

# Building New Business Opportunities for Businesses in Barbados

*The China/US/Barbados Nexus of Trade  
Creating Angel Investor Networks  
&  
Attracting US Investment*



EMBASSY OF THE UNITED STATES  
BARBADOS & E. CARIBBEAN

# The China/US/Barbados Nexus of Trade

- Given Barbados' location it has its best opportunity by playing a trade facilitation role for trade coming to the United States from China.
- The Services Sector offers the greatest opportunity for Barbados to play role in the *trade tsunami* between the US and China

# US China Bi-lateral Trade in Goods and Services

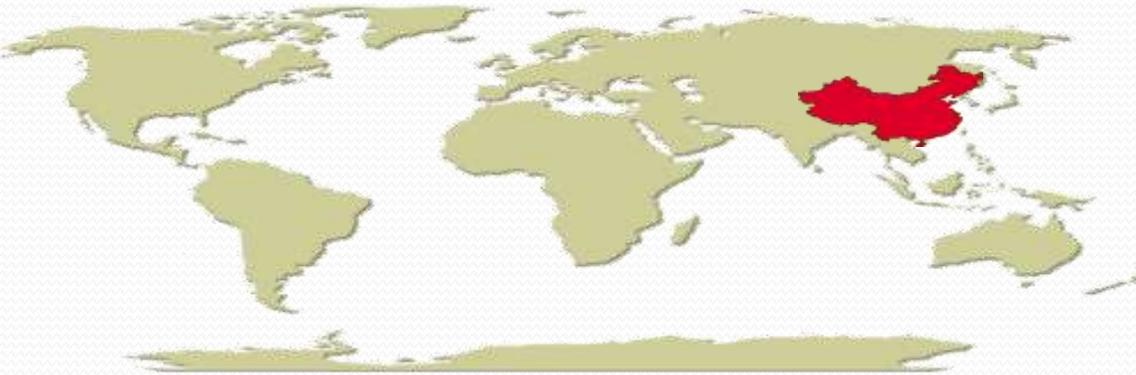
	2005	2006	2007	Percent Change 2006 - 2007
<b>TOTAL</b>	<i>In Billions Dollars</i>			
<b>Chinese Exports to the US</b>	<b>243</b>	<b>287</b>	<b>323</b>	<b>12.60%</b>
<b>US Exports to China</b>	<b>42</b>	<b>55</b>	<b>65</b>	<b>18.10%</b>
<b>Total Bilateral Trade</b>	<b>285</b>	<b>342</b>	<b>388</b>	<b>13.45%</b>

# Chinese Companies Are Making Acquisition hoping to Become MNCS



Chinese companies are making acquisitions in EU and US in order to gain several things

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- Similar to the transformation the Japanese companies underwent in the 70's/80's, major Chinese players are now expanding into US, EU and Japan
  - Chinese government is actively promoting the “going out” strategy and loosening exchange controls to promote such activities



# What Chinese Firms Are Looking For....

- **Market access:** Able to bypass EU and US restrictions
- **Consolidation economics:** Can close US factories in favor of existing low-cost China base
- **Brands:** Purchase Western brands rather create new brands
- **Channel/Distribution:** Purchase existing base of customers and sales & marketing experience
- **Intellectual Property:** Purchasing patents, technology and organizational know-how
- **Fixed assets:** Vulture investing in distressed US assets

# Recent High-profile Acquisitions

- ❖ TCL bought Schneider
- ❖ Haixin bought Glenoit
- ❖ D'Long bought Murray
- ❖ Sampo bought Grundig
- ❖ Huayi bought Moltech
- ❖ Wanxiang buying UA
- ❖ Techtronics bought Royal Appliance
- ❖ China NetCom bought Asia Global Crossing



# The Opportunity

- While the larger players have already begun acquisitions medium sized firms flush with dollars and ambition will need help
- Barbados is uniquely situated to play a facilitation role in helping manage mergers and acquisitions
- Chinese companies also need back office and service support for ongoing concerns
- Larger Indian and US outsourcing firms now play this role for many successful Chinese companies
- Barbados located service providers could play this role as well

# Opportunity Continued

- Reverse Mergers offer a strategic opportunity for Barbados
- Purchasing distressed publicly listed companies in industries already dominated by Chinese manufacturers
- This provides access to much need operating capital for expansion, but also access to human capital – e.g. HR, Accounting, Sales and Distribution.
- Barbados has the human capital available to help make such reverse mergers a success

# Opportunity Continued

## Market Data Points

- More than fifty PRC companies are currently listed on foreign stock exchanges
- The aggregated market capitalization of just the top 10 PRC companies listed on U.S. stock exchanges is more than \$361 billion.

## Benefits: Reverse Merger vs. IPO

- The company does not need an underwriter
- List time is much shorter
- Lowered market instability risk, protecting up-front investment
- Company requirements are generally lower
- Requires less time investment from upper management
- Ownership valuation usually higher than IPO
- Significantly reduced costs

# STANDARD OF LIVING

- Wages in cities and towns
  - National average US\$1,620 per year
  - In Beijing US\$3,550 per year
  - In Shanghai about 4% lower
  - In Guangzhou about 5% higher
- Average wages of JV, RO, or other foreign enterprises
  - General position US\$6,000-18,000/year
  - Supervisor US\$10,500-18,000/year
  - Manager US\$12,000-30,000/year
  - Upper Management US\$20,000- Sky's the Limit/year

# BUSINESS PROCESS

- Distributor (foreign based or locally based)
- Service Center (“joint”)
- Representative Office (“joint”) \*
- True Joint Venture – manufacturing
- WOFE – Whole Owned Foreign Enterprise

*\*The Likely Option For Most Barbados Centered Businesses*

# COMPLEXITIES OF OFFICES

- Set-up
- Location
- “Employees”
- Uncontrollable expenses
- Funding
- Convertibility of foreign currency to RMB

# TYPICAL COST FOR R.O. SETUP

- Registration fee - US\$100
- FESCO service fee - US\$850
- “Stamp” cost - US\$55
- Code number setup - US\$55
- Foreign Exchange Control Bureau fee - US\$55
- Bank account setup - US\$55
- Tax bureau registration fees - US\$105
- TOTAL COST - US\$1,275
- TOTAL TIME - 6 months
- Renewal cost (after 3 years) - US\$575

# SETTING UP OF REPRESENTATIVE OFFICE

- Application of foreign enterprise (a lot of paperwork)
- Beijing Administration of Industry & Commerce and State Administration for Industry & Commerce issue “Registration Certificate of Foreign Enterprise’s Permanent Office in China” and “Representative Certificate of the Representative Office”
- Registration of office address
- Registration with Foreign Taxation Branch of State and Local Taxation Bureau to open bank account

# DOING BUSINESS IN CHINA

- Patient
- Understand the process
- Find good partners
- Hard work
- Long hours
- Good products or Services
- Lucky
- Good business



# Creating Angel Investor Networks

- Angel networks are characterized by an affiliated group of qualified investors that pool their resources, expertise and due diligence to fund high-growth potential, high-risk business ventures.
- The profile of a typical angel investor varies, but they tend to be successful and semi-retired, but still very interested in business mentoring and making money.
- Also of great importance is that they are accredited investors, according to the regulations of the countries in which they operate.



# Angel Activity in the U.S.

- Angel Investors in 2007 invested a total of \$26 billion, up roughly 2% from the previous year
- Making this class of investors the largest source of seed and startup capital for companies in the U.S.
- 57,120 entrepreneurial ventures received angel funding in 2007, a 12 percent increase from 2006.
- There were 258,200 individuals who were active Angel Investors in 2007

# Angel Investor Success Stories

- Sandpiper Networks, which helps publishers deliver content via the internet was purchased for \$630.5 million in 1999 and is now owned by Cable and Wireless, the company was originally funded by an Angel Network in San Diego California
- Google's very first outside investor in 1999 was an Angel Investor named Ron Conway – Google now has a market capitalization equal to that of Toyota
- Starbucks Coffee was funded by Angel investors in 1987 with 100K and grew from a 65 employees to 22,000 employees in 10 years

# Creating an Angel Network in Barbados

- Can Barbados support an Angel Network?
- Are there potential investors that....
  - Have track records managing and building successful companies either as entrepreneurs or operating executives.
  - Are experienced in investing, leading due diligence, structuring investments, and coaching entrepreneurs.
  - Form an extensive peer network of domain expertise and contacts for subsequent funding, talent and technology.
  - Can dedicate significant time and effort to Angel activities, including attending dinner meetings and screening sessions, mentoring entrepreneurs and serving on committees.
  - Agree as individuals to invest in at least two member-led investments per year.
- If yes, then Barbados has the requisite foundation to support an Angel Network

# Creating an Angel Network in Barbados

- In Barbados bringing these individuals together will require the support of both Government and Civic Originations
- Government support may include early seed funding to cover administrative support and meeting facilities
- Civic Organization's like BIBA and the Barbados Chamber will need to partner with the Angel

# What Do Investors Get Out Of It

- Investors get to make money
- Semi-retired members get to stay active in business without having to work full-time
- The competitive milieu of picking winners and helping them succeed
- Helping young entrepreneurs succeed
- Building a stronger economic base for the local economy

# What Do Civic Business Organizations Get Out Of It

- Support for the local community and a chance for members to give back
- Increased standing in the community
- Increased membership as successful companies grow
- Building a stronger economic base for the local economy

# What Does The Government Get Out Of It

- Supporting high-growth opportunity businesses creates jobs
- Successful companies lead to greater capital accumulations and higher standards of living
- Profitable high-growth companies increase tax revenues
- Helping young entrepreneurs succeed
- Building a stronger economic base for the local economy

# Attracting US Investment

- All countries have home bias when it comes to investments, this is particularly the case when it comes to equities and securities
- Can Firms in Barbados overcome the home bias of U.S. investors in order to attract more US investment
- What is the role of the Government of Barbados in increasing U.S. FDI
- What are the Areas of Opportunity

# U.S. FDI Flows

FDI Inflows In Billions				FDI Outflows in Billions		
	2006	2007	% Change	2006	2007	% Change
United States	242	237.5	-1.9	241.2	333.3	38.2
OECD Total	1045.1	1369.2	31	1206.6	1817.9	50.7
United States as Percentage of Total OECD FDI Flows	23%	17%		20%	18%	

# US Trade and Investment Background

- The U.S. is the largest source of FDI from the OECD investing \$333 billion in FDI last year
- U.S. investment covers virtually every product and service category of trade
- US FDI into Barbados is lower than one would expect give the size of the trading relationship
- The Barbados trades more with the US than all of Caricom accounting for over 35% of Barbados total trade volume

# Barriers to increased FDI from the U.S. Overcoming the Home Bias

Major factors include:

- Information Asymmetries
- Low Visibility
- Difficulty Monitoring
- Perception of Lower credibility of Accounting Data
- Perception that there is a marked difference in accounting standards
- Pressure by the government to take on domestic partners for investment

# Role of the Private Sector

- A recent Harvard study showed that listing local firms on US exchanges increases institutional investment in those firms and raises the visibility of the country at large
- Actively seek to bring U.S. partners to the region not just Barbados
- Pressure Government to raise the visibility of Barbados as an investment opportunity among non-traditional investors

# Role of the Government

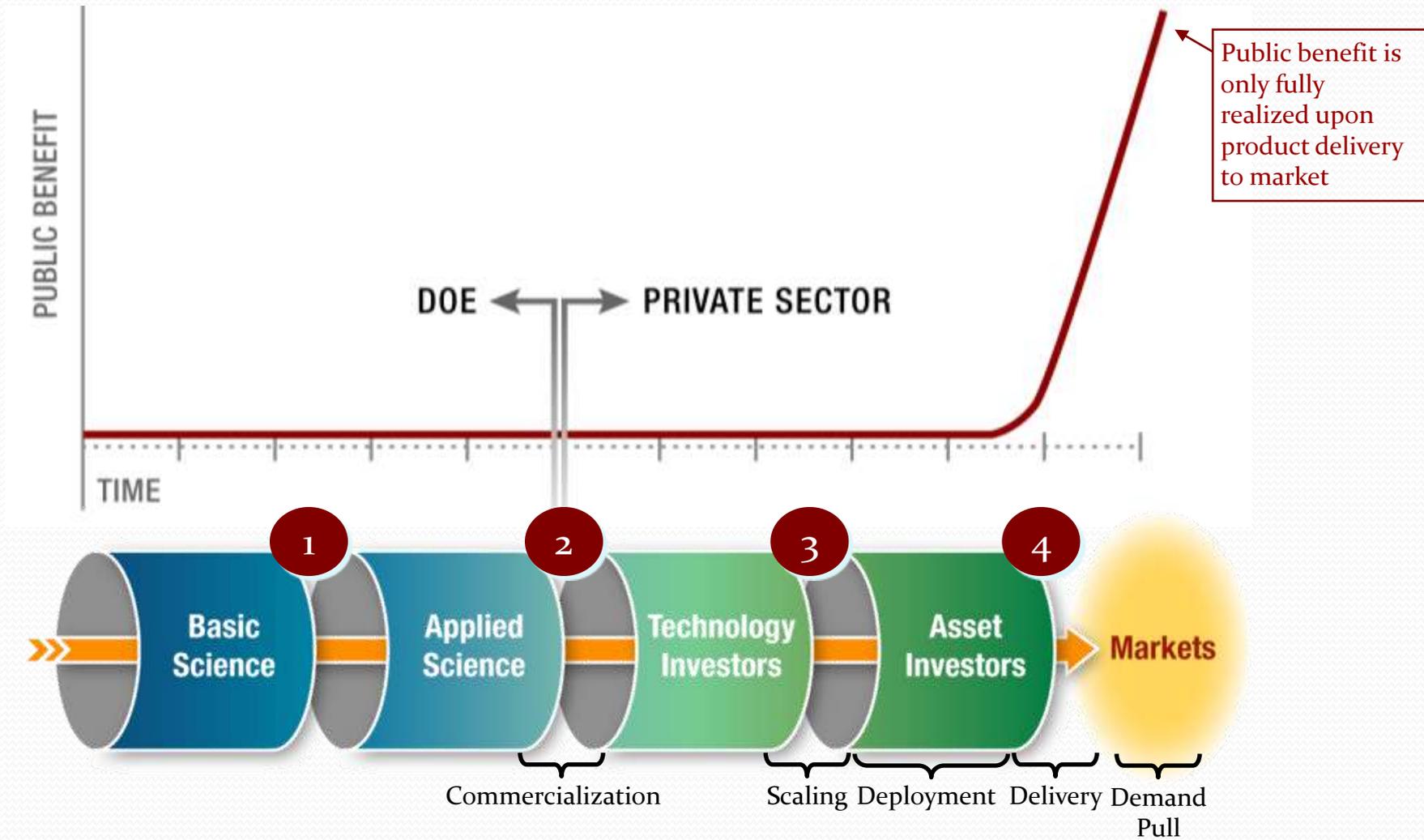
- Lower the barriers to entry by
  - Removing protections for local firms
    - I.E. move to a trade promotion high-growth strategy like Singapore instead of a walled garden approach to trade
  - Provide incentives for larger companies to invest in Barbados
  - Invest more in transportation infrastructure particularly at the port
  - Seek strategic partnerships with U.S. technology companies to bring solutions to the challenges face by the entire region

# Regional Hub for the Eastern Caribbean

- Barbados has the potential to become the regional hub for trade in the Eastern Caribbean
- Creating a free-trade processing zone could allow Barbados to leverage its strengths in the services sector by acting as a regional trade integrator and facilitator
- Become the sales, distribution, service and maintenance **Partner Of Choice (POC)** to U.S. firms
- I.E. solve the problems that the entire region faces in not being a big enough market to attract major MNC investment by becoming the **POC** for the region and reduce their costs of business in the region

# Area of Opportunity

- Promote renewable energy partnerships with U.S. technology firms to bring their products to the entire region
  - Act as regional sales, service and distribution center for key new technologies
  - The USG has invested more money into renewable energy and alternative energy research than the entire EU, China and Japan combined
  - A raft of new technologies and companies are ramping up production backed by billions of dollars in Angel and Venture Capital investments



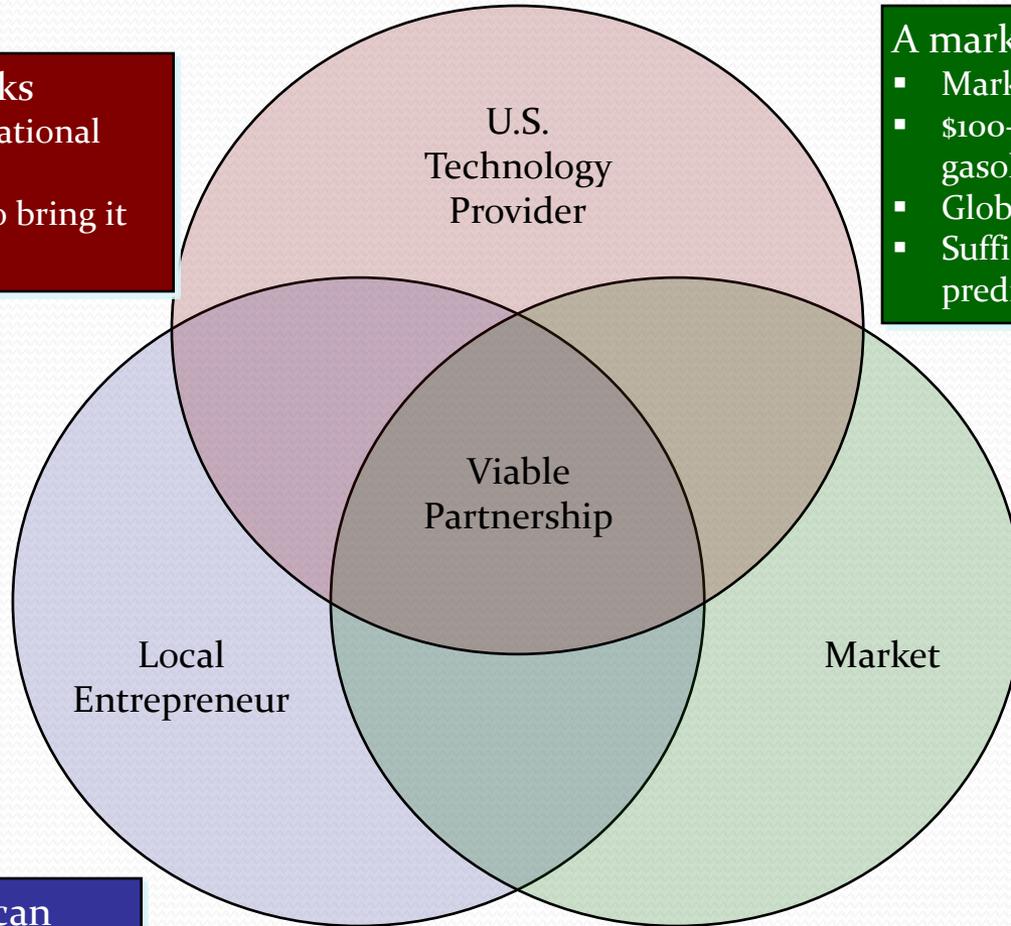
# Success Story

## U.S.' Suniva and India's Titan Energy

- Suniva's cutting edge high efficiency solar cells are competitive with commercial electricity generation rates
- India's Titan Energy signed a \$480 million agreement to use Suniva's solar cells in their locally produced photovoltaic arrays
- The partnership makes Titan the technology and generation cost leader in India

### A technology that works

- Based on research at national labs
- Needs local partners to bring it to the region



### A market ripe to sell into

- Market ready for clean energy
- \$100+ oil, \$12 natural gas, \$4 gasoline
- Global climate change
- Sufficient degree of policy predictability

### An entrepreneur who can execute

- Build business plan
- Assemble management team
- Raise capital



# Thank you

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