

JESA INVESTMENT & MANAGEMENT CO. LTD.

NEWSLETTER

DECEMBER 2011

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NEWS FROM JESA: "The end of the year: time to take stock of our achievements"

By Saro Capozzoli, Founder of JESA Investment Ltd

It's almost the end of the year, time to take stock of this year's achievements.

2011 has been a very tough year for world economy. Fortunately Jesa can give you good news from China, where, starting from the month of June, Italian and foreign investments started to increase again and many companies finally decided to enter the market.

Even if too late to enjoy all the opportunities China provided to the first people who enter the market, **it's better late than ever.**

However, we would like to highlight once again the importance of the right planning of the investment, in terms of method, location and company structure. The coming year 2012 has already been announced to be a difficult year, following the financial and debt crisis in the EU and the struggle to find a solution to countries' and banks' debts.

We do suggest not to freeze and remain within the country's boundaries, but, instead, to keep on taking the initiative and use every available re-

source in the capture of new markets' opportunities, where Italian company aren't present yet.

We are very glad to have met several companies, both Jesa's customers and not, that thanks to their success achieved in the Chinese market were able to reinvest also in their Italian mother company, widening their offices and plants and maintaining and/or creating new jobs

We are not just referring to China, but also to those developing countries that are providing more and more business opportunities to those who can take the initiative and are not scared of exploring un-beaten paths.

There are countries in the world that have not been affected by the crisis and are experiencing an extraordinary economic growth.

For instance, it is estimated that in 2011 Mongolia's nominal GDP will increase by +29,1% and FDI will double compared to 2010.

Companies shouldn't make the same mistake they made in China ten years ago, when, despite the fact that many European competitors were already there, China was considered too far, not interesting, not yet developed, where quality doesn't exist and whose language is complex, but looking, instead, towards those countries that offer big op-

portunities. Because it's during the crisis, when the European markets are slowing down, that we have to address our efforts toward those countries that are driving the development of the whole world economy.

I take the chance on the behalf of whole Jesa staff to thank all our clients that place their trust on us and decide to follow us and invest their time and resources in the markets where Jesa is present (China, Mongolia, Saudi Arabia, Chile). We wish to everyone a happy new year full of success and new opportunities.

* * * ITALIAN VERSION * * *

Siamo arrivati alla fine dell'anno, tempo di fare bilanci. Noi di Jesa siamo lieti di poter dare buone notizie dalla Cina, dove dallo scorso giugno gli investimenti italiani, ed in generale quelli stranieri, hanno ripreso a salire e molte aziende hanno finalmente deciso di fare il loro ingresso, anche se in ritardo per poter cogliere tutte quelle occasioni che la Cina ha riservato ai primi arrivati, tuttavia **"meglio tardi che mai"**.

Ma vogliamo ancora una volta sottolineare l'importanza delle scelte strategiche riguardo

modalità, location e forma societaria attraverso cui si effettua l'investimento.

Il 2012 si annuncia come un anno difficile, con la "vecchia Europa" in piena crisi finanziaria che sta lottando per trovare una soluzione alla crisi strutturale del debito e delle banche.

Tuttavia, riteniamo che l'irrigidimento sulle proprie posizioni all'interno dei confini del proprio Paese sia una scelta poco lungimirante, ma, al contrario, consigliamo di continuare a prendere l'iniziativa e usare tutte le risorse disponibili per la conquista di nuovi mercati che invece avanzano e prosperano e spesso sono ancora privi di una grande presenza di aziende italiane.

Siamo contenti di aver visto aziende, nostre Clienti e non solo, che grazie al successo ottenuto nel mercato cinese sono riuscite a reinvestire anche in Italia o nel proprio paese, ampliando i propri stabilimenti e mantenendo e/o creando nuovi posti di lavoro.

Non si parla solo di Cina, ma anche di tutti quei Paesi dagli alti tassi di crescita che sempre più offrono opportunità di business a chi ha spirito di iniziativa e non teme di percorrere strade non ancora battute. Esistono infatti Paesi che non risentono

della crisi e che si trovano in una situazione unica di crescita e di sviluppo economico.

Basti pensare alla Mongolia, che quest'anno registrerà il raddoppio degli investimenti esteri rispetto al 2010 e il cui PIL nominale ha raggiunto il +29.1% rispetto allo scorso anno.

Le imprese non devono fare l'errore commesso 10-15 anni fa quando, nonostante ci fossero qui già molti concorrenti europei, la Cina veniva valutata come un posto troppo lontano, un mercato poco interessante, poco evoluto, dove non esisteva la qualità e la lingua è complessa, ma guardare dove esistono le opportunità perché è proprio quando ci si trova in mezzo alla crisi, quando i mercati in Europa rallentano che si deve guardare altrove, verso quei Paesi che trainano lo sviluppo dell'economia globale.

A nome di tutto lo staff di Jesa, colgo l'occasione per ringraziare tutti i clienti che ci hanno accordato la loro fiducia e che hanno preso la decisione di seguirci nei mercati dove siamo presenti (Cina, Mongolia, Arabia Saudita, Cile) e di investire tempo e risorse. Auguriamo a tutti un 2012 pieno di opportunità e successo.

Human Resources in China: expats, local or returnees?

The global economic crisis is influencing every level in businesses: also the Human Resources management has been affected by the economical downturn, forcing companies to reconsider the situation of their own expatriates, especially regarding their remuneration packages.

As Chinese general prices are increasing, and Shanghai is fast reaching the level of one of the World most expensive towns, high costs of living are making recruitment costs of expatriates higher and higher.

In this difficult moment, many companies could be tempted to develop and hire local talents or local returnees instead of expatriates, using the latter just for short-term assignments, with the aim of cutting HR costs.

The increasing volume of Chinese returnees with overseas working experience can be seen as a solution to decrease multinational companies' dependence on expatriates.

Many companies now have the tendency to follow the 'localization' strategy, that is the recruitment of returnees or foreign employees based in China

rather than expats, trying to find the right mix of foreigner and local talent.

Recruitment of staff with local expertise and knowledge becomes a key factor to gain competitive advantages in local markets. And this explains the increased role of returnees. They know better about Chinese culture and language than expats, so it's easier for them to communicate with local customers and media.

However, hiring local, even if it might be cheap at the beginning, in the long term doesn't pay back.

First of all, because locals' turnover rate is extremely high: it is common for candidates in the Chinese market to be relatively mobile and the average time spent in one company is just about 2 years, which by western standards is considered as a sign of 'job-hopping' and instability.

Always following cost consideration, many companies could look for local talents in the universities, but the typical graduates from Chinese universities often lack the technical and soft skills required by multinational enterprises.

Moreover, finding high-end talents is not easy, because of the fierce competition in the labour market in order to engage the best candidate, that led to the growth of salary expectations among

local candidates. **In fact, the gap between foreigners' and Chinese employees' salaries is currently narrowing.**

A solution to this problem could be investing on training and education, building talents from within and therefore avoiding to excessively rely on recruiting from outside to find qualified candidates.

The key for a successful HR management will be building internal capability while selectively hiring from the external market.

Training programs offered by the company is also one of the key measures to motivate and engage top talents and avoid the fast turnover, together with competitive salaries and bonuses.

In order to attract and retain high-end talent, companies should also invest in communication and promotion of company's image, since company's stability, market share and brand name have a great impact on employees' choices.

The main problem that can arise from hiring locals instead of expatriates is also the decreasing control over the Chinese branch by the mother company in the home country. We should remember that besides accounting and financial matters, also the key human resources are essential for the good management and the success of a company.

China lowered banks' Reserve Requirement Ratio for the first time since 2008

The People's Bank of China, the Chinese central bank, lowered bank's reserve requirement ratio (RRR) by 50 basis points on 30th November.

It is the first time in three years that this happens. The aim of this decision is to replenish liquidity in the country's banking system, while inflation is decreasing.

Previously, the PBOC had increased banks' RRR for 6 times in 2011, as a way to stabilize prices, bringing the RRR to the level of 21,5%.

The cut, that took effect on 5th December, reduced the RRR to 21% for large commercial banks and to 17,5% for middle-and small-sized banks. Through this cut, a capital of RMB 396 billion is estimated to be released into the market.

The reduced RRR aims to ease the pressure on bank credit, that has been caused both by a high RRR and by the decreasing of RMB funds from foreign exchanges.

PBOC data show that RMB funds generated from foreign exchanges in November decreased by RMB 24.9 billion compared to October, the first decrease in the last 4 years.

This move aims also to promote banking loans, especially for SMEs, which are experiencing many financial troubles under tightened liquidity.

In the last week of November, the PBOC reduced the RRR for six rural banks in Zhejiang Province from 16,5% to 16%.

Through this measure, the Central Bank claims for itself the role of fine-tuning of the country's monetary policy.

According to Zhou Jingtong, senior analyst of Bank of China, there are three reasons that pushed the PBOC to implement this measure:

1) The big pressure China is facing to keep its economic growth, both from outside and inside.

From outside, because Europe and US are still coping with the financial crisis while the developing countries are struggling with high inflation; from inside, an increased liquidity in order to sustain China's economic growth while exports are slowing down.

Economy's growth slowed to a 9.1% in the third quarter of 2011, from 9.7% registered in the first quarter and 9.5% of second quarter.

The economic slowdown is also shown by the Purchasing Manager's Index (a main indicator of manufacturing activities), that in October showed the first contraction in Chinese manufacturing

since February 2009 and kept on decreasing until the point of 49 reached in November, revealing a decrease in both industrial supply and demand from the struggling Western economies.

2) The general easing of consumer prices, that reflects the decline of international commodity prices. According to the National Bureau of Statistics, the Consumer Price Index (CPI) in October dropped to 5.5% from the 6.5% registered in July, and it is estimated that it will further decrease in the next months, reaching the 4% in December.

3) The need of capital injection of many enterprises in order to avoid bankruptcy.

In conclusion, China's monetary policy is being adjusting by the combination of two sides: the need of keeping a stable economical growth and the drop of consumer prices.

Several analysts said that this move can be considered as a signal from the government in the direction of stabilizing China's economic growth.

However, concerns remain as the increased liquidity could lead back to high inflation and this measure does not mean a directional change toward a looser monetary policy.

Sostieni LINKIESTA.IT

Jesa sostiene Linkiesta.it, a cui Saro Capozzoli contribuisce, curando il blog "Bussola cinese".

Linkiesta è un giornale di qualità, indipendente e non schierato politicamente, fondato da 80 soci (professionisti, imprenditori, gente comune). Per sostenersi e crescere deve generare ricavi da pubblicità ed abbonamenti. Per il successo del giornale, crediamo inoltre nell'importanza di coinvolgere i lettori e renderli parte attiva del progetto, con idee, partecipazione e contributi.

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