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The spirit of the 50s?

By Saro Capozzoli (Founder of JESA Investment Ltd) and Dora M. Guzu

Although it might appear as a unique historical moment, the time we currently live in is not too different from the 1929 economic crisis: the origination, the effect on the listed markets, the spill over effect. Given the results of the previous financial crisis, war, a divided Europe, etc., the stakes are high and we must learn from previous mistakes.

Due to the Italy's European commitments, the government's first priority needs to be to correct its balance of payments. We find this frustrating because in order to restart the economy we must invest in industry and infrastructure. Besides, given the trivial issues it is involved in nowadays, I see no other solution that we must all roll up our sleeves and take control of the situation and react without expecting the state to solve all problems. We ought to make clear that we are the economy in order not to fail in the same fashion as Greece, and we represent Italy too!

In the meantime, we have already lost 24.3% of production since the beginning of the crisis and this was growth that took our country 25 years to accumulate. [1] Unless we take example from the actions of our fathers and grandfathers to revive Italy, our children better get their passport and go elsewhere since there is no hope that things will change anytime soon.

We shall no longer wait and hope for the economy to return to thrive on its own. We have no longer the time to wait for the State to take control of the situation, and for others sort things out for us.

During next year's political and European elections, it is crucial that citizens make the following message clear: no more populism, tactics and caryatids in power, those who have not been able to change things in the last 20 years must quit politics and allow young people to participate in the political life. We must have the courage to believe in ourselves and in our ancestor's Italy, for which they have worked and gave their lives. We should not allow uncertainty to have the upper hand. Depression should not take over, otherwise the effects will be immense. We have to be aware that only we can save ourselves, and it's ours to offer our sons the foundation for a more peaceful future, and we have to make sure the sacrifices of previous generations don't go wasted.

*****ITALIAN VERSION*****

Quello che stiamo vivendo oggigiorno, per quanto potrebbe sembrare un momento storico unico, non è molto diverso da quanto è accaduto durante la crisi del 1929: il manifestarsi dell'evento, l'area da cui si è propagato (ossia i mercati borsistici e finanziari), l'effetto a macchia d'olio in grado di innescare reazioni a catena propagatisi ben oltre i confini del mercato nazionale d'origine. Un paragone chiaramente molto efficace, ma anche piuttosto terrorizzante se consideriamo che la soluzione della crisi del '29 è arrivata soltanto con la seconda guerra mondiale. Perché non impariamo dagli errori del passato?

Il governo oggigiorno invece che favorire gli investimenti per far ripartire l'economia si preoccupa solo di far quadrare i conti, sotto il spada di Damocle delle EU, e questo è frustrante dato che noi crediamo che bisogna tornare all'economia reale, ripartire con gli investimenti nell'industria e nelle infrastrutture come è accaduto dopo la fine della seconda guerra mondiale. Ci dobbiamo tutti rimboccare le maniche e prendere in mano la situazione cercando di reagire e senza dover aspettare che sia lo stato a risolvere le cose. Preso come è con dettagli futili di questi giorni, non vedo altro da farsi. Per non fallire come la Grecia dovremmo ribadire che l'Economia siamo noi! E che L'Italia siamo noi!

In quest'attesa abbiamo già perso il 24,3% della produzione dall'inizio della crisi e se dovessimo ripercorrere gli stessi passi ci vorranno 20-25 anni per recuperarli. I nostri giovani, con questa prospettiva, faranno meglio a fare il passaporto e andare altrove perché non c'è speranza che le cose cambino presto, a meno che non si prenda come esempio i nostri padri e nonni per rilanciare l'Italia.

Non dobbiamo più aspettare e sperare che l'economia torni a prosperare da sola. Non abbiamo più tempo per aspettare che lo Stato prenda in mano la situazione, che gli altri sistemino le cose al posto nostro.

Sarà quindi molto importante che il prossimo anno, alla tornata elettorale prossima Europea o alle politiche, se queste si verificheranno prima, i cittadini facciano capire chiaramente il messaggio: basta populismi, tatticismi e cariatidi al potere, chi non è stato capace di cambiare le cose in 20 anni dovrebbe tornare alla vita civile dando spazio ai giovani dei rispettivi partiti, che hanno ora il diritto di dire la propria.

Dobbiamo avere il coraggio di credere in noi stessi e in quell'Italia che ha fatto tanto sognare i nostri avi, quell'Italia per la quale essi hanno lavorato e dato la vita. Lo spettro dell'incertezza non deve prendere il sopravento su di noi. La depressione non deve avvolgerci, altrimenti gli effetti saranno smisurati. Dobbiamo essere consapevoli che solo noi possiamo salvarci, che sta a noi offrire ai nostri figli le basi per un futuro più sereno e che dobbiamo fare si che i sacrifici delle generazioni precedenti non vadano dispersi.

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[1] http://www.repubblica.it/economia/2013/03/28/news/confindustria_a_febbraio_cala_la_produzione-55542261/

China in a crisis?

By Saro Capozzoli (Founder of JESA Investment Ltd) and Dora M. Guzu

Since the late 1980is, China has undergone through several transformations which are usually always not clear or easy to interpret.

Unfortunately Italian opinion leaders and experts are not always able to grasp the true motives, dynamics and ramifications of these transformations.

We are currently experiencing one of these transition in the economy. To dates, China has been ruled by a welfare economy where the government has supported companies by offering them easy credit without implementing a risk management system and an adequate controls. This attitude has made some of China's nationals enterprises lazy and uncompetitive.

The credit crunch that the press is discussing is not a liquidity crisis, as it is perceived in Italy, but it is a decisive and deliberate manoeuvre by the Chinese government to end this welfare system.

The government has decided to no longer offer easy credit to non-competitive enterprises, and is implementing a natural selection. Moreover, the government has mandated a reduction of the production capacity in many non-strategic sectors, such as the steel, cement and paper. [1]

Due to a downturn in European consumption, the Chinese production would naturally decrease. This an opportunity to revise certain practices introduced 30 years ago, which now need to be updated for the future. An example is represented by the paper production industry, which is one of the most polluting in China. To illustrate this point Shandong Chenming Group has received the order to close the excess production capacity for a combined value of 284,200 tons of products. However the decision will not impact negatively on the company since the management had decided to shift towards the manufacturing of higher-end products.

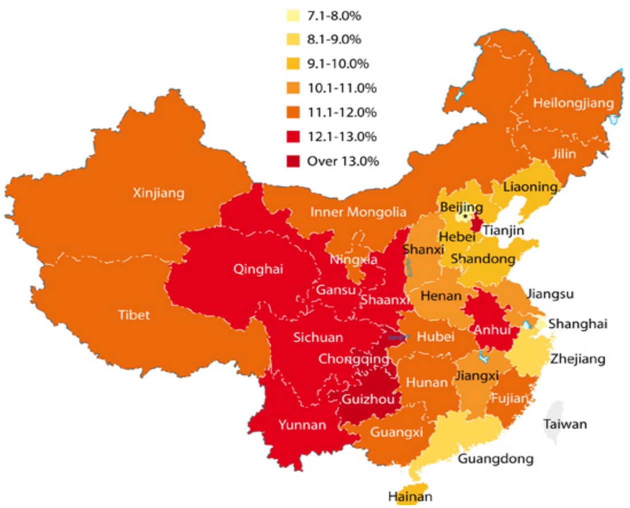
The sectors that will continue to be supported by the government are those with high social impact, such as the ones related to the medical field, or those located on the technological frontier, such as automotive, environmental, aerospace, and new technologies, which ensure the competitive success of the country in the medium-long term. Even the agricultural sector will be revolutionized. With millions of farmers leaving the countryside to move to the cities, it is fundamental for the future of China to provide a strong mechanization for agriculture, as well as to get increased yields from cultivated land. Even the livestock sector will be supported, so that all the sectors related to food will receive particular attention.

Unlike Europe, China has demonstrated their commitment to investment that will stimulate job creation and consumer spending. In 2009 it was decided to stimulate infrastructure, while today the government has selected the sectors that contribute most to social stability and development of the national economy.

Another example of this change of direction can be seen in the increase in the unemployment rate, a phenomenon that was obviously not understood by the Italian press, who explained it as the commencement of a serious crisis. In 2012 the unemployment rate reached its historical maximum of 4.2%.[2] However, it must not be misread as a sign of the collapse of the Chinese economy, rather as a sign that the government is focusing on the quality of human resources rather than on full employment.

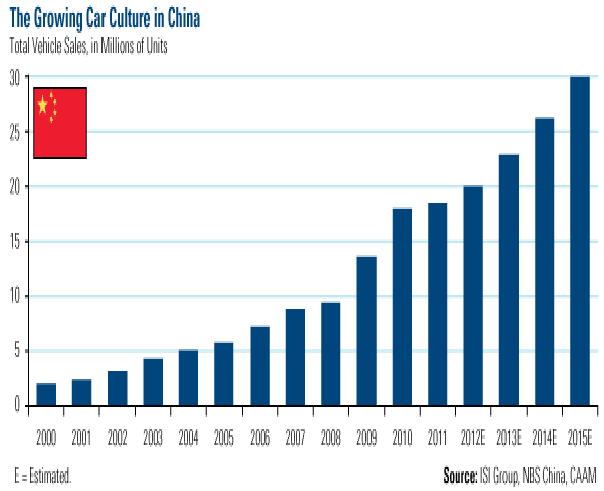
A GDP growth rate of 7.5% is of no importance if we take into consideration that China's regions present highly different GDP levels. There are areas in the center of China that grow at 14% and areas on the coast that only grow at 7%.[3] Nonetheless, these figures reflect the fact that China's growth pattern is becoming more similar to that of other countries in the world.

China's Provincial GDP Growth Rates in 2012



Source: China Briefing, 2012

The priority of the new Chinese government, placing its focus on food security and the environment, is to raise the standard of living of its citizens. This is being achieved through the enforcement of policies aimed at facilitating the purchase of a first home, a first car, or at increasing the quality of the education system. The domestic demand is growing strongly, with 19,000,000 cars sold in 2012, 7% more than last year.[4] Furthermore, all areas related to leisure are similarly growing, amongst which travel or clothing.



In this historical moment, there are two challenges that the government is tackling.

First of all, banks need to be restructured in order to offer credit according to more objective economic and strategic criteria. The second major challenge is from by state-owned enterprises, which, no longer supported by the state, require competent management. This is made even more proprietary by competition coming from multinational companies.

In conclusion, what is presented as a crisis is in fact nothing more than a change in direction towards a more efficient economy.

Nonetheless, in this scenario China continues to invest abroad. In 2012 it has invested USD 83 billion, while in the first 6 months of 2013 it invested USD 45.6 billion.[5] This is because the government recognized that China must be able to compete with the rest of the world in order to grow.

Thus, there is an enormous potential for Italian entrepreneurs, to whom we suggest not to rely entirely on the Italian press in an attempt to become better informed on the situation in China, but also on international media and independent analysis. This will enable them to shed some light on the situation in China, and to decide how and where to carry out investments in this region of the world.

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The search for individuality in the Chinese luxury good market

By Martina Carli

The growing appeal of international luxury brands to high-income Chinese consumers is hardly news. At the end of 2012, the Chinese luxury market amounted to €16 billion, with a one-year growth rate of 22%[1]. However, a new trend in the purchasing pattern of wealthy Chinese buyers is on the rise.

Affluent Chinese customers are experiencing a change in their shopping motives. While some seek visible and recognizable logos in an attempt to convey large statements about their status, others have developed an interest in items that display individuality and other specific attributes with which they best identify. The latter are beginning to view luxury purchases as “lifestyle” rather than celebratory acquisitions. As a result, they are now seeking more unique or personalized luxury products. Buyers are shifting from luxury brands such as Louis Vuitton and Gucci to smaller, more segmented brands such as Marc Jacobs and Stella McCartney. Their search can be explained by the fact that consumers are beginning to value brands in which they can identify, favouring quality, uniqueness, and understatement[2].

As a consequence, wealthy purchasers are becoming increasingly sophisticated when shopping for high-end goods, expressing a growing appreciation for exclusivity, durability, and tastefulness of products over the importance of logo[3]. With this regard, Paul French of the *China Economic Review* talks about the rising trend of “stealth wealth”: the tendency to buy more discreet, high-end brands with greater emphasis on materials and craftsmanship.

It may be tempting to conclude that Chinese sophistication will reduce cultural variations in tastes. However, founder of Digital Luxury Group David Sadigh points out that, by contrast, Chinese refinement contributed to the emergence of local responsiveness independent from Western preferences, thus challenging luxury brands in terms of product offering and opening blue oceans for growth in innovative consumer segments.

These changes have paved the way for many and more recent labels. New brands such as Elizabeth Arden and Rado Switzerland have recently entered the top 50 most sought-after luxury brands in China, while Moncler and Salvatore Ferragamo dropped out the list[4]. Nonetheless, smaller brands face more obstacles when opening distributing networks of their own or in Chinese department stores. The issue of scale can be overcome through the aggregation of several firms into multi-brand stores. Several such businesses have acquired a loyal customer-base and are now extending their presence beyond Beijing and Shanghai into second-tier cities. The multi-brand store is a reality that is allowing more and more small and medium enterprises to export their goods to this country.

Moderna Jewelry is a prime example of this internationalization strategy. An umbrella brand, launched by JESA to cater to the large Chinese luxury market, Moderna provides a distribution network for its own product lines and some of the highest quality Italian names such as 1AR, Fratelli Bovo, Vendorafa, Misis, E. Marinella and Altanus. Moderna is specialized in jewellery, watches and other luxury goods[5]. Leveraging Moderna's scale and distribution channels, manufacturers have been allowed to thrive in this market and to extend their sales and recognition beyond Europe, while capitalizing on the prestige of the *made in Italy* trademark. Despite the evidence, many Italian luxury brands hold back from forming collective multi-brand entities to venture into the Chinese market, either attempting to enter individually, or giving up exploring this market altogether.

Although Chinese investors have shown interest in striking a deal with Italian manufacturers and retailers, they often report encountering countless difficulties in reaching an agreement with their Italian counterparties. As often in family-owned companies, the multiple requirements and demands presented by Italian businesses result in endless contracting times and, often, in the failure in reaching a suitable agreement. The conflicting interests of competing firms and the challenge of identifying complementary brands discourage investors and cause them to flee towards firms with a more managerial and business-oriented approach, notably French-owned fashion conglomerates, whose emphasis on pragmatism and market timing makes them more competitive, particularly in the luxury sector.

The appeal of Italian and European designers in China is so strong that some Chinese manufacturers have begun to produce high-quality goods and to launch them under made up, Italian-sounding names, thus exploiting the recognition that arises from a fake *made in Italy* appearance. This phenomenon is acquiring increasing magnitude and is taking away large chunks of the market for the Italian authenticity and brand heritage, which Italian designer labels fail to reach out to, and it will, overtime, result in a dilution and loss of prestige of the *made in Italy* trademark.

All three issues above discussed deter investment funds from investing in Italian luxury houses, thereby causing a conspicuous and unrecoverable loss of potential business. This can be interpreted as a wake-up call for small and medium Italian retailers and manufacturers to come together as large, aggregated entities and tap into the rapidly-growing market for niche, high quality luxury, capitalizing on the authenticity and uniqueness of a design *Made in Italy*.

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CONTRIBUTORS

Scott Sun (Supervisor)
Saro Capozzoli
Dora M. Guzu
Martina Carli
Michele Corbanese

For inquires and suggestions regarding this newsletter or for any other concerns, please contact us anytime at:

michele@jesa.com.cn

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ADDRESS IN SHANGHAI

LANE 112 FENYANG ROAD – HOUSE 4
200031 SHANGHAI - CHINA

Tel +86 21 64331555
Fax +86 21 62880072

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