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being prepared to put up with it and just turned back and returned to China.”

Milan Hovorka, vice-minister of industry and trade of the Czech Republic, was apologetic in a meeting hall in the impressive trade ministry building in central Prague.

“I don’t have any particular information about this case but there must be some misunderstanding. We would like to improve our visa system and be more welcoming,” he said.

He says one of the problems was the Schengen visa system under which countries like the Czech Republic are seen as a weak link in people getting entry into western Europe.

“We have set up a special department that can help business people and companies from China obtain a fast visa,” he added.

Most CEE countries trading with China have huge trade deficits. Poland, one of the major countries in the region, imported goods worth \$7.49 billion from China, five times the level of its exports of \$1.51 billion to China in 2009, according to China’s General Administration of Customs.

It is a familiar pattern across the region. Bulgaria’s China imports of \$600 million were more than four times its exports the other way.

Hungary’s imports from China were \$5.34 billion, more than three times exports of \$1.47 billion to China. As for the Czech Republic its imports of \$5.02 billion were 4.5 times its exports of \$1.13 billion.

The only European country to have a trade surplus with China was Germany, with China importing \$55.7 billion of goods and exporting just \$49.9 billion.

Maris Elerts, deputy director of the Investment and Development Agency, based in Riga, says the problem for small countries like Latvia is having sufficient volumes of trade to be of sufficient interest to China.

It exported just 25 million euros of mainly scrap copper and aluminum as well as timber products to China and imported goods worth 300 million euros, giving it a significant trade deficit.

“The issue is that entrepreneurs from China want large volumes and companies in Latvia — because of the size of the economy — cannot supply these.

“This sometimes means that entrepreneurs on our side often have to cooperate with Lithuania, Estonia and even with Poland to put together the volumes.”

Elerts is particularly keen for Chinese companies to consider investing in warehousing and distribution centers and even building port terminals in Riga. Currently Chinese investment in the country is less than 1 million euros, mainly made up of those running Chinese restaurants.

“There is land available they could rent for 50 years to build terminals. Latvia has the potential to be a major distribution hub for China. It takes



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Ren Hongbin, vice-president of the Chinese Academy of International Trade and Economic Co-operation.

just 14 days by rail to transport goods via Kazakhstan to Riga,” he adds.

Ivan Hodac, the Brussels-based secretary-general of the European Automobile Manufacturers Association, says Chinese car manufacturers can take advantage of CEE markets in a way that was not available to Japanese and South Korean car companies when they were expanding into Europe a generation ago.

“It would have been almost impossible for them to invest in this part of the world because it was behind the Iron Curtain and had no purchasing power. The Japanese invested in the UK and France instead,” he says.

He believes a number of car companies will follow Great Wall’s example and set up manufacturing plants in CEE countries.

“I think over time it will be a necessity. When you look at central and eastern European countries they are still unsaturated compared to western Europe. The cost of production is lower and they are close to markets with big potential such as Russia and the Ukraine.”

Hyl, the organizer of the forum, believes the relationship between CEE countries and China can only grow.

He believes the region provides a vital bridge to western Europe and also many investment opportunities for Chinese companies wanting to develop their operations.

“To buy a company in the Czech Republic, for example, would be much cheaper than in Germany and if their motive was acquiring technology, it would be of at least an equivalent level to that in western Europe,” he says.

Consumers get a nudge with credit to spend more

By ANDREW MOODY

The Chinese government wants its people to spend more and save less so it can become a consumer-driven society less dependent on selling exports to foreigners. For that to happen domestic consumers need to be confident enough to spend more on TVs, laptops, mobile phones, motorcycles and other goods.

A central European company is playing a major role in creating a consumer finance industry so people have the money to spend.

PPF Group, the Czech financial and investment company operating through its subsidiary Home Credit, is the only foreign-owned company to be given a license in China to provide small loans.

It is offering average loans of 2,050 yuan (\$322, 238 euros) available at 10,500 point of sale outlets across the country. The company has developed links with leading Chinese home appliance and electronic retailers like Gome and Suning and many other stores.

Pavel Vyhnaelek, group chief executive of Home Credit Asia, believes offering such credit to consumers will make them more confident of handling debt.

“Our customers are ones that don’t have any banking experience. If they use banks it is just for withdrawing savings,” he says.

“If they use finance for small ticket items it will be part of their education when they later apply to bigger ticket items such as a car loan or a mortgage.”

Home Credit China, which began operations in the country in 2007, has 3,500 employees and has so far provided 1.3 million loans.

Its customers are mainly young — some 80 percent are between 20 and 35 years old.

The company is one of the four companies, the others being Chinese, to be given a license by the China Banking Regulatory Commission (CBRC) to operate a consumer finance company.

It has a license to operate in Tianjin, the northern coastal city and is able to operate under a trust arrangement in other areas of the country, including Guangdong and Chongqing.

Home Credit is keen to operate nationally, however, and the CBRC is currently reviewing licensing arrangements.

“We are now in discussions with the CBRC and are awaiting what the decision will be as far as the consumer finance company license rollout will be,” adds Vyhnaelek.

PPF was established in 1991 by Petr Kellner, one of the richest men in the world with a \$9.2 billion fortune, according to the latest Forbes list.

The 47-year-old who largely made his fortune out of the privatization of the Czech economy is the group’s major shareholder.

The group is the largest privately-owned investment group in central and eastern Europe and owns a number of businesses including El Dorado, the largest consumer electronics retailer in Russia.

Home Credit has proved a major success and now operates in seven countries. It has 27 percent of the consumer market in Russia and some 21 million customers there.

The company believes it can play a major role in China, where migrant workers often save up for months to buy goods and have no access to credit cards that people in Western markets take for granted.

They often fall prey to loan sharks charging astronomical interest rates and who come knocking at the door if loans are unpaid. “That is something we never do,” says Vyhnaelek. “A customer may get a text if a payment is overdue.”

The key strength of the business and one of the reasons it has been granted a license in China is its proven track record of assessing risk in emerging markets, where there is little in the way of credit databases.

Home Credit can make loan decisions within 25 minutes while the customer waits at a point of sale and its “Credit Factory” in Shenzhen, where its back operations are based, can process up to 100,000 loans a day.

“We have been in Russia for more than seven years and have collected sufficient data so we can offer a different price to customers based on individual scoring,” adds Vyhnaelek.

Home Credit plans to work in China with Tesco, the UK supermarket chain which is now one of the biggest foreign retailers in the country.

It has linked up with the company in the Czech Republic, assisting them in providing personal finance products in their stores, including loans and credit cards.

Lucie Hadaricova, financial services manager of Tesco Czech Republic and Slovakia, says one of the problems of developing the business in China was no one company had a nationwide consumer credit license.

“We could replicate our Tesco Financial Services brand in China and it is under discussion. The final decision will be taken locally, however,” she says.

Vyhnaelek says organized gangs tried to defraud the company when it was first launched in China but by the end of last year fraud levels had been drastically reduced.

At present the company approves 80 percent of loan applications in China and opening 1,000 new point of sales locations every month.

“The government in China sees the development of consumer finance as one of the key drivers to boosting domestic demand in the country.”



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PAVEL VYHNALEK
GROUP CHIEF EXECUTIVE,
HOME CREDIT ASIA



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Prague, the Czech Republic. China’s accumulated investment in the country was \$52 million up to last year.