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# **OECD/China Conference**

*Global Companies And Investment in China*

Thomas Klotz  
Managing Director  
A. T. Kearney Greater China

Xiamen; September 12, 2000

*ATKEARNEY*

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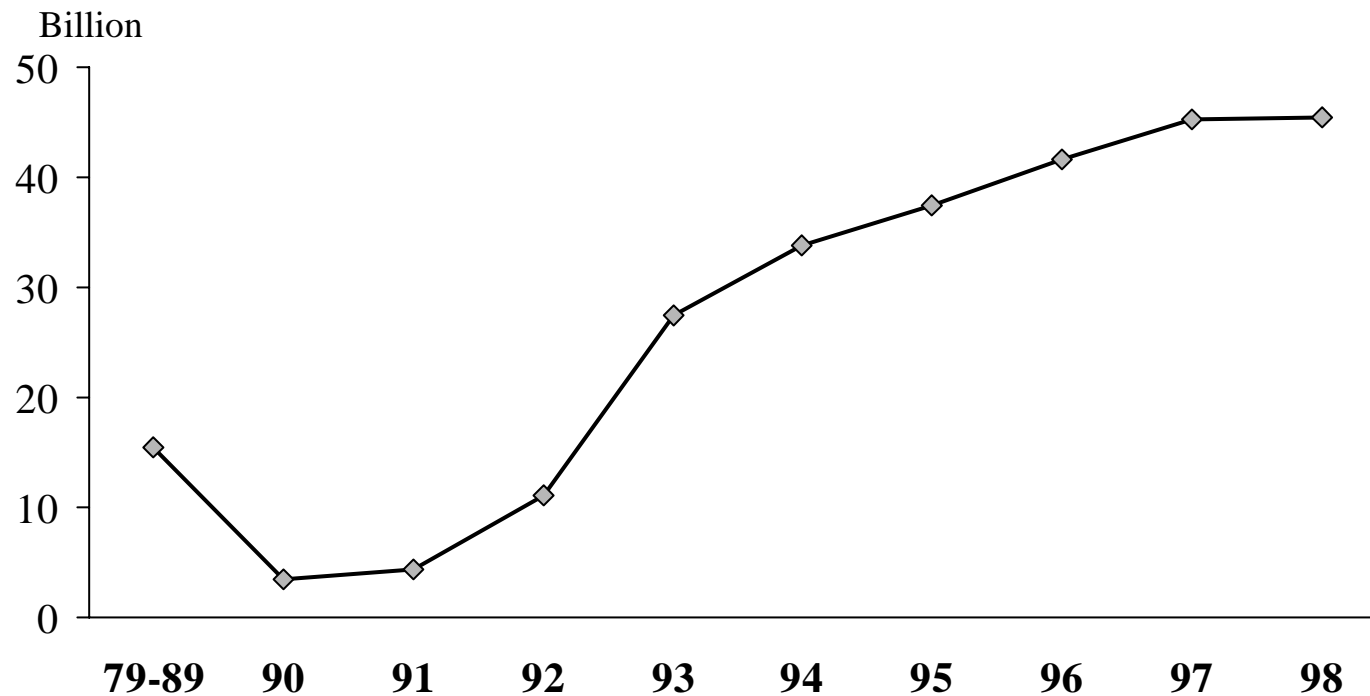
# Global companies and investment in China

- 1. 1992-1998:** FDI fuelled by the “China Dream”
- 2. 1999-now:** A rough awakening
- 3. Going forward:** Redefining the product for improved global competitiveness

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# 1. 1992-1998: FDI fuelled by the “China Dream”

## FDI in China (Amt. Utilized) 1979-1998



**Most attractive FDI destination among emerging markets**

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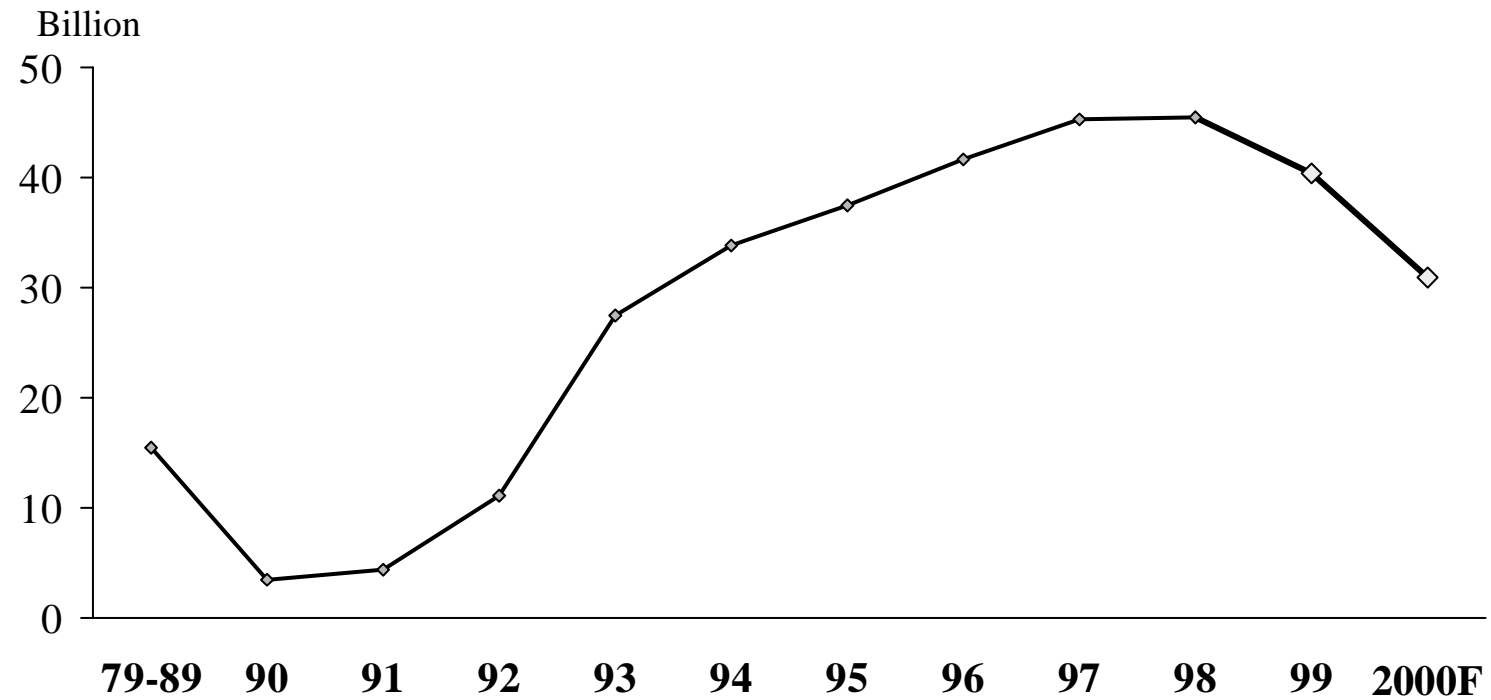
## Drivers behind China's FDI success

- China's efforts in attracting FDI
- Importance of China in corporate business portfolios
  - Market size
  - GDP growth
- Low production cost

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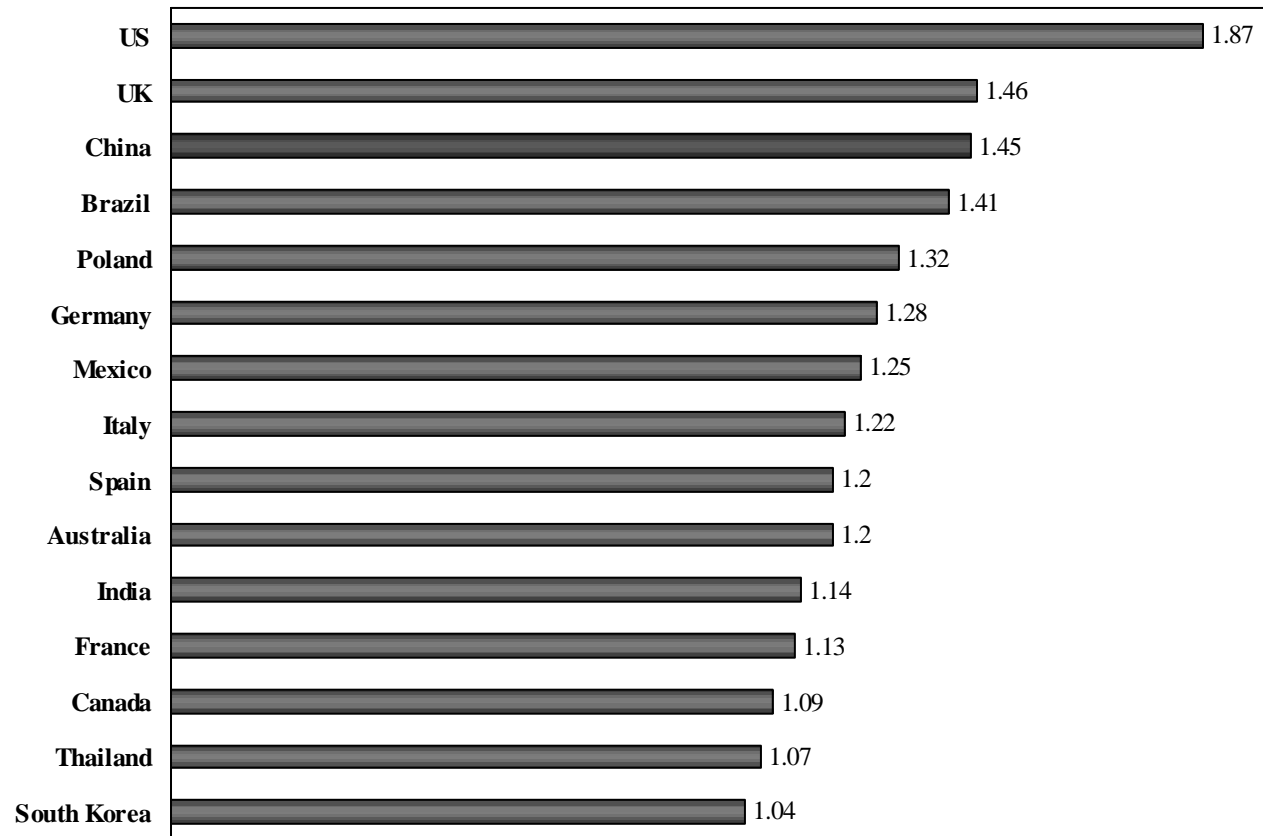
## 2. 1999-Nov: A rough awakening

**FDI (utilized) dropping since 1999**

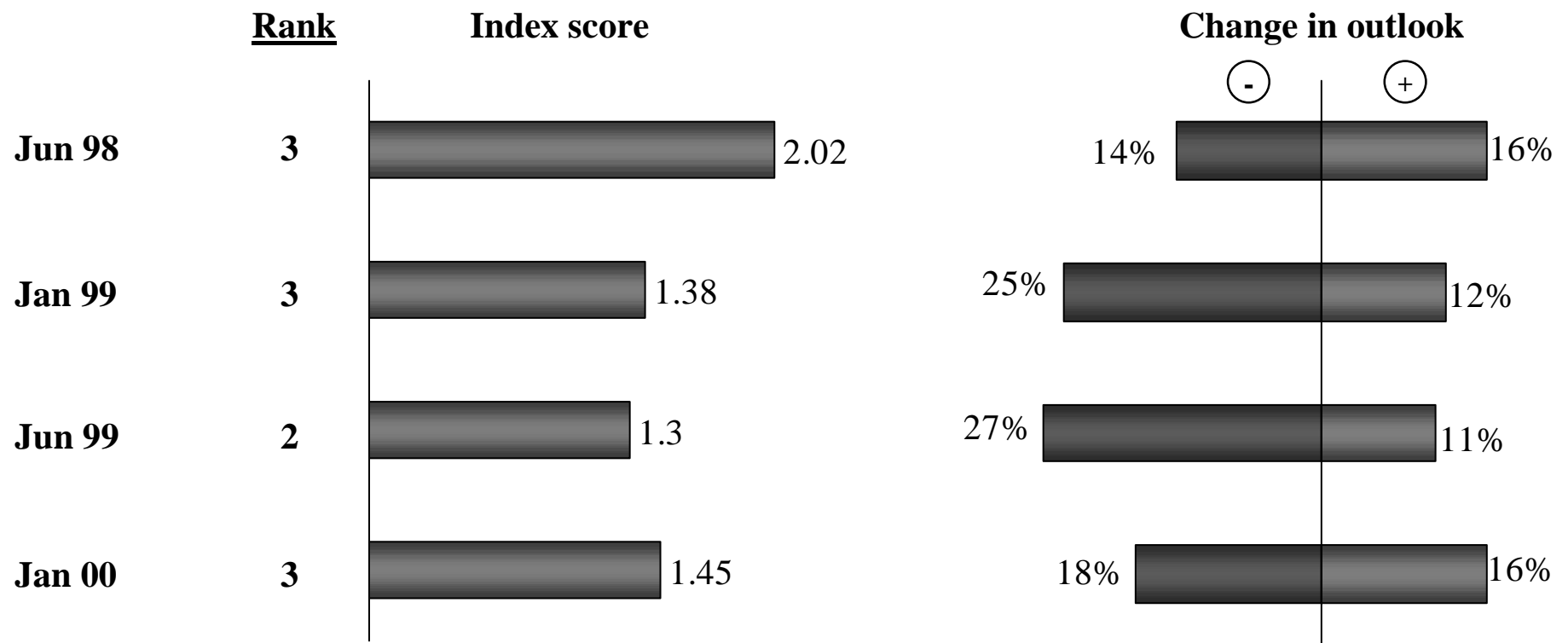


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## A.T. Kearney FDI confidence index — January 2000



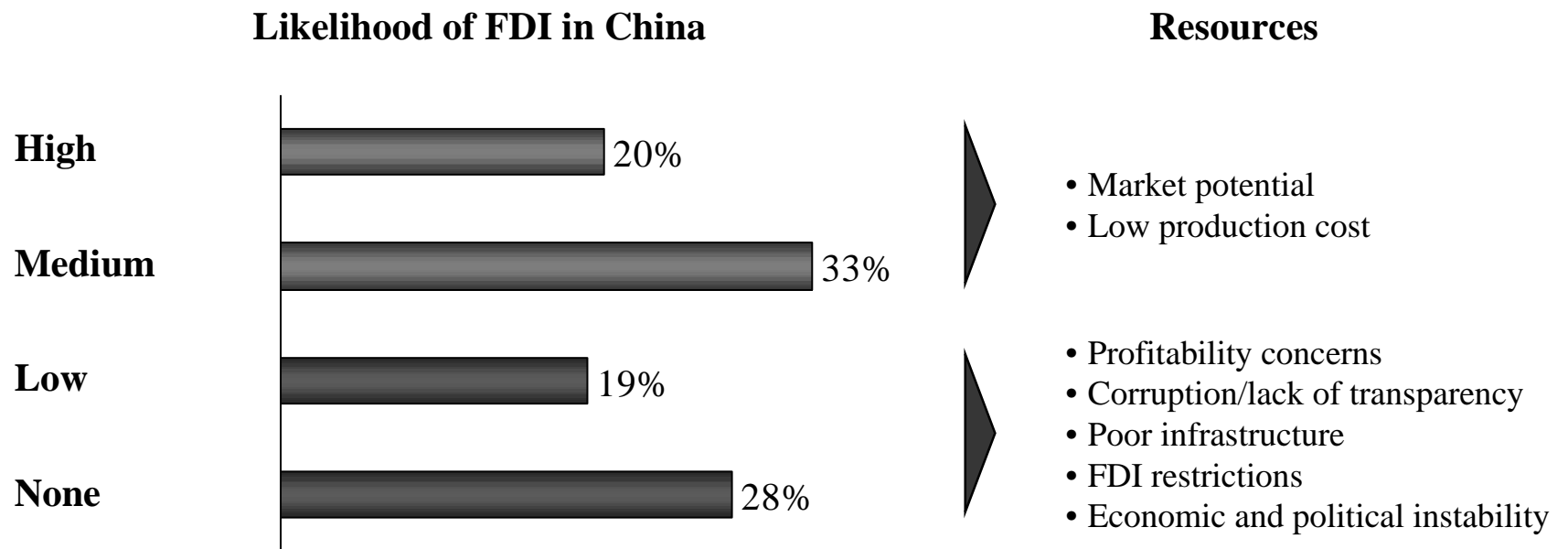
## A.T. Kearney FDI confidence index — China 1998-2000



**Over the past 2 years, China has lost significant credibility with investors. The trend reversed somewhat in late 1999 but relative to other countries China continues to lose ground!**

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## Potential for investment in China



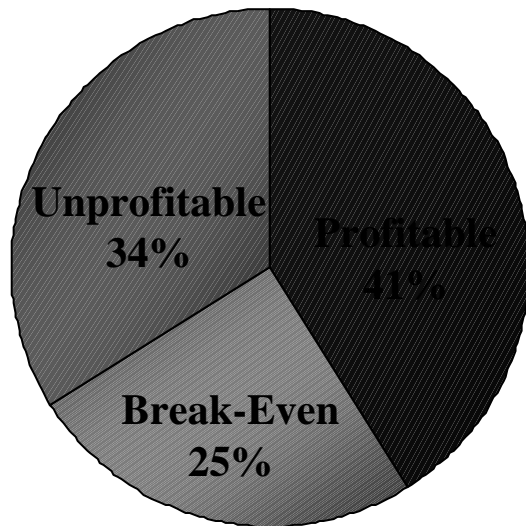
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## Key issue: Profitability of FDI in China

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### A.T. Kearney survey 1998

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- 22% had pulled out of at least one China investment

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### A.T. Kearney FDI index January 2000

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- “FDI in China not meeting profitability targets”
- “China is a high-risk investment”

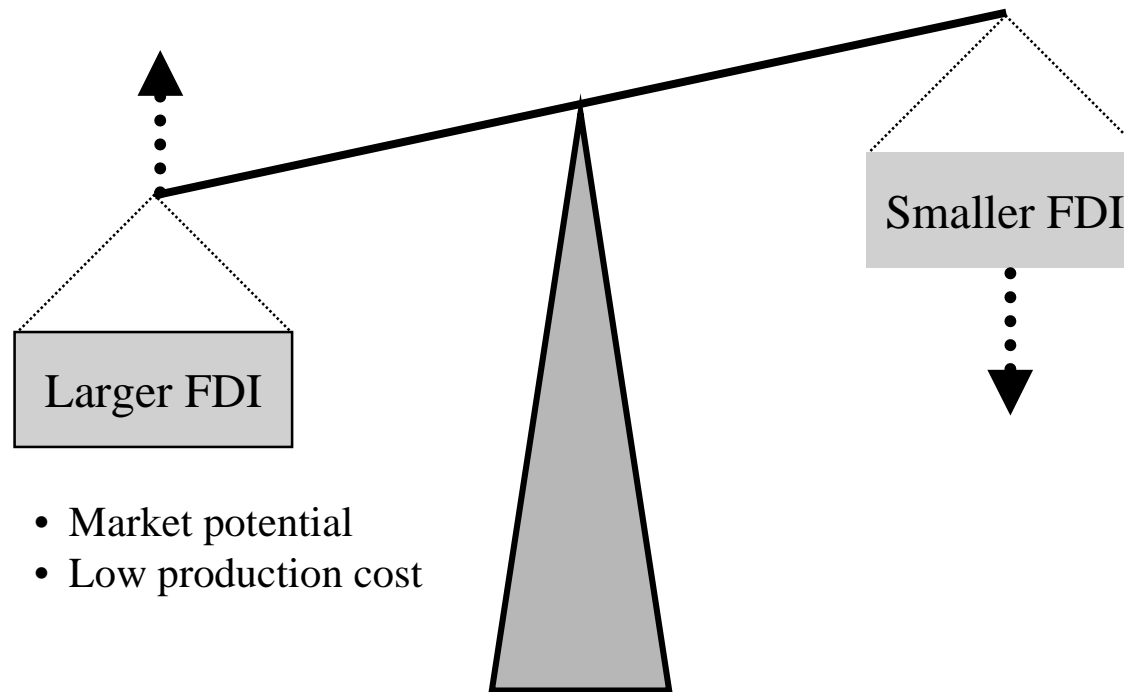
68%

60%

**Against global alternatives, China is seen as a “high risk, low profitability” FDI — destination!**

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## A rough awakening from the “China Dream”



- Market potential
- Low production cost

### Market issues

- Real market size
- Competitive intensity
- Profitability challenges

### Operating issues

- Supply of quality labor
- Rapid rise in labor cost
- Distribution/logistics barriers
- Regulatory constraints/interference
- Cooperation with local partner
- M&A constraints

### Others

- Profit repatriation constraints
- Economic/political stability

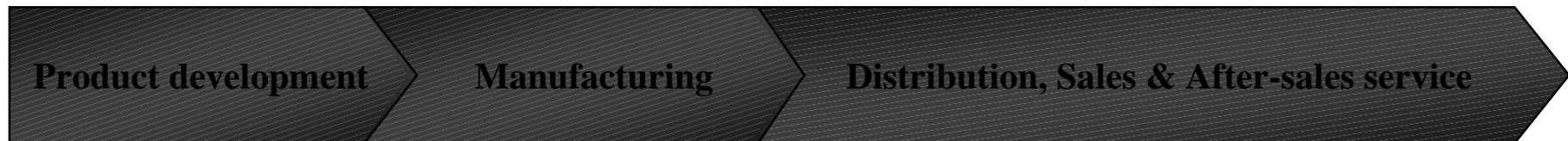
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### **3. Going forward: Redefining the product for improved global competitiveness**

- WTO entry: Positive but unlikely to be the solution
  - CEO's indicated it is not an important influence in their FDI — decision making (20% — A.T. Kearney FDI Confidence Index, January 2000)
  - None believes it to be the most important factor influencing the global economy
- A solution: Treat FDI as a product offered by China to investors — in competition with “FDI-products” from other countries!
- Required: “Product repositioning and redesign”

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## FDI product repositioning and redesign



- “Key buying factors”
  - Industry-specific approach
  - Benchmarked against competitors’ performance
- Actions to remove barriers/constraints, e.g.,
    - Regulatory changes
    - Management/IT education
    - M&A
    - ?
- Overseas promotion offices
  - “One-stop investment facilitation agencies”
  - Relationship management with largest investors, likely “winners”