CHINA

Fastest growing economy in the East

Derek Soper

OPPORTUNITY and risk go hand in hand in China, which has not escaped the problems and losses associated with developing markets. The sheer size of the market and its potential drew an initial flush of investors. During the late 1980s and early 1990s, Japanese leasing companies and a few Europeans were the first to establish joint-venture leasing companies with local partners.

Their rationale was to establish generalist leasing companies following what they perceived as tacit encouragement from the Bank of China. Against this background and what they thought was a good understanding of the local market, they proceeded to do business with the state-owned industries.

Unfortunately, their perceptions could not have been more wrong. In fact, the Bank of China was only giving them a nod to welcome the idea of inward investment, with leasing providing funding to local companies, albeit most of them state owned. For years these new funding sources failed to be concerned that most of the local state-owned companies were operating at a loss, and that the government had no intention of supporting them in the long term. The result was a disaster. Most closed shop with a sense of unfairness haunting their failures.

However, disasters in the market did not stem or change the need for manufacturers to find sources of funds to enable their People's Republic of China customers to buy equipment. There was very little local liquidity in the money markets in the mid to late 1990s and the demand for an inward flow of funds to support sales was growing. China was holding talks with the World Trade Organisation with the intention of becoming a member as early

as possible. This meant rapid progress in trade reform, laws were being changed and the rest of the world started to understand the implications of China becoming a huge player in the industrialised world. Large amounts of funds started to head for the Chinese market.

The Chinese government gave priority to funding for infrastructure, particularly telecoms. It was at that time that US leasing companies, especially those supporting vendor partners or manufacturers, started to give China their attention. However, their business options were limited – no leasing licences were available for 100 per cent foreign-owned subsidiaries. Foreign lessors would need local JV partners and could not own a majority of the shares. IBM, AT&T Capital, GE and some others were busy forming close relationships with local Chinese partners, bolstered by the influence of their parent companies, which had been established in the Chinese market for many years.

A number of captive/JVs were formed at that time and continue to operate in the market with varying degrees of success. The ones that are doing the best are those which have navigated the substantial cultural differences among the various JV partners, not an easy thing to do for many Western companies. Some, which have been trading for a number of years, now feel that they have the skills and experience to manage a wholly-owned PRC subsidiary. GE and Caterpillar have applied for and been granted licences for 100 per cent subsidiaries. However, the licences require them to divest from the existing JV arrangements, which is not always an easy thing to do when the partners are well established and share long-standing connections.

Accepting cultural difference is something potential investors from the West must understand and learn to live with, if they want to avoid conflict in the future.

This, however, is not the only cultural difference that Western leasing companies must recognise. As they move into the market, which is becoming very competitive considering the high local liquidity, they must consider their position in the pecking order. It will be difficult for an AA or AAA-rated organisation to comprehend that it may not be competitive in the local market. Bound by the balance sheet constraints and borrowing ratios demanded by the Western rating agencies, Western leasing companies may be surprised to find their competitors adhering to quite different sets of rules and measurements. Western pricing is not always the same as China pricing.

The advent of full-ownership licences, the break-up of some established JVs, the reality of differing measurements of performance, lots of local liquidity, huge differences in culture – all are ingredients for a new and exciting market in what will be the largest economy in the world in the next five years. While risk accompanies opportunity in China, lessors, known for their entrepreneurial spirit, will undoubtedly embrace the excitement and challenges ahead.

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COMMERCIAL VEHICLES

Caution needed

According to Glass's Information Services, the continued strong performance of the UK's used commercial vehicle market could be undermined if more vendors seek to achieve unsustainably high prices for their stock. Problems will inevitably arise if the cost of nice, late-year stock reaches the point when, after reconditioning cost and a sensible margin of profit is added in, dealers would need to retail these vehicles at figures close to the discounted cost of a new example. The more switched-on trade buyers are commenting on just how expensive used stock has become.

LEX TRANSFLEET

Brewing deal

Lex Transfleet has renewed a contract with Young's Homebrew which extends the contract hire agreement between the companies to twenty five years. The contract is for the provision of five 7.5 tonne box body MAN trucks with Sleeper cabs.

UK CONSUMER CREDIT

New rules for lenders

The new regulations introduced on 8 June will tighten up credit advertising, introduce a standard way of calculating the APR for credit cards and mean that when an APR appears in an advertisement, it will always have to be more prominent than all the other financial information. They also introduce a new signature box for consumers to sign if they are purchasing additional insurance products on credit. The changes will apply to credit advertisements from 31 October 2004 and to all new agreements from May 2005. The new rule setting out what a lender can charge when an agreement is settled early will apply to existing agreements of up to ten years from May 2007. For loans over ten years it will apply from May 2010. The lender will also have to set out three representative examples of how much it would cost a consumer to settle a loan early, if the lender intends to charge.