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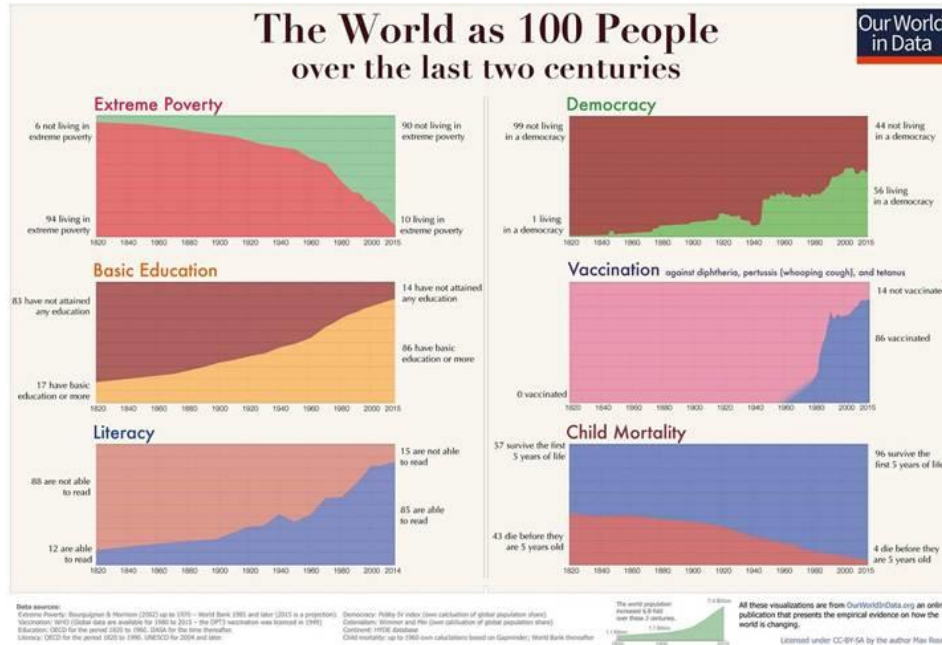
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Market globalization: how protectionism will bring to an evolution and a depletion of the working class?

By Saro Capozzoli, Tristan Gonnord



opened their barriers. As a consequence, the poverty rate decreased all around the world.

Also, the reallocation of income due to globalization, led to a reorganization of the industries in developed countries. For example, the Italian textile industry lost its market shares because of the Asian low production costs, which caused the crisis of this industry. Employees in this sector were very specialized, and were not able to convert themselves in other activities. This reduced the number of employees working in this field but, if the industry is still surviving, it is also thanks to the globally spread know-how in the textile industry.

Actually, countries that faced a crisis caused by globalization, especially by outsourcing activities, are the less internationalized ones. Again, taking Italy as an example, we see that the majority of its industries are not internationalized and are not able to properly deal with foreign markets: SMEs have to tackle with structural problems (size, managerial style, family business, low incentives, etc...), they have no direct branches abroad and, for these reasons too, they suffered the crisis much more than other countries. Indeed, if we look at Germany or other north European countries, we can notice how they overcame the crisis: German companies benefited from their long term direct presence abroad with a Country System that works in a coordinated and well structured way, and they took advantage of foreign markets to balance the lack of demand in the domestic one. On the contrary, Italian enterprises are rarely moving in groups and/or clusters. Italian SMEs have difficulties in being effective in international markets, in which capital and size are required. Most importantly, they don't wait the right time to see results coming out after years of activities in the markets.

From the economic theories proposed by Smith or Ricardo we understood that with no barriers, the world becomes competitive: to survive in the competition, every country must find its own competitive advantage.

Over time, globalization led to a reallocation of income. This brought a reduction of revenues' inequalities also thanks to countries that

Speaking about education, this is also strongly influenced by globalization. In fact, education rate has been constantly increasing within the last 20 years all over the world. Globalization is the driver that helps education to be spread, giving people the skills to understand and live the world.

The result is that the literacy rate, which measures people's ability to read, continues to grow over time: in 2014, 85 people out of 100 were able to read.

Education enables people to learn the English language that is the so called "*lingua franca*" of the world and a central element of globalisation. Literacy allows people to improve their knowledge, to accept diversity, to share opinions, and to be updated. When learning a new language, people are pushed in opening their minds and in communicating with different cultures to enrich our cultural heritage.

Protectionism and its contradictions

Protectionism and Globalization are antagonists. The two words are opposites, and so are the concept related to them.

Protectionism aims to protect domestic producers and domestic workers by using tariffs, import quotas or nontariff barriers.

In spite of import quotas, tariffs, and nontariff barriers, the amount of imported apparel sold in the United States rose from about 50% in 1999 to about 75% today. The U.S. Bureau of Labor Statistics (BLS) estimated the number of U.S. jobs in textiles and apparel industries fell from about 542,000 in 2007 to 541,000 in 2012. Of course, the

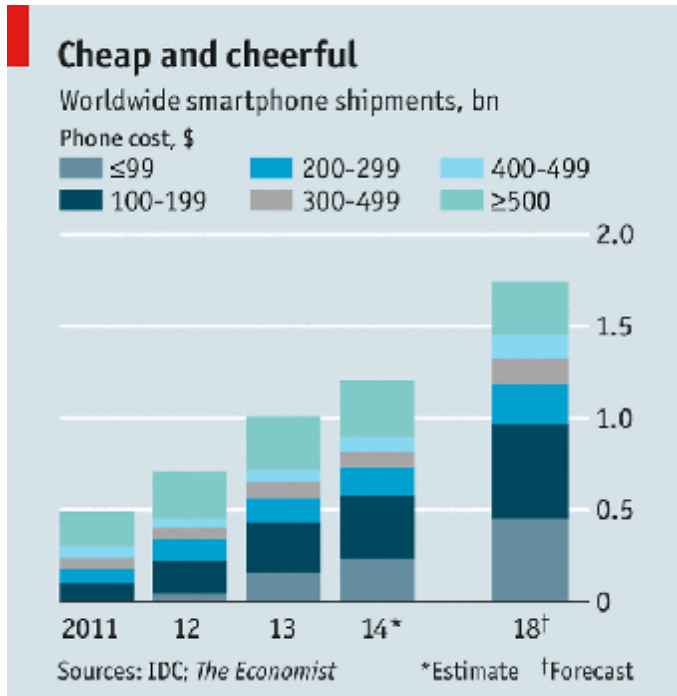
import quotas and other tariffs saved some jobs. This certainly has a cost. The price of clothes produced in America and purchased by Americans lower their purchasing power. The loss is to be counted in billions of dollars. Furthermore, when the United States eliminates trade barriers in one area, consumers spend the money they save on that removed trade barrier elsewhere in the economy: there is no global loss of jobs for the economy as a whole.

The problem with taxing importations is that it can have direct consequences on exportations. Commercial partners will respond by increasing taxes too and trade will be almost inexistent, as we have seen in 1930s with the Hawley-Smoot tariff. Moreover, exportations create jobs. The U.S.A. exports goods and services worth for \$2.2 trillion a year, providing employment for 9.8 million of U.S. workers.

There is also a geopolitical threat to tax importations. If tax policies become the standard, diplomatic relationships might become stained. In addition to this, in a very unstable geopolitical context, the enforcement of import taxes could lead to tough times for the entire world.

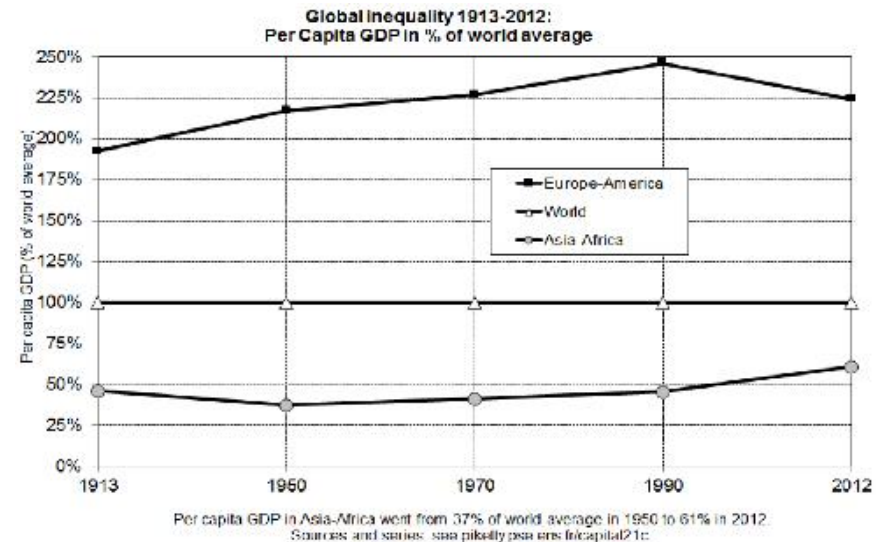
Globalization for a better World

Some products, such as phones, computers, or clothes, are now available and affordable to almost everyone thanks to globalization and labor-abundant countries. Globalization allows companies not only to have access to a large market, but also to benefit from economies of scale that lower production costs. Labor-abundant countries are considered as perfect places to produce enough to benefit from economies of scale.



One of the most relevant examples of this theory is the smart-phone. Today, smart-phones are everywhere, and in everybody hands. Moreover, they become cheaper and cheaper. Is it because of a lack of quality? Or is it because phones are produced near their delivery place? The answer can lie on international competition: companies coming from labor-abundant countries, such as Taiwan's MediaTek or China's Spreadtrum, can afford low production prices that result in low consumer prices. In 2012, 42% of phones priced at less than \$80 had a processor faster than 1 gigahertz; by 2014 87% did. People are not buying less quality they are just buying cheap, thanks to concurrence and free trade.

Globalization is most of the time blamed for an unequal growth. However, if we think a little bit more as citizens of the world, we would see that the extreme poverty has never been so low. As we can note from the graph below, inequalities between poor countries, represented by Asia and Africa, and rich countries, represented by Europe and America, are also decreasing. For more than 30 years now, extreme poverty has fallen in every region of the world.



The example of China perfectly illustrates this decrease. In China, the number of people living with less than \$1.25 a day has fallen from around 0.8 billion to around 0.2 billion from 1981 to 2008. Since the 80's, China has taken more than 660 million people out of poverty. There are many reasons for this spectacular change. Globalization certainly took an important role in China's evolution. The country's

“open doors” policies led not only to the creation of jobs but also to the injection of money into China’s real economy. In 1981, 70% of the world’s population lived with less than \$2 a day, but if we exclude China it falls to around 60%. In 2008, around 42% of the world’s population lived with less than \$2 a day, but, again, if we exclude China it increased to 46%. In fact, during the 1981-2008 time frame, China opened its economy to globalization: this made the difference in creating a wealthy working class, as well as a multibillionaire one.

Improving globalization

Globalization is still a topic of discussion, especially among people that are not convinced of its effects. Nevertheless, according to the OECD, an increase in trade liberalization would have a very positive impact on jobs and growth.

If the G20 reduced tariffs and non-tariff barriers by 50% leading to a more opened and more globalized world than it is today, it would contribute to:

- Creating more jobs: employment of lower-skilled workers could rise in both the short and long term by 0.3% to 3.9%, depending on the country, and employment of skilled workers by 0.1% to 4%.
- Raising real wages: real wages of lower-skilled workers could increase from 1.8% to 8% depending on the country; those of skilled workers could also experience from 0.8% to 8.1% increase.
- Increasing exportations: G20 economies could experience a substantial increase in their exports. In the long run, many G20

countries could see their exports rise by over 20% outside the Eurozone, and by more than 10% inside the Eurozone.

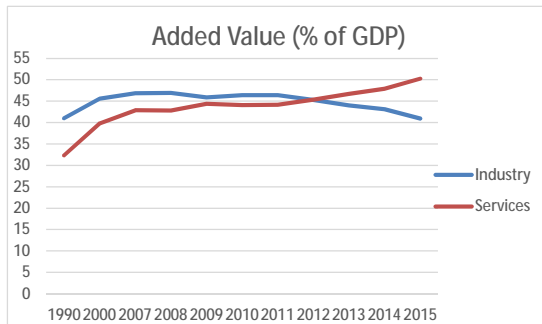
Thanks to open markets and international trade, firms have access to intermediate inputs and services, which boosts productivity and competitiveness.

In addition to the previous points, reducing tariffs and non-tariffs barriers by 50% would help countries that have a great know-how but a bad sight of globalization, such as Greece, France, Italy, or other ones. For example, Greece could easily export its yoghurt, creating domestic jobs, and increasing the production chain value. As for France and Italy, it could rely on products, such as wine or cheese, even more than what they are already doing.

Not only it would benefit developed countries, but it will also benefit developing countries in Asia and Africa. They will see an increase in their exports and in employment for high-skilled workers. Trade liberalization will allow those gains to be achieved.

Changes implied by globalization

Globalization has a huge impact on societies and on their evolution. Normally, every developed country’s most added value comes from services. If we take a look at the EU, in 2014, 74% of its added value came from services; as for the USA, it peaked at 78% in 2014. The evolution of services’ added value, calculated in percentage of the GDP, is therefore a good indicator of a country’s development rate.



China, for instance, turned from an economy based on the heavy and labor-intensive industries in the 1990's to an economy based on services in 2015. This doesn't really mean that China can be considered as evolved as the EU or the USA, since in some areas of China the industry is still predominant and the added value of services only reaches 50% (which is 24% less than the EU for example). Nonetheless, this shows how China took advantage of globalization to use its labor force in order to develop an economy based on the heavy-industry, and then turn it into a value added society based on services. The Chinese example is certainly peculiar since numbers of both its inhabitants and its labor force are huge.

However, other countries benefited of globalization and free trade by first relying on their labor force and then evolving into a service-based economy. One of them is Poland: its competitiveness in CEE has been confirmed by the Ernst & Young's 2012 report on investment attractiveness, which named Poland as Europe's second best destination for

investments, behind Germany. Poland was once called Europe's factory, while now the services' added value in Poland accounts for 63% of the GDP.

Liberalization and globalization can only represent advantages to markets and people. Different reports from the OECD and WTO show that it benefits to everyone and closing borders would lead to a global crisis and inflation.

In Conclusion

Populism in Europe, as in the US, launches a misleading message. It will create adverse effects on those who seek to reach fair competence. If countries close on hedgehog, they will only create poverty and will leave the West in a stalemate, while Asia and Africa will have more and more space to leave the West behind them. On the contrary, in an open world, the West should focus on what are the most advanced technologies to look into subtle systems where Asians face difficulties to move. If the West wants to compete with the East in the production path, we need to stay open. If we would adopt protectionist moves, we would never be as competitive as today: we will run the risk of raising prices in the West, as well as impoverishing our middle classes.

Living in an open economy also means having businesses that are able to stay in emerging markets. The West should not blame China, or other Asian countries, for having being smarter than us. If we do not invest in education and in our companies' direct presence in foreign markets, the risk is that we will always be prey to acquisitions instead of being the world's protagonists as we were in the past.

Food market in China, opportunities and regulations: two sides of the same coin

By Saro Capozzoli, Tristan Gonnord – Jesa

China has 1.4 billion inhabitants, which explained in other words means a huge market for food exporters. Indeed, the Chinese food market is expected to grow by more than \$300 billion by 2020, which represents a great deal of opportunities. In 2012, Chinese people spent around 6040 RMB per person for food purchases. Moreover, food e-commerce in China is booming.



A poll taken in 2015 by McKinsey discovered that online purchases of both packaged food and fresh food were more frequent than those of apparel (respectively 34 and 24 times a year, compared to 22 times a year for the apparel sector).

In addition, a growing part of Chinese consumers is even looking to buy and eat healthy food. This might be a result of national fitness programs as well as of the young population's interest in being healthy and fit.

Even though business opportunities are huge, there are strict regulations on food exportations to China.

In 2015, the Chinese government released its latest law to enforce food policies: the NFSL (New Food Safety Law), which is considered as the most stringent Food Safety Law ever passed in China. The law is intended to strengthen controls over foods' quality in China as well as over imported food. Producers are required to keep record of the supply and examination of food ingredients, food additives and food-related products. Both food importers and producers must be registered in the AQSIQ (General Administration of Quality Supervision, Inspection and Quarantine). As for the online food platforms, the providers of third-party online food trading platforms must review a trader's permit and register its real identity with the related name and ID. Furthermore, if an online platform becomes aware of safety issues, it has the obligation to report the issue to the FDAs (Food and Drugs Administration).

As per the healthy food, the Chinese administration stated that all products composing healthy foods that are not included in the approved list of healthy food ingredients, or that are imported into China for the first time, must be registered in CFDA (China Food and Drug Administration). Healthy food packaging should also mention that “this product cannot replace medicine”.

Since the law’s application, some companies and some kind of products have faced difficulties in doing business with China. In 9 months, from January to October 2015, 2350 batches of imported food have been grasped, returned or destroyed by the AQSIQ. Rejected foods came principally from ten countries: Taiwan, Japan, the U.S., Thailand, Italy, Spain, South Korea, France and Germany. Most of those batches came from Taiwan with 601 batches representing 25.5% of the unqualified food. Products that created the majority of concerns were biscuits, accounting 10% of the total rejected products.

What are the practical reasons why products can be rejected?

According to the Chinese government’s data, reasons are diverse and can be summarized as follows:

- The label is unqualified;
- Overweight;
- Expiry date;
- Failure to provide certificate and/or qualification materials;
- Products did not pass the quarantine inspection.

According to the above listed reasons, it is possible to think that these are due to companies’ mistakes, especially if those are small and without a proper export office. However, even multinationals such as the American giant Heinz; IKEA Shanghai; and Muji Commercial Co., Ltd., experienced rejection from the Chinese authorities, who destroyed several batches. This can demonstrate how strict the new law is. There are no privileges, neither for big companies.

The strict regulation and controls could totally annihilate opportunities offered by the Chinese food market. Therefore, the support of specialists might be needed. Companies with direct experience that are aware of procedures, regulations, and cultural differences might be very useful when dealing with business and trade in China. We are at hand to further discuss the issue together.



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