

# JESA INVESTMENT & MANAGEMENT CO. LTD.

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## **Campagna elettorale e situazione economica italiana**

*By Saro Capozzoli, Founder of JESA Investment Ltd*

I'm currently in Italy for some meetings with Italian companies, right in the middle of the political campaign before the elections of February 24<sup>th</sup>.

I noticed that the discussions among the different political parties are mainly focused on issues like the duration of the interviews on television or on which party is more left/right/center wing.

However, talking with the entrepreneurs, it is clear the lack, in the political programs, of another key matter: the economical issue.

The Italian companies are suffering and are not able to recover from the crisis that is affecting our country. Taking the construction sector as an example, I learnt about very serious situations, where even companies which have played an important role in this industry for generations are on the edge of bankruptcy. And this crisis not only has consequences on the workers employed in this particular sector, but also on the ones employed in connected industries, e.g. furniture.

What is even more alarming is that many of the companies that are now struggling in the current situation are leaders in their sector.

During a conference organized by the construction industry, I have pointed out the opportunities offered in countries just 4 hours away from Italy, like Saudi Arabia, where there 6 towns to be built from scratch, and the Horn of Africa.

This is the time to revise the current development model, up to now just focused on the domestic market, and start to get the opportunities offered outside Europe, also by hiring new professional profiles more prepared to face these new challenges. It's time to look beyond!

If we consider the food industry, one of the sectors where Italy is considered a leader, German exports towards China are 4 times those from Italy and French companies, through a direct presence in China, are manufacturing locally consumer goods like yoghurt, cheese, etc. With regard to products like wine, there are tens of associations of manufacturers who follow the market directly without the use of agents. In this way they control their image and presence and are thus able to enjoy the big margins offered by this sector in China.

If we leave empty spaces, sooner or later these will be filled by those who are able to acknowledge the opportunities on time. Therefore we cannot complain if one day our leading products are manufactured by French or even Chinese companies. There is a market, but we don't recognize it.

I can mention at least 2 examples in Shanghai: why should I buy one Italian mozzarella and pay 10 Euro while I can buy it from a Korean company that produce them on-site? There is even a Tunisian company that manufactures fresh pasta using Italian name and machineries.

Our company, that supports Italian business in the development of a presence in markets like China, Saudi Arabia, Chile and others, is often accused to foster job losses in Italy. But this is not true: the companies we have being supporting in their setup in Asia are able to resist in this difficult moment thanks to their direct expansion in other markets.

However, none of the political campaign programs mentioned the development abroad as tool for the recovery of Italy or offer actual solutions.

The only appeal in this direction comes from Giorgio Squinzi, president of Confindustria (confederation of Italian industries), who made sev-

eral operational proposals that, agreeable or not, are aimed at solving our businesses' problems.

Our hope is that politics could understand the importance of dealing in a pragmatic way with this issue, in order to build again confidence in our businesses. All the other issues, some of which are of certain importance, should be addressed only in a second phase, when Italian economy has fully recovered.

**\* \* \* ITALIAN VERSION \* \* \***

Mi trovo ora in Italia per incontrare alcune aziende e mi ritrovo nel pieno della campagna elettorale per le elezioni del prossimo 24 Febbraio.

Ho notato che le discussioni tra i vari partiti vertono principalmente su questioni quali le tempistiche dei propri interventi in televisione o sull'orientamento più o meno a destra/sinistra/centro di un partito rispetto all'altro. Tuttavia, parlando con gli imprenditori, è evidente la mancanza, all'interno dei programmi di campagna elettorale, di un altro tema fondamentale: la questione economica.

Le aziende sono sempre più sofferenti e non riescono a rialzarsi dalla crisi che sta attanagliando il nostro Paese. Prendendo ad esempio il settore

edile, ho avuto modo di conoscere situazioni particolarmente gravi, in cui moltissime aziende, presenti anche da generazioni, sono sull'orlo della bancarotta. E la crisi di questo settore oltre ad avere conseguenze dirette sui lavoratori nel campo delle costruzioni, ha ripercussioni anche sui settori ad esso collegati, come quello del mobile.

Il fatto più preoccupante è che stanno morendo anche aziende leader nel proprio settore di riferimento. In un recente convegno dove erano presenti diverse aziende costruttrici, ho fatto notare che a solo 4 ore di volo dall'Italia ci sono opportunità immense offerte dalla costruzione da zero di 6 città in Arabia Saudita, oltre che nel corno d'Africa e in tante altre aree.

E' il momento di rivedere l'attuale modello di sviluppo rivolto verso il mercato interno, e iniziare a cogliere le opportunità fuori dall'Europa, anche attraverso l'assunzione di nuove figure professionali più preparate ad affrontare queste realtà. E' ora di guardare oltre!

Basti pensare che nel settore agroalimentare, una delle eccellenze del nostro Paese, le esportazioni della Germania verso la Cina sono 4 volte quelle dell'Italia e le imprese francesi hanno una presenza diretta in Cina e producono in loco prodotti di largo consumo come yogurt, formaggi ecc. Per prodotti

come il vino, esistono decine di consorzi di produttori che, seguendo direttamente il mercato senza delegare ad agenti locali la loro immagine e presenza (come accade invece per la gran parte dei nostri produttori), riescono a sfruttare i grandi margini offerti da questo settore in Cina.

Se noi lasciamo spazi vuoti, prima o poi verranno riempiti da chi riconosce per tempo le opportunità. E non lamentiamoci poi se un giorno troveremo i nostri prodotti di punta fatti da francesi o dagli stessi cinesi. Esiste un mercato e noi no lo vediamo.

Posso citare ben due esempi qui a Shanghai: perché comprare una mozzarella italiana a 10 euro (l'una) quando è possibile comprarla da una società coreana che produce in loco? Vi è anche un'azienda tunisina che produce pasta fresca con nome e macchinari italiani.

La nostra azienda, che supporta le imprese italiane a sviluppare la presenza in altri mercati come la Cina, Arabia Saudita, Cile, ed altri ancora, viene spesso accusata di favorire la riduzione di posti di lavoro in Italia. Ma questo è falso: le aziende che abbiamo aiutato a strutturarsi in Asia riescono a resistere in questo momento in Italia grazie all'allargamento della loro presenza diretta in altri mercati.

In nessun programma elettorale, invece, si fa riferimento allo sviluppo all'estero come arma per far ripartire l'Italia né vengono formulate risposte concrete.

L'unica voce al momento sembra essere quella di Giorgio Squinzi, presidente di Confindustria, che ha fatto alcune proposte operative, condivisibili o meno, mirate alla risoluzione dei problemi delle nostre aziende.

La nostra speranza è che la politica riesca a capire l'importanza di affrontare in maniera decisa questo problema per ridare certezze alle nostre aziende. Tutte le altre questioni, alcune di sicura importanza, andrebbero invece affrontate solo in un secondo momento, quando si sarà riusciti a risolvere la situazione economica del nostro Paese.

## **The changes in young Chinese consumers' behavior**

After 10 years of expansion reaching the average of 11% per year, China's GDP has registered the growth rate of 7,8% in 2012.

The GDP growth is steadily raising disposable incomes of Chinese families, pulling ten millions of

households into the middle class (Middle class is currently defined as having an annual household income of between RMB 60,000 and RMB 200,000) or even beyond. China's middle class is forecasted to expand to 700 million by 2020 (Euromonitor International). Urban middle class constitutes 43% of the entire population, and it is forecasted to increase by 69% by 2015 and 76% by 2025.

Although Chinese consumers are less optimistic about the possibility of further increase of their incomes compared to the previous years following this slowdown in the GDP growth they still remain positive in comparison with other countries.

Chinese consumers' propensity to save remains very high because of their concern about the social security net as well as the relatively underdeveloped financial sector (in terms of limited use of credit).

However, the lifestyle trend is towards a greater

consumption: the consumer spending is forecasted to increase 5 times by 2030 (McKinsey).

### **Generation of "little emperors"**

Today's 18-34 years old consumers are the "product" of the 'one-child policy' the Chinese government implemented since 1979 with the aim

of containing the population growth.

This generation of "little emperors/empresses" didn't experience sibling rivalry or share and spent their childhood being spoiled by parents and grandparents, who indulged their only child in goods that were not available during their childhood.

This policy significantly changed Chinese psychology: Chinese children born after the implementation of the policy got used to receive everything to satisfy their needs and, as claimed by an Australian research published in the journal Science earlier this year, they have grown up to become less altruistic, more timid and less competitive than the Chinese who were born just before the policy.

### **New patterns of consumption**

This segment of Chinese population is the one that presents itself more with new consumption habits, that can be summarized as follows:

- increased self-indulgence about their purchases;
- increased willingness to pay high prices for the best quality products;
- growing manifestation of behavior usually

associated with Western consumers (caused also by the increasing opportunities of overseas travels)

- more sophisticated consumption, with focus on quality and variety;
- increased loyalty toward a particular brand;
- focus on individualistic and emotional considerations about self-expression and social recognition

These characteristics in the consumption behavior refer mainly to young Chinese with higher incomes, located in bigger cities along China's coast.

**Internet as primary information source**

According to the data published by China Internet Network Information Center, in 2012 China's population of Internet users reached 564 million, with an increase of 10% compared to the previous year.

The following table shows the growth in the number of Internet users in China since 2004.

Year	No. of Internet users
2004	94 million
2005	111 million
2006	137 million
2007	210 million
2008	298 million
2009	384 million
2010	457.3 million
2011	513.1 million
2012	564 million

Source: *China Internet Network Information Center*, January 2013

The traditional information sources guiding Chinese consumers in their purchasing activities, i.e friends, peers and families, as well as TV and newspapers are increasingly being substituted by the Internet.

The 50% of Chinese internet users consider the Internet as the most trusted source of information, while television and newspapers are at 30% and 15% respectively.

The 18-34 year old segment heavily relies on the internet for researching information about their purchase.

Chinese online shopping has increased by 20% in 2012 and the online retail market is expected to grow from \$94.6 billion in 2013 to \$159.4 billion in 2015, according to Forrester Research, reaching a share of 8% of total retailing (Boston Consulting).

E-commerce in China is mainly divided in consumer-to-consumer and business-to-consumer marketplaces, such as Taobao; business-to-consumer vertical site selling a wide range of products, such as 360buy.com and business-to-consumer brand site selling branded merchandise directly to consumers.

Taobao, a Chinese equivalent to eBay, currently holds 70% of online market share in China and serves as a centralized marketplace that enables consumers to compare and purchase every kind of product.

The Internet is responsible of major changes in Chinese consumers' habits:

- Despite the fact that many Chinese consider shopping in malls as one of their favorite leisure activities, they spend

more and more time on the Internet with a consequent decrease in the time spent in stores.

- Traditional Chinese shopping behavior emphasizes comparison shopping before making any purchase, but in 2012 the 36% of online shoppers went directly to buy from known e-tailers.

### Chinese traditional habits still affect the consumption behavior

Along with these new patterns, the majority of Chinese consumers still keep their traditional characteristics: basic value seekers, who spend long time in comparing products trying to find the best deals and who tend to save an average of 25% of their annual disposal income.

Also the new kind of consumers still keeps some of the traditional characteristics. This is clear if we consider the loyalty to a particular brand: Chinese consumers have a high level of brand awareness, but their loyalty toward a particular brand is still in progress, as they rather tend to choose among different favorite labels.

This is shown also by the use of the online market places, where apart from purchasing, most of the

users compare prices and characteristics as well as exchange information about products.

### Conclusions

Companies interested in selling their products in China need to take into account these new patterns of consumption if they want to meet this new segment's demand for high quality and variety.

Companies shall thus become more flexible and adjust their marketing strategies offering more diverse portfolios of brands and niche products, in order to satisfy the new demand, although without abandoning the majority of the population that still keep their traditional consumption habits.

Given the increased time spent online by Chinese consumers and the use of the Internet as primary source of information about products, companies should have a strong Internet presence and strategy, in order to generate more sales and engage with new customers.

Online marketing has thus become the necessary tool in order to build the brand image and reputation and create loyalty in Chinese consumers.

### New policy: 72 hour visa-free transit through Beijing and Shanghai for international travelers

Beijing authorities announced a new 72 hour visa-free transit policy, effective from January 1<sup>st</sup>, 2013.

According to the new policy, holders of pass-ports issued by the 45 countries listed below do not need a visa if transiting through either Pudong Airport or Hongqiao Airport in Shanghai or Beijing Capital International Airport in Beijing and if meeting the following requirements:

- they hold valid passports, visas for the onward countries
- they have final destination tickets
- they have booked onward flight seats,
- they stay in Beijing or Shanghai for less than 72 hours

This means that travelers flying from Milan to Shanghai to Sidney don't have to apply for a visa if they want to stay in Shanghai for 3 days. But foreigners traveling on a single return flight (e.g. Milan to Shanghai to Milan) will need to

get a Chinese visa before their departure if they intend to stay in Shanghai.

The 45 countries currently included in the 72 hour visa-free policy are:

- Argentina,
- Australia,
- Austria,
- Belgium,
- Brazil,
- Brunei,
- Bulgaria,
- Canada,
- Chile,
- Cyprus,
- Czech Republic,
- Denmark,
- Estonia,
- Finland,
- France,
- Germany,
- Greece,
- Hungary,
- Iceland,
- **Italy**,
- Japan,

- Latvia,
- Luxembourg,
- Mexico,
- Netherlands,
- New Zealand,
- Poland,
- Portugal,
- Qatar.
- Republic of Ireland,
- Republic of Korea,
- Republic of Lithuania,
- Republic of Malta,
- Republic of Slovakia,
- Republic of Slovenia,
- Romania,
- Russia,
- Singapore,
- Spain,
- Sweden,
- Switzerland,
- Ukraine,
- United Arab Emirates,
- United Kingdom,
- United States of America,

The 45 countries were selected according to the statistics of inbound overnight visitors in Beijing from 2009 to 2011.

Travelers eligible for the visa-free stay in China are allowed to travel and sightsee within the Beijing Municipality or Shanghai municipality while exempted from the procedures associated with visa applications.

In Shanghai a similar policy was already in force, but with the new policy the duration of the visa-free stay has been extended from 48 hours to 72 hours and the list of eligible countries has been further widened.

Officials hope the new policy will boost the local tourism industry. Local airlines are starting arranging special packages, including hotel booking, car rentals and tourism guide services while travel agencies are designing special services for this new tourist niche. Furthermore, shopping malls, restaurants and tourist sites are planning to extend their business hours.

The airports of Beijing and Shanghai have already set up special lanes in order to serve the foreign layover passengers taking advantage of the new policy.

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