

## **Sporting Goods----Research in Opportunities, Challenges and Countermeasures for AFTA**

### **An Example of Chinese sporting goods IPO enterprises**

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**Abstract.** By means of research methods, including documents, online inquiry and logical reasoning, the thesis analyzes the current situations of Chinese sporting goods IPO enterprises and the opportunities and challenges they encounter when marching into ASEAN Trade Area. Then it can be concluded that Chinese sporting goods IPO enterprises are required to take full advantage of trade associations to vigorously conduct market researches, enlarge internal investments, pay ample attentions to avoid superfluous distribution and cutthroat competitions, implement "going-out" enterprise strategy, accelerate industrial upgrading and industrial transfer, increase investments in research and development, highlight brand marketing and strengthen enterprise competitiveness, providing component departments with sufficient evidence to make macro decisions.

In January, 2010, with China-ASEAN Free Trade Area co-established by China and ten countries from ASEAN, all member countries are available to "zero-tariff" free trade, in other words, all countries within this area have gotten rid of their own "threshold" and products and capitals from these countries can be imported and exported free of barriers, which vitalizes ASEAN trade. In addition, with 1.7 billion costumers and a total trade volume of 1.23 trillion dollars, this free trade area proves to enjoy the largest population and area all over the world. With constant trade liberalization and broad cooperations in economy and technology, Chinese sporting goods enterprises will surely embrace precious opportunities and severe challenges. On one hand, abundant natural resources and cheap labor resources from ASEAN countries will bring Chinese sporting goods enterprises with considerable convenience and huge business opportunities to implement multinational capital, goods and labor service exchanges within the area. On the other hand, since Chinese sporting goods industry turns out to share more and more similarities with that of ASEAN countries in industrial structure and product mix, narrow complementary business spectrum exists. Besides sporting goods business accounts for a small proportion in the total volume of bilateral trade. Therefore it is imperative for Chinese sporting goods enterprises to figure out how to make the best of their own resources and advantages, reinforce complementariness of product mix and industrial trade with ASEAN and occupy the ASEAN market as soon as possible.

### **Analysis of Current Situations of Chinese Sporting Goods Ipo Enterprises**

With struggling development, a group of listed companies who are capable of independent research and development, design, purchase, manufacturing, logistics and marketing, have emerged among Chinese sporting goods enterprises. Currently listed Chinese sporting goods companies include Chinese Kappa, Lining, Anta, Xstep, 361 and Peak. Global financial crisis in 2009 altered the structure of world financial industry and brought tolerable vibrations to China's sporting goods industry. Adjusting strategies to enhance domestic market development, expand sales network and strictly control costs immediately, with constant efforts, in 2010, they have disrupted the dominant position of Nike and Adidas in domestic mainstream market successfully, enabling domestic sporting brands springing up rapidly.

Excellent cost performance of domestic sporting brands has won popularity in the market

Since people's overall purchasing power declines and consumption concept and habit change by a large margin after the global financial crisis, with low price and high cost performance, domestic sporting brands turn out to be hits in the market naturally. Costumers' upsurging enthusiasm for purchasing contributes to soaring of sales volume, sales amount and operating profit.

Rapid expansion of the sales network of domestic brands drives the sales to increase.

Due to global financial crisis, order for foreign products swoops while in order to reduce impacts brought by global financial crisis, domestic sporting goods enterprises have adjusted strategies promptly to expand domestic market share and increase sales outlets. For instance: the number of Anta's exclusive shops has increased from 5667 at the end of 2008 to 6000 in May, 2009. According to the schedule of 361°, the number of its sales outlets will increase from 5925 to over 6900 by June in 2009. By contrast, the number of Adidas's regular chains increased from nearly 1000 in 2007 to 1332 in 2008, an increase of over 300. As far as Chen Shixin is concerned, statistics reveal that rapid expansion of outlets can propel domestic sporting brands to increase sales amount intangibly. For example, if another 600 Anta outlets are opened within half year (provided they account for 10 percents of the total outlets), the sales amount of Anta can enjoy an increase of 10 percents in the following year or even during the rest of the year.

During participations in the overall process of industrial chain, domestic IPO sporting goods enterprises possess huge advantages.

Engaging themselves in products research and development and design, raw material purchasing, manufacturing, logistics and marketing, Chinese sporting goods enterprises prove to participate in the overall process of the value chain and obtain profits at every link of the value chain, improving company's profitability; however, only responsible for product research and development and brand management and outsourcing other links, including manufacturing and marketing to other countries, internationally famous brands, including Nike and Adidas, occupy in the high ends of the industrial chain and the parts with the highest added values. Under the impacts of global financial crisis, world economy falls into recession and people's purchasing power weakens. Therefore sporting goods produced by less famous companies turn out to be the first choice of costumers and a "domestic brands up while foreign brands down" phenomenon emerges.

### **Opportunities Brought by Asean Trade to Chinese Sporting Goods Ipo Enterprises.**

Implementation of Agreement on Commodity Trade of CAFTA reduces the import and export cost.

To implement *Agreement on Commodity Trade of CAFTA* means that products and services from all member countries can be imported and exported smoothly and freely with "zero-tariff", which vitalize trades between different member countries to a large extent. With the barriers for Chinese enterprises to cooperate with ASEAN members eliminated, Chinese sporting enterprises should make full preparations to march into ASEAN member countries as soon as possible and make use of their advantages to achieve early entrance so that opportunities can be grasped in the development of ASEAN trade area.

Unprecedented opportunities brought by ASEAN trade to Chinese IPO sporting goods enterprises to implement "go out" strategy.

With large population bases and rapid increase in population, countries from ASEAN possess huge demands for sporting goods, the vast of majority of which turn out be satisfied by importing due to heavily insufficient domestic products. Since the establishment of ASEAN trade area, preferential policies have come into force, bringing unprecedented opportunities. In recent years, countries from ASEAN have enjoyed political stability and bilateral political and economic relations have achieved remarkable development, which lay a solid foundation for Chinese sporting goods enterprises to "go out". In addition, it is the local tolerable infrastructure and Asian-Chinese residence, excellent investment environment and rich natural and labor resources that pave the way for Chinese sporting goods enterprises to march into ASEAN market. At present, ASEAN countries universally attach a large number of attentions to attract foreign capitals<sup>[1]</sup> and spare no efforts to provide preferential policies from the perspective of management, examination and approval system, industrial policy and tax policy. Therefore broad prospects are available to China to implement "going out" strategy in this region.

Manufactured by ASEAN, products from Chinese IPO sporting goods enterprises will avoid trade barriers and reduce trade conflicts when exporting to European and American markets.

Since America and European Union still consider China as a country with nonmarket economy, once charged of dumping, Chinese enterprises have to hand in antidumping taxes according to the tax rate pertain to countries with nonmarket economy. ASEAN countries, including Singapore,

Philippine, Indonesia, Malaysia, Cambodia and Thailand prove to be not only the members of WTO, but also countries with recognized market economy. To invest and establish factories in these countries, when exporting products to European and American countries and regions, Chinese brand sporting goods enterprises can avoid trade conflicts and sanctions given by some countries due to universal declines in price domestic enterprises during their competition for exporting markets. Besides since China turns out to be recognized by ASEAN trade member countries as a country with complete market-oriented economy, Chinese enterprises can participate in international market via ASEAN member countries. At the time when European and American countries say "no" to flooding superior products from China, including sports suits and shoes, Chinese sporting goods enterprises can set up factories in ASEAN countries to avoid trade barriers.

### **Challenges Brought By ASEAN Trade to Chinese Ipo Sporting Goods Enterprises**

Intense competitions exist between China and ASEAN in world sporting goods exporting market.

- China and ASEAN share considerable similarities in world sporting goods exporting market. When exporting to world sporting goods market, China and ASEAN are sharing more and more similarities with each passing year, which indicates that fierce competitions present between China and ASEAN in world exporting market and are gradually developing as time goes by. It is in 2004 when the fiercest competitions between China and Indonesia and Thailand emerged with the similarity index reaching over 70 percents which tended to decrease in the following years.
- China and ASEAN share considerable similarities in exporting to European and American sporting goods market. With Europe and America as the major exporting destinations for ASEAN, it is typical to research the exporting reliability of China and ASEAN on European and American sporting goods market. From the end of 20<sup>th</sup> century to the beginning of this century, the similarity index of China and ASEAN in European and American sporting goods market has been increasing with each passing year, demonstrating intense exporting competitions exist between the two parties. In 2004, their similarity index in exporting to Europe and America began to show a steady decrease in that both the two regions aim to vigorously develop middle and low-end products, which will be more and more conspicuous with the establishment of China-ASEAN Free Trade Area. Several ASEAN countries suffer from poor stability and regularity in national industrial policy and potential risks exist.

Some ASEAN countries prove to establish immature market mechanism and implement ever-changing policies, resulting into great risks for Chinese enterprises during economic cooperations. It requires Chinese enterprises who aim to implement multinational operation to choose partners meticulously among the ten ASEAN countries, play safe, avoid blind advances, strengthen management and training of foreign personnel and improve multinational operation capability. In addition, since failures to adhere to local laws and customs will result into boycotting emotions or worse consequences, it proves to be much more complex for Chinese multinational enterprises to invest abroad than domestically, which requires them be equipped with multinational operation and investment experience and comply with local laws and customs to win supports from local governments.

### **Countermeasures for Chinese Ipo Sporting Goods Enterprises to Cultivate Asean Trade**

When investing in ASEAN, Chinese IPO sporting goods enterprises should take the disadvantages of industrial investments into considerations to avoid improper distribution and cutthroat competitions.

With sporting goods as labor-intensive industry, Chinese sporting goods enterprises share no difference with ASEAN in industrial structure and market distribution. Intense competitions emerge between the two parties in that they possess the same exporting destinations. Therefore it requires Chinese enterprises to invest and establish factories in countries with weak sporting goods industry, try to guarantee a remarkable edge over industrial structure, implement differentiation marketing. In the meantime, they should attach emphasis to brand marketing, expand brand reputation and cement and expand brand effects by optimization and combination so that new development in an increasingly identical market can be achieved.

Chinese IPO sporting goods enterprises can implement "localization" operation in ASEAN.

In order to attract foreign investments and capitals, some ASEAN countries, such as Vietnam, prone to provide some "supernational treatments" and implement preferential policies even superior to domestic residents in tax and importing tariffs (tax preference means that overseas-funded enterprises can enjoy tax reduction and exemption within a certain period. Importing tariff preference refers to tax exemption of machines, equipments and raw materials used by overseas-funded enterprises themselves). To formulate and implement these policies is beneficial to its industrialization and passing the preliminary stage when labor-intensive products are urgently needed in domestic market. As for Chinese sporting goods IPO enterprises, to invest in ASEAN mainly aims to avoid European and American special safeguard measures and export to Europe and America via ASEAN. Concrete measures are as follows: (1) to establish factories, manufacture and purchase in local regions. (2) to set up factories in local regions and import domestic raw materials to satisfy host country's manufacturing demands. It can not only improve local employment rate, but also contribute to localization of Chinese domestic brands, enterprise culture and research and manufacturing, make it easier to sell products in host countries or export products to Europe and America via host countries.

Chinese IPO sporting goods enterprises should conduct market researches before implementing "localization" operation.

In order to implement "localization" operation, Chinese enterprises must learn the specific conditions of all countries, conduct market researches so that precise and immediate decisions can be made and blind investments can be avoided. For instance, considering cheaper labor and means of production, abundant labor force supply and numerous preferential policies for foreign capitals in Vietnam, by means of cooperations, Chinese enterprises can invest and establish factories, implement sporting goods manufacturing and marketing and carry out industrial transfer and structure adjustments to reduce costs and cement competitiveness. By transferring low-end products to Vietnam, domestic enterprises can put limited resources in high-end products to intensify research and development, branding and marketing and improve the added values and international competitiveness of the products. Meanwhile the employment problem in input countries can be solved, local revenue increased, industrial structure optimized and industrial size expanded. All these measures are in favor of marketing and competition in third market for both. In addition, as a member of ASEAN, Vietnam proves to be imposed few restrictions when exporting products via other countries, including Laos, Cambodia, Burma and Thailand. Therefore to strengthen cooperations with Vietnamese enterprises will contribute to a successful expansion to other ASEAN markets.

To sum up, it is imperative for Chinese enterprises to upgrade and relocate industries in the light of constantly increasing industrial costs due to "Migrant Worker Shortage". Consequently they are required to take full advantage of the preferential policies in "Agreement on Commodity Trade of CAFTA" to relocate industry, expand ASEAN market, outsource production links with low added values to ASEAN regions with low labor costs and abundant raw materials, implement industrial investment and transfer, increase investments in research and development, branding and marketing, upgrade industry, try to form remarkable edges over industrial structure and enforce differentiation marketing. In the meantime, they should attach emphasis to brand marketing, expand brand reputation and cement and expand brand effects by optimization and combination so that new development in an increasingly identical market can be achieved. Therefore it requires Chinese sporting goods enterprises to make the best of their own advantages and resources, strengthen structural complementariness with ASEAN and industrial trades and occupy ASEAN market as soon as possible.

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