JESA INVESTMENT & MANAGEMENT CO. LTD.

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NEWS FROM JESA: UNICREDIT "Destination China"

By Saro Capozzoli, Founder and GM of JESA Investment & Management Co., Ltd

On the occasion of the launch of the project "Destination China" by Unicredit Bank, Jesa has been invited to attend to a cycle of conferences held in the end of October in the towns of Treviso, Milan, Bologna and Turin.

The conferences, addressed to the Italian companies who wish to enter or further strengthen their presence in the Chinese market, focused on two key sectors of Made in Italy: Food & Beverage e Fashion & Luxury.

These sectors have been analyzed in terms of consumption trends, evolution in the demand/supply, entry strategies and relevant successful cases.

The aim of these conferences is to give a solid starting point for strategic decisions to those companies who want to develop in the Chinese market.

This event had a great success, with about 700 enterprises attending.

Through the project "Destination China", Unicredit proposes itself as main banking partner to Italian companies in China.

Jesa looks with favor the renewed focus on the Chinese market by Unicredit, because it's what Italian businessmen are looking for today: a strong local support, especially in the difficult current situation, whose main data are presented in details in this month's newsletter.

Enjoy the read!

* * * ITALIAN VERSION * * *

In occasione del lancio del progetto "Destinazione Cina" da parte di Unicredit, Jesa è stata invitata a partecipare alla serie di conferenze tenutesi a fine ottobre a Treviso, Milano, Bologna e Torino.

Le conferenze, rivolte alle aziende italiane interessate ad entrare o a rafforzare la propria presenza in Cina, si sono focalizzate su due settori chiave del Made in Italy: Food & Beverage e Fashion & Luxury. Questi settori sono stati analizzati nel corso delle conferenze in termini di trend di consumo, evoluzione della domanda e dell'offerta , strategie d'ingresso e casi di successo.

L'obiettivo delle conferenze è stato quello di fornire una base di partenza per decisioni strategiche più consapevoli alle imprese italiane che intendono sviluppare il proprio business nel mercato Cinese.

L'iniziativa ha ottenuto un grande successo e ha visto la partecipazione di circa 700 aziende.

Attraverso il progetto "Destinazione Cina", Unicredit torna sulla scena Italiana proponendosi come partner bancario delle aziende italiane in Cina.

Jesa non può che vedere con favore questo ritorno dell'attenzione da parte di questa importante realtà bancaria sul mercato cinese, che è ciò di cui gli imprenditori Italiani hanno più bisogno:un supporto concreto in loco, soprattutto nella situazione attuale, di cui abbiamo voluto riassumere i principali dati all'interno della newsletter di questo mese.

Buona lettura!

Crisis as opportunity: why China is now more than ever a strategic resource for Italian economic growth

Italian still have many prejudices in the approach to China: China is seen as a competitor who's threatening Italian labour and companies through the sale of low cost goods.

In the current moment of economic crisis, many Italian companies asked themselves if defensive barriers are needed in order to survive.

Jesa, on the contrary, believes that moments of crisis can become big opportunities for those who are able to keep a proactive and realist attitude.

The crisis in Europe and in the US led to a slow-down in the growth of Chinese exports and in the flow of FDI. Therefore, in order to sustain its economic growth rates, China had to address to the development of its domestic demand.
A set of incentives together with a high rate of private savings, are developing a mass consumer market.

In 2012, the level of private consumption is expected to grow faster than the GDP, thanks to high rates of employment, growth of salaries and bigger public expenditure in welfare and health service.
Many Italian businessmen decided to enter the Chinese market: some succeeded, some others had to struggle with the difficulties of the market, mostly because they failed in adapting to market peculiarities and weren't able to build an effective "country system".

In order to better understand how China can become a big opportunities for Italian companies, we first of all need to focus on the objective data of the current situation, analyzing strengths and weaknesses of the Italian system in the Chinese market.
In 2010, China imported goods for a total value of USD 1.394 billion. With its 14 billion of exports, Italy ranked 23rd, following Germany (5th with 5,3%), France (18th) and even Switzerland (19th).

In terms of percentage, Italian exports are just 1% of the total Chinese imports.
But how important is China as commercial partner to Italy?

China is Italy's 7th commercial partner for exports, following the UK and even Switzerland.

Italy exports to China the same amount it exports to Belgium and Poland, despite the Chinese huge potential market of almost 1 billion and a half of consumers.

Among the factors which explain this bias in Italian trade, such as the presence of a common market, infrastructures, special custom agreement, transportation costs, purchasing power, imitation is still one of the main drivers in the investment choices. However, a choice made according to imitative criteria, can only lead to investment decisions which are inconsistent with the economic foundations of the target market.
An example of this can be found in the massive Italian investments in Romania and Bulgaria, which are not connected to any consideration about business risk or GDP growth rate.
However, as shown in the table below, if we split the data of the Italian exports to China by sector, we can see that every sector has different potential.

Import-Export, Italy's ranking by sector (2010)

Settore	Import da Italia (Milioni di $)	Posizionamento	% sul Totale
Tutti i Settori	**14000**	**23° esportatore in Cina**	**1,00%**
Macchinari	5700	7° esportatore in Cina	3,3%
Creative Industry	740	2° esportatore in Cina	12,8%
Farmaceutico	604	3° esportatore in Cina	8,3%
Tessile	484	10° esportatore in Cina	1.70%
Abbigliamento	387	1° esportatore in Cina	17.30%
Veicoli	300	12° esportatore in Cina	0,6%
Calzaturiero	216	2° esportatore in Cina	19,3%
Chimico	192	11° esportatore in Cina	1,5%
Maglieria	114	1° esportatore in Cina	13.99%
Prodotti ottici	79	1° esportatore in Cina	20.14%
Gioielli	65	1° esportatore in Cina	16.68%
Cosmetici	64	13° esportatore in Cina	1.48%
Ceramiche	45	4° esportatore in Cina	7,6%

The data also lead to the following considerations:
- Italy ranks **23rd** for exports to China, but in several sectors is the main partner;
- the sectors of excellence are not able to generate big volumes;
- some sectors with big potential for further development have a very low impact: this is the case of the automotive sector and the cosmetic sector;

In addition, as far as Italian exports are concerned, China is never among the first five destinations. The only exception is the machinery sector, in which China is the 3rd partner, importing the 6.2% of this sector's total exports.
Italy's marginal position in Chinese market is even clearer if we take Chinese wine market as actual example.

Wine exports in China reached in 2010 a volume of 286 million of litres of wine and a value of USD 800 million, with a growth on 2009 of 68,24% in terms of volume and 76,99% in terms of value.
If we consider that the whole wine market in China reached USD 4.811 million, it's clear that the wine consumption in China is moving towards products of better quality.
While French are still the market leaders for imported wine, both for the whole market (their market share in terms of value is 46,13%) and for the segment of bottled wine (market share in terms of value of 51,67%), **Italy ranks 4th, with a market share in terms of value of 6,13%.**
Furthermore, despite in 2010 the growth rate of wine imports from Italy in terms of value was 88,46% , the gap with France further widened, thanks to a growth rate of wine imports from France of 89,23%.

Compared to other European countries, Italian investments in Asia and in China are very limited as well.

Both in terms of stock and in terms of flow, Italian FDI towards Asia are 9,8% of the total, a similar amount of the ones directed to South America (8,8%).

In 2009, Italian FDI stock accumulated in Asia was around USD 6.5 billion. This amount is extremely low, if compared to Germany's 62 billion, France's 63 billion and the UK's 95.5 billion.

Flow investments are limited as well: the investments from Italy reach USD 591 million, while the ones from France and Germany are 3.7 billion and the ones from the UK are 6.2 billion.

Given the picture presented by these data, it's easy to feel pessimistic about the future of Italian businesses in the Chinese market. However, only through a realistic analysis of the current situation we can understand the reasons behind Italy's marginal position. Only accepting this we can try to overcome the current period of crisis and find the way to regain ground in the Chinese and Asian market.

Chinese government to lower corporate taxes and support small- and micro-sized businesses

In order to support companies which are currently suffering from raising costs and slowing growth, the Chinese government launched a trial scheme in Shanghai with the aim of lowering corporate taxes in selected service industries, starting from the beginning of next year.

The State Council on 26th October approved a pilot program that aims to replace turnover tax with a value added tax (VAT) on selected service sectors in Shanghai, such as the transport and logistics sector.

Starting from the 1st January 2012, some Shanghai service companies' business tax will be replaced by value-added tax, a majority of which is deductible.
Turnover tax is a tax on the gross revenue of a business, while VAT is levied on the difference between commodity's price before taxes and its cost of production.
Therefore, the business tax is charged on a company's revenue without considering its costs, while VAT can have deducted costs, such fuel and equipment expenses.

On 17th November China's Ministry of Finance announced that an 11% VAT rate will apply to the transport sector and a 6% rate to sectors related to research and development, technological services, culture, logistics and consultation.

These two lower ranks of 11 percent and 6 percent will be added to the already existing 17 percent and 13 percent as part of the tax reform.
Currently, the VAT applies only to enterprises or individuals, who sell merchandise, provide processing, repair or assembly service, or import goods within China.

If the pilot program will be successful, the policy will then be extended to other service businesses nationwide.

The trial program will help taxation authorities accumulate experience before the tax replacement scheme is applied in the whole country.
These new policies can be seen as the starting point of a nationwide structural reform which aims to improve China's economic structure, a target highlighted in the country's strategic 12th Five-Year-Plan started this year.

Premier Wen Jiabao said that China should take measures such as "structural tax cuts" to promote stable growth and he stressed that start-up companies involved in innovation should especially enjoy tax cuts.
Another major step in order to realize the "structural tax cuts" program promoted by Premier Wen Jiabao is the strong rise of the thresholds of value-added tax and business tax, started from the 31th of October.
The threshold for VAT will be raised to 5,000 yuan (US$787) to 20,000 yuan from the current 2,000 yuan to 5,000 yuan, while the minimum for corporate income tax will be raised to 5,000 yuan to 20,000 yuan from the existing 1,000 yuan to 5,000 yuan.
The specific threshold varies by geographical area and the specific tax rate varies by industry.

This latter policy aims to ease the financial burden born by start-up firms and has been welcomed as a good sign from the government and as a starting point for a future comprehensive lower tax rate for all industries.

The raising of tax thresholds for value-added tax and business tax are part of the policy launched last month by the State Council which aims to give stronger financial and fiscal support to small- and micro-sized businesses. The final target is to extend the policy and halve business income taxes by 2015.

In line with the support policy for small- and micro-sized enterprises, the announcement made on the 17th November by the ministry of Finance on discarding the collection of up to 22 items of administrative fees from small and micro-sized companies during the January 1, 2012 – December 31, 2014 period. Such fees include charges of companies' registry and tax invoice purchase.

The new regulation aims to reduce the burden over small and micro-sized firms, who already face tight supply of credit from the nation's banks who favour large state-owned companies.

A survey by the State Council's Development Research Centre shows that in 2010 only 5% of the all corporate loans went to businesses with credit lines of less than 5 million yuan.
The China Banking Regulatory Commission already called on banks to offer help to small businesses, increasing the tolerance for non-performing loans to small businesses.
The aim of the new policy is to widen the credits directed to smaller businesses, but just a starting point.

There is still much more that needs to be done, such as liberalizing the lending market and easing monetary policies.

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Notice for Italian Tax Payers

Invitation to donate part of the taxes for an association that takes care of medical treatments for immigrants without medical rights in Italy and for the start up of an hospital in Rwanda

Jesa sostiene la causa dei **Medici Volontari Italiani** ed invita anche voi a donare il 5 per mille.

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