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Guanxi 貿易公司商業企劃書  
Guanxi Trading LLC Business Plan

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**Guanxi 貿易公司商業企劃書**  
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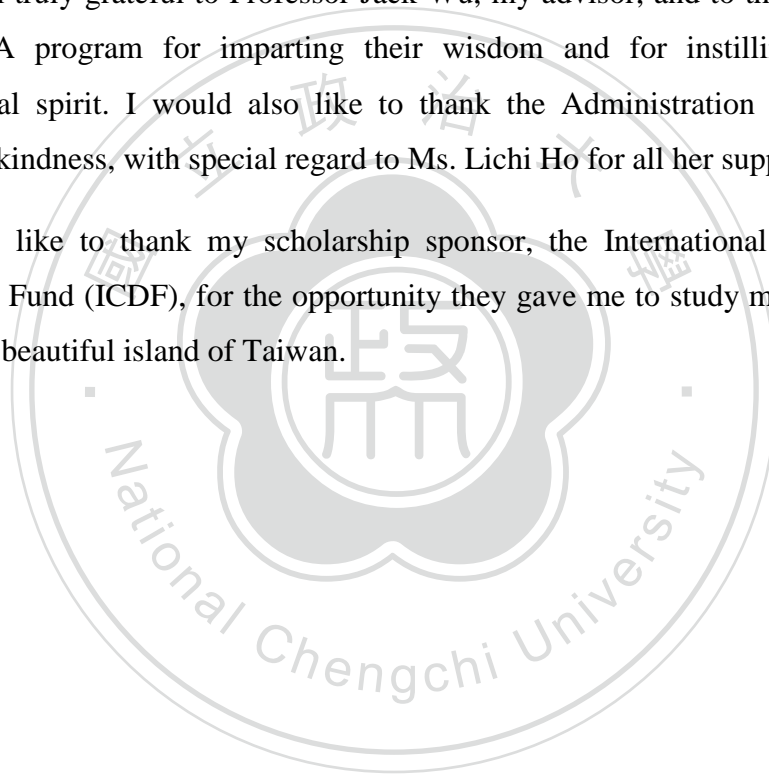
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# ABSTRACT

## Guanxi Trading LLC Business Plan

By

Astrid Fabiola Mejía Sánchez

Japan's *sogo shosha* institutions and South Korea's *chonghap sangsa* are among the top trading companies in the world. Along with other players in the international market, they have significantly contributed to the expansion of trade and to the economic development of their countries.

In countries like Taiwan, Japan and Korea, trading companies were part of the driving force that propelled their global economic effort and they were an integral part of the economic miracles that transformed their economies forever.

International trade benefits countries by improving the living standard of the population, lower prices for consumers, improved efficiency in production and a greater variety of goods.

This business plan is focused on analyzing the feasibility of Guanxi Trading LLC, an export trading (ETC) company based in Honduras, with efforts oriented toward boosting the Honduran economy by trading with Taiwan. In doing so, it intends to replicate the success of trading companies worldwide in improving the economies of their nations.

By trading with Taiwan, Guanxi Trading LLC also aims to enter the rising Asian market and increase its global presence in hope of helping in the development of the Honduran economy.

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# CHAPTER I.- EXECUTIVE SUMMARY

## 1.1 Statement of Purpose

This business plan has been developed in order to evaluate the feasibility for the start-up of an export trading company based in Honduras, Guanxi Trading LLC. The present will also serve as an operational framework and plan for the first three years that the company will be in business.

To achieve this objective, a partnership will be formed, where the two founding entrepreneurs need a start-up capital of US\$58,211 which will be provided jointly in equal parts by the two founding partners.

This business plan will also serve to demonstrate the enormous potential that there is for trading between Honduras and Taiwan.

## 1.2 Background

Globalization is a reality and we must embrace it. With all the competitiveness that takes place in the local markets, companies must look for other alternatives. Trade exists because one group or country has a supply of some commodity or merchandise that is in demand by another.<sup>1</sup> International trade offers a window of opportunities for companies and many of them are overlooked.

The reality is that most small to medium sized companies are not exporting their products. This may be due to lack of overseas market knowledge, fear of the whole export process, lack of financial means, etc.

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<sup>1</sup> How to Start an Import/Export Business. [www.entrepreneur.com](http://www.entrepreneur.com)



The international trade industry is very susceptible to economic downturns. The risks involved in international trade are high, and not every company is able to manage the deal effectively. Imports are just as important as exports for growth and job creation. Honduras must open its doors to the world; show the international community what it has to offer and at the same time, look for viable ways to boost its economy.

That is where Guanxi Trading LLC comes into play. We aim to help companies export and import products between Taiwan and Honduras. In other words, we are taking a piece of Honduras to the Asian market, and bringing a piece of Asia to Honduras.

According to the absolute advantage theory which supports free trade among markets, countries produce goods more efficiently than others, and thus citizens should be able to buy cheaper products from abroad. Companies in Taiwan may have what companies in Honduras need to improve their services or products, and vice-versa, or at a much lower cost and Guanxi Trading LLC helps these companies exploit these opportunities and minimize threats.

Only firms that are not in liquidity constraints are bound to immerse themselves into the international arena. But this is not the only problem for small and medium business in Honduras; they also lack the technical knowledge for handling the hassles that are involved for exporting and importing.

The idea of Guanxi Trading LLC arose due to the founder's recognition of this opportunity gap between Honduras and Taiwan; there is no single company that is dedicated to trading between these two countries and the Free Trade Agreement (FTA) signed between the two countries provides a world of trade opportunities among them.

### **1.3 Business Model**

Guanxi Trading LLC will be a facilitator of export and import needs of small and medium sized companies in Honduras and Taiwan. We will be the intermediary between buyers and

suppliers and will provide all the necessary arrangements for getting their desired products across from one point to the other.

Simply stated, we find the product that buyers need from overseas; we purchase it and then ship it abroad. We take title to the goods that we import and the income we receive is the trading margin, which is the difference between the manufacturer's selling price and the price we offer it at.

To facilitate buyers in their search for products from the foreign market, we will have a website through which buyers will send quote requests on our selection of products. Once we receive the quote request, we'll contact our supplier for lead times and additional details. Additionally, if a buyer needs a specific product not found on our catalog, they can make the request and our team of experts will find an adequate supplier to meet their needs.

We'll be the immediate contact of the suppliers and buyers we work with. In other words, there are no direct transactions between suppliers and buyers. Once the order has been placed by the buyer, depending on the credit terms we have provided the buyer with, an advance payment will be demanded from the buyer which will be passed to our local bank account.

Later, part of this payment will be transferred to our overseas office for subsequent payment to the supplier, if our supplier demands advanced payment. A payment agreement will be issued from the buyer to our behalf for the rest of the payment.

Since our local office makes the purchase and takes title to the goods, we will ship directly to the foreign port, where immediately after it is cleared for customs, the product will be invoiced again by us and then sent to the buyer.

Once the buyer has approved the receipt of the goods, we receive the rest of the payment to our account and then we will make the final payment to our supplier.

Guanxi Trading LLC will be both demand and supply driven. As supply driven, we will help manufacturers and producers who wish to sell their products abroad. As demand driven, we will help buyers locate overseas the products they wish to purchase.

Because of the nature of our business, bootstrapping will be part of our business model, where we will to the greatest degree minimize our investments. For this, to pay our suppliers we will use the cash paid in advance by our customers and to the least extent use our own capital funds.

#### **1.4 Target Market**

As mentioned, Guanxi Trading LLC will start operations in trading products between Honduras and Taiwan. It will initially operate with two offices; one in San Pedro Sula, Honduras and the other one will be located in Taipei, Taiwan.

Guanxi Trading LLC will start by exporting coffee and coffee related products, tobacco and tobacco related products and cocoa and cocoa preparations from Honduras to Taiwan. From Taiwan to Honduras, we will initially start trading cup-sealing machines, scooters and entertainment devices.

Therefore, the initial target market in Honduras will be distributors of electronics, motorcycles and food and beverage equipment. The initial target market in Taiwan will be distributors and factories in need of the raw materials and finished goods we export, such as coffee roasters and producers of coffee and cocoa related products.

#### **1.5 Financial Forecasts**

The financial forecasts show that Guanxi Trading LLC is a feasible start-up company with high potential for growth and success within the international trade industry in Taiwan and

Honduras. It is estimated that the start-up will be profitable by the six month of the first year of operations.

Due to the difficulty of being granted a bank loan for start-up companies in this industry, a short-term line of credit will be requested until later in the year, in addition to a small amount in the second year.

Net profits are forecasted to increase by 18% and 36% for the second and third year, respectively. Starting from the first year, 20% of profits will be paid to each investor and the rest, 60%, will be reinvested in the company for future growth and expansion.



## **CHAPTER II.- COMPANY OVERVIEW**

### **2.1 Company Introduction**

Guanxi Trading LLC is an export trading company that is scheduled to begin operations on January 1, 2012. Guanxi Trading LLC will be a limited liability company based in Honduras. It will be incorporated in Honduras as Empresa Comercializadora Guanxi, S. de R.L. and it will be established as a partnership.

Additionally, a branch office will be established in Taipei, Taiwan in order for us to be in direct contact with suppliers as well as to serve those local companies who wish to import goods from Honduras.

As an export trading company, we have to abide by the Law of Distribution Representatives and Agents of National and International Companies in Honduras and by the regulations of the Taiwan International Trade Commission Ministry. These laws aim to regulate the commercial and contractual relations established between local and foreign companies and the natural or legal persons engaged in representing them in the country, or in charge of distributing their products or placing the purchase orders for their products, in addition to guaranteeing favorable conditions to the consumers.

According to Law of Distribution Representatives and Agents of National and International Companies in Honduras, it is required to hold a license for executing trade transactions. For this, the following documents must accompany the application form:

- Power conferred by a member of the Honduran Bar Association
- Certification of Sole Trader by the Commercial Registry
- Registration record from the Chamber of Commerce, as well as solvency record of fee payments

- Payment records of income tax, municipal and National Tax Registry
- Photocopy of the company's incorporation documents

Establishing a branch office in Taiwan subjects the head office in Honduras to the jurisdiction of the Taiwan courts. The other founding partner will be appointed as designated agent and branch manager.

The Department of Commerce of Ministry of Economic Affairs (MOEA) reviews applications for company registration of branches of foreign companies in Taiwan. Registration of a branch office in Taiwan takes around 7 to 9 weeks. Additionally, importing and exporting licenses must be issued by the Bureau of Foreign Trade (BOFT) and the business entity must comply with the Statute for Investment by Foreign Nationals.

There is no minimum requirement for establishing the branch office, but the capital still needs to be examined and certified by a local Certified Public Accountant (CPA) and cover at least the incorporation cost.

## **2.2 Business/Revenue model**

With globalization nowadays, people need to think outside their comfort zone and seek new opportunities elsewhere. That's where Guanxi Trading LLC can help: we will help bridge the trade process between Honduras and Taiwan.

Guanxi Trading LLC will help buyers in their search for their desired product overseas. Once we have found a suitable and reliable partner, we will purchase the products and ship them off to the foreign country, where we will finally deliver the products to the buyer.

We are a market oriented company; thus, we organize ourselves and our activities according to the needs of the host countries; in this case, Honduras and Taiwan, rather than focusing on a single line of products.

Because of the difference in languages between both countries, and being that most small to medium business owners are not proficient in the English language, much less in Mandarin Chinese or in the other hand Spanish, Guanxi Trading LLC is the suitable business partner for handling a company's business abroad.

Guanxi Trading LLC enables companies to enter new markets with their most competitive products. With this, we give suppliers the chance to exploit other business opportunities therefore, increasing their sales. With this increased demand, they can take advantage of the economies of scale in production.

By working with us, producers and manufacturers also benefit from our networks, as well as from our expertise in areas such as finance, technology, logistics and procurement, marketing and legal affairs.

On the other hand, the buyers we work with get full reassurance that their products will be in compliance with the agreed terms of quality and delivery. We serve as a one-stop shopping facility, searching hastily for the client's desired merchandise. We will prove to customers the tradeoff between purchasing through us and them handling all the tedious and costly business transactions themselves.

Our business model will be focused on bootstrapping, which will focus to the greatest extent possible to use other people's resources, for example, from the advanced payment received from our customers, we will use this to pay the suppliers whenever advanced payment is demanded.

With focus on maximizing the value of our service offering, our business model will depend tremendously on an online collaboration platform that brings us together with potential and recurrent buyers who wish to purchase products in Taiwan or Honduras. This

is done through Private Technology Exchange (PTX), which is an online model that permits execution of trade transactions and information sharing regarding products, demand, availability, etc.

Detailed Process:

1. When a buyer spots a product from our online catalog, he creates an online account in our website.
2. He then selects the quantity from our pre-established quantity lots, which were established in conjunction with our suppliers.
3. If the client needs any additional requirements, he can let us know through our webpage or contact us directly.
4. After the quote request is issued, an automatic confirmation is sent to the buyer and to our team of executives.
5. We immediately look over the order and contact the supplier to know availability.
6. We contact our network of shipping lines and later let the buyer know the estimated departure date, lead time, shipping arrangements, payment details, etc.
7. If approved by the buyer, we go ahead and process the transaction. Partial payment will be required in advance from our buyers and their credit terms will be revised in the future.
8. We purchase the product locally and then handle all the shipping arrangements for sending the products to the foreign country. Payments to our suppliers will be executed through local bank transfers.
9. As importers, we then coordinate with our customs agent the receipt of the goods.
10. After the goods have been cleared from customs, we issue another invoice and coordinate the final delivery of the goods to the buyer.

All new buyers will be required to make payments in advance. Later, depending on the purchase volume, credit risk and payment behavior; we can change the buyer's payment terms to a period which is favorable for us and accepted by our supplier.



Our website will also provide a tracking service, so customers can see at any time the status of their order. As well, a payment tracking service will also be available on our website so buyers easily have access to an up-to-date balance of their account.

Guanxi Trading LLC seeks to reduce transaction costs through economies of scale and in making the most efficient use of our capital and of that of our customers. For this, we will work on seeking exclusivity based agreements with manufacturers in order to obtain a secure position in the foreign market.

### **2.3 Service Description**

An export trading company is an entity that manages the trading process for a third party. However, Guanxi Trading LLC will be more than an export trading company. We aim to be facilitators. We plan to be the most reliable, outsourcing solution to handle a company's trading needs. We will offer a wide array of services to save time and effort for companies doing business abroad.

By purchasing locally, we take advantage of favorable pricing; and because we handle the flow of the products, we are able to have a better control of the trading process. Due to the fact that we take title of the goods, we also assume the risk and responsibility for the goods we export, which removes all risk from the suppliers and buyers and thus, facilitate their international business transactions.

Among the most frequent mistakes made by new exporters, we can include failure to get qualified export counseling, handling and covering all the legal and insurance requirements, selecting the right overseas agents or distributors, lack of knowledge of the foreign market, among others. These factors makes them unaware of any needed product modifications to meet the other culture's preferences and regulations, as well as failure to print labels and warranty messages in locally understood language, thus failing to accurately cater to the foreign market.

Although there are many public and private organizations in Honduras and Taiwan which are destined to aid small producers to export their products and helping producers to increase their exports, most of them only provide market information and guidance on the initial steps of the process, yet companies are left to handle the rest by themselves. However, Guanxi Trading LLC will enable suppliers to avoid this due to us handling all the export procedures.

With this in mind, Guanxi Trading LLC will offer the following services:

- International sales force: We will aid buyers and suppliers to meet their import/export needs.
- Market information: We will provide the most up to date information on the foreign market and industry.
- Overseeing marking and packaging: We will aid suppliers to prepare the necessary labeling requirements for the products destined to the overseas market.
- Marketing mix: We will assist and support with the promotion strategies in the overseas market.

By doing business through us, buyers and suppliers will avoid the hassle that is involved in international trade. Because we take control of the goods, we will handle the following procedures of logistic coordination in order to get the product across to the foreign market:

- Legal requirements and documentation: We will assess all the requirements and regulations to deliver the products with ease.
- Quality Control and Shipping: We will determine the best shipping method for the products and follow the complete process until the merchandise reaches its destination.
- Distribution and Warehousing

### **International sales force**

Guanxi Trading LLC will bring together international buyers and sellers. We already have an extensive knowledge of suppliers in both countries and we will continually search for opportunities in each region based on any demand and supply gaps we perceive.

We will aid in finding overseas buyers for the products of the small and medium companies we work with, who in most cases, don't have the capability to market and retain distribution channels abroad.

As well, we will handle the negotiation of the commercial terms and allocation of the order of the goods to reliable and adequate suppliers in order to find the best price/quality ratio for our buyers.

Claims and after-sale services will also be managed through us. Because credibility and reputation needs to be the basis of our business, we will ensure quality in our work and take all the necessary precautions to make sure things run smoothly. However, due to the nature of our business, unexpected events and situations out of our control may arise, but we will make sure all claims are dealt with quickly and efficiently.

As mentioned, we will do our utmost to build long-lasting relationships with our customers. We guarantee to handle the necessary arrangements for after-sale services which include quality complaints, returns, etc.

In addition, we will work closely with manufacturing companies in order to transform a buyer's prototype or design into a sample that meets the buyer's specifications.

### **Market information**

One of our main roles will be to spot business trends and opportunities in both markets. We will regularly attend trade shows to be up-to-date with the latest trends in products. By doing so, we will also be in constant contact with suppliers and be seeking for new ones.

We will also collect information on potential customers and assess their reliability. As well, we will regularly visit suppliers in order to cultivate a close relationship. Through this, we will also obtain the latest samples of their newest merchandises.

At Guanxi Trading LLC we will also focus our efforts on collecting information regarding the economy, culture and political aspects of the markets we do business in, as well as product prices, market demand and supply conditions, shipping data and other relevant information in order to minimize risks and provide market trend information to the suppliers we work with.

Information collection, diffusion and data analysis tools will be at the forefront of Guanxi Trading LLC's development.

### **Overseeing marking and packaging**

Because each country has different regulations concerning consumer products, we will assist the manufacturer to make the necessary product or packaging adaptations needed to meet the overseas market requirements or preferences. We will continuously inform manufacturers and producers about new technical developments and packaging method requirements in the foreign country.

### **Marketing mix**

We will focus on the marketing and sales aspects of our suppliers' products through our extensive network. Through this, we will ensure that the products are well known across the market and therefore increase the product's salability.

We will also act as advisers to our suppliers in order to receive the best quality, pricing and after-sales service for their products, thus increasing our chances for success in the overseas

market, and therefore creating a mutually beneficial relationship. By working closely with our suppliers, we will ensure a better working relationship; therefore, avoiding any conflict or potential rivalry between us.

When buyers purchase through us, they will avoid the hassle of having to deal with a supplier from overseas. Same goes for a supplier, since they avoid any non-payment risks and still get a sales increase because Guanxi Trading LLC will assume the risk of non-payment with foreign companies. Suppliers also avoid the difficulty of having to handle the shipping arrangements.

In international trading, one of the main and most complicated aspects of the cycle is the transportation of the goods from one place to another. Thus, by working with us, suppliers and buyers avoid the need of having to make these arrangements by themselves.

Guanxi Trading LLC will handle the following business operations:

### **Legal requirements and documentation**

Because time is money, Guanxi Trading LLC helps customers save both by taking care of all the export documentation needed to get the goods from one country to the other. We take care of all the legal requirements needed for a company's goods to be exported from one place to another.

Among our tasks, we prepare:

- Export license: legal document which allows products to be shipped.
- Commercial invoice: bill for the goods from the seller to the buyer.
- Bill of Lading: contract between the buyer of the goods and the carrier.
- Consular invoice: detailed statement of goods shipped certified by the consul at the point of shipment

- Certificate of origin: a document containing an affidavit to prove the origin of imported good and which is used to support the tariff treatment claimed
- Shipper's Export Declaration: a form required for all shipments, prepared by the shipper, in this case, us, indicating the value, weight, destination, and other basic information about an export shipment
- Export Packing List: specifies the material in each individual package and indicates the type of package, as well as the individual net and gross weights and measurements for each package

This way, the suppliers don't have to issue export documents; Guanxi Trading LLC will issue those.

### **Quality Control and Shipping**

One of our main functions is to help small and medium companies reduce transaction costs. Therefore, we will work as architects of transport and work closely with freight forwarders and shipping companies to deal with the movement of goods from one country to another in order to select the best method of transportation in relation of cost, time and quality of service.

By bundling the products of our suppliers, we will be able to achieve lower shipping costs and thus, keeping products with competitive pricing, which is beneficial to all parties involved. And because we will handle all the export documentation required, we will save our buyers and suppliers tremendous amount of time and effort.

Our trusted network of partners includes:

- Odyssey International Co., LTD
- Sercogua Honduras, S.A.
- Transportes Consolidados, S.A.

- Maersk Line
- Evergreen Marine Corp.
- Local postal offices: This will be used for small shipments, generally for samples sent from one place to another.
- DHL
- UPS

Odyssey International Co, LTD is a cargo consolidator in Asia which has offices in Taipei and offer services from Asia to Central America. Sercogua Honduras S.A. is Odyssey International Co. LTD partner agent in Honduras. By handling all shipments through them, we can obtain better pricing and also form a strong working relationship.

As an alternate cargo consolidator we can use the services of Transportes Consolidados, S.A. and in emergencies, use the services of large shipping lines such as Maersk Line and Evergreen Marine Corp.

Because we initially start with a moderate flow of goods, seeking a cargo consolidator is the best option since better pricing can be obtained.

Depending on the size, weight, delivery time required and shelf life of the goods being transported, we will consult with our network of reliable freight forwarders in order to get the best pricing options and delivery time to meet our customer's needs.

By handling the shipping arrangements ourselves, we are able to closely follow up on our customer's orders, give them timely feedback and avoid any delays in delivery which might be produced if every supplier handles their own shipments.

Aside from handling shipping arrangements, we will provide quality inspections prior to shipping in order to ensure that the manufacturer's products and packaging meet the quality and specifications previously agreed which match the buyer's standards.

When sales and thus, shipments increase, Maersk Line and Evergreen Marine Corp. will be considered as first options for overseas transportation since full container loads will be needed.

## **Distribution and Warehousing**

Guanxi Trading LLC will focus on more than just doing one-time sales. We contemplate doing long-term business with our customers. As part of our strategy, we will carefully choose the appropriate product and market to trade, and we will carefully choose our suppliers to ensure good quality of work.

We will have a well-designed process of delivery service to our customers, which consists of transportations services and location of warehouses to control the delivery of goods. For this, we search for warehousing solutions for short-term storage of the goods being transported. This is part of our post-sales services after the products have arrived to their destination and have been cleared in customs.

All of our services and arrangements with our customers and suppliers will be pointed out in a memorandum of understanding (MOU) in order to avoid any discrepancies along the business process. This will be useful in clarifying matters and avoiding misunderstandings afterwards.

However, due to the nature of the business, unexpected events may occur, so constant communication with the other party will be greatly enforced.

## **2.4 Team**

### **Founders & Management**



As mentioned, Guanxi Trading LLC will be a private company, arising from the entrepreneurial effort of its founders. Astrid Mejía, being a Honduran citizen and knowledgeable of the Honduras market, will be in charge of the Honduran office. However, we are still in the lookout for a suitable partner, ideally a Taiwanese citizen, who will be based in Taiwan to handle the Taiwanese market.

As founders and head of offices, they will ensure that everything can keep itself on track and ensure the business runs smoothly. The founders will handle the marketing and sales aspects of the business. They will be in charge of identifying potential buyers and suppliers, approaching them and learning about their needs and policies, and thus, getting more business. And so, they will be responsible for maintaining and updating the data base of customers and suppliers.

They will also handle vendor relations and vendor development, negotiating business terms such as price, quality control, delivery date, and after-sales service according to the buyer's needs and standards.

They also will be well informed and will be kept up-to-date with their particular country's economies, policies, culture, etc. and regularly share with each other this information.

### **Key Operating Executives**

These positions constitute the backbone of our business. The main duties and responsibilities include handing legal and export documentation, arranging shipping, warehousing, insurance, payment follow-up, among others. Without the proper care and handling of these duties, our business can be severely scarred.

Our staff has extensive experience in international trade and therefore, understands how to manage cultural differences in business practices.

Due to the nature of our business, we rely heavily on our staff. Because we won't have many fixed assets to offer as collateral, we are very dependent on our staff's skills and expertise, as well on our company's reputation and track record, so our key focus will be to hire and retain the best in the market.

Initially, we will start with 2 Key Operating Executives; one for each office.

### **Accounting Specialist**

This will be a full-time position in which the person will handle the duties of all the accounting procedures of the headquarters. Among the assigned tasks will be: to reconcile bank accounts, verify the accuracy of invoices and other accounting documents or records, update and maintain accounting journals, ledgers and other records detailing financial business transactions and handle the company's payroll.

The head of the Taipei branch will also be in charge of the accounting procedures of the branch office and will work closely with the Accounting Specialist for reconciliation of the finances.

Initially, there will be a total of 5 full-time employees in Guanxi Trading LLC. Additionally, we will outsource our cleaning services, transportation, customs brokerage, and legal services for each office.

## **2.5 Location**

Guanxi Trading LLC will start operations with two offices; one in San Pedro Sula, Honduras, which is the industrial capital of Honduras; and the other one in Taipei, Taiwan. San Pedro Sula is the ideal place to establish the office in Honduras because it is very close to the Port of Puerto Cortés, the main seaport in Honduras. The other office will be a branch located in Taipei, a short distance from the Keelung Port.

The rented office in Honduras will be a few minutes away from the seaport, enabling faster communication and faster transactions. Initially, the branch office will be located near the Taipei World Trade Center (TWTC), which is at the heart of Taipei's bustling business district. This rented office space is ideal because it is in the same area where the Central American Trade Office (CATO) and Taiwan External Trade Development Council (TAITRA) are located, facilitating communication and cooperation among us. Both of these entities focus on trade development and promotion of Taiwan.

Both offices will be in charge of managing the import and export process of the products sent abroad. With this, hands-on follow-up will be made to the trade process, thus delivering a better service for our customers.

By having offices in both countries, we will be able to obtain better prices and commercial terms for our customers, as well as obtaining faster and more reliable credit information on buyers located in both countries and enabling us to form good working relationships with buyers and suppliers. Being close to our customers and suppliers will enable us to work closely together and provide a better service to meet their needs.

## **2.6 The Opportunity**

The Free Trade Agreement (FTA) between Honduras, El Salvador and Taiwan provides a world of opportunities for trading between Honduras and Taiwan. Preferential treatment has been granted to products from both countries, thus enhancing their competitiveness in the foreign market.

Being that there is no company focused solely on the Honduran and Taiwanese markets, Guanxi Trading LLC will be the first of its kind. By providing complete import and export solutions to buyers and suppliers, Guanxi Trading LLC will be the indispensable business

partner of small and medium Honduran and Taiwanese companies wishing to expand their markets in the foreign country.

Considering the structure of Honduras and Taiwan’s economies, we can acknowledge that the goods offered by each country are quite diverse, which implicates high degrees of complementarities between both economies. Taiwan could be an important source of inputs for the production of industrial goods and of finished products. At the same time, Honduras could become a top supplier of agro industrial products for Taiwan, as well as an even bigger receiver of foreign direct investment from Taiwan.

### 2.6.1 SWOT Analysis

Figure 1: SWOT Analysis

<p style="text-align: center;"><b>Strengths</b></p> <ul style="list-style-type: none"> <li>- Extensive market knowledge</li> <li>- Language proficiency</li> <li>- Broad networking</li> </ul>	<p style="text-align: center;"><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>- Limited financial resources</li> <li>- Not a natural market</li> <li>- Honduras' market size</li> <li>- Dependency of government transactions and permits</li> </ul>
<p style="text-align: center;"><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>- FTA signed between Honduras and Taiwan</li> <li>- 1st entrant specializing in these markets</li> <li>- Rising Asia region</li> </ul>	<p style="text-align: center;"><b>Threats</b></p> <ul style="list-style-type: none"> <li>- Geographical distance between markets</li> <li>- Wide array of importers and exporters in both markets</li> <li>- New entrants</li> <li>- Losses in currency exchange fluctuations</li> <li>- Non-payment</li> <li>- Economic downturns</li> </ul>

## 2.7 Entry and Growth Strategy

As mentioned, we will run a start-up business in the Honduran and Taiwanese markets. Initially, we will start working with a few product categories, which we have identified to have great potential in the overseas market.

Guanxi Trading LLC will enter into talks with FIDE, which is a non-profit, private institution that was created over 20 years ago to promote investment in Honduras. FIDE also provides assistance with the development of exports. FIDE works hand-to-hand with the Government and other private institutions for the promotion and development of a new legislation leading to improve the business climate in Honduras.

FIDE manages a program called Honduras *Does* Export, which provides technical and commercial assessment to current and potential exporters of Honduras. Their objective is to accompany Honduran businesses in the export process, providing relevant information for decision making and guiding them during their search for international markets. Working close to FIDE will enable us to be in constant communication with new exporters and buyers.

Another important organization that we will aim to work closely with is the Central American Trade Office (CATO), located in Taipei, Taiwan. This organization was established in 1997 with the aim of promoting and enhancing bilateral relations, business cooperation and investment development between Taiwan and its diplomatic allies in Central America.

As well, we aim to work closely with the Government of both countries in order to assist in developing and implementing the country's trading objectives and assessing its feasibility. In further ventures, we will propose and aim to get Government imports to be channeled through us, working as agents.

Additionally, we will make our best efforts to maintain healthy, continuous relationships with other Government agencies, such as embassies, chambers of commerce, export promoters, product associations, etc. and seek for their constant support on behalf of our customers. Also, we will seek for their support in providing information about the role of trading companies in order to promote confidence and remove misconceptions that small producers may have about letting a third party handle their export business.

As well, we will be in constant contact with the Government to be informed of relevant events and trade fairs, in addition to promoting workshops for information sessions and as a way of reassuring small companies that a trading company is a cost-effective way of encouraging exports of small and medium companies.

However, uncertainty arises in terms of the extent to how Government institutions are willing and able to help, especially in areas such as funding and simplification of processes.

As our business grows, both offices, in Honduras and Taiwan, will have a showroom in order for our clients to take a closer look at the top-products offered by each country's producers.

First we will focus on building long-lasting relationships with our supplier and buyers, and in expanding our product offering. Once we have accumulated enough capital, expanded our networks and built up trust and reputation in the international market, we plan to expand to other Asian markets, starting with South Korea and Mainland China, as well, to other Latin American countries, initially with our neighbors in Central America.

Guanxi Trading LLC will also focus on continuous market search for eco-friendly products to export to Honduras in order to aid in boosting an environmentally friendly mentality among the population.

Taiwanese producers are known for their OEM services, thus, another strategy worth looking out for is the possibility of developing our own brands of products and penetrating

international markets by ourselves. This can be accomplished once we have expanded our networks even further and have enough capital and expertise to carry out this strategy.

## **2.8 Competitive Advantages**

Guanxi Trading LLC will create value to its customers by providing the services that most companies lack knowledge in or don't have the necessary tools and facilities to execute by themselves.

Because we will aim to quickly lay the groundwork in the foreign market, we will aim to have an extensive network by which buyers can benefit from by having faster, quality products at a competitive price. Suppliers benefit from an increase in sales and avoidance of having to handle the shipping process and risk of non-payment from buyers.

Suppliers will incur in fewer costs and less time and efforts needed in order to build their international presence. Suppliers will also benefit from our expertise and avoid the difficulties that may arise in their attempt to crack into the foreign market by themselves and in overcoming language and cultural barriers.

Because we won't be a typical trading company, we will provide customers with other services, such as providing our suppliers with updated information on market trends through which we will be able to establish and maintain a close relationship, therefore ensuring supply of products that meet the buyer's needs.

For our buyers' sake, we will avoid them the hassle of having to find a reliable supplier for their needed product and we avoid them the trouble of the whole shipping process.

Because Guanxi Trading LLC will start off as a small company, we will be able to provide fast response to events presented unexpectedly, have low overhead costs, more flexibility, and customizable services with personalized attention that most big companies are not able to provide.

Fair practices will be the basis of our company culture. In order to reinforce a mutually beneficial, long-term relationship with our manufacturers and gain their trust, as is needed in any business transaction, especially in Taiwanese networks, we will maintain an open and transparent policy as a way to avoid any inconvenience among our customers and suppliers. We will abide by transparency, trust, openness and fair play and so, we equally expect our customers to do the same.

## **2.9 Promotion Strategy**

As mentioned before, we will strive to regularly attend international trade shows in order to promote ourselves among the wide array of suppliers and buyers that attend these events and through this, build brand recognition among the industry.

As well, we will advertise in local import and export trade magazines and online portals in Honduras and Taiwan, as they are widely distributed and targeted to our market niche. Through this, we can penetrate and promote ourselves directly and effectively into our selected markets.

## **2.10 Pricing**

Guanxi Trading LLC will act as agents in the supply chain, and thus, the profit we receive is based on the trading margin, which is the difference between the manufacturer's selling price plus the freight charges and the price we offer it at. This will usually be around 6 – 15% over the total costs per unit, but will also depend on the market price of the good, being that we still want to maintain a competitive price to pass on to the buyer. The shifting



of coffee and cocoa prices are largely determined by the supply/demand of the market, and thus are the most fluctuating of all of our initial trade offerings.

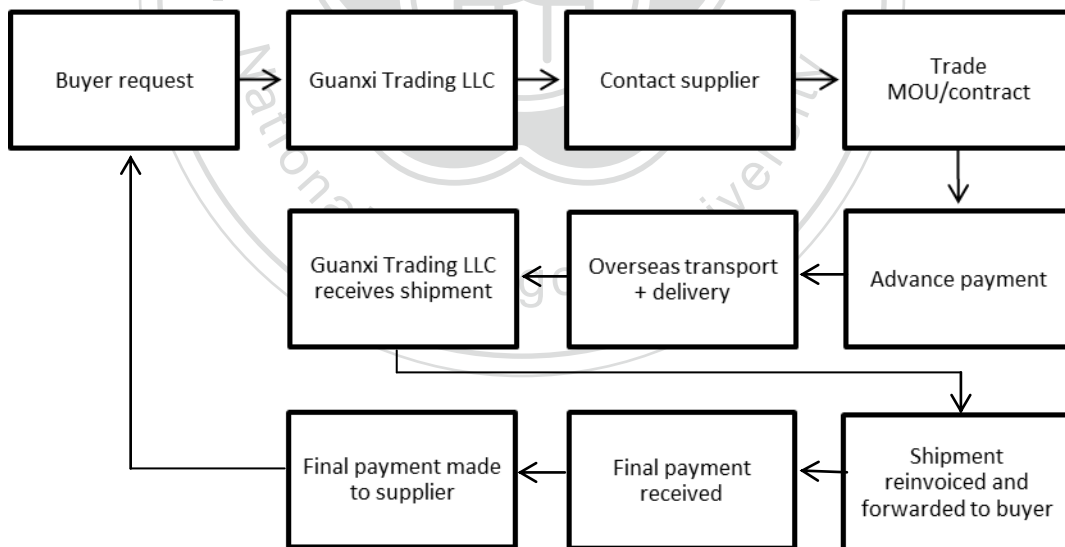
We anticipate price increases of around 5% for every product category each year, taking into account inflation and currency exchange fluctuations.

## 2.11 Logistics

Guanxi Trading LLC will focus on importing and exporting products between Honduras and Taiwan with high appeal and salability and we will handle all the transactions from supplier to buyer.

Our basic process is shown in the following diagram:

**Figure 2: Basic Process Diagram**



In the following section, we cover basic importing/exporting requirements for each country.

### 2.11.1 Importing/Exporting Process to Honduras

Honduras is a resource-scarce economy in some areas, therefore it is necessary to import raw materials and other goods which it lacks, and it exports primarily agricultural products. However, it must export finished products in order to accumulate enough foreign exchange and boost the economic development of the country. However, it does have some natural advantages over Taiwan in producing certain goods due to its climatic conditions and land distribution.

Honduras, as is the case of Taiwan, is a well-respected trade partner. Both are members of the World Trade Organization (WTO) and neither of them have direct complaints listed against them on the WTO's disputes by country.<sup>2</sup>

As an initial step to start an importing/exporting company in Honduras, you need to be legally constituted and then proceed to issue an importing/exporting license, which is issued by the Center for Export Procedures (CENTREX).

### Importing Process in Honduras

In Honduras, the import procedures are handled by the General Directorate of Regulations and Institutional Development, along with the General Directorate of Public Health and the Service for Agricultural and Livestock Health (SENASA).

The intervention from a customs broker is required when CIF imports exceed US\$1000 in value. To execute an import transaction, the importer must present a declaration for each shipment received, including the class, quality, details of the merchandise, and including the following documents:

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<sup>2</sup> *Disputes by Country/Territory*. World Trade Organization. [online] Available: [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_by\\_country\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/dispu_by_country_e.htm)

- Bill of lading or equivalent document
- Commercial invoice
- Declaration of customs value
- Single customs declaration or import policy
- Certificate of origin
- Phytosanitary certificate: for products of vegetable origin
- Zoosanitary certificate: for products of animal origin

The Customs Administration has the obligation to review the import request within one working day. Once it has been approved, the importer has four working days to remove the merchandise from the customs custody. There is a possibility to request for immediate withdrawal in the case for perishable products, live animals or press material.

Regarding tariffs, Honduras, as member of the Central American Common Market (CACM), adopts the Central American Tariff System, which uses as a base the Harmonized Commodity Description and Coding System nomenclature of eight digits.

Labeling requirements are set by the Ministry of Health through the Sanitary Regulations Directorate (SRD). General goods have no special labeling requirements; labels are just required to have basic information such as manufacturer, country of origin, expiration date, health warnings, etc. However, special requirements do apply to some food products and pharmaceuticals, such as translation into Spanish.

Stick-on labels are allowed to fully comply with Honduran labeling requirements on product information, but not to indicate the manufacturing or expiration date, because they can be easily altered.

### Exporting Process from Honduras

There are no known export subsidies provided by the Honduran government.<sup>3</sup> This means that local farmers and producers have no incentive from the Government to export their products. However, Guanxi Trading LLC will work closely with local farmers and producers to motivate them to enter the foreign market and thus, increase their sales and productivity.

To be able to export, an exporting license must be granted by CENTREX, in which an exporter code will be granted and must be used on all procedures regarding export permits. For all exports exceeding US\$3000 in value, an Export Declaration must be issued by CENTREX.

Additionally, for food and plant related exports, the following are the requirements demanded by the Ministry for Agriculture and Livestock (SAG):

- Zoosanitary certificate, which is issued by the Division of Food Control, a section of the Ministry of Public Health. This is required for all products and sub products of animal origin (live animals, dairy products, seafood and meats). Cost is around US\$13.
- Phytosanitary certificate: for all exports of plant products and sub products. Cost is around US\$13.

These certificates are issued by the Center for Export Procedures (CENTREX), for which an extensive list of documents is required for approval of the certificate.

Additionally, the Central Bank of Honduras (BCH) demands the following:

- Export Declaration Form
- Income Declaration Form

Coffee exports must have the following documents:

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<sup>3</sup> 2011 Investment Climate Statement – Honduras. U.S. Bureau of Economic, Energy and Business Affairs. March 2011.

- Commercial invoice, original and copy
- Photocopy of the contract agreement
- Photocopy of shipping instructions
- Photocopy of notice of sale from the Honduran Coffee Institute, IHCAFE, which is the institution that is responsible for the development of the coffee industry in Honduras
- Request for extension of the export certificate and certificate of origin
- Pink slip copy of the export certificate issued by IHCAFE
- Certificate of origin type “O” from IHCAFE
- Export certificate from the International Coffee Organization (ICO)
- Photocopy of the national tax registry (RTN)

Additionally, to be able to export coffee from Honduras, Guanxi Trading LLC must be a registered member of IHCAFE.

For exports of any type of samples with no commercial value, a request must be made to CENTREX for registration statement and export control.

### **2.11.2 Importing/Exporting Process to Taiwan**

Because of the lack of limited land and natural resources, Taiwan depends a lot on the import of a wide range of agricultural and food and beverage products from different countries. Taiwan has an acquired advantage over Honduras. It's developed IT industry has made it one of the largest exporters of manufactured products and the quality of their goods has made them increasingly attractive to overseas markets.

#### Importing Process in Taiwan

A private trader, such as ourselves, must be registered as an importer with the Bureau of Foreign Trade (BOFT) and comply with numerous legal requirements. Additionally, we must apply for import licenses depending on the types of products being imported.

Customs regulations and import procedures are managed by the Directorate General of Customs, which is a division of the Ministry of Finance.

The Taiwanese tariffs are based on the Nomenclature of the Harmonized system of Name and Codification of Goods.

The form used for import declaration may be submitted to Customs either manually or electronically, thanks to an electronic filing system operated by TRADE-VAN Services Information Corporation that allows Taiwan customs to process import customs clearance and duty payment.

Customs levies duties on import goods in accordance with Customs Laws, Customs Import Tariff and other relevant regulations. Under the automated Customs system, cargo clearance is categorized into three types, namely C1 - free of paper and cargo examination, C2 - subject to document scrutiny and C3 - subject to document scrutiny and cargo examination.

Even if an import license is not required, an importer must present a completed import declaration form along with all other required documents to customs. This declaration must be made by the duty payer within 15 days before the arrival of the shipment.

Before products can be cleared in customs, the Taiwanese law requires all products, except those meant to be used by the food service sector, to have a pinned Mandarin Chinese language label using traditional characters.

The import of food into Taiwan needs to be made in accordance with the "Regulations of Inspection of Food Imports" promulgated by the Department of Health of the Executive Yuan. The Department of Health (DOH) is the legal body responsible for managing food

safety in Taiwan. The DOH warrants the Taiwan Food and Drug Administration (TFDA) to conduct food quality inspection on imports at the port of entry.

The Council of Agriculture (COA) is the statutory body responsible for animal and plant quarantine. COA's Bureau of Animal & Plant Health Inspection & Quarantine (BAPHIQ), conducts quarantine inspection on fresh produce, meat and poultry, and pet food.

The clearance of goods having an import value exceeding US\$5000 will need to establish a power of attorney. A power of attorney is also necessary when special documents are needed for customs clearance.

The import of agricultural products, animal products, flowers, plants, and seeds are regulated by Bureau of Standards, Metrology and Inspection.

The import of tobacco and liquor is regulated by Department of National Treasury, from Ministry of Finance. A photocopy of the tobacco and/or alcohol importer business license or an approval issued by Ministry of Finance is required. Additionally, an import permit is needed for cigarettes over 1,000 sticks, cigars over 125 sticks, cut tobacco over 5 pounds or liquor over 5 liters.

### Exporting Process from Taiwan

A formal customs declaration is required for articles subject to licensing requirements or for those exceeding US\$5000 in value. Exports are classified into permissible and controlled items. When exporting articles included in "List of Goods Subject to Export Restriction", licenses or permits shall be obtained from other related agencies prior to filing declarations.

Documents necessary for declaration:

- Pro forma invoice in duplicate

- Packing list
- Third copy of Export Permit
- Power of attorney (if declared by customs broker)
- Delivery Note

Other requirements include those specified in laws or regulations, such as certificates issued by competent authorities for quality inspection, medicine inspection, food sanitation inspection, animal or plant inspection, and certificates of country of origin and payment of commodity tax, etc.

Commodities must be exported in accordance with the Foreign Trade Act, the Enforcement Rules of the Foreign Trade Act, the Regulations Governing Export of Commodities, the Regulations Governing Export and Import of High-tech Commodities, the List of Commodities Subject to Export Restriction and the List of Commodities Entrusted to Customs for Export Examination.

Products being exported from Taiwan by sea are subject to a Harbor Construction Fee amounting to 0.3% of product value. Exports are also subject to 0.05% of ad valorem contribution to a Trade Promotion Fund.

### **2.11.3 Customs, Transportation, Insurance and Payment Issues**

#### Customs

Guanxi Trading LLC will need a customs broker in order to help clear customs and help obtain various government permissions and other clearances. For customs clearance, a customs agent must be used for shipments with over US\$1000 in value and weight of 40 kg. Customs clearance is a very bureaucratic procedure, so counting with a reliable customs brokers is essential.



Typically, a customs brokerage service fee is around US\$100 for small shipments. For clearance of full container loads (FCL) or less than container loads (LCL), the customs brokerage agency fees depends on the weight of the shipment, CIF value and product type.

### Transportation

Standard shipping containers are of 20 ft. and 40 ft. of length, with the 20 ft. container having an approximate maximum capacity payload of 28,200 kg and 28,800 kg for the 40 ft. container<sup>4</sup>.

Because significant savings can be achieved by sharing a Full Container Load (FCL) rather than the more expensive Less than Container Load (LCL), we will seek cargo consolidation services whenever possible.

The only port of entry into Honduras on the Pacific Coast is the San Lorenzo Port. Unfortunately, this port is not used by the major shipping companies transferring products to and from Taiwan. Therefore, as a point of entry for Taiwanese products into Honduras, in some occasions the Port of Puerto Cortés Port will be used. This port is located in the Caribbean Sea coast and it is the main seaport port in Honduras. It is also convenient because it close to San Pedro Sula, the industrial capital of Honduras. This port provides services such as piloting, loading and unloading, cranes, forklifts and storage facilities.

In other occasions, products will be shipped to El Salvador's principal seaport, Acajutla, which lies on the Pacific Coast. Later, products will be shipped by land to Honduras.

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<sup>4</sup> Maersk Line Container Dimensions.  
<http://www.maerskline.com/globalfile/?path=/pdf/containerDimensions>

As a point of entry and exit of Taiwan, Keelung Sea Terminal will be used due to its proximity to Taipei.

Geographical distance is an underlying concern for international trade between Honduras and Taiwan. The distance from the Keelung Port, Taiwan to the Port of Puerto Cortés in Honduras is around 14,502 km if it would follow a direct path. A typical commercial flight takes around 16 hours of flight time. A small shipment made through the local postal offices will take around two to three weeks.

Nevertheless, most ship cargos from Taiwan pass through Panama first and then reach Honduras, which increases the distance and thus, the delivery time. The total distance traveled is 16,780 km or 9,061 nautical miles<sup>5</sup>. An ocean liner shipment will take around 24 days at an average vessel speed of 16 knots<sup>6</sup>.

When shipped through El Salvador, the total distance from Taiwan to El Salvador ports is around 14,538 km or 7,850 nautical miles and an ocean liner shipment traveling at an average of 16 knots will take around 20 days. To this, we have to add the transit time to Honduras, which should take no more than one day.

### Cargo Insurance

Because anything can happen at sea or by air, we will assure all products being exported from one country to another have the proper insurance as a safeguard in case of any unfortunate event. For this, we will have an insurance partner with whom we'll insure all our shipments from Honduras and Taiwan.

Cargo insurance is a critical part of the international transportation process. According to trade finance rules, a minimum of 110% of insurance coverage must be purchased for the shipped cargo. Usually, most cargo services offer insurance premiums, thus facilitating the process.

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<sup>5</sup> <http://www.timeanddate.com/worldclock/distance.html>

<sup>6</sup> <http://www.searates.com/reference/portdistance/>

## Payment

Because we will have offices in both countries, payment from our buyers will be received and handled locally. Later, a bank transfer will be made to our office in the foreign market for payment to the supplier. Inter-company transactions will avoid the need for use of letters of credit or open accounts for international trading.

# CHAPTER III.- MARKET ANALYSIS AND POTENTIAL

## 3.1 Industry Overview

In 2010, world merchandise trade volume rose by 14.5% from 2009, reaching around US\$13.94 trillion. Emerging economies in Asia and Latin America presented the highest growth rates. In 2011, world trade is expected to rise by 6.5%, which is only slightly higher than the average experienced during the years 1990 – 2008, but which was then disrupted by a 12% slump in 2009 due to the global financial crisis and recession.

To handle this trade volume, there is a vast array of import and export companies, meaning that the key to succeed in the market is differentiation and looking for unexplored market opportunities. We now analyze the international trade industry using Michael Porter's Five Forces Model.

### Figure 3: Porter's Five Forces

There is a relatively mid-low threat of new entrants because even though the start/up investment is not too high, the language, market knowledge and culture and geographical distance can pose a challenge to attracted companies.

Because of the competitive markets we are immersed in, suppliers bargaining power is relatively high. We plan to deal with this threat by providing an efficient and valuable service.



This is relatively high even though there are a lot of players in the industries we deal with, but maintaining relations with top-quality and reliable supplier is fundamental to our business.

Globalization and advances in Internet based strategies pose a threat to our business as communication gaps are shortened and companies decide to “cut out the middle man”.

### 3.2 Market Analysis and Potential

Honduras is an agricultural based economy, as was Taiwan before it shifted from import-substitution to export-led growth. Honduras is now where Taiwan was 60 years ago. Taiwan’s path to success is one that Honduras can learn a lot from.

Honduras’ main export products are coffee and bananas. Among other important sectors in the export market are farmed shrimps, palm oil, cocoa, tobacco and tobacco related products, textiles and apparel, wood, pineapples, sugar, soap/detergents, oriental vegetables, and metals such as zinc, silver, lead and gold.

Among its major imports are: fabrics, machinery, plastic products, paper and other related products, industrial chemicals, petroleum, lubricants, vehicles, metals, electrical equipment, medical equipment and processed foods.

The Honduran economy had a strong export-processing maquila industry, which was focused on assembling textile and apparel goods for re-export to the United States. It also had quite a strong automobile wiring harnesses sector, but both sectors have declined significantly due to the international economic downturn which started in 2008, resulting in lower demand and companies moving their operations out of the country due to lower labor costs in other countries. A large subsistence farming population continues to be the country's major sector.

The United States is Honduras' major export market (40%), followed by EU (26%), rest of Central American countries (18%), Asia (8%) and others (8%)<sup>7</sup>. The United States also supplies around 50% of Honduran imports. The United States has been Honduras' major trade partner over the past several years, but with globalization nowadays, countries have to look to expand to other markets.

With the recent global crisis, Honduras' economy suffered a lot due to the decrease in demand from the United States, which proved once again that it is impractical to rely on a single, huge market to which direct exports and efforts.

This is why Guanxi Trading LLC focuses on doing business with Asia. Taiwan is a perfect starting point because it is a close ally of Honduras, commercially and politically.

Honduras and Taiwan hold a strong relationship. Taiwan over the years, has offered Honduras various support and grants in various projects, such as tourism development, microfinance for small and medium enterprises, housing, infrastructure, health, employment, development of urban and rural areas, as well as education, with numerous scholarships granted to Honduran citizens to study in Taiwan.

In addition, Taiwan has also sent numerous technical missions to Honduras to share skills in electricity generation, rice farming, food processing, among other areas.

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<sup>7</sup> SIECA. Honduran exports 2010.

<http://estadisticas.sieca.int/siecadb/Estadisticas/MenuEstadisticas.asp?Base=Países>

Taiwan moved from exporting rice, sugar, tea, bananas, pineapples and other processed food to its main export partner, Japan, to textiles such as synthetic fibers and handcrafts to the United States and now its major exports are electronics, machinery, flat panels, plastics, chemicals, and optical and photographic measuring and medical instruments. Currently, Taiwan's major export partners are China and Hong Kong, with the United States coming in third and Japan in fourth. Taiwan's exports constitute around 70% of the country's GDP.

The trade policy of Honduras is very keen on opening markets in order to boost its involvement in international trade. It is also attempting to maintain a stable macroeconomic framework in order to produce favorable conditions in its attempt to fight poverty.

Taiwan, with its outward-oriented development strategy, brought economic growth and prosperity to the nation. It also engaged in a progressive liberalization of its trade and investment structures, which brought rapid economic growth. This is how Taiwan developed into a modern industrial economy and a leading producer and exporter of IT products.

Taiwan's development started with a land reform which increased the agricultural output dramatically. Then, the State focused the economy to an import substitution industrialization policy, which encouraged domestic production of substitutes for imported goods such as textiles, cement, plywood and fertilizers. This was accomplished due to aids granted, mainly by United States, to help Taiwan import machinery and materials in order to develop low-skill, labor intensive industries, and thus, replace the need to import these goods.

This was followed by the massive creation of industrial infrastructure, communication systems and development of a strong educational system.

From then on, Taiwan experienced rapid economic growth periods. Health care, education and quality of life also improved. Much of this was possible due to economic aid from the United States, which subsidized the high costs of domestic production.

**Table 1: Selected Indicators of Taiwan's Economy, 1952-96**

<b>Selected indicators of Taiwan's economy, 1952-96</b>					
<i>Period</i>	<b>1952-60</b>	<b>1961-70</b>	<b>1971-80</b>	<b>1981-90</b>	<b>1991-96</b>
<b>Per capita GNP(current US\$)</b>	<b>160.4</b>	<b>245.4</b>	<b>1,181.8</b>	<b>4,601.6</b>	<b>11,194.8</b>
<i>Period average (%) for:</i>					
<b>Real GDP growth</b>	<b>7.6</b>	<b>10.0</b>	<b>9.4</b>	<b>8.1</b>	<b>6.3</b>
<b>Unemployment</b>	<b>2.5</b>	<b>1.9</b>	<b>0.9</b>	<b>1.3</b>	<b>1.0</b>
<b>CPI change</b>	<b>9.85<sup>a</sup></b>	<b>3.41</b>	<b>11.08</b>	<b>3.15</b>	<b>3.65</b>
<b>Household income distribution<sup>b</sup></b>	<b>na</b>	<b>5.11<sup>c</sup></b>	<b>4.28<sup>d</sup></b>	<b>4.60</b>	<b>5.27<sup>e</sup></b>
<b>Gross domestic savings / GNP</b>	<b>14.8</b>	<b>21.1</b>	<b>31.8</b>	<b>33.3</b>	<b>26.9</b>
<b>Gross domestic capital formation / GNP</b>	<b>16.3</b>	<b>21.9</b>	<b>30.5</b>	<b>22.5</b>	<b>23.4</b>
<b>(Exports+imports) / GNP</b>	<b>22.2</b>	<b>37.4</b>	<b>81.1</b>	<b>83.8</b>	<b>75.4</b>
<b>Growth of exports</b>	<b>22.0</b>	<b>26.5</b>	<b>29.3</b>	<b>10.0</b>	<b>10.1</b>
<b>Notes:</b> <sup>a</sup> 1953-60. <sup>b</sup> Ratio of highest fifth's income to lowest fifth's income. <sup>c</sup> For 1964,1966,1968,1970 only. <sup>d</sup> No data for 1971,1973 and 1975. <sup>e</sup> 1991-95.					

*Source: Journal of Policy Analysis and Reform from Australian National University*

A 19 points program Economic and Financial Reform followed, with liberalization of market controls, stimulation of exports, creation of export processing areas, and attraction of foreign investment. This program encouraged saving and investment, it intended to reduce expenditures and promote exports. The creation of small and medium sized national enterprises flourished with the help of Government subsidies and credit loans by banks.

Also, a Statute for the Encouragement of Investment (SEI) was implemented. It was designed to reduce tax burdens, facilitate land acquisitions, simplification of investment licensing procedures, and as a main objective, promoting tax incentives for exports.

The big foreign companies got contracts with these small-sized family enterprises. However, neither then, nor now, has foreign investment signified an important part in the Taiwanese economy.

Most of Taiwan's development came from the local companies' production for foreign traders established in Taiwan and for international trade networks, with the help of intermediaries, in most cases, export trading companies.

As mentioned before, Taiwan's growth over the years has been mainly due to their export promotion policy, which consisted on agricultural products, processed agricultural products and industrial products. The success of this export-oriented strategy was also due to the Government's policies, high productivity, effectiveness and low wages of labor in Taiwan during that time.

This export oriented economy represents the most significant policy shift in Taiwan's postwar economic development. Full employment was attained in Taiwan in 1971.<sup>8</sup> From then on, agricultural products were replaced by labor-intensive, low-skilled products such as textiles, machinery and electronic products as Taiwan's major exports, representing the transformation of Taiwan's economy.



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<sup>8</sup> Tsao, Juliana. The Role of Small and Medium Sized Export Trading Companies in Taiwan's Economic Transition 1950-1990.



Table 2: Indicators of Structural Changes

<b>Indicators of structural changes (per cent, period average)</b>					
<i>Indicator</i>	<i>1952-60</i>	<i>1961-70</i>	<i>1971-80</i>	<i>1981-90</i>	<i>1991-96</i>
<i>Composition of GDP</i>					
Agriculture	28.9	21.7	11.0	5.9	3.6
Industry	23.9	31.7	42.8	44.9	38.2
Services	47.3	46.6	46.2	49.2	58.2
<i>Employment by industry</i>					
Agriculture	53.0	44.9	28.2	16.3	11.4
Industry	18.7	23.4	36.2	41.9	39.0
Services	28.3	31.7	35.6	41.8	49.6
<i>Composition of exports</i>					
Agricultural products	19.0	14.3	5.6	1.6	0.5
Processed agricultural products	65.8	29.9	8.2	4.5	3.6
Industrial products	15.2	55.9	86.3	94.0	95.9

Source: *Journal of Policy Analysis and Reform from Australian National University*

Since the implementation of this policy, poverty levels have been significantly reduced due to periods of rapid economic growth that Taiwan has undergone.

Then, Taiwan went under economic liberalization and internationalization and upgraded their domestic industry from labor-intensive to skills-intensive and high technology-intensive production.

Of course, there is no recipe for rapid and sustained economic growth, but even so, Honduras can learn much from the Taiwanese economic development strategies.

### **3.3 Role of Small and Medium Sized ETC's in Taiwan's Economic Transition**

Small and medium enterprises have over the decades played a significant role in Taiwan's economy and which persist through present time. Back in the days, SME exports were essential to Taiwan's export oriented economy.

Not only were export trading companies intermediaries between local manufacturers and international buyers, they also were a source for strategic information regarding international markets and aided in changing the Taiwanese industries' focus and direction. They also pressed them into achieving economies of scales and economies of scope. These export trading companies were the agencies that brought innovation and the latest product information and technology into Taiwan and thus helped small and medium companies upgrade their products in order for them to be able to compete internationally.

The export trading companies provided the logistics for the subcontracting business granted to local Taiwanese companies. ETCs were thus, an integral part of Taiwan's economic stages and transitions.

In the 1960s and 1970s, most SMEs involved manual skill labor and most of the owners had low education levels and lacked the management and language skills for doing business abroad. This gap was filled by export trading companies, which were often run by university graduates with foreign language skills, in particular English. They stepped in to make up for the deficiencies of the SMEs and helped form a link between the local manufacturers and international buyers wanting to benefit from Taiwan's relative low costs.

With the increase in GNP per capita from the 1950s to the 1990s, came an increase in the number of trading companies in Taiwan, from 17 to more than 50,000, which handled about 70% of Taiwan's exports. However, nowadays, many of these trading companies have disappeared as companies started exporting on their own and as communication between markets became more accessible.

Even so, trading companies still play a crucial role in international trade in the Taiwanese market, in fact, around the world. And as the Taiwanese case shows, large scale trading companies don't always mean a recipe for success. Most Taiwanese trading companies are on the small and medium range, contrary to those of Japan and South Korea's companies.

Taiwan's success is mainly due to the still prevailing entrepreneurial culture of its citizens, along with effective Government involvement and support, both from which Honduras can learn a great deal.

### **3.4 Overview of FTA between Honduras, El Salvador and Taiwan**

Starting in 2003, the Honduran government advanced measures for consolidation of the country's trade policy, centering their efforts on greater integration with the international economy and a more robust legal framework governing trade relations.

The Ministry of Industry and Trade (SIC), made much progress on key areas such as trade negotiations, administration of agreements, promotion of external trade and investment, and its relations with civil society.

With that, talks about enhancing commercial relations between Taiwan and Central America really picked up in 2005. After various negotiation rounds, a Free Trade Agreement (FTA) between Honduras, El Salvador and Taiwan was signed in May 2007 and entered into force for Honduras in July 15, 2008 as a way for securing more permanent relations with one another. In Taiwan, the FTA entered into force on January 1, 2008, same date as El Salvador.

The purpose of this FTA is to promote the expansion and commercial diversification of products and services between the involved countries, eliminate commercial barriers and promote fair trade between the parties. It is expected that the FTA will ease the passage of Honduran goods into the Asia-Pacific region and also increase the flow of Taiwanese merchandise into Latin America.

Among the top products that the restriction-free commerce will allow includes beef, seafood, textiles, palm oil, molasses, ornamental plants, cocoa powder, pastas, wooden and metallic furniture, among others.

With the signing of the FTA, around 3,882 items from Taiwan are able to enter Honduras with tariff exemption. On the other hand, Taiwan lifted tariffs for around 6,135 Honduran products.

Starting from 2017, Taiwan will not place import duties on 93% of Honduran goods, and Honduras will allow 70% of merchandise from Taiwan to enter its market without charging any tariffs.

### 3.5 Background on Commercial Relations between Honduras and Taiwan

Before the FTA, Honduras just exported US\$1.5 million and imported US\$26 million from Taiwan. Barely 21 Taiwanese companies maintained operations in Honduras, with a total investment coming from Taiwan reaching US\$11 million, mostly in the textile industry, but which over the years, has been in decline.

It was expected that the commercial exchange between Honduras and Taiwan to be of approximately US\$80 million. That, however, has not been the case. In 2008 when the FTA came into force, Honduran exports to Taiwan increased considerably but decreased significantly in 2009 due to the recession. However, exports later picked up in 2010.

**Table 3: Trade Balance with Taiwan**

<b>Central Bank of Honduras</b> <b>Trade Balance with Taiwan</b> Value in US\$ thousands; Volume in kg						
Year	Export Value	Export Volume	Import Value	Import Volume	Trade Balance in Value	Trade Balance in Volume
2006	\$2,489	14,786	\$34,695	11,873	(\$32,205)	2,914
2007	\$6,425	32,581	\$39,737	12,452	(\$33,313)	20,129
2008	\$22,359	58,182	\$46,732	17,217	(\$24,373)	40,965
2009	\$2,877	12,022	\$38,613	20,982	(\$35,736)	(8,959)
2010	\$16,309	27,201	\$35,435	13,198	(\$19,126)	14,003
Total	\$50,459	144,773	\$195,212	75,722	(\$144,754)	69,051

Over the past five years, Honduras' trade balance with Taiwan has been of deficit, importing more from Taiwan than what it exports to it.

In 2010, Taiwan was Honduras' top 18<sup>th</sup> export partner. As seen on Table 4 below, over the past few years Honduras' main exports to Taiwan have been tons of waste and scrap of iron, steel and aluminum, coffee, and seafood such as scallops, shrimps, prawns and mollusks.

**Table 4: Top 25 Exports from Honduras to Taiwan**



Top 25 Exports from Honduras to Taiwan						
Value in US\$						
Rank	Tariff No.	Description of Goods	Year			Grand Total
			2008	2009	2010	
1	72044900	Other waste and scrap, of iron or steel	\$11,332,888	\$135,426	\$3,244,264	\$14,712,578
2	72041000	Waste and scrap of cast iron	\$4,973,547	\$120,318	\$6,760,851	\$11,854,716
3	09011130	Coffee, not roasted, not decaffeinated	\$1,066,136	\$1,233,141	\$1,353,013	\$3,652,290
4	03061311	Shrimps and prawns, frozen	\$0	\$338,512	\$2,678,492	\$3,017,004
5	72042900	Waste and scrap of other alloy steels	\$576,647	\$921,904	\$1,440,049	\$2,938,600
6	72043000	Waste and scrap of tinned iron or steel	\$2,180,489	\$0	\$0	\$2,180,489
7	76020000	Aluminium waste or scrap	\$1,810,970	\$0	\$200,078	\$2,011,048
8	48045900	Other kraft paper and paperboard, uncoated, in rolls or sheets, weighing 225 g/square meter or more	\$0	\$0	\$225,490	\$225,490
9	47079000	Other recovered (waste and scrap) paper or paperboard, including unsorted waste and scrap	\$0	\$57,631	\$140,611	\$198,242
10	03072900	Scallops (include full shell fish and compoy), alive, frozen, dried, salted or in brine	\$151,653	\$0	\$0	\$151,653
11	47072000	Recovered (waste and scrap) other paper or paperboard made mainly of bleached chemical pulp, not coloured in the mass	\$0	\$28,434	\$84,413	\$112,847
12	03079900	Other mollusks and aquatic invertebrates, frozen, including flours, meals and pellets of aquatic invertebrates other than crustaceans, fit for human consumption	\$72,722	\$0	\$0	\$72,722
13	09011190	Other coffee, not roasted, not decaffeinated	\$0	\$0	\$60,312	\$60,312
14	03073900	Mussels (mytilus spp., perna spp.), alive, frozen, dried, salted or in brine	\$59,937	\$0	\$0	\$59,937
15	23012090	Other flours, meals, and pellets, of fish or of crustaceans, mollusks or other aquatic invertebrates	\$10,920	\$0	\$43,747	\$54,667
16	73192000	Safety pins, of iron or steel	\$0	\$20,729	\$20,729	\$41,457
17	07070000	Cucumbers and gherkins, fresh or chilled	\$34,493	\$0	\$0	\$34,493
18	39139000	Other natural polymers and modified natural polymers, in primary forms	\$19,238	\$0	\$14,106	\$33,344
19	61091000	T-shirts, singlets and other vests, knitted or crocheted, of cotton	\$0	\$0	\$25,040	\$25,040
20	84481900	Other auxiliary machinery for machines of heading no. 84.44, 84.45, 84.46, 84.47.	\$14,696	\$0	\$0	\$14,696
21	85481010	Waste lead-acid accumulators and spent lead-acid accumulators	\$0	\$0	\$13,186	\$13,186
22	44071000	Other coniferous wood sawn or chipped lengthwise, sliced or peeled, whether or not planed, sanded or end-jointed, of a thickness exceeding 6 mm	\$11,346	\$0	\$0	\$11,346
23	84529000	Other parts of sewing machines	\$9,498	\$0	\$0	\$9,498
24	94036000	Other wooden furniture and its parts	\$0	\$6,620	\$210	\$6,830
25	39269099	Other articles of plastics and articles of other materials of headings Nos. 39.01 to 39.14	\$6,393	\$0	\$10	\$6,403
<b>Top 25 Products</b>			<b>\$22,331,570</b>	<b>\$2,862,714</b>	<b>\$16,304,600</b>	<b>\$41,498,884</b>
<b>Others</b>			<b>\$27,551</b>	<b>\$14,087</b>	<b>\$4,145</b>	<b>\$45,783</b>
<b>Grand Total</b>			<b>\$22,359,122</b>	<b>\$2,876,801</b>	<b>\$16,308,745</b>	<b>\$41,544,667</b>

Source: Central Bank of Honduras

Taiwan's main exports to Honduras has been steel products, parts and accessories of machines, parts and accessories of vehicles, lamp units, plastics and its derivatives, rubber, footwear, among others, as shown on Table 5.

**Table 5: Top 25 Imports by Honduras from Taiwan**

Top 25 Imports by Honduras from Taiwan						
Value in US\$						
Rank	Tariff No.	Description of Goods	Year			Grand Total
			2008	2009	2010	
1	72259900	Flat-rolled products of other alloy steel, of a width of 600 mm or more	\$3,482,254	\$574,913	\$4,202,383	\$8,259,550
2	72082700	Other flat-rolled products of iron or non-alloy steel, pickled, of a thickness of less than 3 mm, hot-rolled, in coils, containing by weight 0.6% or more of carbon	\$7,443,313	\$90,317	\$0	\$7,533,629
3	87089900	Other parts and accessories, parts and accessories of motor vehicles of heading 87.01 to 87.05	\$3,953,841	\$2,445,712	\$829,336	\$7,228,889
4	72106110	Flat-rolled products of iron or non-alloy steel, plated or coated with aluminium-zinc alloys	\$0	\$3,366,820	\$2,057,803	\$5,424,623
5	39199000	Other self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, whether or not in rolls	\$935,920	\$752,344	\$936,215	\$2,624,479
6	87082990	Parts and accessories of other vehicles	\$101,479	\$595,653	\$1,699,238	\$2,396,370
7	85391000	Sealed beam lamp units	\$857,462	\$418,167	\$1,032,942	\$2,308,570
8	85122000	Other lighting or visual signalling equipment	\$981,300	\$750,226	\$557,623	\$2,289,150
9	87081000	Bumpers and parts thereof	\$440,372	\$496,488	\$1,232,147	\$2,169,007
10	84529000	Other parts of sewing machines	\$1,091,575	\$522,562	\$530,310	\$2,144,447
11	87112090	Other motorcycles, cycles, equipped with reciprocating internal combustion piston engine of a cylinder capacity exceeding 50 cc but not exceeding 250 cc	\$523,793	\$632,198	\$692,425	\$1,848,416
12	85291000	Aerials and aerial reflectors of all kinds; parts suitable for use therewith	\$25,348	\$269,172	\$1,501,711	\$1,796,231
13	39191010	Self-adhesive plates, sheets, film, foil, tape, strip and other flat shapes, of plastics, in rolls of a width not exceeding 20 cm	\$750,392	\$676,021	\$309,731	\$1,736,144
14	64029190	Other footwear, covering the ankle, with outer soles and uppers of rubber or plastics	\$563,942	\$1,128,507	\$0	\$1,692,448
15	84145100	Table, floor, wall, window, ceiling or roof fans, with a self-contained electric motor of an output not exceeding 125 W	\$233,937	\$521,231	\$831,297	\$1,586,465
16	84145900	Other fans	\$62,691	\$179,008	\$1,019,788	\$1,261,487
17	85235210	Cards incorporating an electronic integrated circuit (smart cards) Supports semiconductors, disk, tape, permanent storage devices based on semiconductor data	\$1,013,919	\$173,589	\$463	\$1,187,972
18	64022000	Footwear, with upper straps or thongs assembled to the sole by means of plugs, with outer soles and uppers of rubber or plastics	\$193,382	\$886,528	\$0	\$1,079,910
19	64029990	Other footwear, with outer soles and uppers of rubber or plastics	\$152,590	\$805,894	\$0	\$958,484
20	70091000	Rear-view mirrors for vehicles	\$435,348	\$245,610	\$255,497	\$936,455
21	87120000	Bicycles and other cycles (including delivery tricycles), not motorised	\$306,326	\$3,384	\$610,285	\$919,995
22	87149990	Other parts and accessories of vehicles of headings Nos. 87.11 to 87.13	\$367,013	\$250,409	\$301,601	\$919,023
23	84099100	Other parts suitable for use solely or principally with the engines of heading 84.07 or 84.08	\$236,150	\$449,937	\$159,395	\$845,482
24	84149019	Parts of air pumps and vacuum pumps; compressors; fans and blowers	\$457,422	\$320,934	\$20,703	\$799,058
25	40114000	New pneumatic tires, of rubber, of a kind used on motorcycles	\$263,993	\$122,504	\$370,917	\$757,414
<b>Top 25 Products</b>			<b>\$24,873,763</b>	<b>\$16,678,127</b>	<b>\$19,151,810</b>	<b>\$60,703,700</b>
<b>Others</b>			<b>\$21,858,646</b>	<b>\$21,934,778</b>	<b>\$16,283,250</b>	<b>\$60,076,674</b>
<b>Grand Total</b>			<b>\$46,732,409</b>	<b>\$38,612,905</b>	<b>\$35,435,059</b>	<b>\$120,780,374</b>

Source: Central Bank of Honduras

Talks between both parties have been held to promote Honduran coffee in Asia, with Taiwanese companies such as Mr. Brown Coffee, part of King Car Group, showing great interest in this Honduran delicacy. Also, interest has been shown from Taiwanese companies to invest in solar energy, due to the potential they see in Honduras to develop

such resources. Likewise, a Taiwanese manufacturer of sporting goods has plans to establish operations in Honduras in the near future.

The electronics sector is Taiwan's most important industrial export sector and is of great appeal to world markets because of their quality and innovation and thus, is an excellent opportunity to exploit in Honduras.

Honduras held an event this past May, which focused on launching Honduras as the most attractive investment destination in Latin America. The event, which was named Honduras is Open for Business, is a fundamental milestone of the National Program for Investment Promotion. The event gave place to international forums and business meetings where companies were able to present their products to potential investors.

More than 1,000 companies from 75 countries were invited to this international forum. They were selected based on the interest they have historically demonstrated in Latin America, for their sales volume, as well for their orientation toward certain productive sectors of global priority.

A delegation of Taiwan, which included the Vice-minister of Economy and around 20 Taiwanese businessmen of the textile sector, machinery for plastics, electronics, technical services and coffee, were all present.

With this, commercial relations were reinforced between both countries. It was announced that Export-Import Bank of the Republic of China has agreed to offer US\$10 million in loans for Honduran companies who wish to purchase advanced machinery from Taiwan. This aims to help Honduran companies raise its competitiveness in the international markets.

According to Taiwan's Vice-Minister of Economy, to date, Taiwanese companies have invested around US\$60 million in Honduras, creating more than 2,000 jobs.<sup>9</sup>

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<sup>9</sup> *Honduras Investment Pact*. Noticias – Newsletter about Taiwan. May 2011.  
<http://noticias.nat.gov.tw/ct.asp?xItem=163926&ctNode=138&mp=12>



Taiwan can benefit greatly through foreign direct investment in Honduras and reach the United States market by taking advantage of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), and thus having preferential treatment to export their products to United States.

### **3.6 Competitive Environment**

There is no single export trading company specializing solely between the Honduran and Taiwanese markets. However, competitors may arise from those companies focused on trading products to other markets. In Honduras and Taiwan, trading companies are usually small in size and only focus on trading one or two products within their scope.

Some known Honduran coffee exporters are Beneficio Mercantil de Exportación, Central de Cooperativas Cafetaleras de Honduras, Compañía Exportadora S.A., Molinos de Honduras, Molinos Café Maya, Beneficio de Café Montecristo, Gabriel Kafati S.A., Cooperativa Regional Marcalina de Cafetaleros, among others.

There are two major cocoa exporters in Honduras, Hanfa Inversiones S. de R.L. and the Honduran Association of Cocoa Producers (APROCACHO). Honduras' main exporter of cigars is Tabacos de Oriente, which focuses mainly on the US market. For the European market, Maya Selva Cigar is the main exporter into the continent. Frida Cigar Geneva is another cigar producer in Honduras and is also listed in the CATO directory, meaning it has interest in the Taiwanese market.

As a competitor, we also have Del Tropic Comercializadora, S.A., which is located in the capital of Honduras. However, they are only focused on exporting goods from Central America to the United States; basically cigars, seafood and agricultural products.

In Taiwan, as a competitor we have Collins Co. LTD, which is a large trading company based in Taiwan since 1969. It has operations in Canada, United States, Mexico, China, Hong Kong, Thailand, Malaysia and Philippines.

Eidas LLC company is also trading company based in Taiwan but focusing on computer hardware and in minerals such as ore and coal trade.

Apart from these companies, we also have as competitors those distributors and companies who import and export the products that they sell or use as inputs for their business.

### **3.7 Target Market/Product Scope**

As mentioned previously, Guanxi Trading LLC will start by trading products between Honduras and Taiwan. Price is one of the main factors that influence the receptivity of most Honduran imports, whereas quality is one of the main aspects for importing products into Taiwan.

#### **3.7.1 Initial Target field: Honduran Exports to Taiwan**

After much evaluation and assessment of statistics and market information, coffee and coffee derived products, tobacco and tobacco related products, cocoa and cocoa preparations will be the initial products that Guanxi Trading LLC will start trading from Honduras to Taiwan.

#### Coffee and coffee related products

Coffee is one of Honduras' most important crops. The Honduran coffee production is spread throughout the country. Over the years, coffee cultivation in Honduras has in

average contributed to the agricultural GDP of the economy by 20% and coffee production has increased over the years.

Germany is the main export market for Honduran coffee. In 2010, 26% of exports were destined to that country. Belgium and United States were the second and third largest export markets, with 15% and 8% of exports, respectively.

Honduras also exports coffee to Asia Pacific countries, mainly to South Korea and Japan. In 2010 it sold around US\$39.5 million dollars in coffee to South Korea and to Japan approximately US\$20.1 million. However, to Taiwan, exports were only around US\$1.4 million, as seen below.

**Table 6: Honduras' Coffee Exports**

Honduras' Coffee Exports In thousands of US\$					
Country	2008	2009	2010	Grand Total	Percentage of Sales from 2010
South Korea	\$13,709	\$13,236	\$39,477	\$66,422	41.07%
Japan	\$22,647	\$16,199	\$20,769	\$59,616	36.86%
North Korea	\$9,541	\$14,808	\$0	\$24,349	15.05%
Australia	\$3,084	\$1,362	\$1,390	\$5,837	3.61%
Taiwan	\$1,070	\$1,233	\$1,414	\$3,717	2.30%
Hong Kong	\$0	\$253	\$632	\$886	0.55%
New Zeland	\$120	\$204	\$139	\$463	0.29%
China	\$111	\$0	\$78	\$189	0.12%
Singapore	\$107	\$0	\$52	\$159	0.10%
Malaysia	\$48	\$50	\$0	\$98	0.06%
<b>Asia Pacific Sales</b>	<b>\$50,438</b>	<b>\$47,346</b>	<b>\$63,950</b>	<b>\$161,735</b>	<b>8.84%</b>
<b>Rest of the World</b>	<b>\$568,014</b>	<b>\$484,523</b>	<b>\$659,251</b>	<b>\$1,711,788</b>	<b>91.16%</b>
<b>Total Sales</b>	<b>\$618,452</b>	<b>\$531,869</b>	<b>\$723,201</b>	<b>\$1,873,522</b>	<b>100.00%</b>

Source: Central Bank of Honduras

Taiwan's coffee imports have increased over the past several years. In 2010, approximately US\$68.9 million were imported in coffee and coffee related products. Of this amount, 33% of Taiwan's coffee imports came from Asia and around 20% came from Central American countries, meaning that Honduran coffee has room to increase its current market share in the country.

Honduran coffee has won several awards in international markets. Recently, it was among the top 10 aromatic coffees in a competition held in the United States, which involved the presence of major powers such as Brazil.

Honduras needs to immerse itself more into the global marketplace. In order for Honduran coffee to gain importance in the international markets, Honduras needs to brand itself so that coffee gains equal value on the international market as a world-class product.

In 2008, Molinos Café Maya, a Honduran coffee producer, exported coffee to Taiwan. It had to redesign its coffee product line to add gourmet blends, including pure and flavored coffees. Hazelnut flavored coffee was among the most readily accepted in the Taiwanese market.

Although Taiwanese people are heavy tea drinkers, over the years, coffee intake has increased among the population. The appearances of chain stores such as Starbucks, Lavazza and Barista have fomented an increase on coffee intake, thus leading to a growth of coffee imports.

As mentioned previously, King Car Food Industrial Co., Ltd., part of Mr. Brown Coffee, has shown great interest in Honduran coffee, thus giving us a great opportunity to have them as a customer. Another possible distributor we can work with is Orsir Coffee, who sells specialty coffee from around the world, including coffee from Guatemala.

Honduras exported around 33,000 kg of coffee per month to Taiwan in 2010. We anticipate impelling sales of Honduran coffee to Taiwan and thus, selling around 40% of this amount to Taiwan. With all this in mind, here are the forecasted sales and cost breakdown for coffee and coffee related products to export to Taiwan.

**Table 7: Coffee sales breakdown**

<b>Coffee</b>			
	<b>Year</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Units sold (bag of 46 kg)	3480	3828	4272
Unit Price	\$252	\$264	\$276
<b>Sales</b>	<b>\$875,647</b>	<b>\$1,008,878</b>	<b>\$1,179,400</b>
Direct Unit costs	\$220	\$231	\$243
<b>Direct cost of sales</b>	<b>\$765,600</b>	<b>\$884,268</b>	<b>\$1,036,174</b>
Import duties	\$0	\$0	\$0
Freight & stuffing charges	\$38,420	\$42,262	\$47,164
Customs brokerage	\$400	\$420	\$441
Insurance	\$2,628	\$2,891	\$3,226
<b>Total costs</b>	<b>\$807,048</b>	<b>\$929,841</b>	<b>\$1,087,005</b>
Total costs/unit	\$232	\$243	\$254
<b>Net profit</b>	<b>\$68,599</b>	<b>\$79,036</b>	<b>\$92,395</b>

Unit price is determined by adding an 8.5% over the total costs/unit, which will be our profit margin for this product.

Because coffee has a relatively inelastic demand, sales won't be affected as much due to cost increases. Number of units sold is forecasted to increase by 10% and 12% for 2013 and 2014, respectively.

Under the FTA between Honduras and Taiwan, coffee and coffee related products, under HS code 0901, are categorized as type A, meaning that duties on these types of products shall be eliminated entirely and such goods are already duty-free, since the FTA agreement has already entered into force.

Tobacco and tobacco related products

Cigars are part of the most important non-traditional exports products of Honduras. According to overseas buyers, Honduran cigars have great taste and they have a lot of potential and are consumed by major Hollywood actors, such as Arnold Schwarzenegger, Bruce Willis, Mel Gibson, Steven Seagal and Jean-Claude Van Damme.<sup>10</sup>

In order to aid Honduras in its attempt to re-launch the tobacco industry, Guanxi Trading LLC will aid in promoting this industry in Taiwan.

In 2010, Honduras exported around US\$71.6 million in these products. The vast majority of cigars produced in Honduras are exported to United States. Other major markets include Canada and some European countries. In Asia Pacific, Japan and Australia are exports markets for Honduran tobacco.

Taiwan imports about half of its cigarette supplies. Most of Taiwan's imports of tobacco come from Asia, constituting around 84%. When taking into account only Taiwan's imports of cigars, cheroots and cigarillos containing tobacco, most of them are imported from Cuba and Dominican Republic. In 2010, Taiwan imported around US\$2 million in these types of products, from which 58% came from Central America and the Caribbean region, as seen below.

### **Table 8: Taiwan's Cigar Imports**

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<sup>10</sup> Schwarzenegger, Mel Gibson, Willis and Seagal, smokers of Honduran cigars. <http://www.kluz.tv/noticia/2011/02/16/233447-schwarzenegger-mel-gibson-willis-seagal-fumadores-puros-hondurenos.html> February 2011.

<b>Taiwan Imports</b>			
In US\$			
240210: Cigars, cheroots and cigarillos, containing tobacco			
<b>Country Name</b>	<b>Year</b>		<b>Percentage of Sales from 2010</b>
	<b>2009</b>	<b>2010</b>	
<b>Global-Continental</b>	<b>\$1,853,867</b>	<b>\$2,006,065</b>	<b>100%</b>
Central America and the Caribbean	\$1,351,513	\$1,168,562	58.25%
Europe	\$357,997	\$452,704	22.57%
North America	\$127,520	\$352,542	17.57%
South America	\$6,235	\$20,993	1.05%
Asia	\$10,602	\$11,264	0.56%

*Source: Taiwan BOFT Trade Statistics*

Although cigar exports from Honduras to the Taiwanese market have been low, Guanxi Trading LLC will focus on exploiting this market for Honduran cigars due to the high demand of Taiwan for tobacco and tobacco related products.

For importing tobacco into Taiwan, we must abide by the Tobacco and Alcohol Administration Act.

Possible distributors we can work with in Taiwan are Shyang Yi Tobacco & Wine Co., Ltd. and Gala Vineyard Wine & Cigar Enterprise Inc., which are distributors of tobacco related products in the region.

We anticipate in selling around 20% of current Taiwan imports from Central America and the Caribbean for our first year of operation. For the next two years, we anticipate to increase sales by 9% and 13%, respectively.

**Table 9: Cigar sales breakdown**

<b>Cigars</b>			
	<b>Year</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Units sold (box of 1.36 kg)	2160	2246	2426
Unit Price	\$115	\$121	\$127
<b>Sales</b>	<b>\$249,301</b>	<b>\$272,088</b>	<b>\$308,461</b>
Direct Unit costs	\$90	\$95	\$99
<b>Direct cost of sales</b>	<b>\$194,400</b>	<b>\$212,247</b>	<b>\$240,720</b>
Import duties (20%)	\$38,880	\$42,449	\$48,144
Freight & stuffing charges	\$898	\$934	\$1,009
Customs brokerage	\$400	\$420	\$441
Insurance	\$612	\$636	\$687
<b>Total costs</b>	<b>\$235,190</b>	<b>\$256,686</b>	<b>\$291,001</b>
Total costs/unit	\$109	\$114	\$120
<b>Net profit</b>	<b>\$14,111</b>	<b>\$15,401</b>	<b>\$17,460</b>

Unit price is determined by adding a 6% over the total costs/unit, which will be our profit margin for this product. The number of units sold is expected to increase by 4% for 2013 and 8% for 2014.

Under the FTA between Honduras and Taiwan, cigars, cheroots and cigarillos, containing tobacco, fall under HS code 24021000 and are categorized as type E, with a base rate of 20%, meaning that the duties shall be deemed as sensitive and free from any reduction commitment.

### Cocoa and cocoa preparations

Cocoa ranks third, after sugar and coffee, in the world commodity market. It is widely used for industrial, cosmetic and for mass consumption.



Although no exports from Honduras to Taiwan have been recorded in this category, Taiwan imported around US\$15.3 million in cocoa and cocoa preparations in 2010.

**Table 10: Taiwan's Cocoa Imports**

<b>Taiwan Imports</b>			
Value In US\$			
1801 - 1805: Cocoa and cocoa preparations			
<b>Country Name</b>	<b>2010 Value</b>	<b>2010 Qty. in kg</b>	<b>Percentage of Sales Value from 2010</b>
<b>Global-Continental</b>	<b>\$15,303,826</b>	<b>3,580,340</b>	<b>100.00%</b>
Asia	\$9,057,579	2,264,531	59.19%
Europe	\$5,224,746	1,121,543	34.14%
Africa	\$731,111	148,000	4.78%
North America	\$248,783	39,439	1.63%
South America	\$28,620	5,327	0.19%
Central America and the Caribbean	\$12,987	1,500	0.08%

However, Honduran cocoa over the past several has high demand in European countries and the United States, which means that Honduran cocoa meets the quality standards of the demanding European and US markets, which are the leaders in production of cocoa related products.

Taiwan imports a great amount of raw material such as cocoa paste and cocoa powder, meaning that there is a chance for Honduras to export these products to Taiwan. Honduras doesn't produce chocolate ready for consumption, which constitutes the other part of Taiwan's imports on this category. Thus, there is an opportunity to start developing this sector in Honduras since it has the land and agro-ecological conditions for adequate cocoa plantation.

Projections from the cocoa producing sector in Honduras are in increasing the plantations of this product in the country. It is expected that in 2013, three thousand tons will be exported.

Honduras has two known cocoa exporters, Hanfa Inversiones S. de R.L. and the Honduran Association of Cocoa Producers (APROCACAO), but as mentioned before, no exports to Taiwan have been accomplished, thus giving Guanxi Trading LLC an opportunity to open the market in Taiwan for Honduran cocoa.

A suitable business partner in Taiwan would be Esprit International Co. Ltd, which is engaged in distributing chocolate based products and other pastry materials. Esprit also has the potential for becoming our suppliers to the Honduran market. Hunya Foods Co., Ltd. and Uni-President are other possible customers due to the fact that they are manufacturers of chocolate related food products.

We anticipate in selling around 3% of Taiwan's monthly imports of cocoa as raw material, powder or paste for our first year of operations. We then plan to increase sales by 15% and 17% for 2013 and 2014, respectively.

**Table 11: Cocoa sales breakdown**

<b>Cocoa</b>			
	<b>2012</b>	<b>Year 2013</b>	<b>2014</b>
Units sold (bag of 46 kg)	2328	2561	2868
Unit Price	\$170	\$178	\$186
<b>Sales</b>	<b>\$395,862</b>	<b>\$455,606</b>	<b>\$533,878</b>
Direct Unit costs	\$145	\$152	\$160
<b>Direct cost of sales</b>	<b>\$337,560</b>	<b>\$389,912</b>	<b>\$458,486</b>
Import duties	\$0	\$0	\$0
Freight & stuffing charges	\$25,702	\$28,274	\$31,664
Customs brokerage	\$400	\$420	\$441
Insurance	\$1,188	\$1,307	\$1,464
<b>Total costs</b>	<b>\$364,850</b>	<b>\$419,913</b>	<b>\$492,054</b>
Total costs/unit	\$157	\$164	\$172
<b>Net profit</b>	<b>\$31,012</b>	<b>\$35,693</b>	<b>\$41,825</b>

Unit price is determined by adding an 8.5% over the total costs/unit, which will be our profit margin for this product. The demand for cocoa is relatively inelastic. The number of units is expected to increase by 10% and 12% for 2013 and 2014, respectively.

Under the FTA between Honduras and Taiwan, cocoa as raw material and as powder and paste, fall under HS codes 1801 through 1805, are categorized as type A, meaning that these products can enter Taiwan duty free.

### **3.7.2 Initial Target field: Taiwan Exports to Honduras**

Taiwan is world-known as a high-quality supplier of competitively priced products. It is a world-leading manufacturer of electronics, such as notebooks, LCD monitors, PC cameras, and wireless LANs. It is also home to the fabrication of a wide array of other electronics, such as mobile phones and other computer accessories. It's no surprise Taiwan is called the Island of Innovation.<sup>11</sup>

#### Cup-sealing machines

Taiwanese juice selling companies have a very innovative method of sealing cups for beverages. They use a plastic film to seal cups instead of using traditional lids. This is a great business opportunity to exploit in Honduras. Guanxi Trading LLC, by importing this in Honduras, would have a first mover advantage.

This product has the potential to be distributed not only in Honduras, but throughout the rest of Central America and even South America.

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<sup>11</sup> Workman, Daniel. A Risk-Reward Analysis of the Taiwanese Business Environment. International Trade by Suite 101. <http://www.suite101.com/content/evaluating-taiwan-as-a-trade-partner-a120263> May 2009.

Throughout Honduras, there are many coffee shops, milkshake and juice bars which would benefit from using this machine. It would help these shops save costs, as well as helping to protect the environment. Also, they would provide customers with a better service by avoiding them any possibilities of spills.

Our initial target will be Espresso Americano, which is a chain of coffee stores in Honduras, specializing in hot and cold coffee drinks. As of now, they have over 100 stores scattered throughout the country, thus providing a great market for the cup-sealing machines.

Additionally, there are other chains of coffee shops we can target, such as The Coffee Cup, which is a Salvadorian chain that has numerous shops scattered throughout Central America. As well, there are numerous milkshake and juice bars scattered throughout the country, in addition to diners and cafeterias that could benefit from this machine.

This product also has the potential to be sold in South American countries; therefore we anticipate sales to that region as well.

**Table 12: Cup-sealing machine sales breakdown**

<b>Cup-sealing Machines</b>			
	<b>Year</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Units sold	240	264	264
Unit Price	\$601	\$630	\$661
<b>Sales</b>	<b>\$144,244</b>	<b>\$166,377</b>	<b>\$174,499</b>
Direct Unit costs	\$500	\$525	\$551
<b>Direct cost of sales</b>	<b>\$120,000</b>	<b>\$138,600</b>	<b>\$145,530</b>
Import duties	\$0	\$0	\$0
Freight & stuffing charges	\$2,650	\$2,915	\$2,915
Customs brokerage	\$240	\$252	\$265
Insurance	\$396	\$436	\$436
<b>Total costs</b>	<b>\$123,286</b>	<b>\$142,202</b>	<b>\$149,145</b>
Total costs/unit	\$514	\$539	\$565
<b>Net profit</b>	<b>\$20,959</b>	<b>\$24,174</b>	<b>\$25,355</b>

Unit price is determined by adding a 17% over the total costs/unit, which will be our profit margin for this product. Number of units sold is expected to increase by 10% for 2013 and for 2014, it is expected that the number will maintain at the 2013 level.

These types of machines, with HS code 84223000, fall under category A of the FTA between Honduras and Taiwan, which means that this product can enter Honduras duty free.

### Scooters

The highest scooter density area in the world is found in Taiwan. On average, every two people own one scooter and 88% of families have at least one scooter. Scooters are very convenient for commuters, which usually are office workers, students and small businessmen. And because they are cheaper than cars, more people are able to afford them. In Taiwan, a scooter forms part of a person's daily life. And as seen on Taiwan, scooters and automobiles can co-exist peacefully due to their scooter-friendly roadways.

In Honduras, public transportation is not convenient; therefore scooters are a great alternative, even in relation to cars, because of the increasing traffic congestion. Fuel consumption has increased tremendously because of the long time spent in traffic jams. Thus, there is still huge potential growth for the motorcycle industry in Honduras.

Even though the Government is implementing a few strategic plans to lower traffic congestion in the main cities, these initiatives won't solve the problem on the long run. However, if more and more people start driving scooters, traffic congestion will significantly improve.

Guanxi Trading LLC will start by importing used scooters with cylinder capacity above 50 and below or equal to 250. In 2010, Honduras imported around US\$32 million in these types of scooters, of which approximately 69% were imported from China. Around 5% of imports were from India, 4% from Japan and imports from Taiwan only constituted around 2%.

Motomundo S.A., Corporación Masada, and Motinsa will be our target distributors in Honduras.

After initial assessment with distributors, we estimate to initially sell 50 scooters per month in 2012 and then expect the number of units sold to increase by 12% and 16% for 2013 and 2014, respectively.

**Table 13: Scooter sales breakdown**

<b>Scooters</b>			
	<b>Year</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Units sold	600	672	780
Unit Price	\$1,275	\$1,324	\$1,374
<b>Sales</b>	<b>\$765,081</b>	<b>\$889,397</b>	<b>\$1,071,945</b>
Direct Unit costs	\$800	\$840	\$882
<b>Direct cost of sales</b>	<b>\$480,000</b>	<b>\$564,480</b>	<b>\$687,960</b>
Import duties (10%)	\$48,000	\$56,448	\$68,796
Freight & stuffing charges	\$165,236	\$185,065	\$214,807
Customs brokerage	\$240	\$252	\$265
Insurance	\$2,052	\$2,298	\$2,668
<b>Total costs</b>	<b>\$695,528</b>	<b>\$808,543</b>	<b>\$974,496</b>
Total costs/unit	\$1,159	\$1,203	\$1,249
<b>Net profit</b>	<b>\$69,553</b>	<b>\$80,854</b>	<b>\$97,450</b>

Unit price is determined by adding a 10% over the total costs/unit, which will be our profit margin for this product.

The HS code for this product is 87112000. Under the FTA between Honduras and Taiwan, it falls under category E, with a base rate of 10%. Thus, products in this category are not subject to any duty reduction.

## Entertainment devices

Included in this category are television flat panel displays, computers, dvd players, gaming devices, cameras, projectors, cellphones, etc. Guanxi Trading LLC will start off by selling flat panel televisions and laptops/netbooks/tablets.

Taiwan has won a reputation as one of the world's leading producers of low-cost, high-quality electronic goods. Over the past 20 years, Taiwan's information technology industry has played an important role in the worldwide IT market. Taiwanese companies account for about three-quarters of the world's production of PCs and half of the world's LCDs. Furthermore, Taiwan makes about a quarter of the world's semiconductors and about a fifth of the world's mobile phones.

### **LCD Televisions**

When it comes to televisions, LCDs are by far the most widely produced and sold television display type. Taiwan is one of the world's biggest flat panel producers. In 2007, the Taiwanese LCD TV industry's total shipment volume rose to 15.4 million units and it is anticipated that Taiwan's share of global LCD TV manufacturing will rise to around 30% by the end of 2011.

In 2010, Honduras imported around US\$54.9 million in televisions. Most of the imports came from Mexico, the United States and China, with 35%, 22% and 20% respectively. Around 25% of total imports came from Asian Pacific countries, led by China, followed by Malaysia and then Hong Kong. No imports for this category were reported from Taiwan in 2010.

Target distributors in Honduras will be Jetstereo, La Curacao and PriceSmart, which are major retailers of electronics and entertainment devices in Honduras. We expect to start selling at least 60 units per month and then increase the number of units sold by 10% and 14% for 2013 and 2014, respectively.

**Table 14: Honduras' TV Imports**

<b>Honduras' TV Imports</b>						
Value in US\$ Thousands						
Rank	Country	2008	2009	2010	Grand Total	Percentage of Sales from 2010
1	Mexico	\$15,595	\$24,606	\$19,268	\$59,469	35.11%
2	China	\$6,704	\$5,437	\$11,233	\$23,373	20.47%
3	United States	\$3,279	\$2,543	\$12,335	\$18,156	22.47%
4	Panama	\$5,330	\$957	\$5,625	\$11,911	10.25%
5	Malaysia	\$4,278	\$3,135	\$2,153	\$9,566	3.92%
6	El Salvador	\$1,448	\$1,090	\$1,715	\$4,253	3.12%
7	Costa Rica	\$365	\$1	\$923	\$1,290	1.68%
8	Guatemala	\$68	\$169	\$1,022	\$1,259	1.86%
9	Hong Kong	\$292	\$42	\$219	\$553	0.40%
10	Israel	\$0	\$0	\$364	\$364	0.66%
11	Thailand	\$96	\$3	\$0	\$99	0.00%
12	South Korea	\$0	\$78	\$0	\$78	0.00%
13	Japan	\$1	\$73	\$4	\$78	0.01%
14	Nicaragua	\$47	\$28	\$1	\$76	0.00%
15	Taiwan	\$3	\$38	\$0	\$41	0.00%
	<b>Top 15 Countries</b>	<b>\$37,507</b>	<b>\$38,200</b>	<b>\$54,862</b>	<b>\$130,569</b>	<b>99.96%</b>
	<b>Others</b>	<b>\$19</b>	<b>\$15</b>	<b>\$23</b>	<b>\$57</b>	<b>0.04%</b>
	<b>Grand Total</b>	<b>\$37,526</b>	<b>\$38,215</b>	<b>\$54,885</b>	<b>\$130,626</b>	<b>100.00%</b>

**Table 15: LCDs sales breakdown**

<b>LCD televisions</b>			
	<b>Year</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Units sold	720	792	899
Unit Price	\$612	\$641	\$672
<b>Sales</b>	<b>\$440,281</b>	<b>\$507,592</b>	<b>\$603,911</b>
Direct Unit costs	\$530	\$557	\$584
<b>Direct cost of sales</b>	<b>\$381,600</b>	<b>\$440,748</b>	<b>\$525,308</b>
Import duties	\$0	\$0	\$0
Freight & stuffing charges	\$13,513	\$14,865	\$16,873
Customs brokerage	\$240	\$252	\$265
Insurance	\$1,296	\$1,426	\$1,618
<b>Total costs</b>	<b>\$396,649</b>	<b>\$457,290</b>	<b>\$544,064</b>
Total costs/unit	\$551	\$577	\$605
<b>Net profit</b>	<b>\$43,631</b>	<b>\$50,302</b>	<b>\$59,847</b>



Unit price is determined by adding an 11% over the total costs/unit, which will be our profit margin for this product.

## Laptops

Taiwan's Acer Inc. and AsusTek Computer Inc. are among the top 5 computer companies in the international market.

Taiwan exported around US\$247.4 million in portable processing machines in 2010. For Taiwan, around 229 million units of notebook PCs were estimated to be shipped in 2010 and shipments for netbooks were expected to be around 26 or 27 million units. Taiwan's main export markets for notebook PCs and netbooks are North America and Europe, around 58% and 22%, respectively.

In 2010, Honduras imported around US\$50.2 million in laptops and netbooks, from which approximately 82% came from the United States. The top brands of notebooks sold in Honduras are HP, Sony and Apple.

**Table 16: Honduras' Laptop Imports**

<b>Honduras' Laptop Imports</b>						
Value in US\$ Thousands						
Rank	Country	2008	2009	2010	Grand Total	Percentage of Sales from 2010
1	United States	\$31,589	\$29,661	\$41,394	\$102,643	82.38%
2	Panama	\$1,044	\$369	\$3,080	\$4,494	6.13%
3	El Salvador	\$122	\$316	\$1,833	\$2,271	3.65%
4	China	\$841	\$7,422	\$1,619	\$9,882	3.22%
5	Guatemala	\$232	\$192	\$981	\$1,406	1.95%
6	Mexico	\$422	\$2,359	\$518	\$3,299	1.03%
7	Colombia	\$0	\$2	\$430	\$432	0.86%
8	South Korea	\$1	\$199	\$178	\$378	0.35%
9	Taiwan	\$3	\$11	\$83	\$96	0.16%
10	Costa Rica	\$9	\$156	\$37	\$202	0.07%
11	Canada	\$36	\$5	\$26	\$67	0.05%
12	Germany	\$223	\$15	\$16	\$255	0.03%
13	Spain	\$80	\$4	\$10	\$94	0.02%
14	France	\$545	\$30	\$9	\$584	0.02%
15	Japan	\$6	\$262	\$6	\$274	0.01%
	<b>Top 15 Countries</b>	<b>\$35,152</b>	<b>\$41,005</b>	<b>\$50,220</b>	<b>\$126,377</b>	<b>99.95%</b>
	<b>Others</b>	<b>\$771</b>	<b>\$1,224</b>	<b>\$27</b>	<b>\$2,022</b>	<b>0.05%</b>
	<b>Grand Total</b>	<b>\$35,923</b>	<b>\$42,229</b>	<b>\$50,248</b>	<b>\$128,399</b>	<b>100.00%</b>

We expect to start selling at least 60 units per month and then increase the number of units sold by 10% for 2013 and 12% for 2014.

**Table 17: Laptop sales breakdown**

<b>Laptops</b>			
	<b>Year</b>		
	<b>2012</b>	<b>2013</b>	<b>2014</b>
Units sold	720	792	888
Unit Price	\$681	\$715	\$750
<b>Sales</b>	<b>\$490,317</b>	<b>\$566,184</b>	<b>\$666,401</b>
Direct Unit costs	\$600	\$630	\$662
<b>Direct cost of sales</b>	<b>\$432,000</b>	<b>\$498,960</b>	<b>\$587,412</b>
Import duties	\$0	\$0	\$0
Freight & stuffing charges	\$265	\$291	\$327
Customs brokerage	\$240	\$252	\$265
Insurance	\$1,404	\$1,544	\$1,732
<b>Total costs</b>	<b>\$433,909</b>	<b>\$501,048</b>	<b>\$589,735</b>
Total costs/unit	\$603	\$633	\$664
<b>Net profit</b>	<b>\$56,408</b>	<b>\$65,136</b>	<b>\$76,666</b>

Unit price is determined by adding a 13% over the total costs/unit, which will be our profit margin for this product.

Televisions in Honduras are imported under HS code 85287290. Laptops fall under HS code 847130. Under the FTA agreement between Honduras and Taiwan, both of these items fall under category A, meaning that these products can enter Honduras duty free.

## **CHAPTER IV.- FINANCIAL PROJECTIONS**

Guanxi Trading LLC will be a new business venture in Honduras and Taiwan and it will also serve as an employment source for its founders.

It takes time to develop the market for foreign products, thus sales are forecasted to increase slowly for products from Honduras to Taiwan. The income intakes of Guanxi Trading LLC will have to be small in order to maintain the traded product's competitiveness in the market. From this, establishment expenses have to be covered, as well as payrolls, costs of value adding services, etc., and at the same time be able to generate profits for financing future growth plans. Because of this, Guanxi Trading LLC needs to encourage and ensure high sales volume to be transacted and promote a long-term, stable supply of products.

The activities of the branch office in Taipei will be controlled by the head office in Honduras. In order to exercise control of the financial status of the company, branch accounting will be implemented. This way, we will be able to ascertain profit of the branch office separately.

Since inter-company shipping will be enforced, the head office in Honduras can send goods to branch office in Taipei at an on cost price or invoice price, and vice-versa.

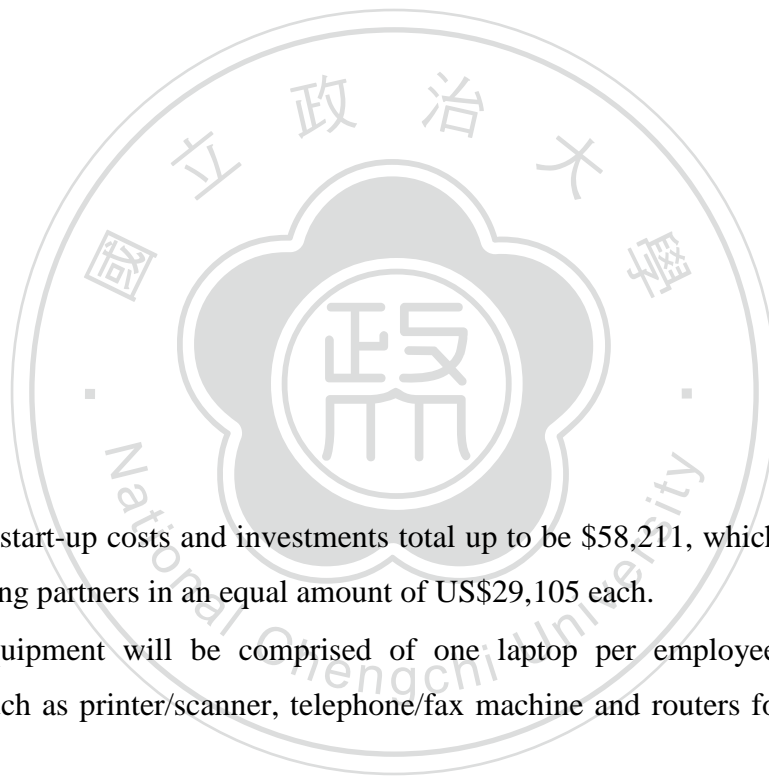
### **4.1 Initial Capital Requirements**

Trading companies usually have to operate with low margins in a very risky business and usually incur with hefty capital expenses in order to set up overseas infrastructure. However, to overcome this, Guanxi Trading LLC will not start off with huge infrastructure or expensive office space. As mentioned, Guanxi Trading LLC will start off as a small company, with minimal investment and expenses.

We now summarize the initial capital requirements for Guanxi Trading LLC. The breakdown is done by Head office and Branch office for the starting year for tax and assessment purposes. Future years are presented in a consolidated manner.

**Table 18: Initial Capital Requirements**

<b>Guanxi Trading LLC</b>			
<b>Initial Capital Requirements</b>			
	<b>Head office (Honduras)</b>	<b>Branch office (Taiwan)</b>	<b>Total</b>
<b>Start-up Costs</b>			
<b>Start-up Assets</b>			
Cash	\$12,000	\$14,000	\$26,000
Furniture	\$1,600	\$1,300	\$2,900
IT Equipment	\$3,700	\$2,500	\$6,200
Rent Deposit	\$1,800	\$3,000	\$4,800
<b>Total Start-up Assets</b>	<b>\$19,100</b>	<b>\$20,800</b>	<b>\$39,900</b>
<b>Start-up Expenses</b>			
Company registration	\$650	\$1,000	\$1,650
Legal fees	\$1,000	\$2,500	\$3,500
Webpage design	\$300	\$0	\$300
Supplies	\$200	\$100	\$300
Rent	\$900	\$1,500	\$2,400
Utilities	\$300	\$300	\$600
Advertising	\$500	\$700	\$1,200
Opening month salaries	\$3,103	\$2,258	\$5,361
Reserve for Contingencies	\$1,500	\$1,500	\$3,000
<b>Total Start-up Expenses</b>	<b>\$8,453</b>	<b>\$9,858</b>	<b>\$18,311</b>
<b>Total Start-up Costs</b>	<b>\$27,553</b>	<b>\$30,658</b>	<b>\$58,211</b>
<b>Owner's Investments</b>			
Investor 1 (50%)			\$29,105
Investor 2 (50%)			\$29,105



- Total start-up costs and investments total up to be \$58,211, which will be provided by the founding partners in an equal amount of US\$29,105 each.
- IT equipment will be comprised of one laptop per employee, plus additional equipment such as printer/scanner, telephone/fax machine and routers for common use of the office.
- Rent deposit was calculated as two months' worth of rent.
- Details of monthly and yearly salaries can be found in the Appendix. The breakdown includes yearly bonuses required by the Honduran law and a voluntary bonus for the branch office. Costs also include social security payment, which for Honduras is 7% from monthly salaries and for Taiwan the rate paid by employers is 5%.

## **4.2 Projected Income Statement**

A summary of our Sales and Costs is shown below, in addition to the profits generated from each product category. Freight and customs brokerage were calculated using the quotes given by Odyssey International Co., LTD.

**Table 19: Sales and Profit Distribution**

Guanxi Trading LLC												
Sales and Profit Distribution												
Product Type	Net Sales 2012	Net Sales 2013	Net Sales 2014	Costs of Goods Sold 2012	Costs of Goods Sold 2013	Costs of Goods Sold 2014	Profit 2012	Profit 2013	Profit 2014	% of Profit 2012	% of Profit 2013	% of Profit 2014
Scooters	\$765,081	\$889,397	\$1,071,945	\$695,528	\$808,543	\$974,496	\$69,553	\$80,854	\$97,450	22.86%	23.06%	23.71%
Cup-sealing machines	\$144,244	\$166,377	\$174,499	\$123,286	\$142,202	\$149,145	\$20,959	\$24,174	\$25,355	6.89%	6.90%	6.17%
Laptops	\$490,317	\$566,184	\$666,401	\$433,909	\$501,048	\$589,735	\$56,408	\$65,136	\$76,666	18.54%	18.58%	18.65%
LCD Televisions	\$440,281	\$507,592	\$603,911	\$396,649	\$457,290	\$544,064	\$43,631	\$50,302	\$59,847	14.34%	14.35%	14.56%
Coffee	\$875,647	\$1,008,878	\$1,179,400	\$807,048	\$929,841	\$1,087,005	\$68,599	\$79,036	\$92,395	22.55%	22.54%	22.48%
Cocoa	\$395,862	\$455,606	\$533,878	\$364,850	\$419,913	\$492,054	\$31,012	\$35,693	\$41,825	10.19%	10.18%	10.18%
Cigars	\$249,301	\$272,088	\$308,461	\$235,190	\$256,686	\$291,001	\$14,111	\$15,401	\$17,460	4.64%	4.39%	4.25%
<b>Total</b>	<b>\$3,360,734</b>	<b>\$3,866,122</b>	<b>\$4,538,495</b>	<b>\$3,056,460</b>	<b>\$3,515,524</b>	<b>\$4,127,499</b>	<b>\$304,274</b>	<b>\$350,597</b>	<b>\$410,997</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The following table details our revenues and associated costs.

**Table 20: Pro Forma Income Statement**

<b>Guanxi Trading LLC</b>					
<b>Pro Forma Income Statement</b>					
<b>December - Year End</b>					
	<b>Head office (Honduras)</b>	<b>Branch office (Taiwan)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Net Sales	\$1,520,811	\$1,839,923	\$3,360,734	\$3,866,122	\$4,538,495
Costs of goods sold (incl. freight and brokerage)	\$1,407,088	\$1,649,372	\$3,056,460	\$3,515,524	\$4,127,499
<b>Gross Profit on Sales</b>	<b>\$113,723</b>	<b>\$190,551</b>	<b>\$304,274</b>	<b>\$350,597</b>	<b>\$410,997</b>
<b>Operating expenses</b>					
Payroll	\$41,586	\$29,240	\$70,826	\$97,482	\$102,356
Advertising/Promotion	\$8,000	\$9,200	\$17,200	\$17,200	\$17,200
Office supplies	\$1,200	\$600	\$1,800	\$1,800	\$1,800
Travel	\$12,000	\$12,000	\$24,000	\$24,000	\$24,000
Utilities	\$3,600	\$3,600	\$7,200	\$7,200	\$7,200
Rent	\$10,800	\$18,000	\$28,800	\$30,240	\$31,752
Company registration	\$650	\$1,000	\$1,650	\$0	\$0
Legal services	\$2,500	\$4,000	\$6,500	\$3,000	\$3,000
Webpage design and hosting	\$550	\$0	\$550	\$250	\$250
Chamber of commerce fees	\$150	\$200	\$350	\$350	\$350
Reserve for Contingencies	\$5,000	\$5,000	\$10,000	\$10,000	\$10,000
Interest Expense	\$2,200	\$0	\$2,200	\$1,100	\$0
<b>Total Operating Expenses</b>	<b>\$88,236</b>	<b>\$82,840</b>	<b>\$171,076</b>	<b>\$192,622</b>	<b>\$197,908</b>
<b>Operating Profit EBITDA</b>	<b>\$25,487</b>	<b>\$107,711</b>	<b>\$133,198</b>	<b>\$157,975</b>	<b>\$213,089</b>
Depreciation	\$1,358	\$950	\$2,308	\$2,842	\$2,842
<b>Pretax Profit</b>	<b>\$24,128</b>	<b>\$106,761</b>	<b>\$130,889</b>	<b>\$155,133</b>	<b>\$210,247</b>
Income Tax (25% in HN and 17% in TW)	\$6,032	\$18,149	\$24,181	\$29,475	\$39,947
<b>Net Profit</b>	<b>\$18,096</b>	<b>\$88,612</b>	<b>\$106,708</b>	<b>\$125,658</b>	<b>\$170,300</b>
<b>Dividends Paid to Investors</b>					
Investor 1 (20%)			\$21,342	\$25,132	\$34,060
Investor 2 (20%)			\$21,342	\$25,132	\$34,060

- Costs of goods sold are determined by the direct unit costs along with import duties, freight charges, customs brokerage and insurance. Details for each product category can be observed in Chapter 3.7 of the present document.
- Due to the increase in our sales volume and thus, our business transactions, one additional Key Operating Executive will be hired for each office in 2013. In addition, a 5% salary increase is forecasted year on year for every employee.
- A summary of annual wages is found below and additional details can be found in the Appendix.

**Table 21: Annual Staff Payments**

<b>Guanxi Trading LLC</b>			
Annual Staff Payments in US\$			
<b>Position</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
Head of office	\$36,322	\$40,186	\$42,195
Key operating executives	\$20,164	\$41,714	\$43,800
Accounting Specialist	\$14,340	\$15,582	\$16,361
<b>Total Staff Salaries</b>	<b>\$70,826</b>	<b>\$97,482</b>	<b>\$102,356</b>
Headcount	5	7	7

- As mentioned earlier, promotion will be done through international trade magazines and online portals in Taiwan and Honduras. As well, we will strive to regularly attend trade shows for promotion of our business.
- Travel expenses were forecasted primarily for each Head of office to travel to the other foreign office at least once a year and the other expenses are allocated for visits to current and potential customers within each home market.
- Rent is expected to increase by 5% each year.
- We will request a short-term line of credit further into the first year and an additional amount for the second year, from which Interest Expense is calculated at 11%.
- Depreciation is calculated using the straight-line method and the breakdown is shown below for the years 2012 – 2014 for each office.



**Table 22: Depreciation Calculation**

<b>2012</b>				
Head office (Honduras)				
	<b>Cost</b>	<b>Residual Value</b>	<b>Useful life</b>	<b>Depreciation</b>
Furniture	\$1,600	\$300	4	\$325
IT Equipment	\$3,700	\$600	3	\$1,033
<b>Total</b>	<b>\$5,300</b>	<b>\$900</b>		<b>\$1,358</b>

*No. of computers: 2*

<b>2012</b>				
Branch office (Taiwan)				
	<b>Cost</b>	<b>Residual Value</b>	<b>Useful life</b>	<b>Depreciation</b>
Furniture	\$1,300	\$300	4	\$250
IT Equipment	\$2,500	\$400	3	\$700
<b>Total</b>	<b>\$3,800</b>	<b>\$700</b>		<b>\$950</b>

*No. of computers: 2*

<b>Total</b>	<b>\$2,308</b>
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<b>2013</b>				
Head office (Honduras)				
	<b>Cost</b>	<b>Residual Value</b>	<b>Useful life</b>	<b>Depreciation</b>
Furniture	\$1,600	\$300	4	\$325
IT Equipment	\$4,700	\$800	3	\$1,300
<b>Total</b>	<b>\$6,300</b>	<b>\$1,100</b>		<b>\$1,625</b>

*No. of computers: 3*

<b>2013</b>				
Branch office (Taiwan)				
	<b>Cost</b>	<b>Residual Value</b>	<b>Useful life</b>	<b>Depreciation</b>
Furniture	\$1,300	\$300	4	\$250
IT Equipment	\$3,500	\$600	3	\$967
<b>Total</b>	<b>\$4,800</b>	<b>\$900</b>		<b>\$1,217</b>

*No. of computers: 3*

<b>Total</b>	<b>\$2,842</b>
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<b>2014</b>				
Head office (Honduras)				
	<b>Cost</b>	<b>Residual Value</b>	<b>Useful life</b>	<b>Depreciation</b>
Furniture	\$1,600	\$300	4	\$325
IT Equipment	\$4,700	\$800	3	\$1,300
<b>Total</b>	<b>\$6,300</b>	<b>\$1,100</b>		<b>\$1,625</b>

*No. of computers: 3*

<b>2014</b>				
Branch office (Taiwan)				
	<b>Cost</b>	<b>Residual Value</b>	<b>Useful life</b>	<b>Depreciation</b>
Furniture	\$1,300	\$300	4	\$250
IT Equipment	\$3,500	\$600	3	\$967
<b>Total</b>	<b>\$4,800</b>	<b>\$900</b>		<b>\$1,217</b>

*No. of computers: 3*

<b>Total</b>	<b>\$2,842</b>
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- Corporate income tax for Honduras is 25% and for Taiwan it is 17%. For branch offices in Taiwan, the advantage is that there is no 20% withholding tax on the repatriation of after-tax profits.
- Expected Net Profit for 2012 is forecasted to be at US\$106,708 with an 18% increase for 2013 and almost a 36% increase in 2014, which is explained by the forecasted increase in sales which will be attained when the market is developed and established for the foreign goods and thus, larger quantities of each product will be sold. The industry's annual gross revenues for range from \$30,000 to \$200,000 or more, with an average of about \$75,000.
- It is agreed that each year, 40% of Net Profits will be paid in dividends to both founding investors, which accounts for 20% of Net profits for each party. The rest, 60%, will be reinvested in the company for future growth and expansion.

### 4.3 Projected Balance Sheet

Because of the nature of our business and our business model, we carry no inventory since we purchase the product and send it straight off to our overseas office, which will immediately have it delivered to our customers abroad.

We will also strive to arrange the most adequate trade financing, which involves getting longer credit terms from suppliers and payment advances from the buyers, however, this will depend on the items and the relationship with our suppliers.

Because a trading company's main assets are its people and their expertise, as well as their networks and reputation, we have little to offer as collateral for loans from financial institutions, this is why a bank loan is not a feasible option at startup and thus, we will request a short-term line of credit further into the year for any cash need we may have.

- For forecasting the company's assets, such as Accounts Receivable, and for estimating the Accounts Payable, the Percentage-of-Sales technique was used.
- Accounts Receivable constitute about a month's worth of Net sales.
- Accounts Payable derives from an average of 30 days credit terms by our suppliers.  $(30 \text{ days}/365 \text{ days in a year}) = 8\%$ , thus 8% from Net Sales.
- As mentioned, a Short-term Line of Credit of US\$20,000 will be requested in the first year and US\$10,000 in the second year.
- Retained Earnings account for 60% of Net Profit.
- Our Current ratio keeps improving over the years, meaning that we are able to ensure payments of short-term debts as they come due. When compared to industry standards, we are well off, starting from our first year of operations.
- The Debt ratio decreases over the years by 12% and 11% for 2013 and 2014, respectively, meaning that our amount of debt does not increase over the years.

**Table 23: Pro Forma Balance Sheet**

<b>Guanxi Trading LLC Pro Forma Balance Sheet December - Year End</b>			
	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Assets</b>			
Current Assets			
Cash	\$119,441	\$183,993	\$276,774
Accounts Receivable	\$280,061	\$322,177	\$378,208
Rent Deposit	\$4,800	\$4,800	\$4,800
<b>Total Current Assets</b>	<b>\$404,302</b>	<b>\$510,970</b>	<b>\$659,781</b>
Fixed Assets			
IT Equipment	\$6,200	\$8,200	\$8,200
Furniture	\$2,900	\$2,900	\$2,900
Accumulated depreciation	\$2,308	\$5,150	\$7,992
<b>Net Fixed Assets</b>	<b>\$6,792</b>	<b>\$5,950</b>	<b>\$3,108</b>
<b>Total Assets</b>	<b>\$411,094</b>	<b>\$516,920</b>	<b>\$662,890</b>
<b>Liabilities</b>			
Accounts Payable			
	\$268,859	\$309,290	\$363,080
Short-term Line of Credit			
	\$20,000	\$10,000	\$0
<b>Total Liabilities</b>	<b>\$288,859</b>	<b>\$319,290</b>	<b>\$363,080</b>
<b>Shareholder's Equity</b>			
Paid in Capital			
	\$58,211	\$58,211	\$58,211
Retained Earnings			
	\$64,025	\$139,420	\$241,600
<b>Total Shareholder's Equity</b>	<b>\$122,235</b>	<b>\$197,630</b>	<b>\$299,810</b>
<b>Total Liabilities + Shareholder's Equity</b>	<b>\$411,094</b>	<b>\$516,920</b>	<b>\$662,890</b>

Current ratio

1.40

1.60

1.82

Debt ratio

70.27%

61.77%

54.77%

## 4.4 Projected Cash Flow

Guanxi Trading LLC expects to manage cash flow over the next three years with the profits generated from each business transaction and with a short-term line of credit that will be requested from a bank for the years 2012 and 2013.

**Table 24: Pro Forma Cash Flow**

<b>Guanxi Trading LLC</b>					
<b>Pro Forma Cash Flow Statements</b>					
<b>December - Year End</b>					
	<b>Head office (Honduras)</b>	<b>Branch office (Taiwan)</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Operating Activities</b>					
Net Profits	\$18,096	\$88,612	\$106,708	\$125,658	\$170,300
Plus Depreciation	\$1,358	\$950	\$2,308	\$2,842	\$2,842
<b>Profits before depreciation</b>	<b>\$19,455</b>	<b>\$89,562</b>	<b>\$109,016</b>	<b>\$128,500</b>	<b>\$173,142</b>
Accounts Receivable	\$126,734	\$153,327	\$280,061	\$42,116	\$56,031
Accounts Payable	\$121,665	\$147,194	\$268,859	\$40,431	\$53,790
<b>Cash flows from operations</b>	<b>\$14,385</b>	<b>\$83,429</b>	<b>\$97,814</b>	<b>\$126,815</b>	<b>\$170,901</b>
<b>Investment Activities</b>					
Gross Fixed Assets	(\$5,300)	(\$3,800)	(\$9,100)	(\$2,000)	\$0
Other Current Assets (Deposits)	(\$1,800)	(\$3,000)	(\$4,800)	\$0	\$0
<b>Cash flows from investment activities</b>	<b>(\$7,100)</b>	<b>(\$6,800)</b>	<b>(\$13,900)</b>	<b>(\$2,000)</b>	<b>\$0</b>
<b>Financing Activities</b>					
Partnership Equity	\$27,553	\$30,658	\$58,211	\$0	\$0
Short-term Line of Credit	\$20,000	\$0	\$20,000	(\$10,000)	(\$10,000)
Dividends Paid	\$21,342	\$21,342	\$42,683	\$50,263	\$68,120
<b>Cash flows from Financing</b>	<b>\$26,211</b>	<b>\$9,316</b>	<b>\$35,527</b>	<b>(\$60,263)</b>	<b>(\$78,120)</b>
<b>Net Change in Cash</b>	<b>\$33,497</b>	<b>\$85,944</b>	<b>\$119,441</b>	<b>\$64,552</b>	<b>\$92,780</b>
Beginning of Balance Cash Flow	\$0	\$0	\$0	\$119,441	\$183,993
<b>Ending of Balance Cash Flow</b>	<b>\$33,497</b>	<b>\$85,944</b>	<b>\$119,441</b>	<b>\$183,993</b>	<b>\$276,774</b>

The financial forecast of Guanxi Trading LLC illustrates that it will start generating profits by the six month of the first year.

**Table 25: Payback Period**

<b>Guanxi Trading LLC</b>	<b>6 Months Breakeven</b>	<b>Accumulated Cash</b>
Investment	(\$58,211)	(\$58,211)
Year 1 Jan.	\$9,953	(\$48,257)
Year 1 Feb.	\$9,953	(\$38,304)
Year 1 March	\$9,953	(\$28,350)
Year 1 April	\$9,953	(\$18,397)
Year 1 May	\$9,953	(\$8,443)
Year 1 June	\$9,953	\$1,510

#### **4.5 Business Ratios**

We now show the business ratios for our financial projections in comparison with the trade industry ratios for the NAICS industry class for Miscellaneous Nondurable Goods Merchant Wholesale – 424990. We used the latest industry information found, which is for the year 2008.<sup>12</sup>

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<sup>12</sup> Finpack Commercial Book. Online Available:  
<http://www.cffm.umn.edu/FINPACK/pubs/FINPACKCommercialbook.pdf>

**Table 26: Ratios**

Guanxi Trading LLC				
Ratios	2012	2013	2014	Industry Standards
Sales Growth	-	15.04%	17.39%	N/A
<b>Profitability Ratios</b>				
Gross Margin	9.05%	9.07%	9.06%	N/A
Operating profit margin	3.96%	4.09%	4.70%	N/A
Net profit margin	3.18%	3.25%	3.75%	N/A
Cash flow margin	2.91%	3.28%	3.77%	N/A
<b>Return on Invested Capital</b>				
Return on Assets	25.96%	24.31%	25.69%	N/A
Return on Equity	87.30%	63.58%	56.80%	N/A
<b>Liquidity Analysis</b>				
Cash Return on Assets	23.79%	24.53%	25.78%	N/A
Sales/Receivable	12.00	12.00	12.00	9.9
Days' Receivables	30.42	30.42	30.42	37
Cost of Sales/Payable	11.37	11.37	11.37	12
Days' Payable	32.11	32.11	32.11	30
Sales/Working Capital	29.11	20.17	15.30	11.6
Cash Ratio	0.41	0.58	0.76	N/A
Operating Cash Flow Ratio	0.34	0.40	0.47	N/A
<b>Leverage Ratios</b>				
Fixed/Worth	0.06	0.03	0.01	0.2
Debt to Equity Ratio	2.36	1.62	1.21	2.3
<b>Activities Analysis</b>				
Accounts receivable turnover	12.00	12.84	12.96	N/A
Avg. DSO	30	28	28	N/A
Accounts payable turnover	11.37	12.16	12.28	N/A
Avg. DSO	32	30	30	N/A

- Net sales are forecasted to increase by 15% and 17% for 2013 and 2014, respectively.
- Gross Margin maintains at an average of 9% over the years.

- As mentioned, profit margins for export trading companies are relatively low when compared to other industries. Guanxi Trading LLC's Operating Profit Margin and Net Profit Margin increase slightly over the years. By 2014, we expect an Operating Profit Margin of 5% and Net Profit Margin of around 4%.
- The Cash flow margin increase slightly over the years.
- Because of the nature of our business, the Return on Assets is relatively low because to generate sales, we use low command of assets.
- Return on Equity is reasonably high over the years.
- Since we estimated for Accounts Receivable to account for a month's worth of Sales, the Sales/Receivable ratio turns out to be 12.0, meaning that receivables turn over 12 times a year.
- Cost of Sales/Payable ratio turns out to be on average 32 days, which is only two days above the industry average.
- Our Sales/Working Capital ratio decreases over the years because our Working capital keeps increasing year by year, meaning we are in a better position to finance our day to day operations and thus, working capital is more efficiently used.
- Our Operating Cash Flow ratio shows that cash is a little limited for 2012 but it increases over the years to a more normal level.
- Because of the nature of our business, our investment in Fixed Assets only constitute IT equipment and furniture, which is relatively low, hence the low Fixed/Worth ratio.
- Our Debt to Equity ratio decreases over the years, which indicates a better long-term financial safety and therefore, less risk to our creditors.
- Accounts Receivable Turnover and Accounts Payable Turnover maintain relatively stable over the years.



**Table 27: Net Present Value**

The discount rate is taken from the Central Bank of Honduras.

Year	0	1	2	3
Cash Flows	<b>(\$58,211)</b>	\$119,441	\$64,552	\$92,780
NPV	\$131,180			
Discount Rate	16.00%			

The NPV shows that Guanxi Trading LLC results in profitable investment.



## **CHAPTER V. – RISK ASSESSMENT**

In some cases, the profitability of trading companies can be affected by remote causes over which Guanxi Trading LLC may have no control. Such causes can be political unrest, natural disasters, transportation wreckage, currency volatility, soaring oil prices and geopolitical conflicts, among others.

Our ability to prevent and assess risks, as well as acting rapidly on taking crucial business decisions will be imperative.

### Strategic Risks

A legitimate concern that trading houses face is that buyers or manufacturers may later try to bypass us on future transactions once we have established a market for their product in the foreign land, and they may try to approach the foreign party directly.

As most SMEs grow stronger financially, become more experienced and grow in scale, they no longer find the need to use export trading companies to handle their exports and they end up setting their own export departments. So is the case as SMEs pass from one generation to another, being that second generation leaders tend to be better educated and possess foreign language competencies that the first generation lacked.

Innovation in technological communication equipment and in particular the Internet, have all shortened the distance between buyers and suppliers. Through this, buyers and suppliers can easily bypass the need for intermediaries such as us, and do business directly among themselves. However, particularly with the Asian market, Internet research and online portals are no substitute for the first-hand knowledge and long-term quality relationships that Guanxi Trading LLC will offer.

### Competition Risks

Because of the nature of the business, it is possible that competitors, such as Del Tropic and other previously mentioned smaller importers and exporters, start entering the rising Asian markets as well, posing a direct competition with Guanxi Trading LLC. It may also be the case were Collins Co. LTD and Eidas LLC start entering the Central American market.

For this, being a first mover in the market to handle all types of products between these two markets will offer us an advantage, provided we provide excellent service and competitive pricing.

### Operational Risks

As mentioned previously, the international trade business is a very risky environment. Starting from finding reliable suppliers that will abide by the quality and lead times required by our customers, to the uncertainty involved when shipping products overseas.

In order to prevent this, we will do thorough analysis on the suppliers we work with, drafting up MOUs and making them accountable for any non-compliance. To mitigate the shipping liabilities that can arise, we will have insurance coverage for all our shipments.

### Financial Risks

As the last few years have proved, a financial crisis takes a toll on the world's economy. Recurring recessions, exposure to foreign exchange fluctuations and rising oil prices are all risks we are exposed to by being involved in the international trade industry.

We are also exposed to the nonpayment risks by our buyers and bad debt, any of which will make us incur in losses and put us on financial constraints to pay our suppliers. For this, thorough credit checks will be done on our buyers and their credit terms will be improved solely based on their payment behavior.

## CHAPTER VI.- CONCLUSION

Guanxi Trading LLC intends to take advantage of the FTA Agreement between Honduras and Taiwan by interchanging goods between both countries and working on behalf of buyers and suppliers to meet their needs in the foreign market.

After extensive research and cost assessment, we can conclude that Guanxi Trading LLC is a feasible company to be launched. It will not only contribute to each owner's equity, but will also help boost the Honduras' and Taiwan's economy and aid local producers.

Additionally, the forecasts shows that it is a sound business model that will prove beneficial to customers because if the manufacturers or buyers were to arrange the services Guanxi Trading LLC offers by themselves, they would incur in higher costs, not to mention, longer work hours to manage and deal with all the hassles involved in international trade.

Because of the nature of the business, the price of our services has to be added on to the product price, which can affect the product's competitiveness in the overseas market. Nevertheless, once a trading company has achieved a certain economic size and is able to manage a suitable client base with recurring business, and achieves certain stability, its profitability tends to increase rapidly and significantly, just as was shown in Guanxi Trading LLC's financial projections.

As well, this business model is beneficial because it leaves room for continuous growth, be it in other products or in other markets.

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## CHAPTER VIII.- APPENDIX

Table 28: Breakdown of Wages for 2012-2014

<b>Head office (Honduras)</b>							
<b>2012 Wages and Benefits</b>							
Annual Staff Payments in US\$							
No. of Employees	Position	Monthly Salary	Annual Salary	Yearly Bonus	Fourteenth month wage	Social Security	Annual Total
1	Head of office	\$1,300	\$15,600	\$1,300	\$650	\$1,092	\$18,642
1	Key operating executives	\$600	\$7,200	\$600	\$300	\$504	\$8,604
1	Accounting Specialist	\$1,000	\$12,000	\$1,000	\$500	\$840	\$14,340
<b>3</b>	<b>TOTAL</b>	<b>\$2,900</b>	<b>\$34,800</b>	<b>\$2,900</b>	<b>\$1,450</b>	<b>\$2,436</b>	<b>\$41,586</b>

<b>Branch office (Taiwan)</b>						
<b>2012 Wages and Benefits</b>						
Annual Staff Payments in US\$						
No. of Employees	Position	Monthly Salary	Annual Salary	Yearly Bonus	Social Security	Annual Total
1	Head of office	\$1,300	\$15,600	\$1,300	\$780	\$17,680
1	Key operating executives	\$850	\$10,200	\$850	\$510	\$11,560
<b>2</b>	<b>TOTAL</b>	<b>\$2,150</b>	<b>\$25,800</b>	<b>\$2,150</b>	<b>\$1,290</b>	<b>\$29,240</b>

<b>Head office (Honduras)</b>							
<b>2013 Wages and Benefits</b>							
Annual Staff Payments in US\$							
No. of Employees	Position	Monthly Salary	Annual Salary	Yearly Bonus	Fourteenth month wage	Social Security	Annual Total
1	Head of office	\$1,365	\$16,380	\$1,365	\$1,365	\$1,147	\$20,257
2	Key operating executives	\$630	\$15,120	\$630	\$630	\$1,058	\$17,438
1	Accounting Specialist	\$1,050	\$12,600	\$1,050	\$1,050	\$882	\$15,582
<b>4</b>	<b>TOTAL</b>	<b>\$3,045</b>	<b>\$44,100</b>	<b>\$3,045</b>	<b>\$3,045</b>	<b>\$3,087</b>	<b>\$53,277</b>

<b>Branch office (Taiwan)</b>						
<b>2013 Wages and Benefits</b>						
Annual Staff Payments in US\$						
No. of Employees	Position	Monthly Salary	Annual Salary	Yearly Bonus	Social Security	Annual Total
1	Head of office	\$1,365	\$16,380	\$2,730	\$819	\$19,929
2	Key operating executives	\$893	\$21,420	\$1,785	\$1,071	\$24,276
<b>3</b>	<b>TOTAL</b>	<b>\$2,258</b>	<b>\$37,800</b>	<b>\$4,515</b>	<b>\$1,890</b>	<b>\$44,205</b>

Head office (Honduras)							
2014 Wages and Benefits							
Annual Staff Payments in US\$							
No. of Employees	Position	Monthly Salary	Annual Salary	Yearly Bonus	Fourteenth month wage	Social Security	Annual Total
1	Head of office	\$1,433	\$17,199	\$1,433	\$1,433	\$1,204	\$21,269
2	Key operating executives	\$662	\$15,876	\$662	\$662	\$1,111	\$18,310
1	Accounting Specialist	\$1,103	\$13,230	\$1,103	\$1,103	\$926	\$16,361
<b>4</b>	<b>TOTAL</b>	<b>\$3,197</b>	<b>\$46,305</b>	<b>\$3,197</b>	<b>\$3,197</b>	<b>\$3,241</b>	<b>\$55,941</b>

Branch office (Taiwan)						
2014 Wages and Benefits						
Annual Staff Payments in US\$						
No. of Employees	Position	Monthly Salary	Annual Salary	Yearly Bonus	Social Security	Annual Total
1	Head of office	\$1,433	\$17,199	\$2,867	\$860	\$20,925
2	Key operating executives	\$937	\$22,491	\$1,874	\$1,125	\$25,490
<b>3</b>	<b>TOTAL</b>	<b>\$2,370</b>	<b>\$39,690</b>	<b>\$4,741</b>	<b>\$1,985</b>	<b>\$46,415</b>

