



**NeuStar's Guide for International
Businesspeople**



China's exploding online population, coupled with its recent accession to the World Trade Organization (WTO), has presented Web-savvy businesses with an unprecedented opportunity for success and growth. While the pace of progress in China can often be slow, especially as the country manages its five-year transition to full WTO compliance and comes to terms with the relaxation of restrictions on the .CN domain, it is widely accepted that China is the next frontier of worldwide e-commerce.

China is certain to do away with some of its limitations on trade, and to open some of its markets faster than others – an unpredictable progression that will pose significant challenges to global businesses seeking to make inroads there. However, the potential for gain is enormous, and worthy of serious consideration. This white paper provides a snapshot of the state of Chinese business (particularly as it pertains to online commerce), and provides some starting points for the businessperson wishing to incorporate a .CN address into his or her overall business strategy.

China's World Trade Organization (WTO) membership and its effects

On December 11, 2001, China was admitted to the WTO, thus making it easier for international companies to do business with and in China. China's accession to the WTO agreements means that commercial dealings with China will ease in all areas of trade and business. Reduction of tariffs will facilitate increased imports, and world markets will realize expanding exports from China's leading cities and coastal regions, which are producing a huge variety of consumer goods.

China's agreement to undertake WTO commitments will open and liberalize its economic environment, and will facilitate the country's integration into the world economy. Further, these steps will result in a more predictable environment for trade and foreign investment in accordance with WTO rules.

Among some of the commitments undertaken by China are the following:

- **Non-discriminatory treatment** of all WTO Members. All foreign individuals and enterprises, including those not invested or registered in China, will be accorded treatment no less favorable than that accorded to enterprises in China with respect to trade.
- **Elimination of dual pricing** practices and differences in treatment accorded to goods produced for sale in China, in comparison to those produced for export.
- **Elimination of protectionist price controls** for the purpose of affording protection to domestic industries or services providers.
- **Revision of domestic laws and the enacting of new legislation** to comply with the WTO Agreements.
- **Import and export rights** for all enterprises within three years of accession for all goods and trade throughout the customs territory (limited exceptions).
- **No new export subsidies** on agricultural products.



Major economic drivers in China

	% Of GDP (2000)	Average annual growth rate
Industry	50.9%	9.6%
Manufacturing	34.5%	9.7%
Services	33.2%	7.8%
Agriculture	15.9%	2.4%

As evidenced by a speech given in July of 2002 by Zhang Xiaoli, a representative of the China Council for the Promotion of International Trade (CCPIT), the benefits and opportunities for those wishing to do business in and with China will grow considerably in the near future. Zhang predicted that:

- Foreign direct investment (FDI) will grow steadily, and is slated to break the US\$50 billion mark in 2002.
- Investment directions will be gradually adjusted, with a specific focus on the services sector.
- The number of foreign-invested sole proprietorship and holding companies will increase.
- The importance of foreign investment in China's new and high-tech industries will be further enhanced.
- Foreign investment will play a bigger role in the reforms of State Owned Enterprises (SOE).

The medium-sized and small enterprises (SMEs) have played an especially important role in China's national economy. So far, there are more than 10 million SMEs registered with the industrial and commercial institutions, accounting for 98% of the total business establishment. SMEs account for 60% and 40% respectively in industrial value and profits and tax of the whole country, providing for 75% of job opportunities in cities and towns. Among the annual export volume, SMEs accounted for 60%.

At present, the number of SMEs is prominent in the fields of textile, food, plastic, and food measuring equipment, accounting for 80% in assets and the income of product sales. In terms of number, the first five industries engaged by SMEs were the following: non-metal and mineral products, metal products, food processing, general machine building, chemical raw materials and chemical products. In terms of region, most of the SMEs are located in southeast coast regions such as Shanghai, Jiangsu, Zhejiang, Anhui, Fujian, Shandong and Guangdong.

Imports/Exports

There have been several noteworthy developments in the areas of Chinese import-export trade recently:

- **Import licensing control.** The number of commodity categories subject to import licensing has declined 50% in the past year, with further reductions coming.
- **Reductions of industrial import tariffs.** Import tariffs on industrial products will be significantly reduced from 2002 onwards.



- **Reductions of electronics import tariffs.** Starting in 2002, total import tariffs on electronic products will be lowered from 16.2% to 10.7%.
- **Decrease in IT items under the “electronic products” category.** IT items under the electronic product category will gradually decrease. By 2005, there will be zero tariffs on all IT products.
- **The Chinese services market continues to open.** Foreign trade rights will be granted within three years after WTO entry; service entities will be allowed to participate in wholesale and retail within two years. The financial, telecom and insurance sectors will follow.

Top Chinese trade partners – January-September 2001

Rank	Country/Group	Import From/Export To Totals (in billions of U.S. dollars)
1	Japan	31.986 / 32.740
2	USA	19.770 / 40.306
3	European Union	26.741 / 30.110
4	Hong Kong SAR	6.999 / 33.681
5	ASEAN Nations*	17.196 / 13.138

* Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
Source: General Administration of Customs (China)

Currency exchange

The basic unit of currency in China is the *renminbi* (abbreviated RMB on currency exchanges). At the time of this writing, the exchange rates are as follows:

1.00 U.S. Dollar (USD) = 8.28700 Chinese Renminbi (RMB)

1.00 Chinese Renminbi (RMB) = 0.12067 U.S. Dollar (USD)

1.00 Japanese Yen (JPY) = 0.06743 Chinese Renminbi (RMB)

1.00 Chinese Renminbi (RMB) = 14.82925 Japanese Yen (JPY)

1.00 Euro (EUR) = 8.09060 Chinese Renminbi (RMB)

1.00 Chinese Renminbi (RMB) = 0.12360 Euro (EUR)



The nature of the Internet market in China

Based on Nielsen / NetRatings, China has risen to second in the world in terms of Internet user population in the past three years:

Global internet population - Q1 2002

Rank	Country	Total Internet Population (millions)
1	USA	166.0
2	China	56.6
3	Japan	51.3
4	Germany	32.2
5	UK	29.0

Source: Nielsen / NetRatings

Internet use clearly continues to develop rapidly in China. Surveys completed in the cities of Beijing, Shanghai, Guangzhou and Shenzhen show online user numbers increasing by more than 50% each year. Eighty percent of users have email boxes, with email the most frequently used service by surfers in China. According to Pyramid Research Inc., of Cambridge, Mass., China will become the second largest Internet market by 2003, and it will be the third largest broadband market by 2006.

By 2004, China is predicted to account for more than a quarter of the world's total online population. In terms of business activity, e-commerce is expected to serve as an important engine of growth for development across the region, with revenues reaching nearly \$600 billion in 2005, a compound annual growth rate of more than 101 percent from 2000, and including growth figures for both the B2B and B2C segments.

With China's entry into the WTO, the decision also has been made to lift restrictions under which the .CN domain is operating. Expected policy amendments include:

- .com.cn, .net.cn and .org.cn will be made available to Chinese businesses and international companies alike.
- Upon actual launch, businesses will be able to purchase on a first come, first served basis.
- There will be no Sunrise or IP Claims period prior to launch.
- .com.cn, .net.cn and .org.cn will be available to business entities and organizations.
- CNNIC will become a pure registry body with a separate company managing and growing their retail business. Neither CNNIC nor NeuStar will sell directly to end users.
- Registrars located outside of China will be able to sell .com.cn, .net.cn and .org.cn domain names on "equal footing" with registrars inside China.

The data clearly shows that success in China can propel the market share of a vendor. Further, China's recent entry into the WTO may introduce more vendors into the market and increase competition. With such a dramatic commercial metamorphosis taking place right now in China, the country is poised to become one of the most dominant e-commerce players in the Asia/Pacific region – and the world.



Online behavior of buyers

The value of goods and services sold online in China is forecast to increase from \$479M US in 2000 to \$26B US by 2004. Even if the forecast numbers are halved, the value of China as a market far overshadows other marketplaces for opportunities relating to online commercial growth. Under WTO agreements, telecom services will open to foreign investment in phases, with value-added and paging services being scheduled for both ISPs (Internet Service Providers) and ICPs (Internet Content Providers). After the country has been participating in the WTO for two years, the liberalization program will have no geographical restrictions, while foreign enterprises will be able to own up to 50% of companies offering progressively advanced services.

Although CNNIC predicts that China will generate nearly \$12 billion in online transactions this year, e-commerce in China is not without its challenges. For instance, the efficiency of Chinese banking and postal facilities relative to online business is still in its developmental stage. Further, many consumers do not have the ability to pay with credit cards or debit cards; only 28 percent expressed a desire and ability to pay for products directly online, with nearly half of the Internet users in China preferring to pay “cash on delivery” (COD) for goods ordered online.

Although there is some way to go before the restrictions that prevail are fully lifted, the figures marking out the country's IT market conditions look exciting indeed. By January 2000, the number of Internet subscribers in China hit 22.5 million, a 33% increase from July 2000. China's three major hubs for online activity are Shanghai (accounting for 40%), with Beijing taking 30% and Guangzhou eating up 23% of the total.

Small and medium sized businesses are especially likely to gain from the opportunities in China, and are most likely to do so through the use of the Internet and the local identity of a Chinese domain designation such as .CN.

Leading advertising portals

Several media and technology firms are taking advantage of the Internet explosion in China by maintaining general-interest Web portals:

- **Sina.com** (www.sina.com.cn) claims to be the “largest global network of Chinese-language information sites,” and features a local focus on four distinct sites targeting mainland China, Taiwan, Hong Kong and the United States.
- **Sohu.com** (www.sohu.com.cn) has more than 50 million registered users and offers its customers email, SMS messaging, news, search, browsing and shopping.
- **China.com** (www.china.com) has evolved itself from a purely Web-centric online advertising portal into a leading integrated enterprise solutions company. It has been publicly traded on the NASDAQ Stock Exchange since July 1999.
- **Yahoo! China** (www.yahoo.com.cn) is the Chinese counterpart to Yahoo!, the popular American Web portal.



Most successful verticals for e-commerce

- **Consumer goods.** Although many retail prices are still falling, China's demand for imported consumer goods continues to grow. Brand recognition is high in China. The problem of counterfeit goods remains, with other intellectual property violations, but authorities are under pressure (from Chinese as well as foreign companies) to resolve this problem.
- **Industrial products.** Import tariffs on industrial products will be significantly reduced from 2002 onwards. An example of a major area of expected expansion in this category is *Aerospace and Airports*. Contracts have recently been won with China Eastern for stretched A340 aircraft by Airbus. Other contracts are in construction and redevelopment of new and existing airports.
- **Electronic products.** Total import tariffs on electronic products are in the process of being lowered from 16.2% to 10.7%.
- **Information Technology (IT) products.** Import tariffs on IT products under the electronic product category will gradually decrease. By 2005, there will be zero tariffs on all IT products. For *equipment suppliers*, business is potentially lucrative, but competition with Chinese manufacturers and other Western companies promises to be fierce. That said, most equipment suppliers feel the market cannot do anything but grow in the coming years.
- **Services.** The Chinese market for services will continue to flourish. FIEs will be granted foreign trade rights within three years after WTO entry, and allowed to participate in wholesale and retail within two years. The financial, telecom, and insurance sectors will follow.
- **Financial services.** China's long-awaited accession to the WTO will mean wider scope for trade finance and corporate banking, with fund management being permitted in due course. WTO entry will also enlarge the possibilities in accountancy and commercial law.
- **Telecoms.** China's telecom sector is likely to grow even faster over the next decade as China's entry into the WTO creates more favorable conditions for foreign involvement. The communications industry is expected to have an average annual growth rate of 23% from 2001 to 2005. Perhaps the most significant WTO change, is China's lifting the total ban on direct foreign investment in Chinese telecom service providers.

Techniques for maximizing clickthroughs and purchases

Selling to overseas audiences can be a complicated affair, but there are a number of general rules to keep in mind when marketing to Chinese consumers both online and off:

- **Know your customer.** Chinese consumers have needs and desires nearly identical to those of people in more accessible global markets – and they will spend money to achieve those ends. Everyone aspires to have more leisure time, to make their personal and professional lives easier and more productive, to be able to provide for themselves and their families, to be respected, and so on. As such, ongoing research on buying habits is critical for the businessperson in the Chinese marketplace.
- **Speak to your customers on their own terms.** It is highly recommended that you enlist the aid of a native Chinese speaker when writing and designing promotional materials targeting Chinese consumers. This will ensure that your copy, graphics and overall presentation are of a style and tone that your potential customers in China do not find “forced” or inappropriate. (See Appendix B, *Chinese Translators and Interpreters in Beijing*.)



- **Interactivity works best.** When managing content on your .CN website, create easy-to-use text links, banners, surveys or drop-down menus on which your site visitors can click or submit their opinions. This encourages people to stay on your site longer – and increases the odds that they will buy.

If you are interested in additional information regarding business etiquette in China, please contact your NeuStar Customer Service representative.

Conclusion

E-commerce is expected to serve as a crucial driver of regional development across China. For this reason, companies of every size and industry classification are urged to integrate .CN into their overarching business strategies in order to best position themselves to capitalize on the gradual yet steady opening of the Chinese marketplace already in progress.

appendix A: Links to useful Chinese business-related sites

NeuStar encourages everyone interested in learning more about the Chinese economic landscape – and its ramifications for online business – to visit the following Web links. All sites are either written in English or feature English-language versions.

- www.cnnic.net.cn
- www.iccwbo.org
- www.ccpit.org
- www.chinacommercial.org
- www.wto.org
- www.chinasites.com
- www.chinaproducts.com
- www.meetchina.com
- www.chinatradoworld.com
- www.chinatrade.com
- www.beijixing.com.cn

appendix B: Chinese translators and interpreters in Beijing

Xu Jianying, Interpreter

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appendix C: Online industry specifics in China

Population:

- 45.8M users (3.5% of the population).
- 56.6M users online (5% of population) users online.
- Market dominated by men in 18-34 age bracket (60.9% male).
- Majority of users are unmarried (58.9%).
- 1.29M Internet users use facilities other than computer (mobile terminal, etc.).



Ages of Chinese internet users (by percentage):

0 -18	16.3%
18 - 24	37.2%
25 - 30	16.9%
31 - 35	11.6%
36 - 40	7.2%
41 - 50	6.8%
51 -60	3.1%
over 60	0.9%

Education:

Below High School	11.5%
High School Graduate	30.5%
2-3 Year College	26.3%
Bachelor's Degree	29.2%
Master's Degree	2.1%
Doctorate	0.4%

Top professions:

Wholesale and Retail	14.6%
Government/Social Communities	12.1%
Education/Scientific Research	10.8%
Manufacturing	10.0%
IT	9.8%
Finance/Insurance	7.0%
Transportation/Storage	4.3%
Service Industry	4.1%



Monthly income (in renminbi):

Below 500	501-1000	1001-1500	1501-2000	2001-2500	2501-3000
24.8%	24.1%	16.5%	8.2%	4.6%	2.6%
3001-4000	4001-5000	5001-6000	6001-10000	More than 10000	No Income
2.7%	1.3%	0.7%	0.6%	0.9%	13.0%

* Note: 8.4 RMB = \$1.00.

Location from which users access the Internet:

Home	62.1%
Office	43.3%
School	21.8%
Internet Café	17.3%
Public Library	0.7%
Mobile Access	0.9%

Primary goal for accessing the Internet:

Research	47.6%
Entertainment	18.9%
Making Friends	14.9%

Online services most frequently used:

Email	92.9%
Search Engines	63.8%
Software Downloads and Uploads	51.0%
Online Chatting	45.5%

Information most sought:

News	75.8%
Hardware and Software	60.3%
Entertainment	41.3%



Methods of locating websites:

Search Engines	82.2%
Website Linkages	68.9%

Most attractive advertisement form:

Banner	41.9%
Button	20.7%
Moving	14.0%

Use of advertising mails as references for purchasing goods and services:

Affirmative	19.1%
Indifference	51.1%
Negative	29.8%

Use of Internet advertisements as references for purchasing goods and services:

Frequently	9.6%
Sometimes	67.2%
Never	23.2%

Purchases made through online shopping websites (goods/services)?

Yes	31.2%
No	68.8%

Product/service purchased online in last 12 months:

Books and magazines	69.0%
AV equipment and products	38.3%
Computer appliance	33.2%

Preferred payment methods:

Cash and Carry	33.1%
Online Payment	30.7%
Post Offices transfer	30.0%
Bank Transfer	6.0%
Others	0.2%



appendix D: Buying tendencies and preferences of the Chinese consumer

In the autumn of 2002, Asia Market Intelligence (AMI) in Hong Kong conducted a study about the buying tendencies of the Chinese consumer. Face to face interviews with 1,023 top management executives and entrepreneurs were conducted which covered a full range of industries. Some results of that study are useful in assessing the China market:

- 89% feel it is critical for multinational companies to operate in China.
- 92% strongly agree that it is important to have an international perspective.
- 51% carefully compare prices before buying.
- 54% believe more in products recommended by experts.
- 41% speak English in business.
- 61% believe China's entry in the WTO will have a favorable impact on their company.

Information regarding employee Internet sophistication (use and attitudes toward use) was also gathered:

- 68% agree that their company needs to be proactive towards the Internet and online business.
- 78% agree that being able to conduct business online is a significant competitive advantage.
- 63% claim that online business will increase competition in their industry within the next 2 years.

Clearly, there is strong evidence that marketing appropriately in China can appeal to a ready and willing audience. Learning about the Chinese and their culture will improve the possibilities of success.

appendix E: Consultant resources in Beijing

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APCO Batey Burn is an independent investment and government relations consultancy specializing in market access and business development. They can advise on research markets, identify opportunities, explain political and regulatory difficulties, negotiate solutions and expedite business approvals.



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China Concept is a China-focused market strategy consultancy and provides industry information, market strategy and public affairs services. Their sector experience includes agriculture, financial services, light industry, steel and pharmaceuticals.

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