



INTERNATIONAL
TRADE
ADMINISTRATION

Opportunities, Challenges and Strategies for the China Market

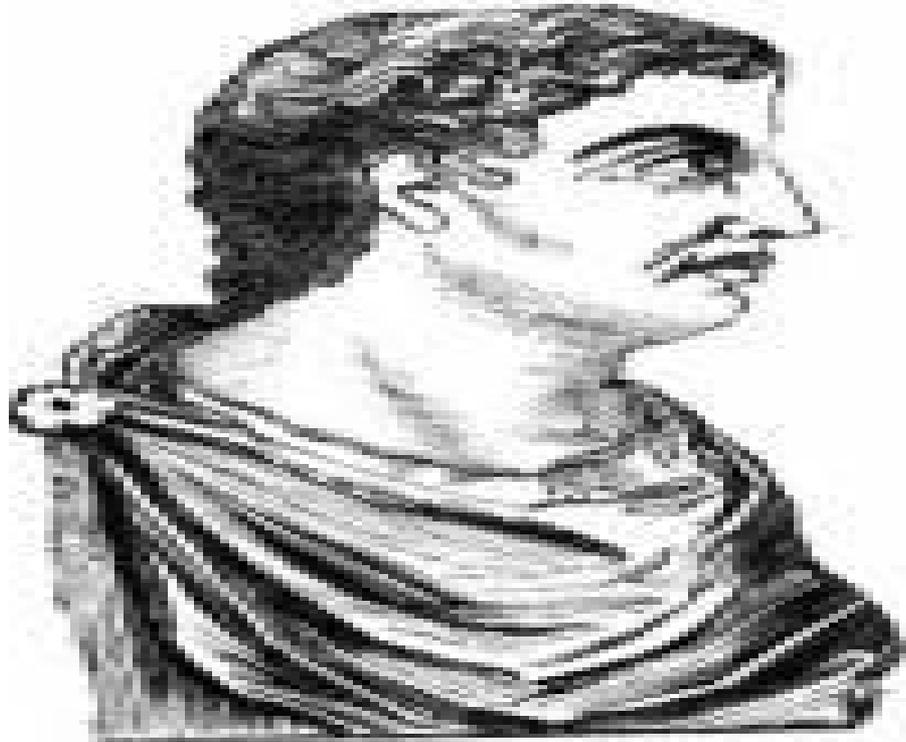
Craig Allen, Deputy Assistant Secretary of Commerce for
China

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Presentation Outline

- **Historic Perspective**
- **Why China?**
- **A snapshot of the Chinese economy**
- **Managing declining growth, government and party perspective**
- **Major Trends**
- **China's technology policy**
- **Focus on U.S.-China trade**
- **Challenges faced by American exporters**
- **Intellectual property rights protection strategies**
- **Finding an agent or distributor in China**

Pliny the Younger – 61 AD – 112 AD



1773 – Boston Tea Party



Why China?

- **China is the world's second-largest economy, with a GDP of roughly \$13.37 trillion (on PPP basis) or \$8.9 trillion (at official exchange rates) and a growth rate of 7.6% in 2013.**
- **China is the United States' second-largest export market, after Canada – surpassed Mexico last year.**
- **In 2013, the United States' merchandise exports to China grew 10.4%, to \$122 billion.**
- **Total U.S. exports, including service exports (\$40b) and exports to Hong Kong (\$42b), exceeded \$200 billion in 2013.**

China & World Markets:

Coal (50%)

Cement (55%)

Steel (50%)

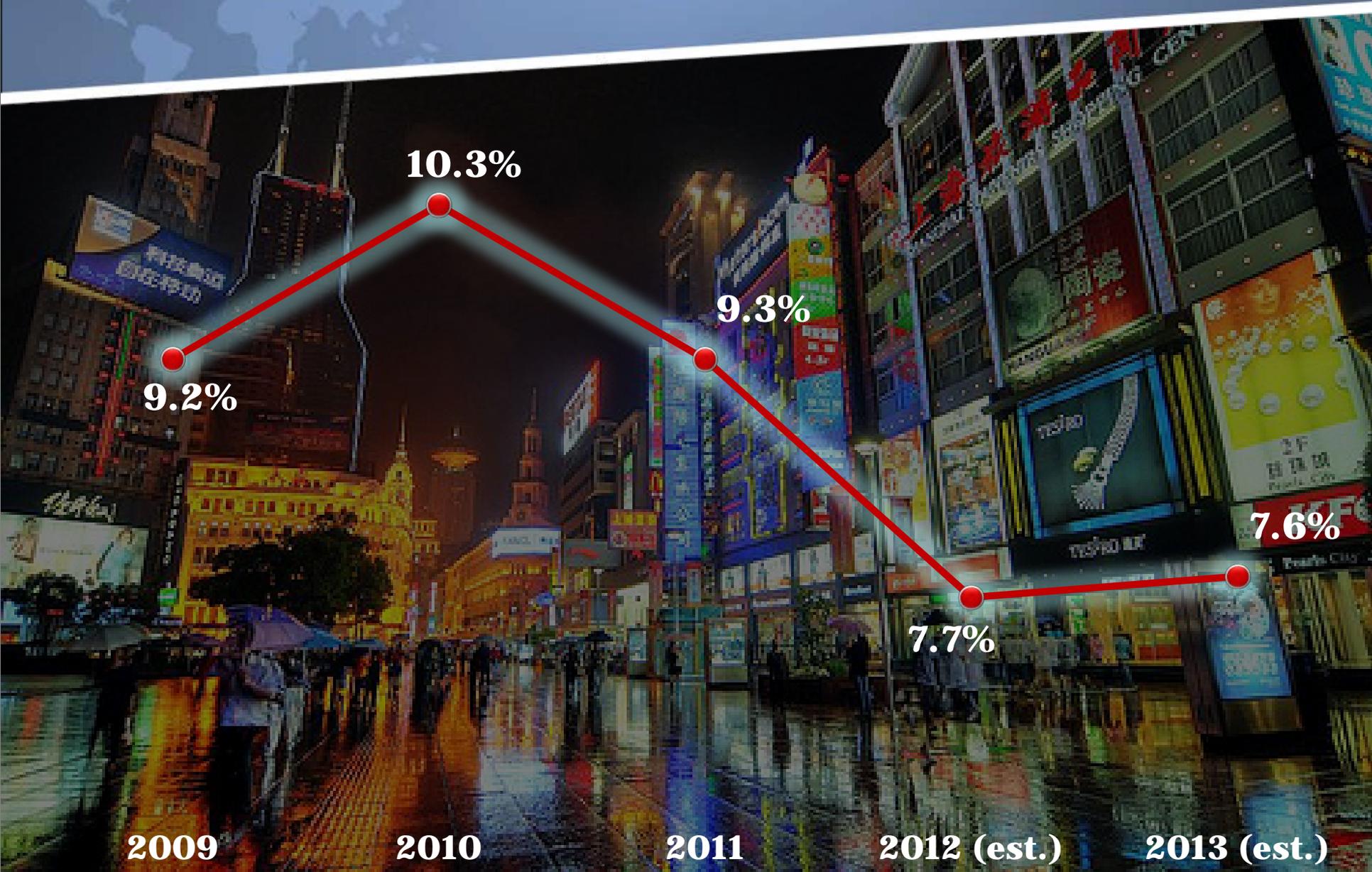
Iron Ore (46%)

#1 Vehicles Market:
Over \$110 billion

#1 Internet Users:
450 million

Mobile Online Service Users:
700 million

CHINA'S GDP



China 2013: In Review

- **GDP: 7.6% \$13.37 trillion (at PPP)**
- **GDP/Person \$9,800 (at PPP) or USD \$4,386 (nominal)**
- **Retail sales up 13.1%**
- **Foreign Exchange Reserves = \$4.00 trillion**
- **China: U.S.' #1 Overseas Export Market outside NAFTA**
- **U.S. Goods Exports to China:
2013: \$122 billion, increase of 10.4%**
- **China Trade Surplus with the U.S. rose 1% to \$318 billion**
- **China Trade Surplus with the world rose by 9% to \$156 billion**

- **Still Strong – but slowing - Growth**

Structural Adjustments in Chinese Economy in FYP, 2012-2016

Government Policy Adjustments

- Transition from export led growth and investment led growth
→ to domestic demand/consumption led growth
- Transition from manufacturing → to the service industries
- Transition from energy intensive → to cleaner industries
- Transition labor intensive → to high technology industries
- Transition from austerity → to higher levels of social spending
 - Education
 - Social Security/Pensions
 - Health Care

CCP's Third Plenum Decision in 12/2013 to deepen economic reform by the “decisive role” of the market

Social Reforms

- One child policy
- Social insurance
- Rural land reforms
- Education reforms
- War on Pollution
- Addressing inequality
- Addressing regional disparity

Economic Reforms

- Greater reliance on market pricing
- Taxation reform
- Fiscal reform
- Interest rate reforms
- Transparency
- Simplifying investment
- Deepening-Reform
Leading Group, Led by Xi

DEMOGRAPHIC TRENDS



Urbanization

- 171 Cities > 1M (9 in U.S.)
- 47% Urban 2010
- 53% Urban 2014

Labor Force Change

Middle Class

- 23% Now
- 48% 2020

Middle Class Growth



Services Consumption

- Education
- Health Care
- Entertainment

Luxury Consumption

- 20% (\$27B) Worldwide Luxury Goods by 2015
- 80% Buyers < Age 45 (50% in U.S.)
- 40% Buyers < Age 35
- Watch the Trends in Ecommerce
 - JD
 - Alibaba
 - Ebay
 - Amazon

High Technology Policy - Strategic Emerging Industries

Sectors Identified to Drive China's Economy in the Next Decade:

- **Next-generation ICT***
- **Biotechnology**
- **High-end equipment manufacturing**
- **New energy**
- **New-energy vehicles**
- **New materials**
- **Environmental protection**

- **\$1.5 trillion estimated investment in SEIs**
- **8% of China's GDP by 2015**
- **15% of China's GDP by 2020**

How does the Chinese Government Support SEIs?

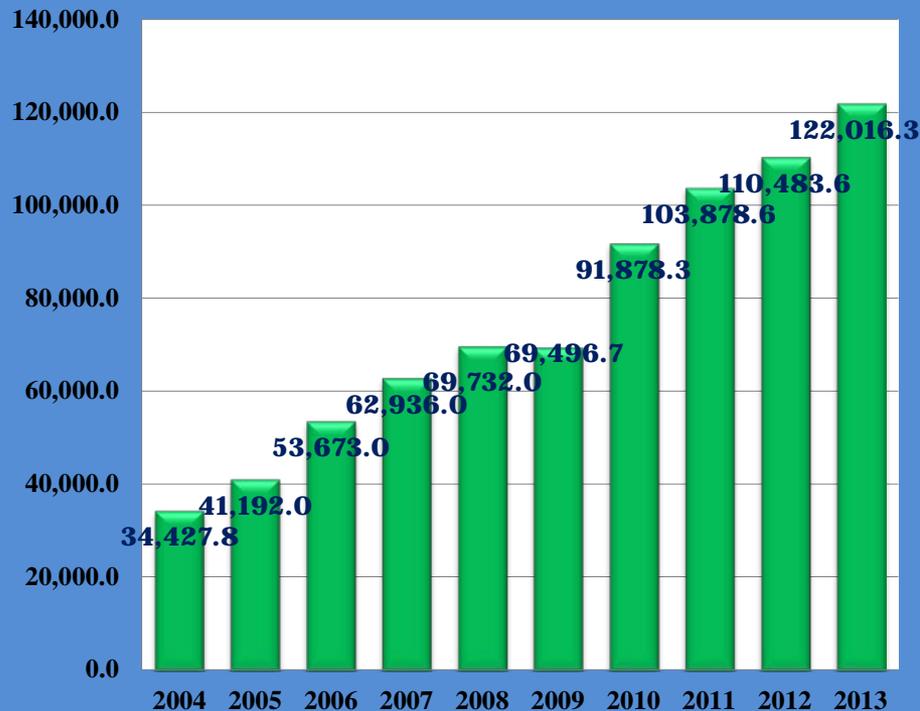
- Intellectual property rights enforcement
- Subsidies to Chinese high technology companies
 - Free land
 - Non-transparent R&D grants
- Government procurement
- Standards setting
- Standards conformity compliance
- Tax benefits
- Export credits
- State owned enterprises
 - Preferential access to credit

U.S.-China Trade for the Past Decade

2004-2013

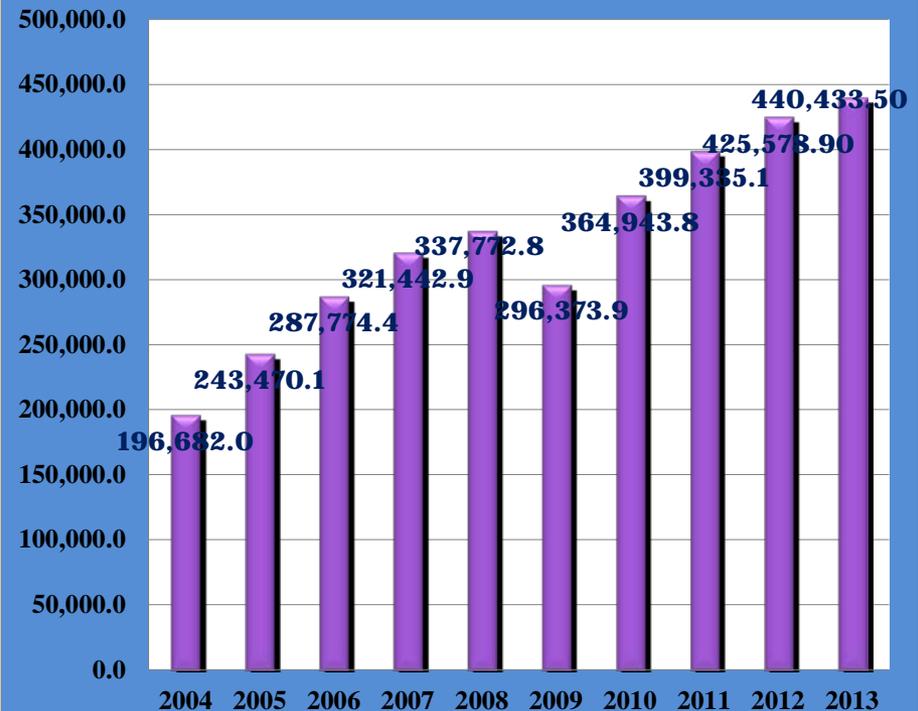
U.S. Export to China for the Last 10 Years

(in millions of U.S. dollars)



U.S. Import from China for the Last 10 Years

(in millions of U.S. dollars)



U.S. Companies in China in 2013 – U.S. Chamber Survey

- China operations looking like investments in developed countries, with strong service growth and weaker manufacturing growth.
- 86% are “optimistic” or “slightly optimistic” about the 5-year business outlook
 - 74% are profitable
 - 67% reported revenues up
 - 47% operating margins up
- Recognize that growth has slowed – but expect it will remain steady at a 7 – 8 percent annual rate.

2013 Top Ten Challenges Identified by USCBC

- Cost increases
- Competition with Chinese Companies in china
- Administrative licensing
- Human resources: talent recruitment and retention
- Intellectual property rights enforcement
- Uneven enforcement of Chinese laws
- Nondiscrimination/national treatment
- Transparency
- Standards and conformity assessment
- Foreign Investment Restrictions



PROTECTING AND ENFORCING YOUR INTELLECTUAL PROPERTY IN CHINA

- **Before you go into China for a trade show or business:**
 - **Work with IP counsel to develop an overall intellectual property rights protection strategy.**

- **This is not only a problem for U.S. companies doing business in China.**
 - **Chinese counterfeiters and pirates export to U.S. market, and other overseas markets.**
 - **Counterfeiters and pirates market at trade shows.**
 - **Counterfeiters and pirates may sell to your customers and suppliers.**
 - **Counterfeiters and pirates may be selling your products in China, even if you are not in the China market.**



Types of Intellectual Property in China

- **PATENT:** Protects an invention, design, or utilitarian features of a product. Utility models and design patents are NOT substantively examined before issuance and are quick and cheap to obtain. Associated issues for pharma: genetic resource disclosure, no patent term extension, “junk” patenting surrounds, claims translation, patentable subject matter
 - Must file patent applications with State IP Office (SIPO)
 - Rights are territorial
 - China is a “first to file” country
 - Use of registered Chinese patent agent.
 - USPTO’s Patent Prosecution Highway (PPH) program

Types of Intellectual Property in China

- **TRADE SECRET:** Confidential economic information that gives its owner a competitive advantage by reason of its secrecy, such as a formulary, business plan, or manufacturing technique. Trade secret laws are not fully developed in China. Therefore, be careful of before bringing over your valuable trade secret information.
 - CREATE.ORG’s “Best Practices to Prevent Trade Secret Theft”
www.create.org
- **OTHER:** Regulatory data protection issues (critical issue)
- **COPYRIGHT:** Protects an original work in a (fixed) medium of expression (books, music, sculpture, movies, software). Term of protection in China (non-renewable): For individual authors, life of the author plus 50 years. For foreign entities: 50 years. (The term “piracy” is used with copyright issues.)

Types of Intellectual Property in China

- **TRADEMARK:** A word, phrase, symbol, or design, or combination identifying the source of goods or services. Term of protection in China (renewable): 10 yrs. (The term “counterfeiting” often is used with trademark issues.) Associated issues: trademark squatting
 - Must file trademark applications with the Chinese Trademark Office (CTO). Must hire local Chinese trademark agent/counsel.
 - Note: Local bureaus provide administrative enforcement of trademarks throughout China. Hire a local firm with investigators.
 - Have the trademark registered in Chinese and English



Protecting your IP in China

REMEMBER:

- IP rights are usually territorial.
- Use the 3 R's
 1. Registration
 2. Recordation
 3. Remedies
- China is a “first to file” country

Due Diligence - Finding Your Agent/Distributor

- Preliminary market research
- Understanding value chain and pricing
- Selecting the appropriate vehicle
- Interviewing partners
 - What are their financials?
 - Do they have the talent?
 - Do they represent competing or complementary products?
 - What geographical reach?
 - What pricing patterns do you see?
 - How do you divide costs?
 - Is it exclusive? If so, for how long?
 - Can you agree on st, mt, and lt sales benchmarks?

How Will They Evaluate You?

- Do you come with a proper introduction?
- What sets your product apart?
 - Quality, technology, innovation, design, product support, price, etc.)
- Do you present an image of consistency and dependability?
- Do you have the capacity to scale up with them?
- Do you respect them, their culture and their problems?
- Are you willing to invest in the relationship?
- How does your product do in like markets?
- How flexible is your product and pricing?
- Are you short, medium or long term focused?

Why Hong Kong?

- U.S. exporters have a strong base
 - Superb infrastructure
 - Serves as gateway to region
 - Many Asian tourists, great media market
 - Free port: excellent value-added logistics
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- With what country does the United States have its largest trade surplus? Hong Kong!

Conclusion and Contact Information

- Thank you!
- China is an exciting place to do business!
- Craig Allen
Deputy Assistant Secretary of Commerce for China
202-482-4527
Craig.Allen@trade.gov