

## APMA PRESENTATION

*April 2004*

### **BEING DIDACTIC: BASIC MESSAGES**

- THANK YOU FOR INVITING ME TO SPEAK. THE AUTOMOBILE SECTOR IS EXTREMELY IMPORTANT TO THE HEALTH OF CANADA ECONOMY. I AM THUS HONOURED TO HAVE BEEN INVITED TO MEET WITH YOU TODAY.

- YOU ARE GATHERING A GREAT DEAL OF INFORMATION AND LISTENING TO ALL SORTS OF ADVICE OVER THE TWO DAYS OF THIS CONFERENCE. TO ASSIST YOU IN KEEPING MANY OF THESE THINGS STRAIGHT, LET ME DO TWO THINGS: FIRST, I PREPARED A MACRO ECONOMIC AND TRADE INFORMATION DECK AND A CHINESE AUTO INDUSTRY DECK. THESE ARE BEING PLACED ON THE WEB SITES.

SECOND, LET ME CUT TO THE CHASE, AND GIVE YOU THE PRINCIPAL MESSAGES OF MY OWN PRESENTATION THIS AFTERNOON, FOR YOU TO REFLECT UPON.

- CHINA'S ECONOMIC GROWTH AND GLOBAL IMPACT ARE REAL AND SIGNIFICANT. THIS IS NOT HYPE OR EXAGGERATION.

- I BELIEVE, AS DO MOST OBSERVERS, THAT WHILE CHINA'S GROWTH WILL CONTINUE TO FACE SIGNIFICANT RISKS, THESE WILL BE

---

SUCCESSFULLY WEATHERED BY CHINA'S LEADERS;

- CHINA'S OVERALL IMPACT ON CANADA WILL ULTIMATELY BE GREATER THAN THAT OF JAPAN IN THE 70s AND 80s, AND THE ASIAN TIGERS AND KOREA IN THE 90s; IT WILL APPROACH IN SIGNIFICANCE, IN SOME SECTORS, AND IN PARTICULAR THE AUTOMOBILE SECTOR, THE IMPACT OF THE AUTO PACT AND NAFTA;

- CHINA IS ALREADY THE WORLD'S FOURTH LARGEST AUTO MANUFACTURER AFTER THE UNITED STATES, JAPAN AND GERMANY. NEARLY EVERY MAJOR GLOBAL VEHICLE MANUFACTURER HAS ESTABLISHED JOINT-VENTURE OPERATIONS IN CHINA.

- FURTHERMORE, CHINA IS PLAYING AN INCREASINGLY IMPORTANT ROLE IN THE GLOBAL SUPPLY CHAIN. EXPORTS OF VEHICLE COMPONENTS PARTS REACHED USD2.41 BILLION IN 2003, A 31% INCREASE FROM 2002.

- THUS, THE CHINA CHALLENGE IS THERE, AND IT WON'T GO AWAY; IT IS A REALITY TO WHICH YOU MUST ADAPT; AND IT IS ONE FROM WHICH YOU CAN BENEFIT;

- I KNOW, AND THIS IS THE MOST IMPORTANT MESSAGE, THAT CANADIAN BUSINESSES HAVE THE STRENGTHS NECESSARY TO MEET THE CHINA CHALLENGE, BUT BUSINESS WILL DO SO ONLY BY UNDERSTANDING WHAT CHINESE INDUSTRY CAN AND CANNOT DO, AND PLAYING TO YOUR STRENGTHS. THE MOST IMPORTANT DECISION THAT YOU SHOULD MAKE COMING AWAY FROM MY

---

REMARKS IS THAT YOU WILL DEVELOP, IF YOU HAVE NOT ALREADY DONE SO, YOUR CHINA STRATEGY.

- THE NECESSITY OF DEVELOPING A CORPORATE STRATEGY APPLIES AS MUCH TO THOSE OF YOU WHO ARE SEEKING TO FOLLOW THE OEMs TO CHINA, OR SELLING FROM CANADA INTO CHINA, OR THINKING OF MANUFACTURING OR IMPORTING GOODS FROM CHINA. IT IS EVEN RELEVANT FOR THOSE OF YOU WHO HAVE NO INTEREST IN CHINA, BECAUSE WHETHER YOU LIKE IT OR NOT, CHINESE PRODUCTS ARE ABOUT TO ENTER YOUR MARKET AND YOU HAD BETTER BE READY.

- THOSE ARE THE BASIC MESSAGES.

- LET ME NOW PROVIDE YOU WITH SOME DETAIL, WHICH I HOPE YOU WILL FIND OF INTEREST.

### **CHINA: THE MACRO ECONOMY**

**GDP:** IN 2003, CHINA'S GDP REACHED USD 1.41 TRILLION, MAKING CHINA THE 6TH LARGEST ECONOMY IN THE WORLD. ITS GDP GROWTH HAS AVERAGED ABOUT 9% FOR OVER ONE GENERATION, YEAR IN, YEAR OUT.

**FDI INFLOWS:** SUCH GROWTH BOTH SPURS AND ATTRACTS VAST AMOUNTS OF FOREIGN INVESTMENT. IN 2002, CHINA BRIEFLY ATTRACTED MORE FOREIGN DIRECT INVESTMENT THAN EVEN THE

---

UNITED STATES. IN 2003, CHINA RECEIVED OVER A BILLION DOLLARS A WEEK, -- USD 53.5 BILLION TO BE EXACT. CHINA CONSISTENTLY ATTRACTS FAR MORE FDI THAN ANY OTHER DEVELOPING COUNTRY OR ANY OTHER COUNTRY IN ASIA. CHINA'S FDI STOCKS IN 2002 WERE USD 448 BILLION. FOR PURPOSES OF COMPARISON, JAPAN'S STOCK IS ONLY \$60B, CANADA HAS \$212b (OECD) AND INDIA'S FDI STOCK IS USD 26 BILLION.

**FOREIGN EXCHANGE RESERVES:** CHINA FOREIGN EXCHANGE RESERVES OF USD 403 BILLION AT THE BEGINNING OF THE YEAR ARE SECOND ONLY TO THOSE OF JAPAN. THESE RESERVES HAVE GIVEN CHINA TREMENDOUS CAPACITY TO BUILD ITS INFRASTRUCTURE AND EVEN TO EXERCISE INFLUENCE. ALTHOUGH THE DISPOSITION OF CHINA'S FOREIGN EXCHANGE HOLDINGS IS A STATE SECRET, WE ESTIMATE THAT 75% ARE IN US DOLLARS, AND A LARGE PART OF THAT ARE IN US TREASURIES. CHINESE HELD US DOLLARS ARE THUS PLAYING AN INCREASINGLY IMPORTANT ROLE IN FUNDING THE US FISCAL DEFICIT, SOMETHING TO KEEP IN MIND WHEN READING ABOUT CHINESE/USA ECONOMIC RELATIONS AND DISPUTES.

**TRADE/EXPORTS:** THESE FDI INFLOWS AND THE EMERGENCE OF CHINA'S OWN DYNAMIC MANUFACTURING SECTOR HAVE TURNED CHINA INTO THE WORLD'S FORTH LARGEST EXPORTER. EXPORTS TOTALLED \$438 BILLION IN 2003. ONLY THE US, EU, AND JAPAN EXPORT MORE. EARLIER THIS WEEK, THE CHINESE ANNOUNCED THAT EXPORTS HAD FURTHER RISEN BY 34% IN THE FIRST QUARTER OF THIS YEAR, ON A YEAR OVER YEAR BASIS. THERE IS A CLOSE LINK BETWEEN THESE EXPORTS, AND CHINA'S ENORMOUS STOCK OF FDI --

---

54% OF CHINA'S EXPORTS IN 2003 (JAN-JULY) WERE BY FOREIGN-INVESTED COMPANIES.

**TRADE/IMPORTS:** HOWEVER, IMPORTS TO FEED MANUFACTURING GROWTH, INFRASTRUCTURE DEVELOPMENT, AND STEADILY INCREASING DOMESTIC DEMAND ARE GROWING EVEN MORE RAPIDLY, TO REACH \$413B LAST YEAR, MAKING CHINA THE WORLD'S THIRD IMPORTING NATION. EVEN JAPAN DOESN'T IMPORT AS MUCH. ONLY THE US AND THE EU IMPORT MORE. AND IMPORTS ROSE ANOTHER 42% IN THE FIRST QUARTER OF THIS YEAR, AGAIN, YEAR OVER YEAR.

- THERE IS ALSO A CLOSE LINK AS WELL BETWEEN THESE IMPORTS AND THE ACTIVITIES OF FOREIGN INVESTMENT COMPANIES -- 54% OF CHINA'S IMPORTS IN 2003 WERE BY FOREIGN-INVESTED COMPANIES.

- CHINESE DEMAND IS HAVING A HUGE IMPACT ON SOURCING RAW MATERIALS, EVEN, SCRAP METAL, AS MANY IN THIS ROOM ARE NO DOUBT AWARE. MORGAN STANLEY ESTMIATES THAT CHINA CURRENTLY CONSUMES ABOUT 20% OF GLOBAL COMMODITIES, UP DRAMATICALLY FROM ITS 4% SHARE IN 1985. EVEN IF DEMAND FOR RESOURCES ARE NOT YET AT A LEVEL COMPARABLE TO THOSE OF THE US, EU, OR JAPAN, PRICES ARE SET AT THE MARGIN AND CHINA'S DEMAND FOR CRUDE OIL, IRON AND STEEL, IRON ORE, UNWROUGHT NICKEL, TO PICK EXAMPLES RELEVANT TO THIS AUDIENCE, SUCH DEMAND ROSE SIGNIFICANTLY THROUGHOUT THE PAST YEAR. CHINA'S NICKEL DEMAND HAS INCREASED BY AN AVERAGE OF 29%

---

PER YEAR FOR THE LAST THREE YEARS.

- YOU HAVE TO KEEP IN MIND AS WELL THAT CHINA NOW HAS A GROWING MIDDLE CLASS THAT INCREASINGLY DEMANDS WORLD-CLASS GOODS AND SERVICES. THESE PEOPLE MAY NOT HAVE OUR PER CAPITA INCOME, BUT THEIR COST OF LIVING STRUCTURES ARE VERY DIFFERENT FROM OURS, SO THAT THEY CAN ENJOY A MIDDLE CLASS EXISTENCE THAT IS VERY SIMILAR TO THAT OF EVERYONE IN THIS ROOM. EVEN USING STRINGENT DEFINITION AND A CAUTIOUS APPROACH TO THE EXISTING INCOME STATISTICS, CHINA'S MIDDLE CLASS NOW CONSISTS OF OVER 52 MILLION CONSUMERS -- AND IT'S GROWING FAST. TWO THIRDS OF PASSENGER VEHICLES PURCHASED LAST YEAR IN CHINA - ABOUT 1.4 MILLION VEHICLES - WERE BOUGHT BY THIS RAPIDLY GROWING GROUP OF CONSUMERS.

- SO LET US TALK ABOUT TODAY'S AUTO AND AUTO PARTS INDUSTRY IN CHINA.

## **THE AUTOMOBILE INDUSTRY**

- THE GROWTH OF THE AUTO INDUSTRY IN CHINA HAS BEEN STAGGERING BY ANY MEASURE. TOTAL VEHICLE OUTPUT, INCLUDING PASSENGER CARS, TRUCKS AND BUSES, REACHED 4.44 MILLION UNITS IN 2003, A 35% INCREASE FROM 2002 AND A 172% INCREASE FROM 1998. AS I SAID, CHINA IS NOW THE WORLD'S FOURTH LARGEST AUTO MANUFACTURER AFTER THE

---

UNITED STATES, JAPAN AND GERMANY.

- TRUCK OUTPUT STOOD AT 1.23 MILLION UNITS, BUS OUTPUT AT 1.19 MILLION UNITS AND PASSENGER CAR OUTPUT AT 2.02 MILLION UNITS IN 2003.
  
- INDUSTRY SOURCES FORECAST THAT VEHICLE PRODUCTION WILL TOTAL 5.1 TO 5.3 MILLION UNITS THIS YEAR, AN INCREASE OF SOME 20 PER CENT FROM 2003. IT IS EXPECTED THAT PASSENGER CARS WILL CONTINUE TO LEAD THE TOTAL VEHICLE OUTPUT GROWTH THIS YEAR WITH INCREASING INDIVIDUAL BUYERS.
  
- THE VAST MAJORITY OF PASSENGER CARS ARE MADE BY JOINT VENTURES OF FOREIGN AUTO GIANTS AND UNDER FOREIGN BRANDS, SUCH AS VOLKSWAGEN, GENERAL MOTORS, HONDA AND CITROEN.
  
- BUT DESPITE THIS CONCENTRATION, THE AUTOMOBILE INDUSTRY IN CHINA IS HIGHLY FRAGMENTED. THERE ARE MORE THAN 120 VEHICLE PLANTS IN CHINA. IN 2003, THE NUMBER OF PASSENGER CAR PRODUCERS INCREASED BY A DOZEN TO HIT 32.
  
- THERE ARE MORE THAN 4000 AUTO PARTS MANUFACTURERS IN CHINA - SOME SAY MORE THAN 8,000 - AND IT IS GREATLY FRAGMENTED. THE TOP 10 FIRMS ACCOUNT FOR ONLY 20 OF

---

TOTAL INDUSTRY REVENUE.

— LEADING INTERNATIONAL PARTS MANUFACTURERS HAVE SET UP JOINT-VENTURES IN CHINA, INCLUDING VISTEON, ROBERT BOSCH, DENSO, DELPHI, CUMMINS, EATON, BRIDGESTONE, MAGNA, ITT AUTOMOTIVE, ETC.

· THERE ARE IMPORTANT TRENDS IN THE INDUSTRY, WHICH BEAR WATCHING:

### **INDUSTRY TRENDS AND DIRECTIONS**

· **OVERSUPPLY** EVERY CAR MANUFACTURER IN CHINA HAS ANNOUNCED VERY AMBITIOUS SALES TARGETS, AND HAS PLANS TO INCREASE SIGNIFICANTLY PRODUCTION CAPACITY. THIS IS ABOVE AND BEYOND THE APPROXIMATELY \$10B THAT HAS BEEN INVESTED BY THE 9 MAJORS TO DATE.

· WHILE CONSOLIDATION IS TALKED ABOUT, IN THE SHORT TERM, DON'T HOLD YOUR BREATH. THE FOUR LARGEST CHINESE CAR MANUFACTURERS - FAW, SAIC, DONGFENG MOTOR CORPORATION AND BEIJING AUTOMOTIVE INDUSTRY HOLDING CORPORATION - ACCOUNTED FOR 65% OF TOTAL SALES OF VEHICLES IN 2003, SO THERE IS A DEGREE OF CONCENTRATION. BUT REMEMBER, THERE ARE OVER 120 CAR AND TRUCK MANUFACTURERS, AND MANY NEW CAR MANUFACTURING PROJECTS CONTINUE TO POP UP. THIS MEANS THAT THE SUPPLY/ DEMAND BALANCE WILL LIKELY FOLLOW GLOBAL TRENDS,



---

RESULTING IN OVERCAPACITY AND FALLING PRICES.  
COMPETITION WILL UNDOUBTEDLY INTENSIFY.

— **VEHICLE FINANCING:** INCREASED AVAILABILITY OF VEHICLE FINANCING IN CHINA IS EXPECTED TO FOSTER PRIVATE CONSUMPTION OF VEHICLES, AND INCREASE THE AFTER MARKET POTENTIAL.

— **LOCALIZATION:** WHILE CHINA AGREED WHEN IT ACCEDDED TO THE WTO TO ELIMINATE LOCAL CONTENT REQUIREMENTS, IT IS WIDELY BELIEVED THAT CHINA WILL CONTINUE TO PRESS FOR LOCAL CONTENT AND COMPEL TECHNOLOGY TRANSFER THROUGH VARIOUS MECHANISMS. THE NEW NDRC AUTO POLICY IN THE OFFING IS SAID TO CONTAIN PROVISIONS THAT WILL ALLOW THE CHINESE GOVERNMENT TO ACHIEVE THESE OBJECTIVES. THUS, THE DRIVE TO LOCALISE IS REAL AND WILL CARRY ON. CAR ASSEMBLERS IN CHINA ARE INCREASINGLY SOURCING PARTS AND COMPONENTS FROM LOCAL SUPPLIERS, EITHER CHINESE FIRMS OR FOREIGN INVESTED COMPANIES, WITH A VIEW TO REDUCING PRODUCTION COSTS.

— WTO OR NO, THIS LOCALIZATION DRIVE IS SET TO CONTINUE, EVEN THOUGH TARIFFS ON AUTOMOBILE PARTS ARE BEING LOWERED AND IMPORT QUOTAS ARE BEING INCREASED BY VIRTUE OF CHINA'S ACCESSION TO THE WTO. TARIFFS ON PARTS WILL FALL TO 10% BY 2006. IMPORT QUOTAS WILL GROW 15% ANNUALLY AND THEN BE PHASED OUT BY 2006. NEVERTHELESS,

---

IT IS UNLIKELY THAT WE WILL SEE A SURGE OF FOREIGN PARTS INTO CHINA. LOWER TARIFFS ARE NOT EXPECTED TO HAVE A SIGNIFICANT IMPACT IN THE LONG RUN. DOMESTIC MANUFACTURERS CAN PRODUCE LOW-COST PARTS AND COMPONENTS TO BE USED IN LOWER-END VEHICLES.

· **INTENSE COMPETITION:** FOREIGN COMPANIES ARE STRIVING TO SOLIDIFY THEIR POSITION IN CHINA AND DIVERSIFY THEIR PRODUCT PORTFOLIO. AN INCREASINGLY WIDER RANGE OF MODELS WILL BE MANUFACTURED AND OFFERED BY JOINT-VENTURES.

· **WILL CHINA SOON BECOME A VEHICLE EXPORT BASE?:** TO DATE, EXPORTS HAVE BEEN MINIMAL. VOLKSWAGEN HAS EXPORTED POLOS ABROAD. CHERY WILL START PRODUCING ITS OWN BRAND CARS IN IRAN. HONDA HAS ANNOUNCED THAT IT WILL EXPORT JAZZ MODELS BUILT IN ITS JOINT-VENTURE IN GUANGZHOU TO EUROPE. HOWEVER, INDUSTRY EXPERTS AGREE THAT IN THE NEXT FIVE YEARS, CHINA WILL NOT BECOME A MAJOR CAR EXPORTER. MANUFACTURING IN CHINA IS STILL EXPENSIVE.

SO WHERE DOES CANADA FIT IN THIS PICTURE?

**CANADA CHINA AUTO TRADE AND INVESTMENT LINKAGES**

- 
- NOW LET ME SPEAK TO THOSE OF YOU WHO ARE INTERESTED IN SELLING INTO THE CHINESE OEM MARKET.
  
  - **EXPORTS TO CHINA:** CHINA'S IMPORTS OF COMPONENTS FROM CANADA HAS BEEN GROWING. THEY AMOUNTED TO CAN\$173 MILLION IN 2001, CAN\$322 MILLION IN 2002, AND 378 MILLION IN 2003. 42.6% OF CANADA'S EXPORTS OF AUTO PARTS TO CHINA IN 2003 WERE BODY PARTS. THE BULK OF THAT CONSISTS OF COMPONENTS TO FEED BUICK MODEL AUTO PARTS TO SHANGHAI GM JOINT-VENTURE. THERE IS ALSO A SMALL AMOUNTS GOING TO JINBEI GM IN SHENYANG.
  
  - IN COMPARISON, CHINA IMPORTED, FROM THE US, CAN\$200 MILLION IN 2003.
  
  - ON ALL FRONTS, PARTS EXPORTS TO CHINA HAVE BEEN ESCALATING AS CAR MANUFACTURERS IN CHINA HAVE BEEN RAMPING UP PRODUCTION AND VEHICLE DEMAND HAS BEEN HEATING UP IN THE LAST FEW YEARS. RISE IN PARTS EXPORTS TO CHINA FROM A PARTICULAR COUNTRY GENERALLY CORRESPONDS TO PRODUCTION START OR BOOST OF A MODEL IN CHINA ORIGINALLY MANUFACTURED IN THE EXPORTING COUNTRY OR MADE OF COMPONENTS PREDOMINANTLY SUPPLIED BY FIRMS IN THE EXPORTING COUNTRY. THIS APPLIES TO CANADA AS WELL - I.E. SUPPLY OF BUICK COMPONENTS TO SHANGHAI-GM.

- FOREIGN PARTS PRODUCERS, INCLUDING CANADIAN FIRMS, CAN THUS BENEFIT FROM THEIR TRADITIONAL SUPPLIER-ASSEMBLER RELATIONSHIP WITH GLOBAL CAR MANUFACTURING FIRMS SETTING UP OPERATIONS IN CHINA, TO SELL TO THIS MARKET. AT THE INITIAL STAGE OF A PARTICULAR MODEL PRODUCTION, CAR ASSEMBLERS IN CHINA TYPICALLY RELY ON IMPORTS OF CKDS AND SKDS.
- HOWEVER, AS COMPETITION IS INTENSIFYING IN CHINA, DRIVING DOWN CAR PRICES AND PRESSURING CAR MANUFACTURERS TO CUT COSTS, PURE EXPORTS OF PARTS TO CHINA, GENERALLY SPEAKING, DO NOT OFFER LONG TERM GROWTH PROSPECTS FOR FOREIGN SUPPLIERS, INCLUDING CANADIAN FIRMS. LOCALIZATION IS A REALITY. TO REALLY TAP INTO OPPORTUNITIES IN CHINA, PARTS SUPPLIERS NEED TO ADJUST THEIR STRATEGY. A PRESENCE IN CHINA, WHOLLY-OWNED OR JOINT-VENTURE, WARRANTS CONSIDERATION.

## **THE NORTH AMERICAN CHALLENGE**

- CANADIAN AUTO PARTS MANUFACTURERS FOCUSING ONLY ON THE NORTH AMERICAN MARKET, ARE INCREASINGLY AWARE THAT CHINA IS PLAYING A GROWING ROLE IN THE GLOBAL SUPPLY CHAIN. EXPORTS OF VEHICLE COMPONENTS PARTS HAVE SEEN A DRAMATIC RISE. IN 1995, CHINA EXPORTED US\$ 37 MILLION WORTH OF AUTO PARTS. IN 2003, CHINA EXPORTED USD2.41 BILLION WORTH OF PARTS, A 31% INCREASE FROM 2002.

- MOST FOREIGN PARTS MANUFACTURERS IN CHINA ARE SUPPLYING FOREIGN CAR MAKERS ESTABLISHED IN CHINA. MANY ARE INCREASINGLY SUPPLYING LOCAL PRODUCERS, AS WELL AS LOOKING TO THE EXPORT MARKET.
  
- THE INDUSTRY IS EVOLVING AT A RAPID PACE. CANADIAN FIRMS NEED TO ADJUST AND REACT QUICKLY.
  
- **IMPORTS FROM CHINA:** CANADA'S IMPORTS FROM CHINA OF PARTS AND COMPONENTS HAVE BEEN STEADILY RISING: CAN\$77 MILLION IN 2001, CAN\$105 MILLION IN 2002, AND CAN\$132 MILLION IN 2003. IN 2003, 47% OF IMPORTS OF PARTS FROM CHINA WERE BRAKES AND SERVO-BRAKES.
  
- RELATIVE TO THEIR EXPORTS TO OTHER COUNTRIES, CANADA IS A SIGNIFICANT MARKET FOR CHINESE PARTS MANUFACTURERS. IN COMPARISON, CHINA'S EXPORTS OF VEHICLE PARTS AND ACCESSORIES TO EU COUNTRIES AMOUNTED TO CAN\$275 MILLION IN 2003. EXPORTS TO JAPAN REACHED CAN\$446 MILLION IN 2003, TO SOUTH KOREA CAN\$35 MILLION, AND TO THE USA CAN\$1.4 BILLION IN 2003.
  
- THESE NUMBERS UNDOUBTEDLY SHOW AN EXPANDING OUTFLOW OF AUTO PARTS AND COMPONENTS FROM CHINA NOT ONLY TO CANADA, BUT ALSO TO OTHER COUNTRIES.

- 
- ALL THAT TO REPEAT WHAT I STATED AT THE OUTSET: THERE IS NO PLACE TO HIDE IN THE GLOBAL AUTO AND AUTO PARTS MARKET, NOW THAT CHINA IS IN THE GAME.

LET ME CONCLUDE WITH A FEW REMARKS ON INVESTING IN CHINA'S MANUFACTURING SECTOR?

- THIS IS A VERY COMPLEX ISSUE, AS IT INVOLVES A LARGE NUMBER OF STRATEGIC DECISIONS, AS WELL AS MANY HUNDREDS OF MINOR ONES.
- THE KEY ISSUES THAT YOU HAVE TO THINK ABOUT INCLUDE THE FOLLOWING:

THE PURPOSE OF INVESTMENT: IS IT TO LOWER YOUR PRODUCTION COSTS AND IMPROVE YOUR COMPETITIVENESS IN NORTH AMERICA? IN THIRD MARKETS? IS IT TO SELL TO CHINA BASED FOREIGN OEMs OR CHINESE OEMs? IS IT FOR THE AFTERMARKET? EACH OF THESE OBJECTIVES WILL REQUIRE A DIFFERENT INVESTMENT STRATEGY.

THE SIZE OF YOUR INVESTMENT, AND COSTS IN HUMAN AND OTHER RESOURCES, ESPECIALLY SENIOR MANAGEMENT TIME;

WHETHER TO INVEST WITH A CHINESE PARTNER OR GO IT ALONE;

WHERE IN CHINA TO INVEST, AND OBTAIN THE BEST TERMS AND CONDITIONS;

HOW TO ASSESS THE NATURE OF THE DOMESTIC COMPETITION, IN AN ECONOMY THAT IS STILL AS MUCH SOCIALIST AS IT IS PRIVATE, AND WHERE PURCHASING DECISIONS MAY HAVE LITTLE TO DO WITH EITHER PRICE OR QUALITY;

WHERE TO OBTAIN THE BEST LEGAL PROTECTION;

HOW TO PROTECT YOUR INTELLECTUAL PROPERTY;

HOW TO DEVELOP AN EXIT STRATEGY IF THINGS GO BAD.

- THERE ARE THOUSANDS OF SUCCESSFUL INVESTMENTS IN CHINA, BUT THERE ARE ALSO MANY THAT WERE NOT SUCCESSFUL, OR INVESTMENTS THAT HAVE NOT RETURNED THE COST OF CAPITAL.
- THE PRINCIPAL REASONS FOR FAILURE HAVE INCLUDED: LIMITED MARKET RESEARCH, LACK OF COMMITMENT BY SENIOR MANAGEMENT, WEAK JOINT VENTURE PARTNERSHIP ARISING FROM CONFLICTING OBJECTIVES, UNREALISTIC EXPECTATIONS, POOR DISTRIBUTOR RELATIONS, RIGID INTERNAL MANAGEMENT PRACTICES, LACK OF EXPORT EXPERTISE.

- IN VIRTUALLY EVERY CASE, ONE CAN PROBABLY POINT TO A LACK OF DUE DILIGENCE BEFORE MAKING THE DECISION TO INVEST.
  
- MY ADVICE IS GET ADVICE FROM THE EXPERTS, THOSE WHO HAVE INVESTED IN CHINA, MANY OF WHOM ARE IN THIS ROOM. GET ADVICE FROM LAW AND ACCOUNTING FIRMS BASED IN CHINA, FROM BANKS AND FROM FIRMS SPECIALIZED IN GATHERING INFORMATION ON CHINESE COMPANIES.
  
- AND CALL ON US: ON THE GROUND, IN CHINA, YOU ARE ALREADY PAYING FOR AN EMBASSY IN BEIJING, AND CONSULATES IN SHANGHAI, GUANGZHOU, CHONGQING AND HONGKONG.
  
- EACH OF THESE OFFICES CAN PROVIDE BASIC MARKET INTELLIGENCE, INFORMATION ON THE LEGAL AND REGULATORY ENVIRONMENT, ADVICE ON BUSINESS PRACTICES AND SOURCES OF SPECIALIZED SUPPORT SUCH AS LAW OFFICES - THERE ARE A NUMBER OF CANADIAN LAW FIRMS IN CHINA - ACCOUNTING FIRMS, ADVERTISING AGENCIES, POLLING AND PRODUCT PLACEMENT EXPERTS ETC.
  
- YOU ARE PAYING FOR THESE SERVICES THROUGH YOUR TAXES. USE THEM, THEY ARE THERE FOR YOU.



## **CONCLUSION**

- SO, RETURNING TO MY BASIC MESSAGES: CHINA IS REAL AND REQUIRES YOUR ATTENTION; IT WILL HAVE SIGNIFICANT IMPACT ON YOUR BUSINESS;

- DEVELOP A STRATEGY, AND USE CHINA'S GROWTH TO YOUR BENEFIT.

THANK YOU.