand the role of the **government**
- The constancy of **change**
 - Regulations and Standards
 - Authorities
 - Market conditions
- The war for **talent** and the pace and depth of **localization**
- Need to deal with **local competition** and price pressure
- Increasing **economic nationalism**
- Corruption, **IPR** and rule of law generally
- Managing control and **compliance** across the board
- **Corporate Engagement**
- The right **organizational structure**

China – Market Approaches

How should U.S. Investors approach the market?

Selling to the China Market

1. Competition strong and pace rapid
2. But growth and profitability can be strong
3. Market is more open than in most of Asia, but economic nationalism a growing concern
4. Need for localization of COST, Product and Management

Productivity Enhancements

1. Manufacturing in China to be globally competitive
2. Supply chain modern and deep
3. Resources in intellectual capital
4. R&D and Innovation

Sino-US Economic Relationship

China presents great opportunities and a serious economic challenge to the US

- Focus on education - especially science and engineering
- Pro-business government policy
- Increasingly active entrepreneurial class
- Lack of focus by the USG on Economic Security
- Significant trade imbalance

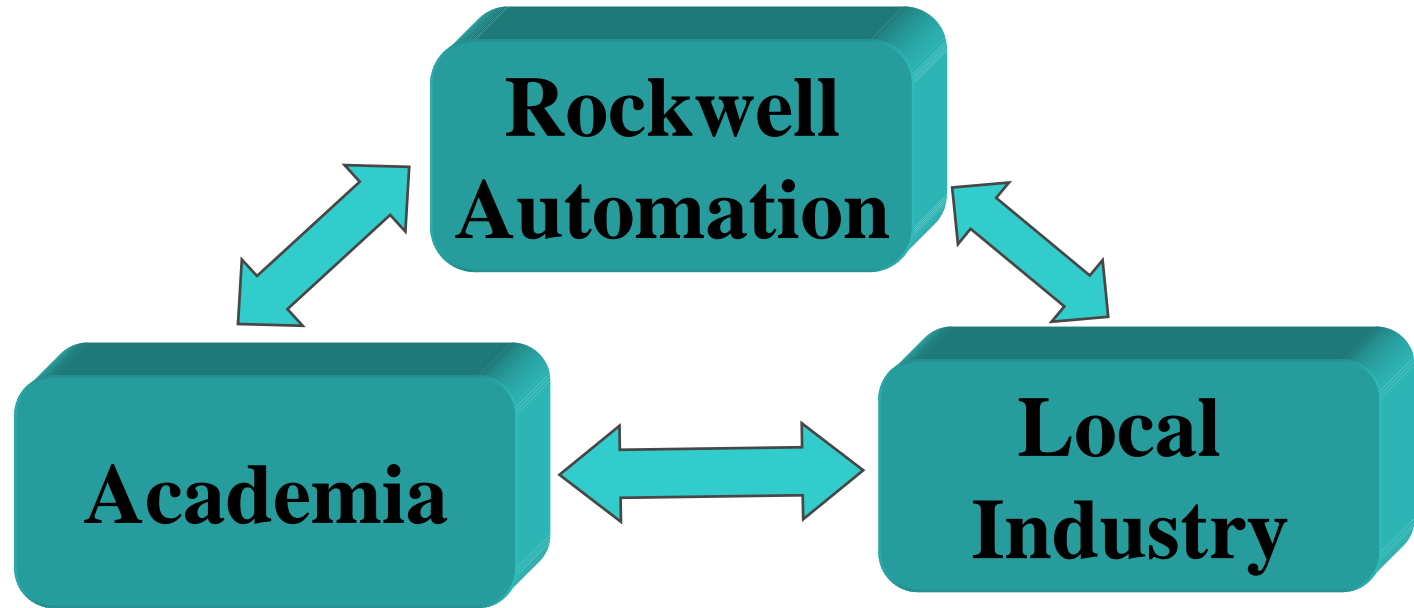
The Impact on Science and Engineering Education

- Economic growth has three components
 - * Labor - 25%
 - * Capital - 25%
 - * Technological progress - 50% (New Ideas)
- Role of government to support technical education and economic growth
- Need for university and industry collaboration
- **Those firms with the best intellectual and technical talent and who are able move the fastest will be the most successful enterprises in the 21st Century and those countries.....**

China and Engineering Education

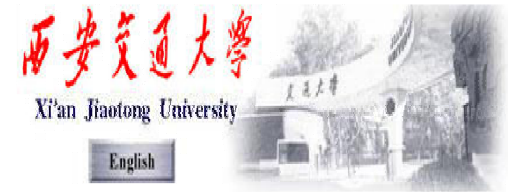
- China is spending vast amounts to upgrade engineering and science education
- The top 50-100 technical schools have or are building vast new well equipped campuses
- Science and Engineering professors are being compensated at much higher rates
- Over 60% of China's university graduates are in the science or technical fields
- Focus on hands-on instruction and innovation

University Partnership Program Objectives



- **Tie together local industry, academia and Rockwell Automation**
- **Support higher education**
- **Enhance local automation knowledge**

Members of RACUPP



The Chinese Engineer

- Strong on theory
- Very good technical depth in a narrow area
- Very good English skills
- Good presence and communication skills
- Weak innovation skills
- Highly loyal if accessed from University.

Possible Answers

- Problem Recognition -
- Education especially S&T
- Promotion of Innovation
- US Government Trade Promotion
- Desire to Compete
- Global mentality
- Second Language Emphasis

China

Thank you!