

Macroeconomics analysis of starwood hotels in china



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For a long time China was considered to be leading civilization in the world arts and sciences. However in the 19th and early 20th centuries China underwent civil unrest, famines, and military defeats. After World War II, China under Mao Zedong underwent an autocratic socialist communist system. In order to assure China's power and control he forced strict rules and regulations over everyday life of the people that cost the lives of millions of people. In 1978, Deng Xiaoping came into power and he began to change the country by creating and directing a market oriented economic development. This caused the market to quadruple by during the year of the millennium. The Chinese population living standards had been improved and there had been severe improvement in the choice of freedom. But political control still remained very tight. Since 1990 China has increased its participation in international organizations due to globalization and economic factors. (Factbook, 2010) 6

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Executive summary

Current project represents analysis of the macroeconomics environment in China (including SWOT and PESTLE analysis). We have also analyzed already existed hotel chain within the country, from the investors point of view due to invest into the future projects of the hotel chain to support the economy of China. After cooperative search of the hotel chain, we decided to choose Starwood Hotels and Resorts. We believe that the already existed number of the hotels can increase rapidly, also bring advantages and positive impacts on the country's economy. The demand for hotels is great in especially in the Asia-Pacific region, where the pace of economic recovery is faster. Starwood can capitalize on this trend as its international exposure is wider than most of the other hoteliers. Around 60% of the company's 85, 000-room pipeline is to be built in Asian markets. Moreover, Starwood continues to see a healthy level of development activity in Asia, where 18 out of its 39 new deals have been signed so far in 2010. Revenue per available Room Rate growth was

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46% in China in 2010. Presently, China is driving the recovery in global tourism and, by 2020, it is expected to be the world's largest tourism market. Since, the company is targeting various Chinese cities where the company is under-penetrated. We expect Starwood to considerably benefit from this strategic expansion.

China's exchange rate policy has been a contentious issue in the global economy, particularly between China and the West. The West has long criticized China for keeping the Yuan at an exceptionally low value. They claim China enjoys an advantage position due its manipulated lower Yuan value, as it makes China exports cheaper. The US president, Mr. Obama, accused China of being a currency manipulator during his early days in office. The Western world believes that China had pegged the value of the Yuan to the dollar. The Yuan's value has not fluctuated from its current value of ¥6.83 to the dollar since July, 2008. China denied Obama's claim and resisted pressure from him to raise the Yuan's value. When China recorded an 11.9 percent growth rate in the first quarter of 2010, many countries believe it would be fair to share the growth of the economy by appreciating the Yuan. However, China did not find any reasons to do so then.

It is well known that China accumulates vast quantities of foreign exchange reserves as part of its strategy for routing the yuan exchange rate, and that it prevents the US, Japan or the European Central Bank from retaliating by prohibiting foreigners from investing in any significant yuan assets. One solution that would not break any international commitments would be for the US and Japan to declare that they will henceforth only allow the sale of their public debt to countries whose public debt US and Japanese residents

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are also allowed to buy and hold. Chinese has adopted a free-market strategy unlike the communist form of economic in the Marxism-Leninism Theory. Having lesser state-owned enterprises and encouraged foreign investment has helped to raise living standards in China. However, the political structure of China might not work in European countries, North America and other highly developed countries. This is because the political structure still lacks freedom of the people, which countries that are more advanced would not like. The party control over the state is rather tight when comparing itself to the democratic countries.

Trade policies can hurt or help an economy. Though allowing cheap Chinese exports flood the market permits consumers to purchase services or goods at low prices, some argue this trade relationship depends on the U. S. debt problems with China.

Background Information:

For a long time China was considered to be leading civilization in the world arts and sciences. However in the 19th and early 20th centuries China underwent civil unrest, famines, and military defeats. After World War II, China under Mao Zedong underwent an autocratic socialist communist system. In order to assure China's power and control he forced strict rules and regulations over everyday life of the people that cost the lives of millions of people. In 1978, Deng Xiaoping came into power and he began to change the country by creating and directing a market oriented economic development. This caused the market to quadruple by during the year of the millennium. The Chinese population living standards had been improved and there had been severe improvement in the choice of freedom. But political control still remained very tight. Since 1990 China has increased its participation in international organizations due to globalization and economic factors. (Factbook, 2010)

Travel in China ¼} Hotels and Accommodation

More than 5, 200 hotels in China accommodate foreign visitors, with a total of 700, 000 guest rooms and 1. 41 million beds. These hotels are rated according to established international star-rating standards. By the end of 1997, there were 2, 724 star-rated hotels in the country, including 57 five-star hotels, 157 four-star hotels, 895 three-star hotels, 1, 339 two-star hotels and 276 one-star hotels.

The tourism industry in China is one of the rapidly growing industries in the country and also has a very competitive edge. The total revenue of China's

tourism industry reached \$ 67 billion in 2002, which equals 5.44% of the GDP.

Inbound Market: The total number of inbound tourists was Mio. 91 in 2006, and that of tourists staying overnight was 32.7 million, about 10 times of the number in 1980. International tourism receipts were USD 17.4 billion in 2003. China's ranking for both the overnight tourist arrivals and tourism receipts were among the world's top five in 2003. However, there is unlikely to be a big increase in the inbound tourism market.

Domestic Market: China's domestic tourism market makes up more than 90% of the country's tourism traffic, and contributes more than 70% of total tourism revenue. In 2002, domestic tourists reached 878 million and tourism revenue was USD 46.9 billion. The five-days-per-week and long vacation schemes have increased leisure time for the Chinese people and spurred market demand in domestic tourism and led to its prosperity.

Outbound Market: A large middle class population with strong consumption power is emerging in China, especially in major cities. China's outbound tourists reached 20.22 million in 2003, overtaking Japan for the first time. Currently there are 65 countries/areas open to Chinese tour groups. Putting aside the threat of Sars and other unexpected events, based on the current economic growth situation and the social development of China, China's outbound tourism is poised to achieve a new growth peak.

Hotel: Driven by the flourishing tourism industry, China's tourist hotel sector is expanding rapidly. At the end of 2003, China had a total of 10,093 tourist hotels and more than 820,000 rooms. 773 of these tourist hotels were
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foreign-funded. The number of foreign-funded (inclusive of Hong Kong, Macau and Taiwan investments) four- and five-star tourist hotels made up 26% and 30.02% of the national total, respectively.

Travel Agencies: In 2003, there were a total of 11,522 travel agencies in China, among which, 1,349 were international ones and 10,203 were domestic ones. While overall tourism market concentration rose, there was a drop in the market position of the traditional three key travel agencies. As competition heightened, China's tourism industry on the whole, had begun to start earning low profits, even while it was expanding its scale of operations.

Tourist Attractions: Currently, there are approximately 15,000 natural, cultural and man-made places of attraction which are above county level. Presently, Hong Kong investors are the main participants in the establishment of tourist attractions in China. In 2001, Sichuan became the first province to propose renting out the operation rights of 10 scenic areas to foreign investors.

According to the plan by China National Tourism Administration, the number of inbound tourists, foreign exchange earnings from tourism and the domestic market size are targeted to have an annual growth of 4%, 8% and 8%, respectively, in the next five to ten years. It is also forecasted by the World Tourism Organization (WTO) that China's tourism industry will take up to 8.6% of world market share to become the world's top tourism industry by 2020.

PESTLE Analysis

Political

The Peoples Republic of China was founded in 1949 after defeat of the Kuomintang nationalist party during the civil war. Afterwards the leadership of Mao Tse-Tung administered the forceful implementation of his communist vision of society. During the Great Leap forward millions died due to the state controlled program over agriculture and industrialization. Mao's death in 1976 caused new leadership and economic reforms. In the early 1980's the government dismantled collective farming and allowed the privatization of private enterprises. The rate of economic change has not been matched by changes within politics. The Communist party still retains its domination on power and firm control over the people. Authorities still make sure that any opponents are immediately dealt with. (BBC. com, 2010)

Due to Chinas immense population, and the large country made it very difficult to rule the country from Beijing. The economic reforms in the 1980's and the decentralization of the government's decision-making, as well as local communist party officials enriching themselves made it extremely difficult for the government to affirm its authority among the population. The political power within China has become a lot less personal, but a lot more institutionally based than it was during the first forty years of the Peoples Republic of China. Deng Xiaoping was Chinas leader for a decade, however he never was the general secretary, premier of China, or the president.

Because today's leaders of China are much more restricted to their institutional base. Today's central government leaders have to progressively more and more approve and permit new policies among party members,

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local leaders, regional leaders, and the population. Nonetheless the Chinese government controls China through the control of information that is spread and revealed. China is considered by the Chinese communist Party to be at its preliminary stages of socialism. As China is in a major transition from public ownership in which a privatized ownership plays a very important role. The privatization of housing and the extended freedom of choice about education and employment weakened the Communist parties control over the Chinese society. Since the social, political, cultural, and economic changes of market reform are shaping to a certain extent there has been a new way of life created. However, a lot of Chinese remember the Cultural Revolution and fear that if the Communist party loses control there will be chaos, and due to that a vigorous system of control and monitoring is in place to make sure to withstand the emergent stress for political change.

Economic

Today China is one of the world's top exporters and is attracting record amounts of foreign investment. The collapse in international export markets that accompanied the global financial crisis of 2009 hit China extremely hard, but this did not matter as its economy was among the first in the world to bounce back and returning to growth.

As a member of the World Trade Organization, China benefits from access to foreign markets. But relations with trading partners have been tense due to China's huge trade surplus and the piracy of goods. Everyone is demanding the Chinese government to raise the value of its currency. This would make Chinese goods more expensive for foreign buyers and would therefore hold back exports, and that's why they have been very reluctant to make any <https://assignbuster.com/macroeconomics-analysis-of-starwood-hotels-in-china/>

changes. Some Chinese fear that the rise of private enterprise and the demise of state-run industries carry heavy social costs such as unemployment and instability.

Moreover, the fast-growing economy has fuelled the demand for energy. China is the largest oil consumer after the US, and the world's biggest producer and consumer of coal. It spends billions of dollars in perusing foreign energy supplies. There has been a massive investment in hydropower.

As China's economy during the past 30 years has changed from a centrally planned system that was for the most part closed to international trade to a more market-oriented economy. This caused the Chinese economy's private sector to grow rapidly and is a major player in the global economy. As mentioned earlier reforms started in the late 1970's with the end of collectivized agriculture, and expanded to include the gradual liberalization of prices, fiscal decentralization, increased autonomy for state enterprises, the foundation of a diversified banking system, the development of stock markets, the rapid growth of the non-state sector, and the opening to foreign trade and investment. Annual inflows of foreign direct investment rose to nearly \$108 billion in 2008.

In recent years, China has changed and readjusted its support for leading state-owned enterprises in sectors it considers to be very important to "economic security," clearly looking to foster globally competitive national champions. After keeping its currency tightly linked to the US dollar for years, China in July 2005 revalued its currency by 2.1% against the US dollar

and moved to an exchange rate system that references a basket of currencies. Cumulative appreciation against the US dollar since the end of the dollar measure was more than 20% by late 2008, but the exchange rate has remained virtually noted down since the beginning of the global financial crisis. The restructuring of the economy and resulting efficiency gains have contributed to a more than tenfold increase in GDP since 1978. Measured on a purchasing power parity (PPP) basis that adjusts for price differences, China in 2009 stood as the second-largest economy in the world after the US, although in per capita terms the country is still considered to be lower middle-income.

The Chinese government faces numerous economic development challenges. Firstly the reducing its high domestic savings rate and correspondingly low domestic demand through increased corporate transfers and a strengthened social safety net. Secondly sustaining adequate job growth for tens of millions of migrants and new entrants to the work force. Thirdly China is trying reducing corruption and other economic crimes, and containing environmental damage and social conflicts because of the to the economy's rapid transformation. (gov. library, 2010)

Social

According to the National Bureau of Statistics, China's employment stood at 774. 80 million persons at the end of 2008. Around 306. 54 million were employed in the primary industry, accounting for 39. 6% of the workforce. The secondary industry employed 211. 09 million individuals, representing 27. 2% of the total employed population. The employment figure for the tertiary industry was 257. 17 million, accounting for 33. 2% of China's

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workforce. The primary industry is involved in converting natural resources into primary products, most of which are used as raw materials for other industries. The secondary industry creates finished, usable products while another industry is involved in providing a service. Although the official estimates for China's unemployment situation seems to be very promising, this is not the case. While estimating the unemployment figures, the government only includes individuals who were registered with the Chinese Ministry of Labor. The registered unemployed belonged only to the urban regions. So, people residing in rural areas were not covered in the estimation of total unemployment. Even migrant workers, who went outside rural areas in search of work, are not represented.

Since the beginning of the Financial Crisis of 2008, the Chinese government has modified its estimation methods. Several officials toured across the country and tried to estimate the total migrants who were out of work. A survey conducted by the Ministry of Agriculture estimated that out of the 130 million migrants, 20 million were jobless. Another study by the National Bureau of Statistics raised the count of China's migrant population to 140 million. It further claimed that around 23 million were searching for employment. The Chinese Academy of Social Sciences also did a sample survey of 7, 000 people in mid-2008. The findings were in stark contrast to the official estimates and 9. 4% of the sample size was classified as unemployed. Going by the abovementioned data, China's unemployment scenario is grimmer than what the government figures may reveal. It worsened due to the global economic crisis in 2008. The Chinese

government needs to implement better measures otherwise China might be experience unrest, similar to the ones they experienced in 1989.

In 2010 China's unemployment rate came in at an incredibly low 4.1% for Q3, according to the Chinese government. But this means that only 9.05 million urban Chinese claimed to be unemployed in Q3. So, if 9.05 million is 4.1% of the urban workforce that means the total workforce is 231.7 million, by our calculations. But the total population of China is considered to be about 1.325 billion in 2008, according to the World Bank. In other words, China has hundreds of millions who aspire to join the party that's currently happening in the big cities. This constitutes a massive problem for Beijing. And thus although the economy is buzzing, the country is not in a position to slow its growth by revaluing its currency. (White, 2010)

Technological

With the economy of China growing rapidly, its technological advances are also moving in the same direction. Some would be familiar with China's fast developments in technology, the more well known examples are space travel, sequencing a rice genome and the large production of semiconductor chips. China's price competitiveness is also difficult for any other rival to beat.

However, most would agree that China's technology industry still lags behind somewhat. Possibly putting a damper on its developments are patenting and property rights issues. Piracy is rampant and generally not given a second thought by consumers. China's famous great (fire) wall also proves that censorship is still a big deal.

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During the last two decades of the 20th century, which roughly corresponds to China's opening towards the West, China's scientific and technological development, not to speak of its economic development, accelerated as China made a series of significant improvements in the following areas:

- A sound economic footing for the country, based on market-oriented economic incentives,
- An emphasis on high-tech R&D and its commercial as well as industrial application,
- A sharing of the research knowledge base not only within China's own burgeoning scientific community, but to an increasing extent, also with the outside world,
- A major reform of China's scientific and technological education system,
- A greater emphasis on basic, or fundamental (not primarily result-oriented), research,
- A deepening of China's technological prowess based on greater and more flexible technological exchange with the rest of the world, as well as on learning-by-doing,
- A cross-generational science and technology initiative combining experience with innovation,

· A liberalization of the laws and regulations that govern scientific discoveries and their potential application, commercial and otherwise, in order to further stimulate growth.

Legal

The Chinese employment system is based on Asian socialist and Northern European models. The Chinese system is a contract employment system. This means all employees must be engaged pursuant to a written employment contract and during the term of that contract, it is very difficult to terminate an employee. An employee can only be terminated for cause and cause must be clearly proved. This means the employer must maintain a detailed set of rules and regulations and must maintain careful discipline records to be able to establish grounds for firing. China does not really have the concept of a specific salary for an employee. The Chinese workweek is 40 hours and overtime must be paid for work exceeding the 40-hour limit.

1. Term of employment. Each employee must be hired to the terms of a written contract. After the initial contract term expires, you may re-hire the employee to a second fixed term contract. However, at the end of that fixed term the employee automatically will be converted into a employee with an open contract term. This means you have only one chance to hire an employee on a fixed term basis.

So determining the length of the initial employment term is critical.

2. Salary. As an employer one will need to provide a salary, and one should be able to convert that into an hourly wage.

One issue here is that in many parts of China, it is customary to pay the salary on a 13 month basis, with the final month paid just prior to the Chinese New Year. This is optional, but it is important to state clearly whether or not you will be using this approach. Many employees just expect this “ New Year’s Bonus” and a failure to pay it if it is expected can cause many problems.

3. Bonus. If you plan to have a bonus system for your employees, one should clearly state it within the contract.

4. Vacation. The rule on vacation for employees is as follows:

1st year: No vacation.

2nd year: 9 to 5 days.

10 to 19 years: 10 days

20 years or more: 15 days.

If you want to provide more vacation time than set forth above, we will need to specify.

5. Other benefits. If you plan to provide benefits beyond the statutory minimum one will needs to specify that. If one wants to provide a particular benefit to all of your employees, we should put it in your rules and regulations, and include them in the specific employment contract. As for example, China requires employees pay a portion of the employment

taxes/fees. Some employers pay that portion for the employee as an additional benefit.

6. On site security. As you will see, the Rules and Regulations have a detailed section regarding on site security.

7. Travel. If your employees will travel domestically or internationally, one should have a written travel expense policy.

8. Training. Will you be providing training for your employees? If yes, we should also develop a training agreement. Please advise.

9. Sign Off Agreement. Note that one should have added a “ Sign Off Agreement.” With this agreement, the employee acknowledges having received the rules and regulations and agrees to abide by those rules. It is important to get the employees to sign this so they cannot later claim not to have received it, which claim is frequently made at labor arbitration in China. (Law, 2010)

Environmental

Economic development has been more rapid in coastal provinces than in the interior, and approximately 200 million rural laborers and their dependents have relocated to urban areas to find work. One demographic consequence of the “ one child” policy is that China is now one of the most rapidly aging countries in the world. worsening in the environment – notably air pollution, soil erosion, and the steady fall of the water table, especially in the north – is another long-term problem. China continues to lose arable land because of erosion and economic development. In 2006, China announced that by 2010

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it would decrease energy intensity 20% from 2005 levels. In 2009, China announced that by 2020 it would reduce carbon intensity 40% from 2005 levels. The Chinese government seeks to add energy production capacity from sources other than coal and oil, and is focusing on nuclear and other alternative energy development. In 2009, the global economic downturn reduced foreign demand for Chinese exports for the first time in many years. The government vowed to continue reforming the economy and emphasized the need to increase domestic consumption in order to make China less dependent on foreign exports for GDP growth in the future.

SWOT Analysis

STRENGTHS

Investment opportunity

High growth numbers in all sectors

Growth - will be fully industrialized by 2020

Growth of 9.6% in 2010 and 8.5% in 2009

Government is committed to economic growth

National Resources

Rich reserves of natural resources

Large Population Base and Potential Customers

Large consumer base

Low cost of labor

Growing as a tourism destination

WEAKNESSES

Infrastructure

Railways, roads, communications and power supply are below European standards, however in regions like Shanghai or Beijing the infrastructure is at very high standards already

Traffic jams

Employees need customer service training

Energy consumption

Most energy is still being won through coal (Currently 60%)

This leads into environmental pollution

Pollution

Standards and rules have to be set to control the pollution

Education

200 million illiterates over the age of 15

Only 4.9% student enrollments to colleges and universities, which is below the 8% average of other developing countries

Average school time is only 6 years

Politics

Nobody knows how the political strategy of China will change in the future

OPPORTUNITIES

Direct Investments or Joint Ventures

China can profit from new technologies being produced directly in their country

Working together with global companies can increase the perception of China all over the world and open opportunities to new markets

New money coming into the country

Jobs being created

Demographic change

Larger middle class that would like to adapt the western way of life e. g. cars, houses, branded items, electronics and communication devices

THREATS

Politics

Lack of protection of intelligent property

Differences in human and work rights

Reporting and Accounting standards – corporate governance

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Lack of reporting standards

No transparency

Cultural differences and traditions

May cause misunderstandings

Government controlled media, censorship

Rising jobless rate

Currency

Starwood Hotels and Resorts

Starwood Hotels and Resorts – known as one of the largest hotel and leisure companies worldwide, with 1000 properties in nearly 100 countries; include following, luxury and upscale full-service hotels, resorts and residences:

St. Regis – individual design and individual approach of service delivery for business and leisure travelers.

The Luxury Collection – high standards and very unique experience.

W- luxury and very modern with stylish design, include best restaurants, bars, lounges with special and interesting entertainment programs.

Westin – offers the best , famous with “ Heavenly bed ” and “ Heavenly bath” , offers Spa in the room services.

Le Méridien – European (with a note of France) style and delicious cuisine.

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Sheraton- largest brand, offer: full service, comfort and special treatments for luxury, business and leisure travelers.

And following “ select-service hotels” : Four Points, Aloft, as well as extended stay hotels such as Element. By the end of 2009 Starwood leased (franchised) 979 hotels with 292, 000 rooms in 100 different countries , employed over 145, 000 people. 1st of April 2010 Starwood opened its 1000th property in China (Sheraton Qiandao Lake Resort) .

China and Starwood

Nowadays there are 155 properties (which in total gives a number of 51, 200 rooms) of Starwood all over Asia Pacific. (Starwood Hotels & Resorts Worldwide, Inc., 2011). The World tourism organization, announced China – world’s largest market for inbound and domestic tourism by 2015. According to the data and analysis of Starwood, China is being the most popular destination for the Starwood Hotels and Resorts. In 2010 with a help of Starwood special program “ Special Guest” (SPG) it was proved that China attracts a lot of visitors, and the SPG increased for 58 % compare to 2009. Due to this fact , China is being second (behind US) worldwide largest destination for Starwood hotels. Statistics showed as well that compare to the past years there is a big demand of Chinese travelers (50 % more) rather than Western. (Gigi Ganatra, 2011)

Since all the Starwood hotels are situated all over the China, Starwood believes that Chinese travelers will choose the brands they already know from home, what means that Starwood will bit the competitors.

The first hotel of Starwood in China was opened in 1985 in Beijing (The Great Wall Sheraton Hotel), nowadays there are over 60 (4* and 5*) hotels, moreover, there are 70 hotels under development. As Matthew Avril (president of the hotel group for Starwood Hotels and Resorts) announced - the actual plan is to reach the number of 100 hotels by the end of 2012. (Weihua, 2010)

Why Starwood invests in China

As it was mentioned before, China is being second popular destination after US, and if we look into the stock exchange from 1990, we will see that it increased almost by 19 % a year. Analyzing the economy of China, we came up with advantages and disadvantages of the investments in China's economy. To begin with positive aspects of the investments:

During the economic crises China was found as one of the strongest country (considering economy), moreover during the past 10 years the gross domestic profit (GDP) of China increased by 7 % what is almost doubled the percentage of the US economy for the same period of time.

Over 200 Chinese companies work close with US , that means that Starwood attracts Chinese