

**DBEDT
WEBINAR**

November 5, 2020 | 3:30 p.m.

Opportunities & Challenges: Doing Business in China

Russell Leu, Partner | Kingsfield Law Office
Minneapolis | Beijing

rleu@kingsfieldlawoffice.com

US Tel: (612) 607-2723

China Tel : +86-136 1132 1000



Agenda

1. Why China? Opportunities for Hawaii Businesses
2. What Challenges? Identifying and Connecting with the Market
3. Hawaii 2020 Vision for China Opportunities



1

Why China? Opportunities for Hawaii Businesses



A huge market with ample opportunity but sometimes beyond your comfort zone.

1.42 Billion Customers



*1.42 billion customers.... More real and relevant today than 10 years ago.
- Transformed from a manufacturing sourcing destination to a consumer market within the past 10 years*

...but most Americans think that China is only an export powerhouse. Most think it is because of U.S. –China Trade War.



But it's no longer just an export powerhouse...

Exports still contributes GDP 17.4% (2019), but...

...reality today is domestic consumption is a way larger driver of the Chinese economy



-80% of Chinese GDP
Growth in 2019 due to
domestic consumption
-57.8 % of China's GDP in
2018 was in Domestic
Consumption
What does this mean to you?

This means that the world is turning to China: China is becoming less exposed to the world, while the world's exposure to China is rising.



*It's the place to do
business*

- *Retail*
- *Services*
- *Travel*

National Plans – 14th Five-Year Plan is a sure indicator of China's economic focus on consumers and domestic consumption

- New 14th Five Year Plan, national economic blueprint, is currently being drafted and will be published in Spring 2021
- One of 2 economic drivers will be domestic consumption
- What does this mean? **Domestic consumption** is and will be the key growth driver in the coming years – Government mandate
- China is promoting consumer spending to grow national GDP- consumer spending contributes 50% national GDP as it plans to decrease reliance on exports to the U.S.

Hawaii businesses must turn to China for these opportunities related to China's domestic consumption.



Opportunities

1 Goods Exports: Tree nuts & Fruits \$ 13 million, 2019

1 Service Exports: Travel (incl. plane fares), \$303 million (2018)



Also, a service export opportunity for Hawaii-

Travel (Education)

4 Travel (Education)

\$ 40 Million (2018)



Challenges : Hawaii's Services Exports to China- TRAVEL

National and Hawaii trends. Chinese tourism to the U.S. had fallen 5.7% in 2018, for the first time since 2003. Hawaii has experienced a decline in Chinese tourism since 2015– before the Trade War and the current U.S.-China relationship meltdown. In 2019, the decline was 26% through the third quarter of the year and accounted for less than 2% of Hawaii's almost 10 million visitors. What is the problem? Internal issues? External issues? Solution?



Challenges: Hawaii's Services Exports to China- Travel (Education)

New Immigration Policy: Student Visas Processed Between April and September 2020- U.S. granted only 808 F-1 student visas— 99% fewer than the 90,410 F-1 student visas granted for the same period last year.

(reported by Nikkei Asia, citing U.S. State Dept. data)



Takeaways

1. Goods

- Hawaii macadamia nuts will increase because of the trends there to eat more nuts. Also, nuts will increase in Chinese markets if we can get China tourism moving here- remember the nuts did not go to Japan first; the Japan tourists to Hawaii was the main source of retail sales of macadamia nuts in 1980s. Export market will continue to grow as more Chinese tourists arrive here.

2. Services

- Decline in Chinese tourism creates an opportunity to rebrand Hawaii tourism to Chinese travelers – make it a more personalized and experiential product. Consider bringing Hawaii to China via Chinese film blockbusters – learn from the Hokkaido experience.

- Update infrastructure: physical (airport, hotels); safety (AI and contact tracing)

- Digital environment friendly

- Cultural -friendly- Chinese language



2

What Challenges? Identifying and Connecting with the Market

Identifying the particular consumer market can be difficult because of different personalities and cultures

South China

East China

Northeast

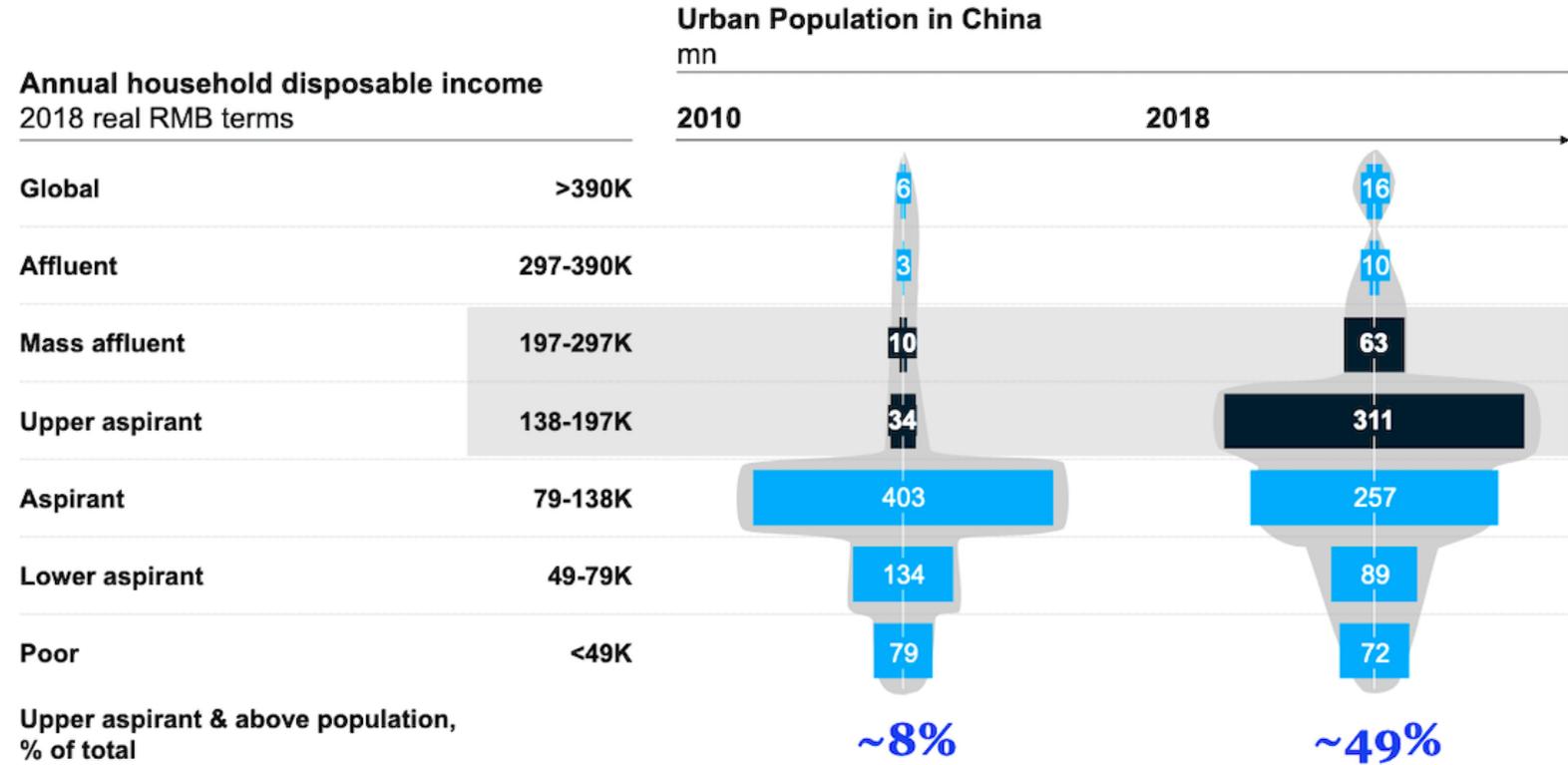
Southwest

Central, Beijing

Northwest



Key economic consultants (PWC and McKinsey) identify the urban consumers as the market



Source: McKinsey Global Institute

Key economic consultants (PWC and McKinsey) identify the markets in 2nd, 3rd & 4th tier cities

- Estimated market \$164 Billion (2020 Statista)
- Market includes YFS (Young Free Spenders) and GenZ— most are born after 1996
- They account for 60% of 2018's total GDP spending growth over 2017: faster disposable income growth and stronger purchasing power – in 2019 disposable income grew in lower-tier cities 9.6% as compared with 7.9% in major tier 1 cities
- They don't reside on the Eastern seaboard: reside predominately in tier 2, 3 or 4 cities (Alibaba study shows that lower-tier markets have overtaken first and second-tier cities in terms of sales of 3C products (computers, communication devices and consumer electronics))
- They are digital natives- spending done through digital means (Alibaba study: fastest per-capita spending growth is on Tmall and Taobao as 33% of Gen Z will shop significantly more on Tmall, with per-capita spending growth 30% annually from 2016-2018)
 - Their spending preferences: overseas trips, new tech device, or high-end skincare. Studies show that the slow-paced and stable lifestyle in lower-tier regions fuel a rising demand in entertainment, education and travel.
- They have more free time – eat, spend, follow trends

Focus on an urbanization strategy- include the 5 mega-city urban clusters

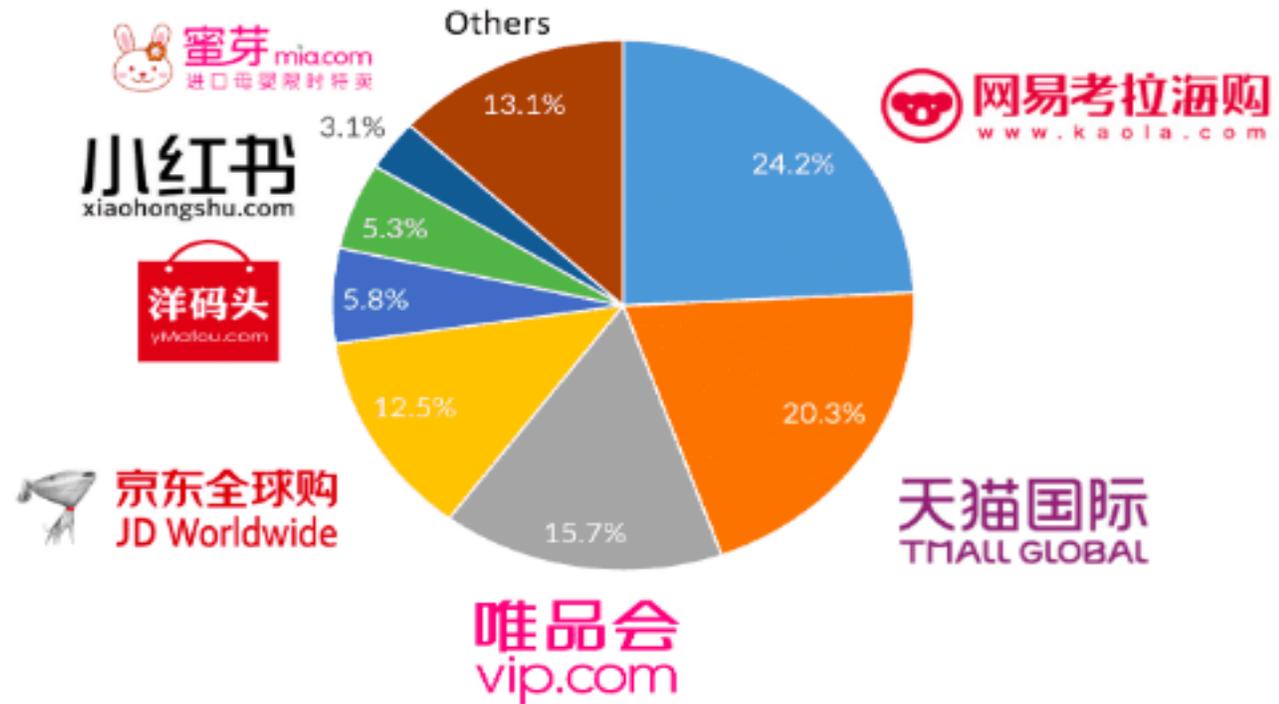
- The urbanization strategy over the past two years has been shifting to focus more on the growth and development of mega-clusters in advanced regions, such as:

Yangtze River Delta; Jing-Jin-Ji Area; Greater Bay Area; Mid-Yangtze River Area; and Chengdu-Chongqing Area.

How to Connect with your Market?

Use E-Commerce Platforms

Market share of main e-commerce
players in China



Source: iiMedia Research, WalktheChat

3

Hawaii 2020 *Vision for China* Opportunities

Hawaii 2020 Vision for China Opportunities

1. Hawaii businesses should continue focus on #1 services industry- tourism--a re-boot in tourism framework? Are we competitive enough?

- need direct flights
- hotels are very old/airports needs major update
- not Chinese-friendly (if you have Japanese language, you need to have Chinese language capability too) (Airports in Japan have Mandarin language speaking personnel)
- not digital ready, need to be wi-fi open city
- need to be #1 safe, healthy city – contact tracing/AI

Hawaii 2020 Vision for China Opportunities- Rebranding Tourism Product for the Chinese Traveler

-Hawaii tourism- need to have a unique difference from other outbound markets

+rebrand authenticity, culture, safest city in the U.S., language capability– different than Japan (safe, good food and products) (versus Thailand- good and inexpensive food and services)

- Need to understand cultural difference & be sensitive to what the Chinese traveler is looking for—

+Chinese need to identify themselves personally and experientially to the destination– Chinese film blockbusters bring Chinese tourists.

Hokkaido has become most popular (*If You are the One*, 2009); Thailand has become popular (*Lost in Thailand*, 2012); Prague, Czech Republic

(*Somewhere Only We Know*, 2015); Seattle, WA (*Finding Mr. Right*, 2013)

Hawaii 2020

Vision-

Attract

OFDI from

China &

Tourists

Focus on Attracting Outbound Foreign Direct Investment (OFDI) to Hawaii and Chinese Tourists. Why?

- Within 3-5 years, China will reboot and restore better relations with the U.S. and it will need a place that will welcome the Chinese. Hawaii should extend the welcome.
- Chinese government leverages on outbound Chinese tourism to better relations with countries – soft diplomacy
 - + Dispute over the Diaoyutai/Senkaku islands dispute quieted down because of the bettering of China-Japan relationship as Chinese tourism has become an important economic driver in Japan for past 10 years
 - + China's BRI through Southeast Asia – Chinese tourists in Thailand, Singapore, Malaysia– better relations as China seeks to build belt road through

Hawaii 2020 Vision- *Attract OFDI from China & Tourists*

China has long memories- helping it restore good relations with the U.S. will be rewarded with Chinese travelers and Chinese investments partnered with local businesses to rebuild the tourism infrastructure.

- work with the U.H. Center of Chinese Studies to help open the relationships

– Hawaii state and city executive branches create high-level leadership exchanges to develop relationships on an economic level

Bright Spots:

**We are on our way-
language capability!**

**-Maryknoll Chinese
Language Immersion
Program (K-4)**





麦子夏威夷呼拉舞&大溪地舞



ABOUT THE PRESENTER

- Russell K.L. Leu is a U.S. qualified attorney who has resided and worked full-time in Beijing, China for the past 17 years. He also has a residence in Honolulu, Hawaii. At Kingsfield Law, his China law practice includes a broad corporate practice, and he also has an emphasis in foreign direct investment, both China inbound and outbound. He previously had served as Special Counsel to the firm of Sheppard Mullin Richter & Hampton LLP in the firm's Beijing representative office in their China Corporate Practice Group. He also had set up the Beijing representative office of the firm Taft Stettinius & Hollister and was the Managing Attorney and Chief Representative for several years. He is a former Law Clerk for U.S. Bankruptcy Judges Lloyd King and Cameron Wolfe, Northern District of California. Mr. Leu also had served as Co-Chair of the China Committee of the American Bar Association and Co-Editor, ABA China Law Reporter. Mr. Leu is licensed to practice law in all courts of the State of Hawaii.

He can be reached at email: rleu@kingsfieldlawoffice.com | Tel. 952-858-7260