



**TAMPERE UNIVERSITY OF
APPLIED SCIENCES
BUSINESS SCHOOL**

FINAL THESIS REPORT

**Taking Advantages of China's Increasing
Demand of Recycled Resources**

Case Company: Ni-Met Resources Inc.

Ye Liang

Degree Programme in International Business

Supervisor: Shaidul Kazi

Tampere 2010

Author(s): Ye Liang
Degree Programme(s): International Business - Bachelor in
Business Administration
Title: Taking Advantages of China's Increasing
Demand for Recycled Resources
Month and Year: May 2010
Supervisor: Shaidul Kazi

Abstract

The purpose of this thesis is to review the feasibility and advise the management of Ni-Met on the location of a warehouse in China.

Ni-Met is a global company involved in trading of resources and commodities - primary and secondary metals, minerals and plastics.

A sizeable portion of its sales are into China. The objective of this thesis is to suggest the most suitable way for Ni-Met to take advantage of China's huge demand for commodities and resources. Ni-Met wants to increase its presence in China to facilitate its growing business with China in secondary [scrap] metals and plastics. Ni-Met already has several offices around the world including a representative office in Shanghai and wants to increase its presence in China.

In this thesis, Ni-Met is introduced along with an explanation of the products. The objectives of the company are outlined. Also information on the company is provided: the main stake holders, employees, memberships of organisations.

Interviews are conducted with various stake holders and senior management to understand the objectives and requirements in establishing additional presence in China. Here the long term objectives of the management are clearly understood through a telephonic questions answer session.

Next, market information is provided in the products the company deals in, also outlined are the main products provided globally and in China. The recycling markets for its products demanded in China are analysed. This is also explained by zone/location. Also outlined are the market conditions, the major players, channels of distribution and risks v/s rewards.

The entry method is then discussed. There are different types of company that Ni-Met can register itself in China. These are discussed along with the pros/cons of each and the government regulations associated with each type of offices.

The research process is also explained and interviews with the management are conducted. The results of the research and the interviews with management are analysed and the conclusion is explained on this basis.

Conclusion on the location to establish are based on the results of the questionnaire and interviews with the management, market research on import data, research and interviews with market traders.

Key Words: Recycling Resources China Growth Entry Mode

Table of Contents

1	Introduction	6
1.1	Background	6
1.2	Research Problem.....	8
1.3	Research Methods and Structure	9
1.4	Limitations, Reliability and Validity of the Study	12
2	Case Company: Ni-Met Resources Inc.....	14
2.1	General Information	14
2.2	Business Scope.....	17
2.3	Memberships.....	17
2.4	Partnerships	18
3	Recycling Industry Analysis	18
3.1	Basic Background of Recycling	18
3.2	Collection Systems.....	20
3.3	Recycled Materials – Price Advantage	22
3.4	Recycling Market in China	22
3.5	New Developing Regions in China.....	28
4	Market Feedback.....	31
4.1	Outline of the Phone Interview with Market Traders	32
4.1.1	<i>Introduction of the Interview</i>	32
4.1.2	<i>Questionnaire</i>	32
4.2	Results - Summary.....	33
5	Entry Method.....	35
5.1	Entry Strategy	35
5.1.1	<i>Strategy for Selecting Type of Company</i>	36
5.1.2	<i>Strategy for Selecting Most Appropriate Location</i>	37
5.2	Foreign Corporations Permitted in China	38
5.2.1	<i>Sino-Foreign Equity Joint Venture</i>	38

5.2.2 Sino Foreign Cooperative Joint Venture	40
5.2.3 Wholly Foreign Owned Enterprise	41
5.2.4 Foreign Representative Office	42
5.3 Analysis of the Business Environment.....	43
5.3.1 External Factors.....	43
5.3.2 Internal Factors	45
5.3.3 Statistical Data of Imports.....	46
5.3.4 SWOT Analysis	47
6 Conclusion	55
List of References.....	59
Appendix I: Question Answer for the Initial Interview	62
Appendix II: Balanced Scorecard.....	67

1 Introduction

1.1 Background

Ni-Met is a global company involved in trading of primary and secondary metals, minerals, plastics etc. - commodities utilised by the manufacturing sector.

The majority of Ni-Met's sales are done to countries that are newly industrialised such as: India, China, Korea, Indonesia, Vietnam, Brazil etc.

Ni-Met is already well diversified globally and has branch, associate or representative offices in several parts of the world to facilitate its trading activities.

Secondary and scrap businesses account for more than 80% of the total business. A sizeable part of Ni-Met's secondary and scrap business in metals – both ferrous and non-ferrous, alloys and plastics & chemicals are in China. The company has expressed a growing need to increase its presence in China to facilitate growth of its business.

Ni-Met currently has a representative office in Shanghai. The main purpose of this representative office is to facilitate the business with China, make the business easier and smoother.

The basic function of this office is to sell the products offered by the various head or branch offices of Ni-Met. The employees approach potential and regular buyers on behalf of the overseas offices and facilitate the sales process. They act as interpreters and also solicit the best price under current market conditions. They also oversee some of the paperwork done by the various overseas offices. The legal restrictions of a representative office are that they can only facilitate the sales process; they are unable to enter into contracts on their own behalf. This is one of the constraints Ni-Met is facing in growing its business in China.

China is growing in importance as the factory for the world. Majority of products sold worldwide are today manufactured in China. Therefore, the demand for raw materials in China is immense. Ni-Met sees this as an excellent opportunity to expand their business in China and would like to ascertain which type of office to open and the most beneficial location for this office.

Along with this are the regional developments and infrastructural improvements happening in China. All of this further increases the demand for the products sold by Ni-Met into China. The housing/construction industry in China is also a major market for the finished products manufactured by using the scrap or recyclable products that Ni-Met supplies.

China, as a market has its own peculiar and unique characteristics. These are:

Language Barrier – majority of the Chinese population does not speak any English or West European language.

Complexity of Regulations – different regions/provinces of China have different regulations with respect to Foreign Investment or Foreign companies establishing offices.

Regional Markets – different regions specialize in using different products. For example, the main market for stainless steel is in South China, while the main market for PET is in and around the Shanghai/Ningbo/Hangzhou triangle

A Communist Form of Government – China does not have a democratic government.

Strict Banking Laws – the banking laws in China somewhat restrict the movement of capital.

Ni-Met needs to create a specific entry strategy to establish its presence through a warehouse location in China.

It needs to make a comprehensive plan which takes into account many factors. It needs to outline its objectives and goals in

establishing this facility. Also, it needs to determine a suitable control system for this region.

In addition to all the above, the company also needs to factor in the various restrictions and limitations of each type of company. The type of company it selects to register will also determine the amount of liberty it will be given by Government Authorities, the amount of investment required and the applicable laws.

The company needs to ascertain the market location for each of its products and thereafter select a suitable location for its Warehouse Operation. The selected location should also serve as an engine for growth of business.

One important factor to also consider is control. Due to the time difference and geographical distances, the management will have to determine an effective control method.

1.2 Research Problem

The primary objective of this thesis is to advise Ni-Met on the type of company to structure and the location of a warehouse facility to further establish the company's presence in China.

To arrive at an accurate understanding to the complete situation, various factors will have to be examined. This in turn will require several secondary objectives.

The Secondary Objectives can be classified as follows:

- Understanding the company, its method of operation, its corporate philosophy and its long term goals
- Understanding the recycling industry as a whole.
- Understanding the market in China for Ni-Met's products
- Understanding the Chinese regulations applicable
- Last, but not least, understanding the cultural problems.

The Main objective can be classified as follows:

To advise Ni-Met of a suitable entry strategy based on the findings of all the above secondary objectives. All qualitative and quantitative data and information will be interpreted to arrive at a conclusion for the most appropriate entry mode and location.

1.3 Research Methods and Structure

Any company that wants to enter a foreign market needs to create an effective entry strategy. This entry strategy should research into various factors where separate decisions need to be made to ensure full chance of success. Some of these factors are:

- *Identifying the Target market.*
- *Defining Objectives and goals in target market.*
- *Entry mode to penetrate the target market.*
- *Formulating a marketing plan to penetrate the target market.*
- *Effective control system to monitor the performance in target market.*

[Root 1994: p 3]

To achieve the objectives listed above, the first step was to research into the company: to understand its history, the main players in the company, the corporate philosophy and most importantly the internal working and structure of the company. This was very necessary because all further research questions and steps need to take this into account.

Along with the above, was to conduct a face-to-face interview with the management on its long-term objectives in China. It was of paramount importance to understand the company's exact vision and long-term outlook on their business in China. The company had its own agenda on the expansion plans into China along with identified target markets and growth potential numbers. This

interview also helped in determining with certainty that Ni-Met was considering a "Entry Strategy approach" and not a "Sales approach" [*Root 1994 p 5*]

A "face to face interview" was selected as the method since the management could explain in depth and with accuracy. [Hague 2004: p 124] The initial interview with the management was partly structured and partly open ended, since this interview was designed more for the management to give an idea of their long-term objectives, the information flowed from the management.

The entire research, data collection and analysis and subsequent interviews were based on the feedback gathered from this initial interview with the management as well as understanding the corporate culture of the company. The research methods used thereafter in this thesis were a combination of qualitative, quantitative and various interview techniques were used.

For any research to be meaningful and in depth and to provide a good analysis of the problem and arrive at a logical conclusion, a combination of different research techniques and methods needed to be used in the course of gathering data, understanding and market analysis. [*Hague 2004: page 7*]

The next step was to arrive at a complete understanding of Target Country Market, meaning the recycling markets in general and also with specific reference to China. [*Root 1994: pg 8*] The recycling markets are very complicated in the way they work. There are many different companies and/or government bodies involved and it was necessary to get an understanding of how this market works. Here some questions about the environmental factors were also researched. [*Root 1994:p10*]

Market data referring to sales and/or imports/exports were collected and analysed to determine the location of the office. This data provided the necessary background to make an effective and informed decision about the demand for its products. It also gave

some indication on the future demand by region and therefore enable suitable suggestions on location of the Warehouse. Future demand was also determined by assessing various regions targeted for growth and development by the National Government. *[Root 1994: p 8]*

Quantitative research techniques were used to arrive at gathering information about the market size by product and by location. This was a “desk” type research; the information was obtained from the import statistics of China customs website. *[Hague 2004: p 8-9]* The data collected from the China customs website was gathered by using the Harmonised System of Codes [HS Codes] used worldwide by customs authorities and attached at the end of the thesis.

In addition, to get a better understanding of the Target Market, interview with Chinese market traders were also conducted. The Phone Interview with Chinese Market Traders were partly quantitative – current supply source and volume and partly qualitative - getting an “understanding” of how buyers will view Ni-Met benefitting them. *[Hague 2004: p 9-10]* The questionnaire was very structured with close ended questions. *[Hague 2004: pg 99]*

The next step was to find out the different forms of company permitted for a foreign trading company such as Ni-Met. China has strict rules on foreign ownership, requirement of local shareholders, employee rules and regulations, profit repatriation and tax liabilities. This was a desk type research, with most information available on the internet. The findings through this research reflect the dynamics of Entry Mode Decision that apply to Ni-Met. In this stage, all criteria that applies to the company were examined and researched into. Other internal and external factors applicable to this thesis are represented separately and a SWOT analysis is also shown. *[Root 1994: p 8-17]*

The business decision that Ni-Met is required to make is a complex one. Therefore, the purpose of doing a combination type of research was to get a better understanding of the market conditions. Historical data is an indicator of what has happened in the past. However, to determine market sentiment, which is an indicator of how market traders will react to a foreign company entering the supply chain, the qualitative research approach was used. Both of these techniques were used in a complementary way. [*Hague 2004: p 11*] The end result was specific recommendations with measures that can be used to effectively control the new project.

1.4 Limitations, Reliability and Validity of the Study

Limitations

In the process of conducting research and going through the various steps necessary for the research, certain limitations were faced.

The most severe limitation was unavailability of relevant data from the Chinese recycling industry. The original plan was to contact relevant industry associations. However after much inquiring, it was finally apparent that this industry sector is unorganised in China and there is no single nationwide association.

Hence, the planned data was unavailable from Chinese recycling industry on industry usage data. Therefore other research methods had to be used to gather the required data.

In addition, interviews government officials concerned with local waste management and responsible for imports of scrap/recycled material were planned. The intention was to gather data and get feedback on:

- Local recycling collection systems and quantities

- Government regulations and current policies and future for import of recyclables

Unfortunately, due to the communist form of government, the officials are not permitted to have such interview sessions, especially with students. The request was refused more strongly when it was noted that the request was from a Chinese citizen, but student in Finland.

This also led to a shortage of information on the Recycling market in China hence finally this information had to be gathered through newspapers, websites and other desk research methods.

The industry sector [recycling] is so far an unorganised sector in China; hence, very limited published industry information from China is available. The responses from the management and market traders have been used to provide a qualitative indication of future demand growth and location. This has been supported by researching into the National Government's development initiatives.

Reliability & Validity

According to the definitions from social research methods, "Reliability is defined as the consistency of measurement".

Validity is the strength of our conclusions, inferences or propositions. More formally, Cook and Campbell (1979) define it as the "best available approximation to the truth or falsity of a given inference, proposition or conclusion."

[Social Research Method,

available: <http://www.socialresearchmethods.net/tutorial/Colosi/lcolosi2.htm>]

Applying the definitions to the thesis, several measurements have been used in the course of the thesis. Measurements such as the

historical growth of imports of recycled materials are accurate and reliable and there give a good indication of the future.

The conclusions are based on the reliability of the research. In subsequent discussions with the management at Ni-Met, they have expressed the view that the conclusions are reasonably valid and accurate although Ni-Met must factor in “unknowns” into the equation when making the final decision.

2 Case Company: Ni-Met Resources Inc.

2.1 General Information

The origins of Ni-Met date back to 1982. The founder, Mr Anil Shah started Rutmarg Trading in India in 1982 as a partnership company. This company focussed on sourcing secondary metals [scrap metals] from US and Europe for supply to Indian end users. At this stage, the company worked as an agent.

With the growth of business, in 1985 Rutmarg was merged into a new company Metco India, which was a limited liability company. This was done to attract funding and also to prepare for future growth.

Ni-Met was formed in 1990 in Canada by Anil Shah to establish the group internationally, to gain access to supply sources of material and to supply material as a Principal, not as an agent.

Today, with its headquarters in Canada and several associate or representative offices Ni-Met is acknowledged as a leading indenting and trading house internationally.

Ni-Met considers its core strength in the trading of resources, commodities and associated metals/plastics required as raw material for industrial production. Its strength is locating sources

of supply over various continents and finding the most profitable markets for this.

Its product range covers Base/ primary metals, secondary metals & alloys, minor metals, ferro-alloys, all ferrous & non-ferrous scraps, recyclable plastic, finished & semi-finished metals and steel products, and alloying additives for smelters and foundries.

In the commodity trading world, competition is fierce. There are numerous established and financially strong companies. These companies have connections and relationships established over centuries. Although Ni-Met is a relatively new company, it has gained the trust and reliability of companies much older and bigger than itself.

The Ni-Met group includes: Metco - India, Vienna Metals - Sharjah. In addition, Ni-Met has representative offices in China, Thailand, Pakistan and Venezuela. The total yearly group turnover exceeds US\$ 200 million.

Ni-met prides itself on its diversity of employees. In the head quarters in Canada, over 10 languages are spoken. Employees are selected on the basis of potential income generation possibilities, not on the basis of previous experience.

Ni-met is a privately owned company. The main shareholders include Anil Shah and his family and Vijay Porwal and his family.

However, even though shareholding is closely held, the main stake holders are each suitably in charge through a system of 100% responsibility allocation for each profit centre along with an equal share in the profits between the company and the stake holder. The general managers in each country report to each individual stake holder for their respective businesses/product lines.

The group has two types of internal structures:

I. The first type of structure is a full-fledged trading office. Examples of this are Ni-Met Canada and Metco India. Under this structure, the office is empowered to enter into purchase or sale contracts in its own name. It has separate banking and other financial arrangements. It performs many functions and therefore is divided into several internal departments, including:

Trading Department This department is headed by the stake holders. For example, in Metco, the stake holder heads the ferrous trading department. He has Assistant Traders who report to him.

Logistics Department This department is responsible for coordinating the movements of cargo and making necessary arrangements with shipping and transport companies. It works under instructions from the trading department.

Administrative Department This department is responsible for all paperwork associated with movement of cargo. It works under the trading and logistics department.

Finance Department The finance department, as the name suggests, looks after the financing of trading activities. It arranges payments to suppliers and chases payments from buyers.

The finance department works with a variety of transaction payments options such as LC's, CAD, TT's and credit terms. It also works with many currencies. The finance department works under instructions from the head traders, although at times, it supersedes the traders' recommendations.

II. The second type of structure is that of a representative office.

This type of office, as the name suggests is purely a representative office. It does not enter into purchase/sale contracts under its own name, but acts as a representative for one of the Full Offices.

The representative offices typically have only or 2 people. The only exception is China. The China representative office has a permanent staff of Four. Additionally people are employed on special projects or for specific businesses.

2.2 Business Scope

Ni-Met's main business is trading of scrap and primary metals. The new division is Plastics.

The Primary Metals business is classified under the following:

Nickel: Ni-Met holds marketing rights with BHP Billiton and Norlisk for marketing their products to major end users in India. This is the main business in the Primary Metals classification

Scrap Metals: This category is further classified into Ferrous and non ferrous

Ferrous: In this category, the main commodities are HMS [heavy melting scrap], Mill Scale and Shredded Steel scrap.

Non Ferrous: Under this category several scrap metals in various forms are traded. These include: Aluminum, Copper, Brass, Zinc, Lead and alloys of all these metals.

The Plastics business is classified as Scrap and Recycled/Post Industrial Plastics, including:

PET – Poly Ethylene Terapthalate

LDPE: Low Density PolyEthelene

HDPE: High Density PolyEthelene

PVC: Poly Vinyl Chloride

2.3 Memberships

Ni-Met and the other companies under its banner are accredited members of several reputed International Recycling Associations and are in good standing:

ISRI - Institute of Scrap Recycling Industries
BIR - Bureau of International Recycling
CARI - Canadian Association of Recycling Industries

2.4 Partnerships

The company has several long standing partnerships with key companies in several areas. These agreements are mostly concerning the Indian market due to the strong presence thru Metco in this country. There is opportunity to extend some of these agreements to China, provided Ni-Met establishes a further presence in China.

- BHP Billiton: a leading nickel producer
- Norilsk: a leading nickel producer
- TSR Nord-Shroff – Germany
- Reukema – Netherlands
- DSD/DKR – Germany
- Valpak – UK

3 Recycling Industry Analysis

3.1 Basic Background of Recycling

Recycling is an age old activity, especially in Metals. In metals, there is no loss of properties each time the material is melted down, so recycling is very cost effective. Recycling in plastics is a new industry and till very recently was not a profitable industry.

The key in recycling is collection. This is what costs money, the activity of collecting, identifying and sorting the material into similar groups. This is true across all commodities – whether metals, plastics, glass or paper. There are many different collection

methods, and all them depend on TWO factors: the source of generation and whether the material is mixed or not.

Some examples of collection for each type of commodity are given below along with an explanation.

Metals:

In the case of metals, some good examples of materials available for recycling are Copper from electrical cables – when an old wiring system is changed or when a municipality upgrades its electrical distribution system, a large volume of old copper cables are generated. These cables generally consist of an outer covering [generally Polyethylene or Rubber], while the insides are pure copper.

The process of collection here starts from the demolition company. The demolition company normally gives a contract to a collection company to pick up all the waste generated from the reconstruction activity. This collection company then gathers all materials and sorts out by types. Recyclables are separated [in many instances manually] and sold. Garbage is disposed of.

HMS [Heavy Melting Scrap] – Rails: another good example is rail tracks. Rail tracks are constantly being upgraded around the world to accommodate the new faster trains. The volume of recyclable steel generated when such projects are undertaken is huge.

The above are two examples of recyclable metals generated from reconstruction or renovation projects. A good example of recyclable metal generated by consumers is the beverage/soft drink cans we use. These are all Aluminum and are very easily recycled.

Plastics:

The collection systems and type of materials collected in plastics are of a completely different nature. Plastics are mostly used for packaging. The types of materials collected are classified into Post Industrial or Post Consumer.

- A good example of post consumer recyclables is soft drink bottles. In developed countries such as Finland, collection of such post consumer plastics is systematic and enforced by government rules.
- A good example of post industrial plastic recyclables is plastic film from the packaging industry. There is regular availability of excess production or misprinted film. Such type of film is in good demand.

3.2 Collection Systems

There are many organised and unorganised collection systems existing in the world today. The developed Western countries in Europe and North America have an organised collection system, while the underdeveloped or less developed countries in Asia and Africa have unorganised collection systems.

In Western countries, to start with, the governments impose penalties or charges on using landfills or dumping grounds for garbage or rubbish. Also, there are government regulations on recycling and recycling is mandatory for industries as well as consumers.

As a result of the charges and regulations, collection of recyclables is a developed industry in Western Countries. There are differences in how collection is done for industries and consumers. As an example, collection for industries is the responsibility of the generator. Using the above mentioned products as an example – Copper from electric cables – as a study, it is the responsibility of the contractor performing either the demolition or the laying of new cables to ensure that the old cables are recycled responsibly.

For consumers, the government has introduced several programs in connection with the manufacturers of packaging to ensure that these are recycled responsibly by the consumer. As an example – soft drink bottles: each consumer obviously does not have enough

recyclable material to justify individual collection. Hence governments have taken different approaches to solve this problem. One approach is in conjunction with the soft drink manufacturer to charge the consumer a refundable fee for the soft drink bottle. Consumers then deposit the empty bottles into “banks” and get the refund. These are very conveniently located and it is therefore easy for the consumers to recycle the empty bottles.

In underdeveloped or undeveloped countries, the problem is a totally different one. Due to the unavailability of developed infrastructure, this job is mostly left to the very poor people – scavengers or rag pickers. These scavengers or rag pickers collect the recyclables and give it to a small trader who pays them cash. This small trader will then collect enough material and sell it to larger traders or recyclers who then turn the recyclables into raw material for production.

China does not have a developed collection system. Further the demand for alternate low priced raw material [recycled material] is huge due to the production demand to service its huge population which is also getting richer and therefore demanding more finished product.

The amount of recyclables collected internally in China is estimated by the industry to be less than 30% of the requirement. Therefore there is a huge and growing demand for importing recyclables.

Today, recycling is promoted as being good for the environment. Western governments are increasingly putting in rules and regulations prohibiting garbage from going to land fill. As an example, Germany has totally banned landfill of all untreated organic waste and all garbage is now incinerated for energy. Other EU countries will soon follow. *[STATUS AND TRENDS OF RESIDUAL WASTE TREATMENT IN GERMANY, Ms. Susanne Hempen, PDF-FILE]*

Further with the world population increasing, there is also a desperate shortage of natural resources. Along with this is the growing pressure on governments to control greenhouse gases and the negative effect on the environment. Therefore REDUCE, REUSE AND RECYCLE have now taken on a much greater and necessary meaning.

3.3 Recycled Materials – Price Advantage

It is very necessary to understand the pricing in recyclables, since it is a price difference between new and recycled which makes the recycled material attractive to factories.

There are different calculations for metals and plastics. The main reason is that there is loss in properties in plastics; but in metals there is absolutely no loss in properties. Therefore the discount in metals over new materials is not as large as that in plastics. For the end use factories, in metals, since there is no loss of physical properties, recycled material can be made into new products.

As a basic calculation, metals are at about a 10% discount over new material. In the case of plastics, the price difference between new and recycled is about 35%.

3.4 Recycling Market in China

China is the second largest economy in the world today. The Chinese population has been experiencing a rapid and sustained development. China has more than 1.3 billion people and steady high economic growth.

From the year 2003 to 2007, the GDP of China was always more than 8% and in some years reached double digit figures – something that no other economy in the world has managed in recent years. Over the past five year China's GDP growth rates were 9 percent, 9.5 percent, 10.2 percent, 10.7 percent, and 11.4

percent, respectively. *[Strong Growth in Chinese Recycling Markets, published on April 28, 2009, online-article]*

Therefore the demand for raw materials is indeed enormous. China is looking over the whole world for raw materials. Recycled raw materials are extremely attractive since they are available at a lower price as compared to new raw materials. It is one of the fastest growing recycling markets in the world and potentially is the largest recycling market in terms of volume.

China has formed a National Sustainable Development Strategy and a major part of this strategy is the development of the Recycling Industry, reducing the pressure on China's environment capacity. The National Government has put Recycling very high on the agenda for the next decade and is creating also called "circular economy" to provide a legal framework for a National Strategy for Sustainable Development.

A sizeable part of the recycling market is in the unorganised sector. This makes data collection somewhat difficult for the market as a whole.

However, BBC research has published a comprehensive report on recycling in China. This report comprises of data of materials processed from local as well as import sources.

According to this report - Recycling Markets in China - BBC reports that China processed 142.3 million metric tons of recyclable material in 2008. The author of this report expects steady growth in the recycling processing industry. By 2013, China's total recycled wastes are forecasted to reach 244.8 million metric tons at a compound annual growth rate (CAGR) of 9.1 percent.

[BBC Research, Recycling Market in China, published in July 2008, online-article]

Metals and plastics are one of the main recycled items alongwith paper. Metals such as aluminum, copper, iron and steel have the largest share of the market, accounting for 76.8 million metric tons of recycled materials in China in 2007. The report projects that this will increase to 123.2 million metric tons in 2013, for a CAGR of 8.1%.

[BBC Research, Recycling Market in China, published in July 2008, online-article]

The next largest segment is recycled waste plastic, at 15.0 million metric tons in 2007. This segment is expected to grow at a CAGR of 10 percent to reach roughly 27.4 million metric tons in 2013. The rapid growth is due to China's high dependency on the imports of plastic resin, especially special and high-grade materials. *[Strong Growth in Chinese Recycling Markets, published on April 28, 2009, online-article]*

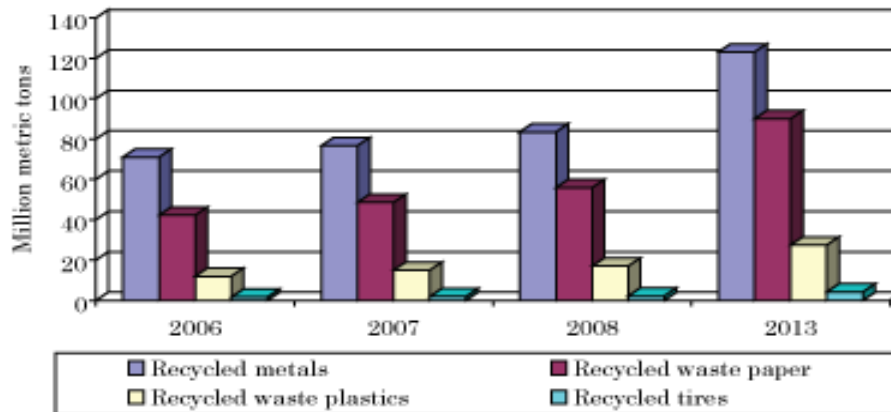
In terms of volume, metals recycling and recovered fiber recycling [paper recycling] were the top two items in China's recycling industry, accounting for about 54 percent and 34.2 percent, respectively, of the total industry. However, by value, metals are by far the leading item in recycling.

[Strong Growth in Chinese Recycling Markets, published on April 28, 2009, online-article]

The below figure shows the forecasted growth in the various recycled materials by weight [quantity] till the year 2013.

[BBC Research, Recycling Market in China, published in July 2008, online-article]

SUMMARY FIGURE
CURRENT AND FORECAST CHINESE RECYCLING INDUSTRY BY SEGMENT, 2006-2013
 (MMT)



Source: BCC Research

“The World Bank reports that China's army of scrap collectors numbered 2.5 million in 2005. In Beijing, an industrious scrap collector can earn around US \$150 per month, about half of what a Beijing cab driver earns.”

[Alex Pasternack, New York, In China, Recycling by Tricycle, published on 12.15.2007, Online-article]

According to Wang Yonggang, a spokesman for the China National Resources Recycling Association *“Because Chinese consumption is far less developed than the West's, more than 70 percent of the materials that feed the country's recycling industry must come from abroad”* he said.

[DAN LEVIN, China's Big Recycling Market is Slagging, published on 11th March 2009, China Daily Newspaper]

It is a well known fact in the recycling industry that China is the end destination for more than 60% of the Western Countries recycling waste. China needs these resources to convert into raw materials for production and the Western Countries have an economical solution for recycling.

This is a perfect situation for International companies like Ni-Met seeking to expand their markets abroad. A perfect situation exists - Double-digit growth and insufficient self-supply ratio of various waste/scraps make this an attractive market. The most important

factor making China attractive to Ni-Met is the absence of large domestic competitors which is an indicator of tremendous potential.

Recycling is a very labour intensive industry. China with its low cost labour force and its huge appetite for resources is the main destination for recycling of metals, plastics and paper.

Recycling in China is somewhat of a regionalised industry – meaning that certain regions specialize in certain items for recycling. This is another extremely important factor to take into account for Ni-Met. This regional specialization is due to the regional specialization of manufacturing industries.

As an example, the Southern regions of China specialize in manufacturing Stainless Steel products and hence majority of the Stainless Steel scrap is sold in this region.

The type of companies dealing in the recyclables industry is very diverse. The range starts from small, one person owned companies who work as traders to giants such as Bao Steel [now, the second largest steel manufacturer in the world]. There are traders who have not seen anything outside China on one end and very sophisticated companies who strategize how to capture raw material sources for the long term on the other end.

Another important factor to note in the recycling industry in China is that a large section of this industry used to operate in the “grey” market – meaning that most of companies/individuals were unregistered businesses, all dealings were in cash, there are no records, accounts or taxes paid.

This is now changing and the industry is becoming regulated. This development encourages companies like Ni-Met to enter the market and be one of the leaders

Today, the view of the National Government can be expressed as follows:

- It is necessary for China to be final destination for majority of the World's Recyclables
- At the same time it is necessary for us to safeguard our land and people from hazardous or contaminated material

It should be noted that there have been several cases in the past where metal scrap was found to contain radioactive material or plastic or paper scrap was contaminated with bacteria due to food residue.

In the past 5 years, the Chinese government has started tightening the laws on imports of recyclables with a view to reduce and finally totally eliminate hazardous or contaminated material.

The first step the National Government introduced was establishing the AQSIQ license requirement in 2005. The AQSIQ agency was formally established in April 2001 by the merger of the State Bureau of Quality Technical Supervision (SBQTS) and the State Administration of Exit/Entry Commodity Inspection and Quarantine (CIQ). The merger upgraded the new organization to ministry level.

Before the merger, China maintained one inspection regime (CIQ) for imports and another (SBQTS) for domestically made goods.

In 2005, the National Government made it compulsory for all overseas suppliers to get registered with the AQSIQ agency and obtain the AQSIQ export license. The license is only given to companies who can prove that they follow systems in sourcing the material.

The next step was to start inspection of all recyclable shipments thru the CCIC inspection agency. CCIC has several offices worldwide and is increasing its strength to cover all major countries of export.

Both these steps have reduced the risk for hazardous or contaminated shipments from entering into China.

The AQSIQ governing body, in conjunction with the National Government policy of ensuring safe recycling, has from 2009 amended the laws for obtaining an AQSIQ license. It is now mandatory for all new applicants to have an ISO certificate.

[Announcement No. 21, 2008 of AQSIQ on the Proclamation of the List of the First Batch of the Overseas Enterprises Supplying Waste Raw Materials Imported Whose Registration Qualification are Written-off or Cancelled of 2008, published by General Administration of Quality Supervision, Inspection and Quarantine of P.R.C. on 2nd July 2009, online]

3.5 New Developing Regions in China

Over the last 2 decades, The Southern and Eastern parts of China have developed very rapidly. In contrast, the Western regions of China are still undeveloped.

The National government of China has an ambitious plan titled “Great China Western Development” strategy to bring prosperity to the western region.

These are the interior regions of China which so far have not enjoyed the rapid development and prosperity of Southern and Eastern China. These are the very regions that are slated to be the “New Engine of Growth” as per the Western Development Strategy.

“The regions identified for development under the Great Western China Development Plan are: 6 provinces (Gansu, Guizhou, Qinghai, Shaanxi, Sichuan, and Yunnan), 5 autonomous regions (Guangxi, Inner Mongolia, Ningxia, Tibet, and Xinjiang), and 1 municipality (Chongqing). “[China Western Development, Wikipedia, online]

This region contains 71.4% of mainland China's area, but only 28.8% of its population, as of the end of 2002, and 16.8% of its total economic output, as of 2003.

[China Western Development, Wikipedia, online]

“The western development bureau affiliated to the state council released a list of 10 major projects to launch in 2008, with a combined budget of 436 billion Yuan (64.12 billion U.S. dollars).

These projects included new railway lines; highways, and airport expansion projects. They also include the building of hydropower stations, coal mines, gas and oil transmission tube lines as well as public utilities projects in western regions.

By the end of 2007, China has started 92 key construction projects in western regions, with a total investment of more than 1.3 trillion Yuan”

[China Western Development, Strategy, Wikipedia, online]

Additionally, the National Government has also released a list of sectors where it is welcoming foreign investment. The industries specifically mentioned in this list are: alternative energy, Construction materials industry, Chemical industry, metallurgy industry

All of the above research indicates that the next boom region in China will be the western region. As can be seen from past experience in the various developed regions of China, when a region is identified for growth, the National Government makes heavy investments in infrastructure projects and other related construction. This in turn leads to growth for residential construction.

When this happens, demands for metals jumps dramatically, making this a market to keep in mind for future growth.

3.6 Future Trend of Chinese Recycling Industry

Metal recycling is a developed industry and has always been profitable. New technologies now reduce the cost of recycling and Chinese factories are keeping up with this trend, although they may be behind their US/European counterparts by 5 years.

This 5 year gap is not a huge gap and thus the future of metal recycling in China is consistent with the rest of the world.

Plastics is a different scenario. Plastics recycling has always been subsidised by the local tax that citizens of the Western countries pay for services. Further, plastics recycling has in the past been labour intensive and the end use has always been for low value items.

However, very recent developments in technologies are changing this. The new technologies are enabling profitable recycling of plastics and taking the recycled product to a higher value item.

As an example, in the case of PET, the most significant development has been a vacuum technology which melts the clean PET “flakes” and turns it into pellets. The vacuum technology increases the properties of the recycled material, making it suitable for producing soft drink bottles again. This recent development in PET is one of the most exciting developments in plastics recycling and commercial use has just started since the last 2 years in Europe, North America and Australia.

Coca Cola USA has started a facility such as the above with URCC in North America.

[http://www.thecoca-colacompany.com/presscenter/nr_20090114_bottle-to-bottle_recycling.html,online]

As a result of such facilities starting, less PET will be available for low end polyester fibre use in the future from Western countries. China will have to increase its price or find alternative sources for its requirements. And finally, at some point, such facilities will also open in China, once again reducing the availability for low end uses.

4 Market Feedback

As with any serious business decision, market feedback is of utmost importance to make the final decision. To this effect, I decided to conduct phone interviews with randomly selected market traders and end users [henceforth referred to as “market traders”].

The interviews with the market traders are conducted to ascertain the following points:

- Materials purchased
- Volume/quantity purchased
- Current sources of supply
- If Ni-Met can bring an EVA to these companies

The sample size selected for this phone questionnaire is a total of 12 companies, randomly selected from a list of attendees obtained from:

- Conference of Ferrous and Non-Ferrous dealers in 2009
- China Plastics Trade Show held in 2008

These companies are classified as small, medium or large depending on the volume they purchase on a monthly basis.

The objective of this phone questionnaire is to get an indication from market players about their opinion of Ni-Met establishing a warehousing operation, to be able to conclude that there is a need for Ni-Met and market traders will appreciate the added advantage Ni-Met will offer to them.

4.1 Outline of the Phone Interview with Market Traders

The phone interview starts with an introduction and then flows into the 4 specific question. The questions asked is the same to each company contacted to ensure that answers obtained can be evaluated without any misinterpretation or ambiguity of answers.

4.1.1 Introduction of the Interview

I introduce myself saying that I am conducting a survey for Ni-Met, a large international trading company, dealing in primary and scrap commodities [metals & plastics]. I ask for the General Manager or a similar responsible person and request him for 15 minutes maximum of his/her time.

Ni-Met is introduced giving the following key points

- ISO 9001 certified, AQSIQ holder
- Currently shipping over 2500 Metric Tons monthly to China [metals & plastics]
- Global sourcing with offices in key locations.
- Established relations and exclusive sales rights with major producers/collectors
- Proposing to set up a warehouse and do own imports.

4.1.2 Questionnaire

- [1]Can you please advise what products you are buying?
[2]Can you please advise what your current sources of supply are?
[3]What is your volume monthly?
[4]How can Ni-Met benefit you?

4.1.3 Classification of the Interviewee

Of the 12 companies contacted by phone, these were classified by size based on their demand as follows

Large Corporations: over 1000 MT monthly demand – 2 corporations, both dealing in metals

Medium companies: between 400 to 1000 MT monthly demand – 6 companies – 2 in plastics, 4 in metals

Small companies: less than 400 MT monthly demand – 4 companies – 2 in plastics, 2 in metals

4.2 Results - Summary

Large companies: 2 large companies interviewed, both in metals.

Both of these companies responded by saying that their main interest would be use Ni-Met's established relationships to enter into long term contracts with producers/collectors. They see good possibilities of working with senior management to generate long term purchase contracts. The warehousing operation does not offer any additional benefits to them.

Medium companies: 6 companies interviewed – 2 in plastics, 4 in metals

Of the 4 companies interviewed in metals, 2 dealt in copper, 1 in stainless steel and 1 in ferrous [scrap iron/mill scale]. The 2 companies dealing in copper reported that 65% of their monthly requirements are met through imports, balance through domestic sources. The company dealing in stainless steel reported that over

75% of their purchases are imported. The end user requiring ferrous scraps reported that more than 60% of their requirements were met through imports.

Two facts that all 6 companies reported was that the quality of imports was much better than domestic collection. Additionally, the availability of local collection was also limited.

All of the 6 companies encouraged Ni-Met to establish warehouse operations stating that with this facility, they would be in a position to buy any urgent requirements from the warehouse and also be able to get regular and consistent quality imported materials.

Of these 6 companies, 4 companies reported that they frequently pay premiums to get material in the domestic market due to competition from other buyers. They would be willing to pay this premium to Ni-Met in exchange for better quality imported material.

Of the 2 companies interviewed in plastics, both were dealing in PET.

One company reported that over 90% of its requirements were met through imports since it manufactures high quality polyester fiber for export and PET scrap is used as a blend with new material. The second company reported that about 55-60% of its requirements were met through imports since local raw material availability was limited during the spring, autumn and winter months.

Both stated that their manufacturing process is a continuous process and therefore having sufficient raw material available was a key point to lowering production costs.

Both companies were highly interested in exploring the possibility of purchasing from Ni-Met through the proposed local warehouse as well as long term direct import contracts. The local purchases would be for urgent production or for materials such as colored PET where the demand was not large enough to do direct import.

Small companies: 4 companies interviewed – 2 in plastics, 2 in metals

This size of companies is where I got the strongest response.

All the 4 companies said that due to their small size, they are unable to fulfil the legal requirements to get import licenses. They further stated that they buy imported material through domestic traders who charge them a premium. All of these 4 companies prefer to buy more imported material since the quality is better, but under the current circumstances, they are limited to what their domestic trader has available.

They are very interested in purchasing materials from the warehouse facility and have welcomed this proposal by Ni-Met. They expect stable supply and good quality and are willing to pay little extra for this.

5 Entry Method

5.1 Entry Strategy

Entry strategy for a company is a comprehensive plan that sets forth objectives goals resources and policies that will guide a company's international business operations over a future period long enough to achieve sustainable growth in an International market. [Root 1994: P2]

The final choice of a successful entry strategy is the final result of examining various factors, some of which may be conflicting with each other.

Ni-Met's entry strategy will be based on selecting the most appropriate type of company, situated in close proximity to its markets with a relatively low operation cost. While formulating the

most appropriate entry strategy for Ni-Met and keeping its long term growth objectives in mind several key factors must be considered.

These factors can be divided under two main strategy issues:

- Strategy for selecting type of company
- Strategy for selection of the most appropriate location.

The appropriate factors for each of these must be analysed critically and carefully while making the most selection of entry strategy.

5.1.1 Strategy for Selecting Type of Company

To achieve larger market share and growth in China, the management is considering establishing a warehouse location. In order to select the most appropriate type of company for such an operation, the key strategic points to be considered are:

Risk This factor is crucial and should be examined keeping in mind the risks associated with the various types of companies. As an example, in an equity joint venture, the risks will be shared equally between Ni-Met and the local joint venture partner.

Control The management of Ni-Met has implicitly indicated in the initial interview that they desire to retain control and ownership of the new venture - if a local partner is included, there will be loss of control. This factor needs to be reviewed along with the risks associated of not involving a joint venture partner.

Ease of Operation The management of Ni-Met is concentrated in Canada and India. With this geographical distance and also with the fact that being a foreign company, Ni-Met needs a type of company that is easy to manage.

Finance Ni-Met has indicated that it is capable of self-financing this venture. However, in selecting the most appropriate obtaining finance from Chinese banks at a future stage may be a point to keep in mind.

5.1.2 Strategy for Selecting Most Appropriate Location

The selection of the most suitable location must factor in the following key strategic points:

Demand As is obvious, the selected location has to reflect sufficient current demand as well as expected future growth. This one factor is probably the single most important factor in determining the selection of location.

Absence of Competition Competition will exist since the market is not monopolistic or oligopolistic. However, if competition is limited, it will help achieve Ni-Met's long term goals in a relatively shorter period of time.

Close Proximity to a Main Port This is also another key factor as this will help in reducing operational costs and thereby lead to higher profitability and increased margins, once again helping in achieving the long term goals in a shorter period of time.

Security As a rule, China is not a country where theft is rampant or security is an issue. However, stray cases of theft have been reported in recent years in Guangdong Province due to rising unemployment. This is not a primary issue, but should be kept in mind while making a suitable selection.

Central Government Initiatives This is another key issue. It is a well known fact that when the Central Government has major development initiatives, demand for raw materials rises dramatically due to requirements for infrastructure building etc.

As is evident some of the above issues conflict with each other. Selection of the most appropriate entry strategy will mean balancing some of these issues with the others. The right entry strategy will enable Ni-Met achieve its long term goals within a shorter time frame.

5.2 Foreign Corporations Permitted in China

China is growing at a very fast pace. A lot of the growth has come from exports and today China is regarded as the factory to the world. The Chinese government has encouraged this growth by giving many incentives for foreign companies to open offices and outsource production to China.

To facilitate this growth, to encourage overseas companies to come into China and open up employment opportunities, the government has liberalised the entry methods available for foreign companies to enter into China.

The main types of companies available to foreign corporations are:

- Sino-Foreign Equity Joint Venture
- Sino-Foreign Cooperative Joint Venture
- Wholly Foreign Owned Enterprise
- Foreign Representative Office

Each of these has rules formulated for specific purposes by the government.

5.2.1 Sino-Foreign Equity Joint Venture

A Sino-Foreign Joint venture is a venture between a Chinese and a foreign company within the territory of China. Both companies invest in the joint venture. The companies can invest in terms of cash, intellectual property rights, technologies, buildings as well as materials or equipments.

This is the most common of all foreign ventures in China, although Wholly Owned Foreign Enterprises are becoming more common now. This is Limited Liability Corporation and has all the rights of a separate legal entity. This type of company can buy land, hire Chinese employees independently, constructing buildings and building assets.

The below categories of industries are in the permitted list

(1) Alternative energy, Construction Material Industry, Chemical Industry, Metallurgy Industry

(2) Mechanical Fabrication Industry , instruments and meters Industry , Fabrication Industry of Equipments of offshore oil exploitation ;

(3) Electronic Industry , IT Industry , Fabrication Industry of Communication equipment ;

(4) Light Industry , Textile Industrial , Food Industry , medicine and medical instrument Industry , Package Industry ;

(5) Agriculture , Animal Husbandry / Grassland Farming , Breeding Industry

(6) Tourism and Service Industry

Rules on Ownership: There is no minimum for the foreign company, however generally no less than 25% shareholding should be the foreign company's contribution.

Rules on Taxation: There is no special tax benefits and taxed same as any corporation.

Rules on Repatriation of Profits: Profits after tax and contributions can be repatriated as per the current rules. The distribution of profits between the Chinese Part and the Foreign Part is equivalent to the ratio of the contributions made by each party.

Financing Possibilities: Such a corporation can apply for loans etc. However in practical life, it is difficult to get approvals unless special assistance is given by the government under certain schemes or development initiatives.

5.2.2 Sino Foreign Cooperative Joint Venture

This is in many ways similar to an Equity joint venture. A Sino-Foreign Cooperative Joint Venture (CJV) is a joint venture between a Chinese and a foreign company within the territory of China. The Chinese company usually provides the labour, land use rights and factory buildings, while the foreign company brings in the necessary technology and key equipment, as well as the capital. This joint venture is based on a cooperative joint venture contract in which matters like the terms of cooperation, the division of earnings, the ownership of property upon the termination of the contract term of the CJV, the sharing of risks and losses, etc are laid down.

There are 3 main differences between an Equity Joint Venture (EJV) and a Cooperative joint venture (CJV).

While an EJV is always a legal person, and thus a limited liability company, a CJV can be a legal as well as a non-legal person. The latter option is not very common though because it would mean that the partners of the joint venture would be personally liable for any losses the company might make in the future

In an EJV the distribution of profits has to take place equivalent to the ratio of the capital contributions made by the parties, while the distribution in a CJV can take place according to the parties' wishes. A CJV is thus a lot more flexible than an EJV.

In a CJV a partner can provide other cooperating services besides contributing registered capital, for e.g. market access rights (Hence the name Cooperative Joint Venture).

Besides the above, the rules on ownership, taxation and repatriation of profits remain the same as an EJV.

5.2.3 Wholly Foreign Owned Enterprise

A Wholly Foreign-Owned Enterprise (WFOE), also known as Wholly Owned Foreign Enterprise, is a limited liability company established within the territory of China through foreign investment only. WFOEs are becoming increasingly more popular, mainly because of the fact that there is no involvement of any Chinese investor thus giving the foreign company complete control over the newly established business.

Even though this complete control might sound rather tempting to foreign investors, the lack of a Chinese partner often puts a serious strain on the development of good personal relationships, a very important point in China. The duration of a WFOE is usually between 15 and 30 years, with possibilities of extension to 50 years or longer

A WFOE can only operate within the business scope as set forth in its business license. If it decides to pursue other activities than the ones mentioned in its scope of business, it will first have to gain approval from the relevant authorities.

This is Limited Liability Corporation and has all the rights of a separate legal entity. This type of company can buy land, hire

Chinese employees independently, constructing buildings and building assets.

Rules on ownership: the foreign company has to invest 100%

Rules on taxation: no special tax benefits and taxed same as any corporation.

Rules on repatriation of profits: profits after tax and contributions can be repatriated as per the current rules.

Financing Possibilities: Same as an EJV

5.2.4 Foreign Representative Office

The easiest possibility of how a foreign company can establish itself in China is through the establishment of a Representative Office (RO). A RO is not a separate legal entity but is considered to be part of its parent company. It is the most basic form of foreign investment and can be very useful, and in some cases even necessary, for most administrative decisions concerning the establishment of a business. Examples hereof include the renting of an office space, the employment of Chinese personnel, the opening of bank accounts in name of the company, etc.

The advantage of establishing a RO is that it is inexpensive, simple and can be done quickly.

A RO will act as a business liaison between the parent company and local companies. It will, however, not be able to engage in any direct business activities (Except if there exists a bilateral agreement between China and the home country of the foreign company establishing the RO, which explicitly states that ROs established by companies of both countries do have the authority to engage in direct operational activities.)

Rules on ownership: It is treated as a 100% subsidiary or a liaison office. Hence it is owned and operated by the Foreign Company.

Rules on taxation: There is no tax payable since a RO cannot enter into business dealings. However there is a service fee payable to the state approved agencies for all employees.

Rules on repatriation of profits: since there are no profits, repatriation is out of the question.

One additional point is that all hiring of employees should be done through state approved agencies.

5.3 Analysis of the Business Environment

While reviewing the various types of enterprises allowed by Chinese regulations, it is necessary to understand the business environment as well.

The business environment is analysed by internal and external factors:

5.3.1 External Factors

In the external factors, the three most important factors to consider are:

- Cultural Barriers
- Language Barriers
- Laws and Regulations of China

In the course of researching the Chinese market, the unique nature of this market is visible almost immediately. Culturally, the Chinese players in this market seem distinctly different from their Western counterparts. The cultural differences, the way of thinking is completely different and poses some challenges to any company wanting to do business in China.

Furthermore, there are strong cultural differences between regions. The developed south and centre [from Guangdong up to Qingdao] is completely different culturally from the undeveloped interiors.

The companies appear to be divided into 2 segments:

- Import trading companies who sell to smaller domestic manufacturers or those manufacturers who do not have import licenses
- Large end users

The key point noted during the course of the research was the “trust, confidence” factor. Chinese companies in this business do not trust foreign companies easily.

The other important external factor noted was language barriers. The recycling industry in China is dominated by Chinese who in many cases do not have a University education and are unable to speak any Western languages. Many of the people working in this industry are not well educated and this also forms a cultural as well as language barrier.

The company will also have to observe one of the applicable laws from the following list:

*LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON SINO-FOREIGN EQUITY
JOINT VENTURE ENTERPRISE
LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON SINO-FOREIGN
COOPERATIVE JOINT VENTURE ENTERPRISE
LAW OF THE PEOPLE'S REPUBLIC OF CHINA ON FOREIGN-FUNDED
ENTERPRISE
THE REGULATIONS FOR THE IMPLEMENTATION OF THE ABOVE THREE
LAWS*

5.3.2 Internal Factors

In the internal factors, the first and key issue is that Ni-Met itself has never operated a warehouse. As a trading/indenting company, its core competency is to execute trades over international borders. Ni-Met will have to go through a learning curve to understand what is involved in maintaining and operating a successful warehouse operation. This is a very big step for the company, and it will have to plan the move intelligently to ensure that as few mistakes as possible are made.

Related to the above is that Ni-Met has an informal management style. It will be difficult for the management to operate a warehouse operation with this style in China. As is obvious, a warehouse operation will require inventory and other management controls. Ni-Met will have to implement these systems and process to ensure smooth operation. The Chinese working culture is unique the management will have to factor this into their operating systems and processes.

Communication gap with its employees is also a factor for concern. Due to the language barriers, time difference and geographical distance, this leads to a communication gap between China and the senior management team situated either in Canada or India.

Further the main stakeholders are all of Indian origin. This factor will further increase the cultural divide. The management will have to take this into serious consideration. If the employees get confidence in the management, they can in turn establish a trust relationship with new customers.

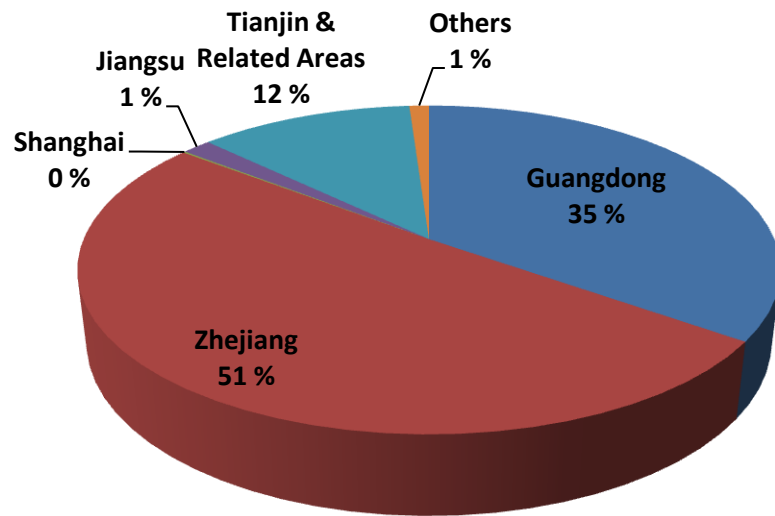
Another issue to keep in mind is control. The head office in Canada or Mumbai will need to monitor any operation in China very closely, especially since one of the suggestions is to have inventory. There can be a financial factor to this issue as well.

5.3.3 Statistical Data of Imports

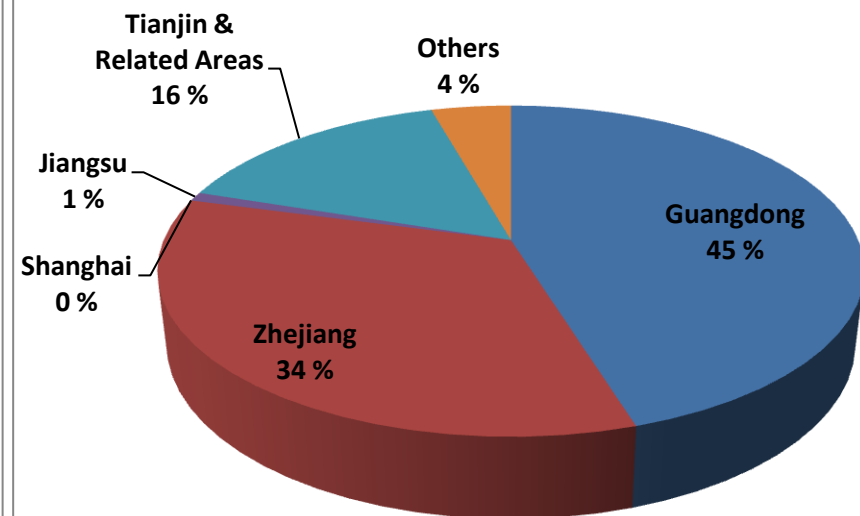
The statistical data is obtained from the official China Customs website. The graphic representation is from the above mentioned data which is then translated into the below charts.

[<http://www.customs-info.com>]

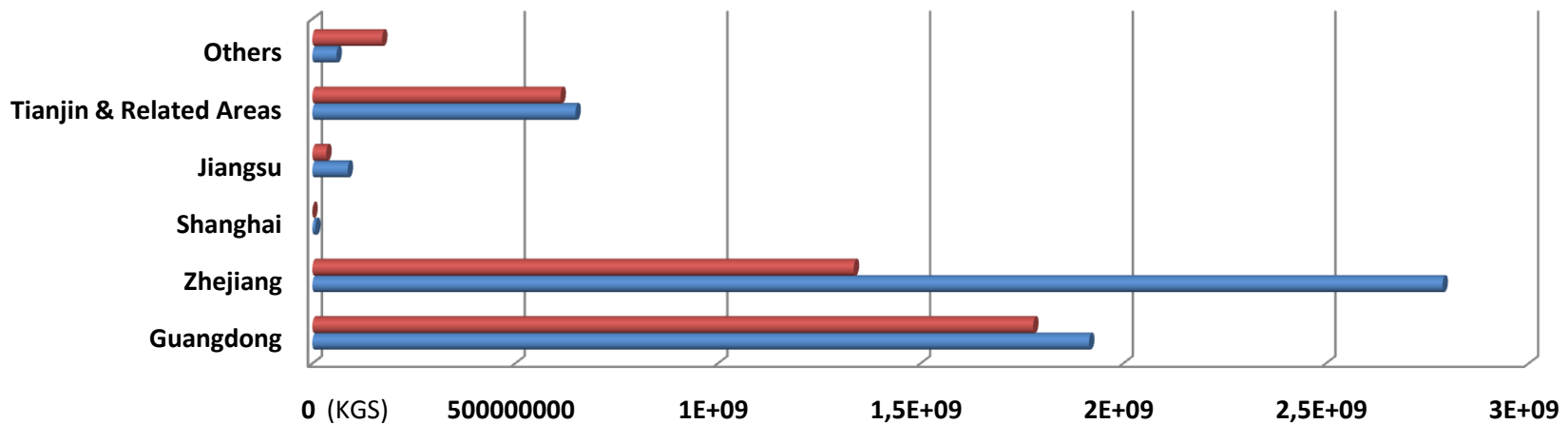
Copper Scraps Imports in 2008



Copper Scraps Imports in 2009

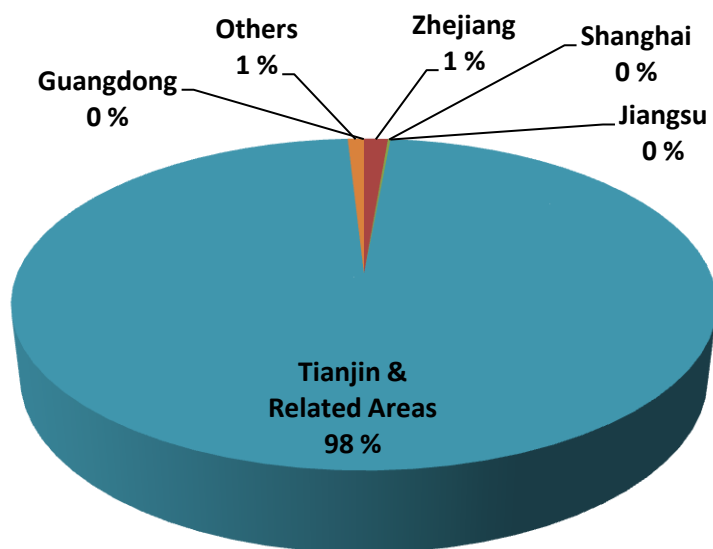


Contrast of 2008 and 2009

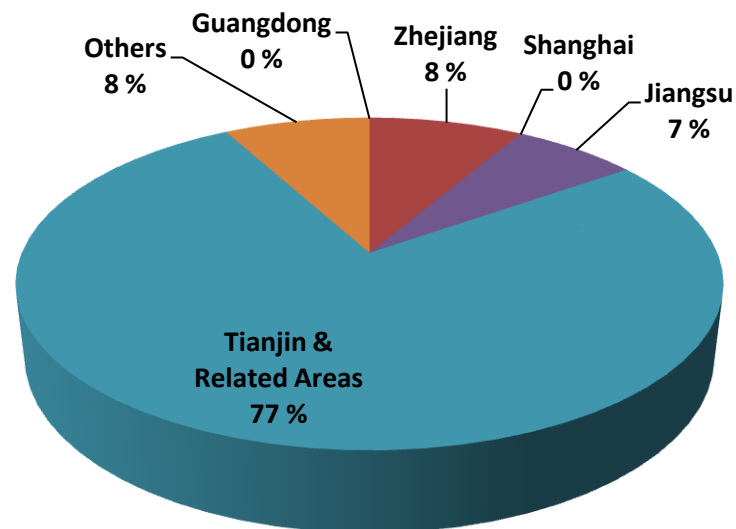


	Guangdong	Zhejiang	Shanghai	Jiangsu	Tianjin & Related Areas	Others
2009	1778061364	1335452761	0	34230564	612089431	171924229
2008	1915929374	2787936929	7113566	87144858	649003381	59500149

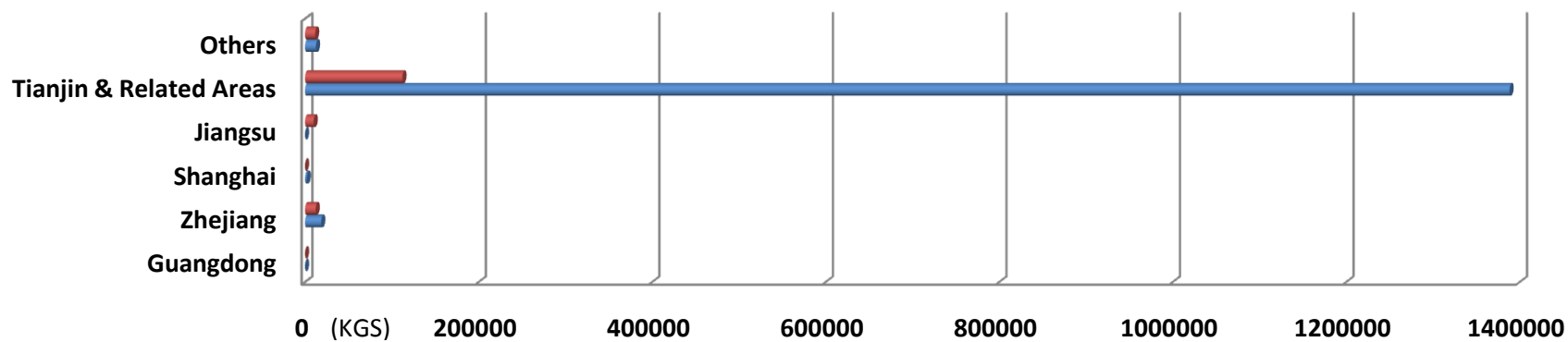
Nickel Scraps Imports in 2008



Nickel Scraps Imports in 2009

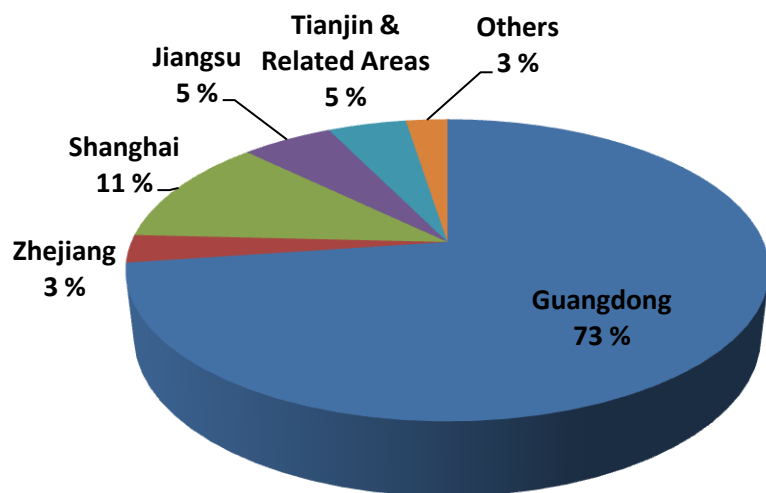


Contrast of 2008 and 2009

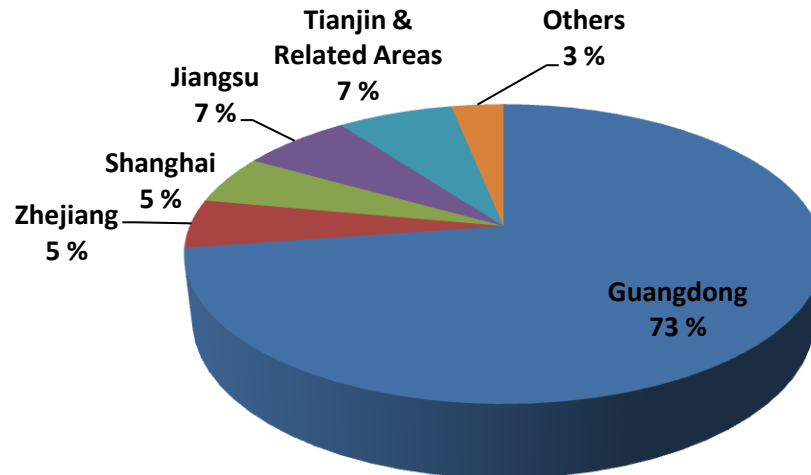


	Guangdong	Zhejiang	Shanghai	Jiangsu	Tianjin & Related Areas	Others
2009	0	12344	0	10000	112304	11677
2008	0	18640	2000	0	1388378	12663

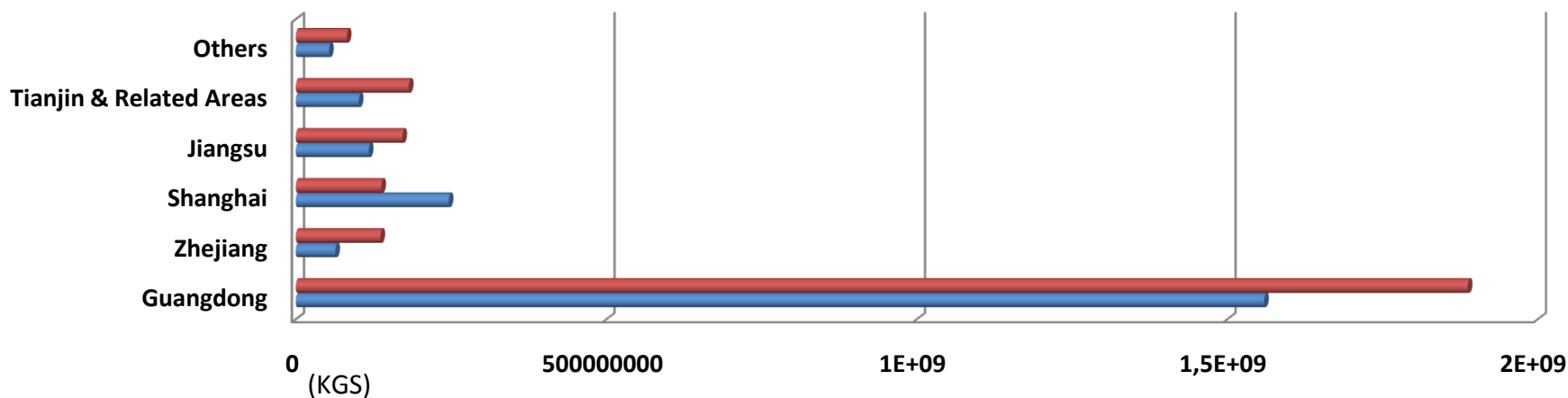
Aluminium Scraps Imports in 2008



Aluminium Scraps Imports in 2009

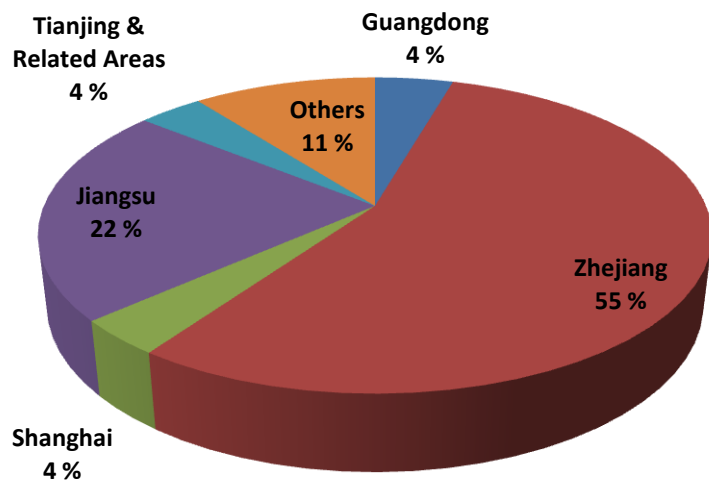


Contrast of 2008 and 2009

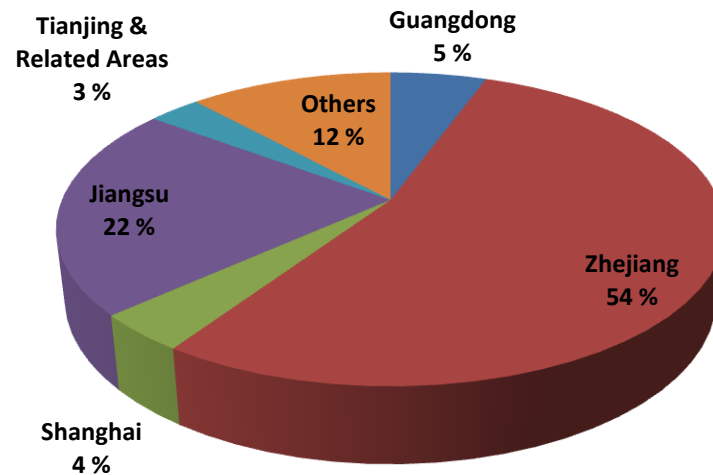


	Guangdong	Zhejiang	Shanghai	Jiangsu	Tianjin & Related Areas	Others
■ 2009	1887586370	136292402	137860855	171734489	182124618	82152592
■ 2008	1559652263	63704897	246397047	117627164	101472633	53592920

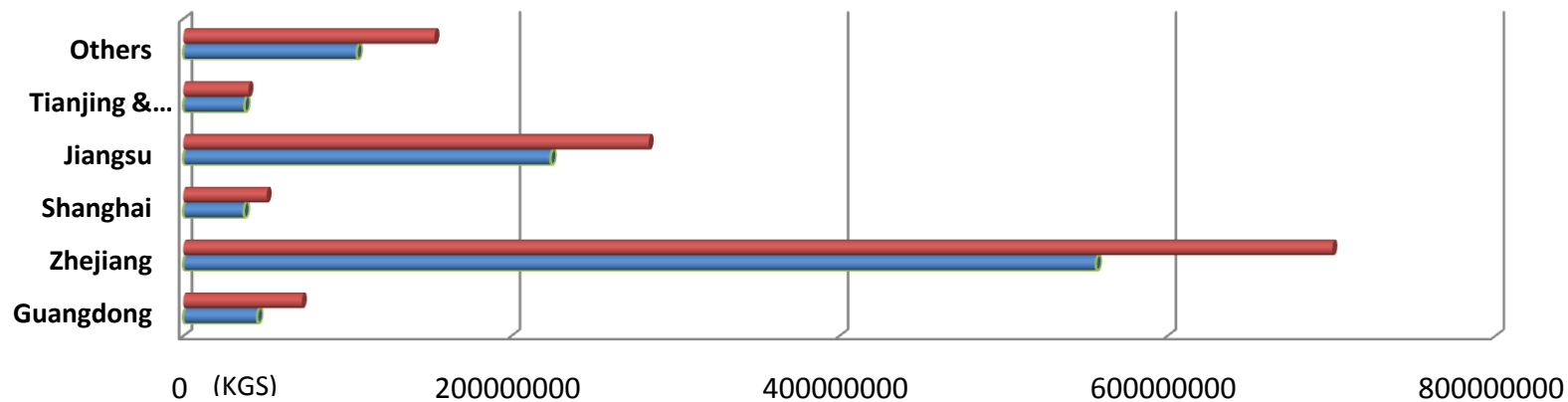
PET Plastics Scraps Imports in 2008



PET Plastics Scraps Imports in 2009

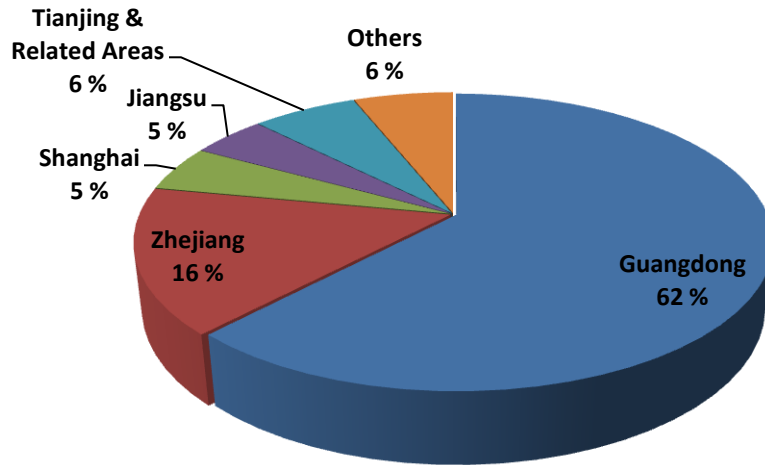


Contrast of 2008 and 2009

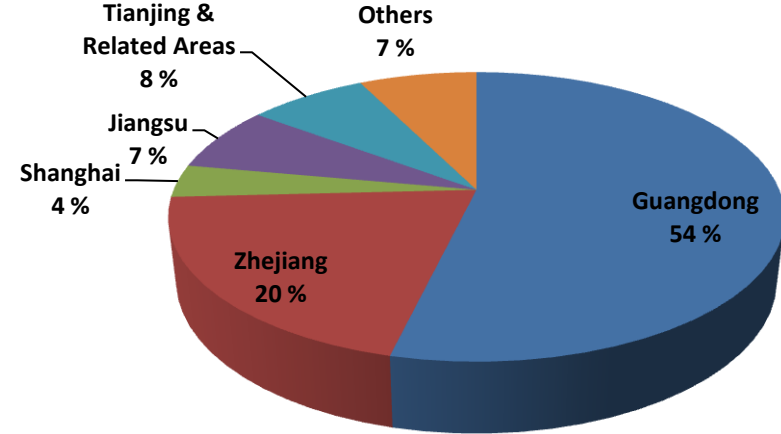


	Guangdong	Zhejiang	Shanghai	Jiangsu	Tianjing & Related Areas	Others
■ 2009	72359460	700798576	50893985	283826225	39766083	153199049
■ 2008	45159018	556603488	36982172	224044806	37342537	105853595

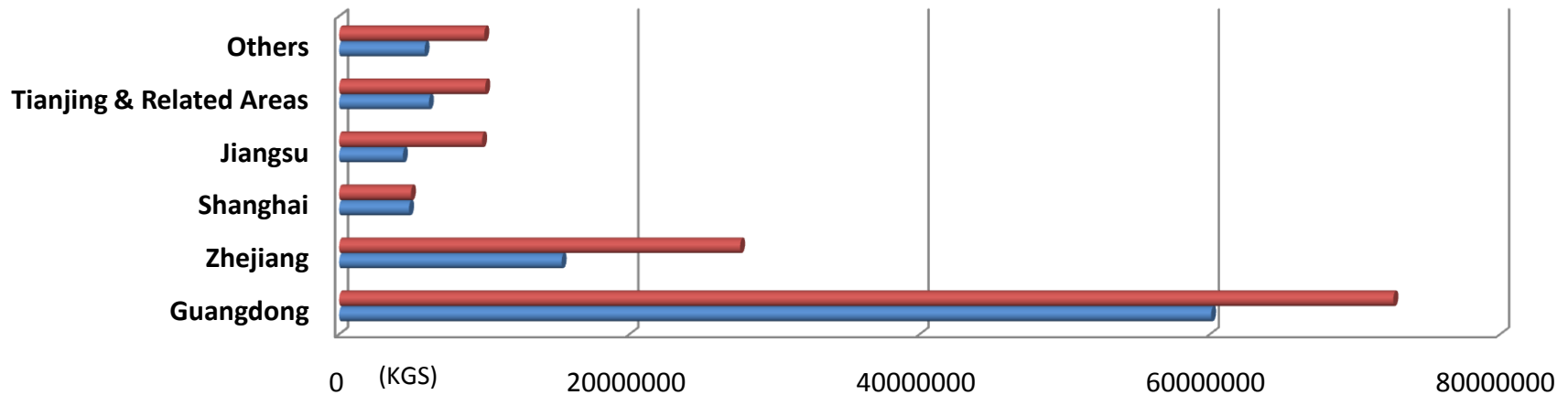
PS Plastics Scraps Imports in 2008



PS Plastics Scraps Imports in 2009

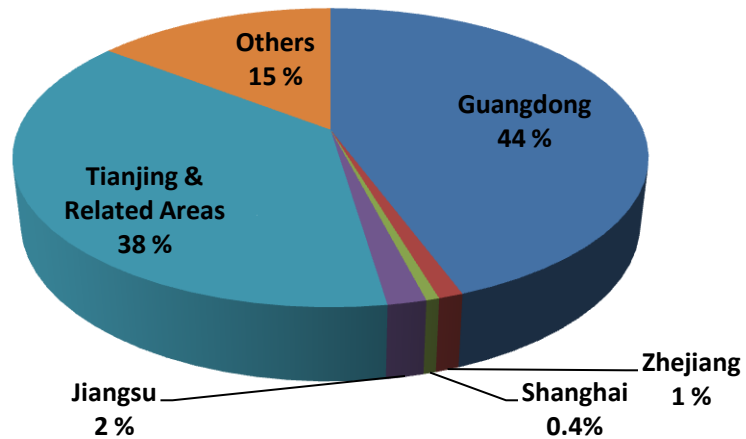


Contrast of 2008 and 2009

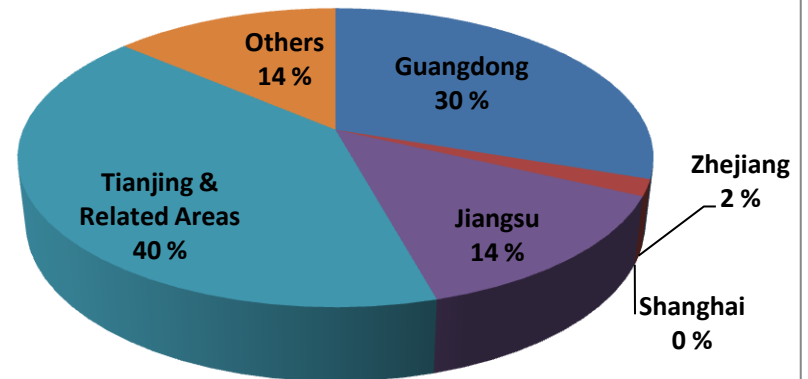


	Guangdong	Zhejiang	Shanghai	Jiangsu	Tianjing & Related Areas	Others
2009	72641968	27629415	4948850	9852464	10064791	9998233
2008	60086300	15329196	4815509	4393793	6184284	5883852

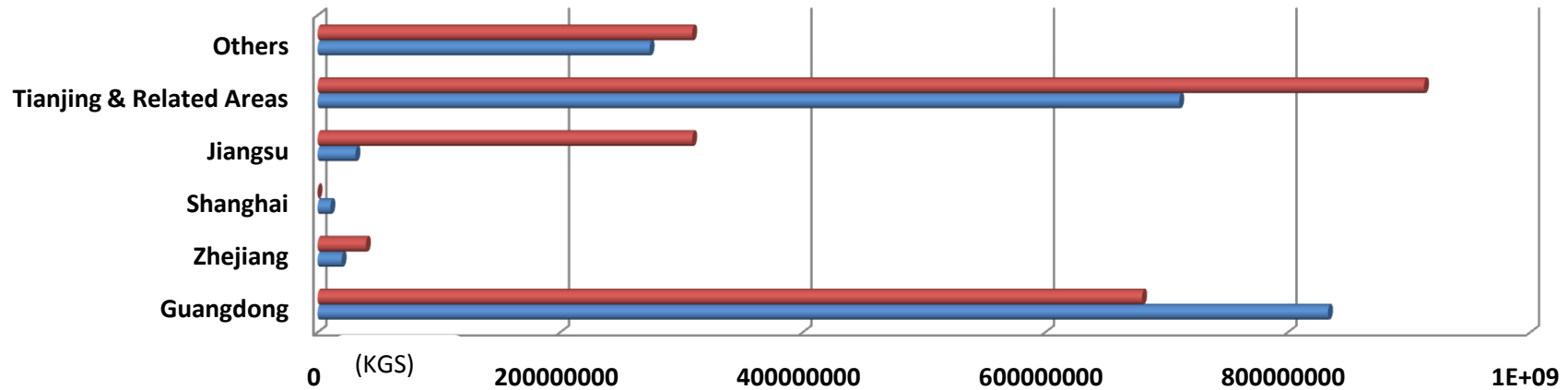
PE Scraps Imports in 2008



PE Scraps Imports in 2009

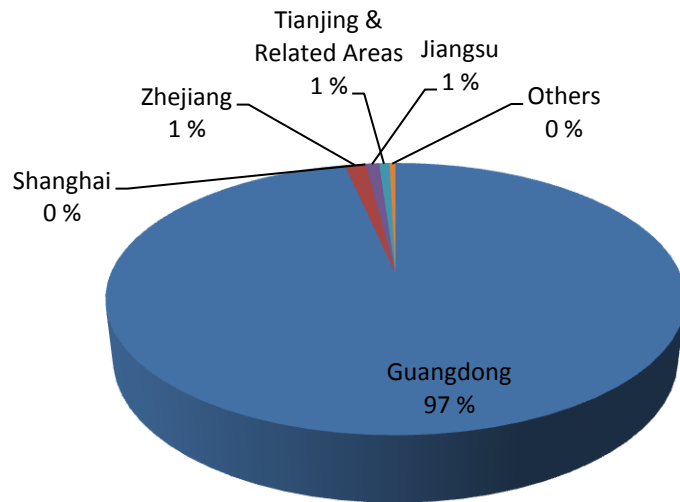


Contrast of 2008 and 2009

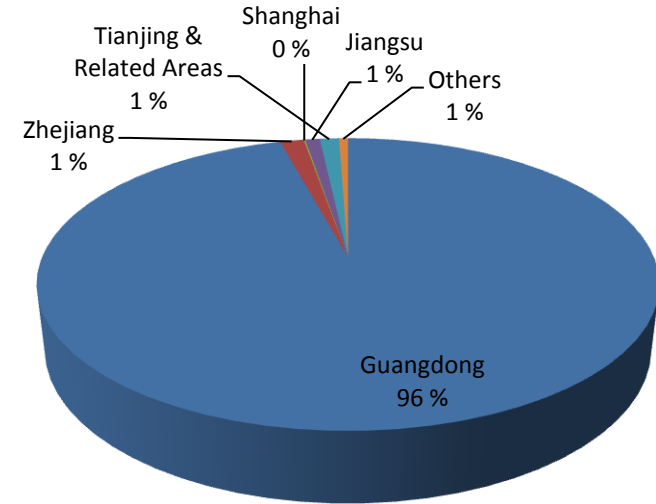


	Guangdong	Zhejiang	Shanghai	Jiangsu	Tianjing & Related Areas	Others
■ 2009	679944559	39875542	0	308933974	912483349	308933974
■ 2008	833290334	19882631	10563247	31272270	710595860	273786575

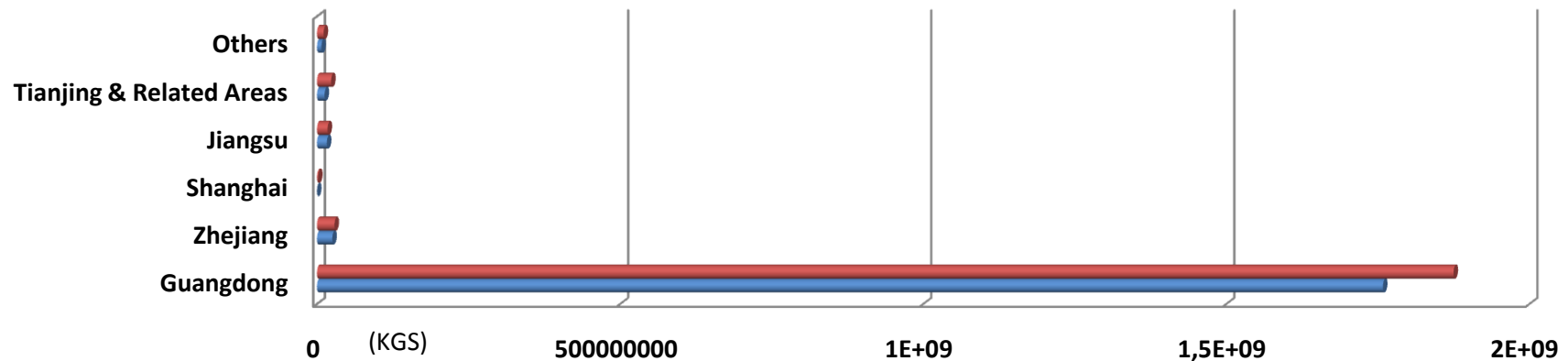
PVC Scraps Imports in 2008



PET Scraps Imports in 2009



Contrast of 2008 and 2009



	Guangdong	Zhejiang	Shanghai	Jiangsu	Tianjing & Related Areas	Others
■ 2009	1875011299	28891337	1934296	17538013	23376127	10945281
■ 2008	1758522734	25334953	0	16343328	12574938	7294969

Ni-Met Proposed China Operations SWOT Analysis

Strengths

- Backing of a global commodities trading company
- Presence in several countries
- Management has 35 years of experience
- Large and developed portfolio of products
- Already has a presence thru a representative office
- Knowledge of Chinese market
- Have a current client list
- Posses ISO Certification and AQSIQ [QC Certification from Chinese Government]

Weaknesses

- Unfamiliar with Chinese import policies & regulations
- Cultural barriers, unfamiliar with Chinese social protocols
- Management is Indian dominated
- No prior experience in operating a warehouse and maintaining inventory

Opportunities

- Market for recyclables is growing
- Lack of foreign companies in China
- Who stock material in own warehouses
- SME's looking for such suppliers
- Larger Chinese corporations looking for developed contacts in commodities such as nickel
- Possibility to make additional margins by servicing SME's

Threats

- Chinese companies going international - competition
- Similar international companies entering the market
- Sudden change in Chinese regulations
- Exchange rates controlled by Chinese government - currency fluctuation threat
- Commodity price fluctuations could lead to large losses when holding material

6 Conclusion

Based on the research conducted, interviews conducted, objectives of Ni-Met and various other internal and external factors, several valid points need to be considered by Ni-Met management when making the decision.

My recommendations given are based on various factors that the management should consider when making their final decision.

I have summarised by results as stated below:

Type of Company:

Based on the responses received from the management stating since they already have a representative office in Shanghai, they are looking at other options

The most obvious choice for Ni-Met is to establish a Wholly Foreign Owned Enterprise.

In a Wholly Foreign Owned Enterprise, Ni-Met has complete control over the inventory.

Since the management understands market forces, and wants to take advantage of price fluctuations and be able to sell to small enterprises to take advantage of premiums, this is the best solution. There will be no interference from any other company on decisions of this nature.

Demand:

As per my research from the import statistics, the largest region for import of scrap metal or scrap plastics is the Guangdong region. However, this region also has the most severe competition.

Further analysis shows that after the market crash of October 2008, the imports for metals fell drastically in the Guangdong region. However, the decline for the Tianjin and related areas were the smallest, and from this, we can conclude that the demand in this region will actually have a very healthy growth once the effects of the recession are gone.

According to independent research, the overall scrap metals market will grow by 9.1% compounded annually and scrap plastics will grow by 10% compounded annually.

There are no accurate figures on domestic collection of recyclables versus imports, but general consensus amongst the recycling industry is that China needs to import about 50 to 60% of its recyclables from overseas. The shortage exists and will continue to grow as demand for raw materials exceeds domestic collection or generation.

Demand Growth by Location:

Ni-Met's main focus in China is Nickel Scraps, Stainless Steel Scraps, Copper Scraps, PET Plastics Scraps and PE Plastics Scraps as stated by the management during the initial interview session. Of these, by value, nickel will constitute the largest.

The 3 main regions importing metal and plastic recyclables are Guangdong, Tianjin and Shanghai/Zhejiang areas.

On analysing the customs import data, nickel is chiefly imported into the Tianjin areas.

The market in Tianjin dropped very sharply in 2009, but is expected to rebound in the next one year. Stainless Steel Scraps are not separately identified in the customs import data, however, they will follow the same pattern as nickel.

Copper Scraps imports also reduced in 2009, however the rate of reduction was the lowest in the Tianjin area.

In plastics, imports of PE scraps in concentrated between the Guangdong and Tianjin areas. Unlike metals, the quantity imported in 2009 actually increased as compared to 2008 in Tianjin. Guangdong and Shanghai experienced sizeable decreases.

One important consideration is that Tianjin is one of the ports serving the region identified in the Great Western Development plan. As outlined in the report, this region will see a lot of development activity and the requirement for metal and plastic resources will be tremendous in the future.

Another factor to be considered is cost – Tianjin and the outlying areas surrounding Tianjin are not as developed as Shanghai or Guangdong province. The cost of operating a facility around the Tianjin area will be much lower than either Shanghai or Guangdong

On analysing the quantity demand growth numbers by location, my suggestion to the management is

1st choice for location: Tianjin and surrounding areas

2nd Choice: Guangdong

Applicable Government Rules/Regulations and Factors Affecting the Decision:

Based on the research I have conducted and information gathered, the following key points need to be noted by the management:

Most importantly, the demand in China will continue to grow by a large volume. The National Government has made it clear that China needs to be the final destination for all recyclables.

The National Government has announced the National Sustainable Development Strategy. This will greatly increase the role of organised companies servicing the recycling markets.

The new regulations for AQSIQ applications will discourage small companies/traders. This will greatly benefit companies like Ni-Met.

The National Government has clear objectives on developing the Western China region.

My recommendation to Ni-Met is to open a Wholly Foreign Owned Corporation, servicing the Western region through Tianjin. This will help Ni-Met capture a growing market and will help them achieve their financial and market share objectives.

List of References

<http://www.socialresearchmethods.net/tutorial/Colosi/lcolosi2.htm>

*Ms. Susanne Hempen, 2005. Status and Trends of Residual Waste Treatment in Germany. [PDF-File]. [Referred to 28.01.2010] Available:
www.orbit-online.net/orbit2005/vortraege/hempen-doc.pdf*

*Mr. Baijun Li, Strong Growth in Chinese Recycling Markets, published on April 28, 2009, [Online-article]. [Referred to 01.03.2010] Available:
<http://bccresearch.wordpress.com/2008/08/06/strong-growth-in-chinese-recycling-markets/>*

*Baijun Li, Recycling Market in China, published in July 2008, [Online-article]. [Referred to 01.03.2010] Available:
<http://www.bccresearch.com/report/ENV009A.html>*

*Alex Pasternack, In China, Recycling by Tricycle, published on 12.15.2007, [Online-article]. [Referred to 01.03.2010] Available:
http://www.treehugger.com/files/2007/12/china_urban_recycling.php*

*Dan Levin, China's Big Recycling Market is Slagging, published By New York Times on 11.03.2009, [Online-article]. [Referred to 19.03.2010] Available:
<http://www.nytimes.com/2009/03/12/business/worldbusiness/12recycle.html?pagewanted=all>*

Announcement No. 21, 2008 of AQSIQ on the Proclamation of the List of the First Batch of the Overseas Enterprises Supplying Waste Raw Materials Imported Whose Registration Qualification are Written-off or Cancelled of 2008, published by General Administration of Quality Supervision, Inspection and Quarantine

*of P.R.C. on 2nd July 2009, [Online]. [Referred to 23.03.2010]
Available:*

http://english.aqsiq.gov.cn/PolicyRelease/LatestPolicies/200907/t20090708_121120.htm

China Western Development, Wikipedia, [online]. [Referred to 27.03.2010] Available:

http://en.wikipedia.org/wiki/China_Western_Development

*China Western Development, Strategy, Wikipedia,[online].
[Referred to 27.03.2010] Available:*

http://en.wikipedia.org/wiki/China_Western_Development

Sino-Foreign Equity Joint Venture, [Online-article]. [Referred to 20.11.2009] Available:

<http://www.chinaorbit.com/china-economy/china-joint-venture.html>

*Sino-Foreign Cooperative Joint Venture,[Online-article].
[Referred to 20.11.2009] Available:*

<http://www.chinaorbit.com/china-economy/joint-venture-in-china.html>

Wholly Foreign-Owned Enterprise,[Online-article]. [Referred to 20.11.2009] Available:

<http://www.chinaorbit.com/china-economy/china-wfoe.html>

Registration of a RO in China,[Online-article]. [Referred to 20.11.2009] Available:

<http://www.chinaorbit.com/china-economy/china-business/registration-of-a-ro-in-china.html>

http://www.fdi.gov.cn/pub/FDI_EN/default.htm

www.ni-met.com

www.ccic.com

<http://www.greenbiz.com/blog/2009/01/14/pet-project-cokes-big-recycling-plant>

http://www.thecoca-colacompany.com/presscenter/nr_20090114_bottle-to-bottle_recycling.html

<http://www.urrc.net/new/pdf/PlasticsNews-webpage.pdf>

Franklin R. Root, Entry Strategies for International Markets, Californi: Jossey-Bass Inc. 1994 Chapter 1

Hague, Paul N., Business to Business Market Research-Market Research in Practice, Kogan Page Limited 2004

Appendix I: Question Answer for the Initial Interview

[1]Question:

Please clearly outline the reasons why you are considering adding to your presence in China. There is already an office in Shanghai, so why are you considering additional presence?

Answer:

China is increasing its demands for secondary raw materials [scrap]. This increase is due to the rapid industrialization as well as the growth in manufacturing for local and overseas markets.

Till recent years, Chinese growth was largely due to exports: meaning, production was geared towards foreign consumers. Since the last 2 years, the Government in China has now changed the growth focus internally. It wants to increase domestic consumption and thereby induce growth.

Additionally, the Chinese government has also mandated that it will speed up the process of modernising the interior regions of China by increasing spending on infrastructure in these regions.

We, at Ni-Met believe we are in a unique position to take advantage of this opportunity.

The representative office in Shanghai is not equipped to enable us to take advantage of these opportunities. According to Chinese law, a representative company can only facilitate business; it cannot conduct business in its own name. If we are to grow, we need a different form of an office in China

Therefore we want to analyse the situation, view the growth opportunities available to us and then determine the suitability of a new location and a new form of enterprise.

[2]Question:

In the decision making process, are you restricted to the choice of offices that you are looking at: meaning are you looking at the new office having the same roles and responsibility or are you considering increasing responsibility allocation?

Answer:

Absolutely, we definitely want to increase responsibilities and exposure in China.

In the secondary markets [scrap markets], there are 2 scenarios peculiar to our market in China:

Companies importing our cargo are normally not the end users, they are just trading companies. They are just the importers of record due to the fact that they have an import license. They normally sell the goods even before the shipment arrives to end users.

In our markets, there are a lot of smaller end users who do not want to buy entire shipments, but demand smaller quantities. These users pay a premium of about 5% over market rates.

Historically, our trading margins are in the region of 5%. We are looking at a scenario where the Chinese trading company makes about 5% on high seas sales of entire shipments and a further 5% if they are able to break up and sell to smaller end users.

This is a total of 15% in margins as compared to our current 5%.

[3]Question:

Since you mention margins, can you clearly outline your objectives in terms of % growth and also in terms of increasing profitability for the company.

Answer:

We feel there is a potential to achieve:

Growth in sales: 1st year of operations – 30-40%

Each subsequent year – 25%

Profit margins:

1st year of operations – increase margins from 5% to 7%

2nd year onwards – increase and stabilise from 7% to an average of 11%.

[4]Question:

It appears that the top management has given some thoughts to this issue. If yes, can you share some details with me on the internal discussions you have had so far?

Answer:

Yes of course. We have definitely had internal high level discussions within the company about how we look at the development of the Chinese market and increasing our presence within China.

All of the stakeholders, the senior management, are universal in their opinion that

China is potentially the largest market for us and for us to take advantage of the new opportunities presented by the developing

regions of China, we need additional and a different type of presence.

We are seriously considering a ware housing operation – a first for our company.

The 3 areas we have discussed as a possible location are: Shanghai, Guangzhou and Tianjin.

We have the financial ability to take on this venture, hence this is not an issue. We will want to maintain the current ownership of the company.

[5]Question:

Have you also discussed what are the types of target companies for future growth? Are you looking at small, medium or large enterprises as your focus for future growth?

Answer:

We believe that our main growth will come from 2 types of companies:

The first of course is the small to midsize company – a midsize company generally has the required volume but does not have the resources to buy directly from overseas.

A small company does not have the volume or the resources to buy from overseas. Both of these type of companies will be our main growth focus. We provide an invaluable service to these companies.

The second growth area will come from large companies that wish to benefit from our connections. Large companies in China

are now focussing overseas, buying companies, entering into large annual contracts etc

A company like this can definitely use our connections.

Appendix II: Balanced Scorecard

In course of my thesis, I have identified certain problem areas as well as achieved a good understanding of the measures necessary to judge the performances in various areas.

The attached Balanced Scorecard will be an useful tool for the senior management to monitor the performance against specific and identified targets and measures. As with any appropriate BSC, it contains financial and non-financial objectives, measures and targets associated with the main activities required to implement the strategic expansion that Ni-Met is planning.

	Objectives	Measures	Initiatives
Financials	<ul style="list-style-type: none"> ● growth in sales ● growth in margins 	<ul style="list-style-type: none"> ● achieve a 30-40% growth in China sales in first full year of operations of warehouse, 2nd and 3rd year achieve a 20% compounded growth ● achieve a 2% increase in margins, 2nd year - achieve a 4% growth and maintain the increased margins 	<ul style="list-style-type: none"> ● open warehouse and hire appropriate sales and management staff, extent the target group to SME ● sales staff develops customer base
Customers	<ul style="list-style-type: none"> ● create a customer base of small and medium end user enterprises who will buy from the warehouse ● create a customer base of large corporates that need our developed relationships 	<ul style="list-style-type: none"> ● create a base of 40 small and medium end users for metals and 10 for plastics ● create relationships with 3 large end users in nickel and 3 in mill scale 	<ul style="list-style-type: none"> ● sales staff will advertise/market /announce in respective geographical areas to small and medium end users ● The GM of the new operations to be responsible for the relationships with the large corporate.
Internal Business Processes	<ul style="list-style-type: none"> ● understand Chinese culture and way of doing business ● Understand Chinese import regulations and develop relations with concerned government officials ● Improve productivity 	<ul style="list-style-type: none"> ● one member of senior management team to be comfortable by end of year2 ● one member of senior management team to be comfortable by end of year2 ● general manager to outline daily/weekly work completion requirements 	<ul style="list-style-type: none"> ● senior management will appoint one member of senior management team to specifically undertake both task ● management team to develop training programs to enable employees learn available tools – eg: using excel
Learning & Growth	<ul style="list-style-type: none"> ● establish a control system ● learn about the requirements for the interior regions 	<ul style="list-style-type: none"> ● achieve a 99% accuracy between inventory on books and inventory on hand by end of year 2 ● achieve a good understanding of the growth potential and various government projects & incentives 	<ul style="list-style-type: none"> ● establish a computerized system of stock control that is interfaceable with HO system for 100% visibility and appoint a responsible warehouse manager ● one member of senior management team along with General Manager to be responsible for market information and data.

