

JESA INVESTMENT & MANAGEMENT CO., LTD.

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Coffee Market & Growing Consumption in China

By Saro Capozzoli, Filippo Contri - Jesa

Starbucks will open in Milan, in Piazza Cordusio. It seems that the coffee shop will be a structure employing more than 350 people. This news should help Italy to understand that there are different ways to drink coffee in the world and often drinking a cup of coffee may combine different business habits. If Italy really would look to the future, and to the world, perhaps it will accept diversity. This may not necessarily being seen as a risk. Indeed, Starbucks will create work, employment, and innovation

Nobody would have bet on Starbucks even in China that, on the contrary, now has 1,500 coffee shops on the 25,000 stores globally. For Starbucks, China is the third country in order of importance, after the United States and Canada; speaking about cities, Shanghai is the first in the world with approximately 260 sales points opened, followed by Seoul and New York. The global turnover reaches USD 22 billion. The group plans to increase the number of stores in China to 5000, with sales expected to reach nearly a quarter of the global ones.

These numbers not only imply new jobs, but also a new cultural approach, and the possibility of introducing complementary products into stores. The chance to work and connect to Wi-Fi while sipping a Starbucks coffee will open doors to a new way of working also in Italy.

If we think that the idea of Starbucks' founders born while looking at bars and cafes in Italy, we may wonder why Italian coffee brands have not had the same vision. We should ask ourselves why Italian brands are not yet present in the Chinese market, if the numbers potentially accessible are so high. Starbucks became a must-have inside department stores and malls in China. It guarantees a bustle of people and consumers. Italian companies in the food & beverage sector are however not yet been able to write their page in the Chinese market, perhaps because they did not invest enough.

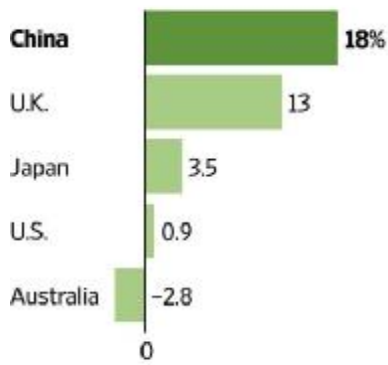
Chinese coffee consumption data show a consumption of approximately 1.9 million "bags" in 2014. Forecast for the coming years foresee 18% increase, making China the 17th coffee consumer in the world. With a population of 1.4 billion, the per capita consumption is about 83 grams or 5 cups per year, although these figures are growing.

Furthermore, consumption of coffee per person is significantly higher in urban areas rather than in countryside areas. Centers such as Hong Kong have a coffee expenditure of 2 kg, which can be seriously compared to 4.4 kg of the USA and to the 4.9 kg of the European Union.

Coffee Time

Coffee consumption in China is still relatively low, but expected to grow.

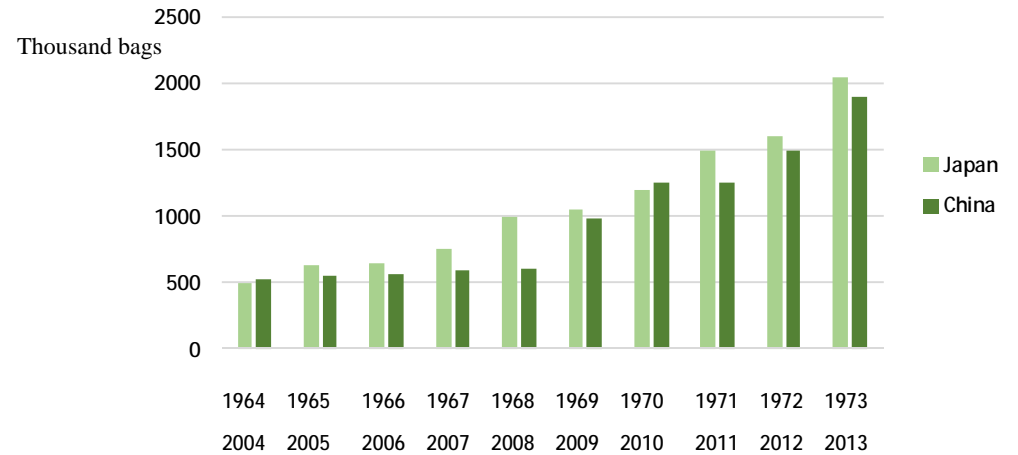
Forecast change in cups per capita consumption, 2014-2019



Source: Euromonitor International
THE WALL STREET JOURNAL.

As for the structure of the Chinese market, it shows a net difference between two segments, one widely bigger than the other: the so-called instant coffee or ready to drink (RTD); and the roasted coffee, which is still a very niche. However, we can highlight the wide success possibilities for the world of roasting.

In other words, the coffee field is a significant and potentially huge industry in China. Growth in China is reminiscent of the one that Japan lived from 1964 to 1973. If we look at numbers, prospects could even be more and more real: Japan, with a consumption of 7 million "bags", became the fourth largest consumer in the world. China is still the seventeenth one, but it has great room for improvement.

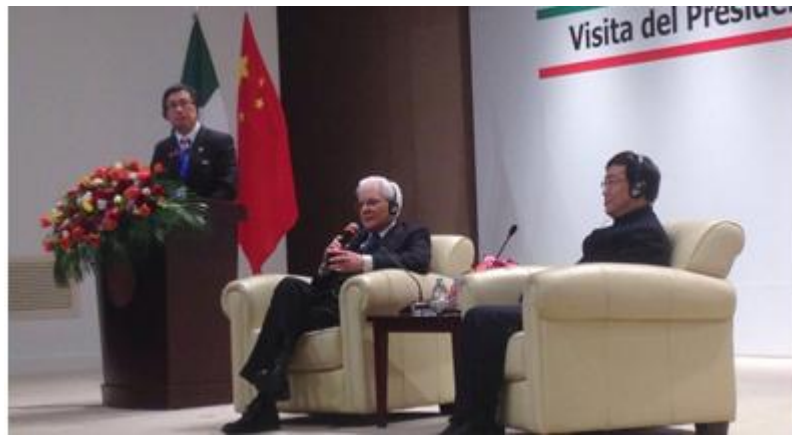


We should not look at diversity with aversion. We should learn to expand the Italian taste and business globally in order to benefit from the enormous potential of its products that are loved and copied all around the world. Italian micro-enterprises, which fail to be managed and have structural problems, are likely to be colonized by the Italian sounding products.

However, we hope the opposite will happen: colonization derives precisely from Italy. Of 200 restaurants present in Shanghai, the majority was opened by Australians, French. Even Italian pizzerias and fast-food chains have an American-style. The suggestion is to be united, to create Italian chains and have the strength to invest and win our share of overseas market, just with our taste.

The Italian President at Fudan University, China: the European Union will again be strong

By Saro Capozzoli, Nicolo' Nepote



February 24th, 2017 has been a good day for cooperation among Italy, China and our respective young generations.

The Italian President, Sergio Mattarella, held a *lectio magistralis* at Fudan University, speaking about the new Silk Road and the Chinese "one belt one road" initiatives.

President Mattarella put the accent on different topics, among which on the importance of both globalization and the new Silk Road strategy for Italian-Chinese relations. These relations will be exploited not only in terms of goods exchange, but also in terms of cultural knowledge exchange.

President Mattarella praised the words of President Xi Jinping at Davos' World Economic Forum, highlighting how important the connections between China and Europe will be in the near future.

President Mattarella expressed confidence for the European Union, which in his opinion will return to be stronger than ever especially against the euro-sceptic movements that are gaining votes in the Old Continent.

According to President Mattarella, Italy will be a mediator to help China with other European Countries and to take advantage from its seaports that will be fundamental in the transportation of goods.

The main discussion topic, however, was linked to the academic world. Indeed, the Italian President highlighted the importance of allowing Italian scholars to study in China to shape future's managers with an internationally-oriented mindset.

President Mattarella supported union and cooperation not only on a political and economic level, but also among students that are the people who will influence our future. For the Italian President no walls are needed: we should build more and more silk roads to increase knowledge and share experience.

According to our opinion, we believe this *lectio magistralis* signed a fundamental moment and we hope it will serve as the inauguration for a new structured cooperation trend. Nevertheless, another key topic should be reciprocity: Italian students are not allowed to start gaining a first working experience in China if they don't have at least 2 years-experience in their home country. This means it is really hard to

get a working visa in China, especially for young graduates. On the contrary, Chinese students can easily study and work in Europe. We believe it would be worth it to analyze the issue, bringing it to a comprehensive solution in order to benefit from a fair competition.

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