



SHANGHAI GATEWAY TO BUSINESS IN CHINA

INTRODUCTION

With the sixth largest economy in the world, continued annual growth of nearly 10% and a 1.3 billion people strong population, Big Dragon China has developed a reputation as the “great new market”. A majority of multi-nationals are already in China while small to mid-size firms around the globe are rallying to get on board. Succeeding in China, however, is not without challenge and many companies fail. To be successful, a company must act intelligently. Intelligence means seeking expert advice, ensuring the opportunity is real and entering China through a developed regional market or “gateway” if you will. For most products and services, our gateway of choice is Shanghai.

THE SHANGHAI ADVANTAGE

Until recently, companies entered China via Hong Kong to overcome the difficulties associated with doing business there. With China’s continued development and full implementation of WTO commitments scheduled for 2007, it makes sense for more and more companies to enter China directly through business-favorable Shanghai. An entry through Shanghai gets you *in* China and is better than a full launch given the fragmented Chinese market and fact that 60% of Chinese people still live under rural conditions. Using Shanghai as your China springboard offers many advantages as shown in Table I.

Table I: Advantages of Shanghai as a China Gateway

• One of most transparent business environments in China and favorable business policies	• Large bases for manufacturing, financial and service sectors
• Developed infrastructure including highways, subways, rail, waterways, two international airports, seaports and communications systems	• Residents with progressive more internationalized mentalities
• Presence and influence of many multinational companies and executives	• Ready-made market with China’s highest per capita disposable incomes
• Availability of educated workforce	• GDP of Shanghai plus that of contiguous provinces equals 25% of China total

Local officials work hard to make Shanghai friendly to international businesses. They frequently engage business executives in dialogue and adjust policies to remove unnecessary barriers and red-tape. Taking the provinces of Jiangsu, Anhui and Zhejiang into account, the potential market in the greater Shanghai region becomes even more attractive. Table II compares the Shanghai region to China overall.

SHANGHAI OPPORTUNITIES

On the opportunity side, greater Shanghai offers a sizable market in and of itself. Shanghai area people are more affluent, educated and forward thinking than many people in other parts of China. Trends are set in Shanghai that the rest of China follows. Even the central government uses Shanghai as an incubator of sorts to test reforms and other policies. If there is to be an opportunity in China, there’s a good chance it will manifest itself in Shanghai first.

As China continues to modernize, the demand for a variety of products and services is growing. This is especially true in Shanghai where the expectations of an expanding middleclass are becoming increasingly high. Opportunities for everything from capital equipment to up-scale consumer products and specialized services abound. Per the US

Table II: Shanghai and China Comparative Data ('03-'04 est.)

Measure	Shanghai	China
Population	17 million (< 2% China total)	1.3 billion
Overall GDP	\$73 billion (> 5% China total) \$375 billion for Shanghai region(25% China total)	\$1.5 trillion in 2004; 6 th largest in world, 4.5% of global GDP
GDP Growth	11%+	8.5%+
Income per Capita	Roughly twice national average	Roughly ½ Shanghai average
Foreign Direct Investment	\$6 billion (2003)	\$58 billion
Trade with US	\$19 billion	\$172 billion
Imports from US	\$7 billion (18% China total)	\$40 billion

Commercial Service, commercial sectors to watch include “telecommunications services, transportation infrastructure (ports, metro, light rail and highways), distribution services, environmental technologies, construction materials, architectural and engineering services, industrial equipment, machine tools and manufacturing process controls”. On the consumer side, consider:

- Shanghai has more than 30 Starbucks as well countless KFC’s and Pizza Huts that are consistently busy. Shanghai people are quick to try new concepts, especially ones that are food related.
- As Shanghai’s middleclass grows, so does its demand for services related to convenience, health, financial and insurance. WTO obligations especially support positive trends in the service sector.
- People in Shanghai are discriminating buyers that prefer famous brand products (e.g. watches, cell phones, cosmetics) and services (e.g. MBA programs, language training, life insurance). Such products and services tend to do well even with higher pricing.

OTHER CONSIDERATIONS

Choosing to enter China through a more developed market such as Shanghai generally increases the likelihood of a successful venture. However, even markets like Shanghai offer no guarantees of success. In addition to geographic selection, it’s critical to employ sound business practices as you move into this new arena. A couple of many other important considerations follow.

Ensure Your Opportunity is Real: Don’t make assumptions for China based on your western business experience. Instead, carefully assess how your offering fits in the *China* market. To be successful in China, you need to ensure the following are true.

- Your product or service really is something *Chinese* buyers need or want and are willing to pay for
- No closely comparable low-priced Chinese alternative exists or can be created on short order that will become the preference of local buyers
- Given projected pricing and costs (account for contingencies) your business can be profitable within a reasonable period of time

Seek Expert Advice: Going-it-alone in China is generally cost-ineffective and failure prone. Seek the assistance of experts that know China and have experience at doing what you are trying to do. Experts come in many forms including consultants, attorneys, the US Commercial Service, Chambers of Commerce, businesspeople, etc. Be sure that whoever you choose to work with is qualified to advise you. There are too many “China experts” who interestingly enough have never been to China.

CONCLUSION

China’s continued economic growth, increasingly favorable business climate and massive population are making her an attractive option for companies seeking to expand their business. China offers tremendous opportunities but must be pursued correctly or else significant time and money will be lost. *Entering China with Shanghai as your gateway combined with adherence to sound business practices is a good way to ensure successful participation in this “great new market”.*

ABOUT CHINA SAGE CONSULTANTS, INC.

At China Sage Consultants, Inc. we’re helping US companies to achieve their business development objectives in China. We offer cost-effective support that is a viable alternative to going-it-alone or enlisting a big name consulting firm. Strategies we offer are clear, pragmatic and actionable. Our specialty is growing top-line sales, something that’s often overlooked yet the lifeblood of every successful venture. Enrolling in our China Incubator Program (CBI) is one of the fastest, most cost-effective and results-producing paths into China. We operate from our offices in Shanghai, China and California. To learn how we or one of our partners might help, contact us or visit www.ChinaSageConsultants.com today.