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EURObiz

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ICT

CHINA'S BROADBAND STRATEGY
How will it be implemented?

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Journalists working at the China Internet Conference in Beijing, which took place from 13th-15th August, 2013.





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2014: IS CHINA TRANSFORMING?



Mr Davide Cucino
President of The European Union
Chamber of Commerce in China

A handwritten signature in dark ink, appearing to read 'D. Cucino', written in a cursive style.

I clearly remember a representative of a European Chamber member company making the point at the EU-China Business Summit in early 2012 that investment in information and communications technology (ICT) generates greater productivity growth returns than most forms of capital investment. As ICT is an enabler for other sectors, in particular innovative and knowledge-based sectors, he claimed that research in Europe showed every EUR 1 invested in broadband telecommunications could result in EUR 3 of GDP growth.

Both the EU and China seem to have taken heed of the importance of ICT development in their respective medium-term growth strategies. The European Union's 'Digital Agenda' is one of seven pillars of the EU 2020 strategy and China's 'Informatisation Development Plan' is a key policy agenda of the 12th Five-Year Plan. Both aim to exploit the potential of ICT to foster innovation and growth.

Despite the aim to develop China's ICT industry, European ICT companies in China were some of the least optimistic in our *Business Confidence Survey* of 2013, with only seven per cent of companies in the sector optimistic about profitability prospects in China over the next couple of years. The Snowden revelations have certainly not improved this outlook for foreign ICT companies in China as concerns exist that China will attempt to reduce its usage of foreign ICT technologies. Doing so would be a mistake. There are already many examples of successful EU-China industry collaborations in the ICT field. It is important for both the EU and China that such cooperation continues and that mutual trust is continually developed so that both sides can benefit from the globally most advanced products and solutions.

In this issue we focus on ICT in China and examine some of the initiatives being rolled out in this extensive and fast-changing field, as well as some of the opportunities and challenges that the Chinese ICT environment presents for EU companies.

This is the first EURObiz of 2014, a year of expectation as our member companies anticipate and look forward to a wave of reforms being enacted in China. The Chamber will do all we can to develop a dialogue with the Chinese Government in this process and have developed a number of priority advocacy areas for 2014 following the Third Plenum in November last year. These include the promotion and monitoring of various administrative reforms, bringing best practices from the EU in the field of urbanisation to China, as well as work around the topics of healthcare and food safety, innovation and public procurement.

Our work with the Chinese authorities has already started well this year. By just the end of the first month, we had already held four ministerial-level meetings in China, including with the State Council Legislative Affairs Office, the State Intellectual Property Office and the China Aviation Administration of China. Our work with the European Commission has also started off strongly, having met with the DG TRADE lead negotiator for the EU-China Investment Agreement negotiations that kicked-off in a preliminary meeting this year. We are pleased that the EU Delegation in Beijing will establish lines of communication so that the Chamber can provide input to the European negotiators and the Chamber has established a taskforce committee of members to assist this process already. The European Chamber looks forward to keeping up this momentum throughout the year.

I hope that you all had enjoyable and relaxing holidays with family and friends over the Chinese New Year period and that you are coming back fully revitalised for the year ahead—all the more so because next up for the Chamber is the process of drafting our *Business Confidence Survey 2014* and we will be asking all of our members to please assist this process by filling in the questionnaire soon after the holidays.

Let's hope that 2014 and the year of the horse will continue to be an exciting year and one in which meaningful reform finally becomes a reality.

UP IN THE CLOUDS

Cloud computing is becoming one of the hottest global IT topics. In China it is a rapidly emerging business concept and seems to be creating some promising market potential: Amazon's AWS and Microsoft's Azure have already made their debuts on the Chinese market and there are more anxiously waiting in the wings. However, this potential goldmine is not likely to be easily exploited by foreign companies according to **Dr Michael Tan** and **Lynn Zhao** of **Taylor Wessing**. In the following article they analyse the various legal challenges facing foreign players planning to explore opportunities in cloud computing in China.

As an industry of strategic importance cloud computing is explicitly addressed and promoted under China's current 12th Five-Year Plan. In 2011 alone the central government allocated RMB 660 million to boost the development of cloud computing services in five major cities including Beijing and Shanghai,¹ and according to a 2012 report the cloud computing market in China is expected to grow at a composite rate of 50 per cent in the next five years.²

However, despite this promising business outlook, the complicated regulatory environment in China means its relevance to foreign companies remains unclear.

Market access

Since most cloud computing services will be deployed via the internet, strictly speaking any related business activities would fall under the scope of telecoms services, an area in China that is presently highly sensitive and heavily regulated. If a foreign company wished to provide such services from outside of China, however, it could be argued that such activities need not fall under the jurisdiction of the Chinese regulatory authorities.

This approach may seem positive since there are technically no territorial borders in the cyber world, and to physically deter such activities via the internet presents a challenging and expensive task. However, although it may avoid regulatory complexities in China, this approach does not come without risks and related costs.

Transmission of data via long distance would likely cause deterioration in the user experience. More importantly there is always the risk that national security concerns would prompt the Chinese authorities to adopt technical measures to block cross-border data flow, the likes of which Dropbox has experienced in the past.

In order to satisfy Chinese customers' expectations, local cloud computing competence would probably be the preferred solution. This would mean establishing a local presence, which would inevitably touch upon investment-access issues.

According to the Ministry of Industry and Information Technology (MIIT), who are the industrial regulator, telecoms services are divided into two major categories: basic and value-added businesses. Foreign investment is limited to 49 per cent in the former and 50 per cent in the latter, as stipulated in the currently applicable *Foreign Investment Industrial Guidance Catalogue* (2011 version). Depending on the specific features of the intended cloud computing business it may fall into either or both of these areas making it impossible for foreign players to achieve a majority controlling position when investing in such businesses in China.

Additionally, foreign investment in the telecoms sector will further be subject to certain capital requirements

and comparably stricter procedural requirements (i.e. provincial- or even central-level approvals).

All this presents significant barriers for foreign players looking to enter this market, which explains why until now only a handful has officially shown up in China.

Licence requirements

Telecoms businesses in China require special licenses, as detailed in the *Telecommunication Service Catalogue* (*Telecom Catalogue*) promulgated by the MIIT on 21st February, 2003, which outlines the categories of services under the scope of both basic and value-added telecoms businesses. Each category requires an explicit entry under the respective telecoms service license.

However, in the context of cloud computing the picture is unclear as it is not explicitly addressed by the current *Telecom Catalogue*. Besides the fact that it is a relatively new concept, only becoming popular in recent years, this situation may also be due to the reason that cloud computing itself is a vague term which can mean different things when discussing different service models.

For example, it may be easier to tell that the service model of Infrastructure as a Service (IaaS), will very likely trigger—among others—an IDC (Internet Data Centre) license since it focuses on providing facilities for data storage/computing and access management. But it will be more difficult to tell which service license(s) under the *Telecom Catalogue* would be required for service models of Platform as a Service (PaaS) and Software as a Service (SaaS).

Although the *PRC Telecommunication Regulations*, promulgated by the State Council on 25th September, 2000, stipulate that business which is not explicitly addressed under the *Telecom Catalogue* shall require filing with MIIT's provincial branches, in reality such filing is difficult. All this creates uncertainty and complexities for a service operator trying to properly structure its cloud computing business, and some may even have to outsource the more sensitive parts to the few big players who normally have better leverage when tackling license issues.

One recent development worth noting is the amended version of the *Telecom Catalogue* presented by the MIIT for public comments on 23rd May, 2013, which obviously has taken this problem into consideration. The amended catalogue includes a new value-added service category titled 'Internet resources collaboration service business'. Its definition reflects the major features of cloud computing such as service upon demand, cloud storage and management, content sharing and collaboration. Although not yet officially effective, it is widely believed that the amended *Telecom Catalogue* will pave the way for a much clearer legal framework to regulate cloud computing in the future.



Data Protection


China is rapidly picking up on the legislative side regarding data protection, and concerns over the data-rich aspect of cloud computing will undoubtedly bring about serious challenges. Service operators are well advised to keep a close eye on legal developments in China and any related compliance risks.

Last year saw intensive new data protection legislation activity in China. Based on the *Decision of the Standing Committee of the National People's Congress Regarding Strengthening the Protection of Online Information* (28th December, 2012), a series of new laws and regulations were enacted or amended to regulate the issue of data protection (e.g. the *Telecommunications and Internet Users Personal Data Protection* provisions issued by the MIIT on 16th July, 2013, and the *Consumer Protection Act* last amended on 25th October, 2013). By introducing concrete administrative punishments such as fines and establishing a link between a serious data breach case with criminal offences, these new rules increase the compliance burden and risks for cloud computing service operators.

Cross-border data transfer—a common occurrence in cloud computing—is not yet something regulated by Chinese data protection rules, but risks may arise from other existing laws and regulations (e.g. state secret protection) and the related implications will need to be carefully evaluated.

Conclusion

There is no doubting the potential of the Chinese cloud computing market. It is anticipated that current market access issues will need to be resolved via China's further participation in global and regional free-trade talks; however, the present legal framework is less than friendly to foreign players.

This is a market that cannot be ignored though, and foreign players still have the chance to benefit from it by other means, such as licensing arrangements or services support. The related industrial legislation is picking up fairly quickly in tackling new challenges brought about by cloud computing activities, so foreign players would do well to keep a close eye on these developments both on the business side and the legal side. 

Taylor Wessing is a full service law firm with approximately 900 lawyers in Europe, the Middle East and Asia, with offices in Shanghai and Beijing. For more information please visit www.taylorwessing.com. Dr Michael Tan is Senior Counsel (Chinese Partner) in Shanghai with an industrial focus on aerospace, aviation, TMT and other technology-driven sectors.

1 Sec.2 Ch.6, *Cloud Computing White Paper* 2012 (April 2012) MIIT Research Academy of Telecommunication (see <http://www.miit.gov.cn/n11293472/n11293832/n15214847/n15218338/15224998.html>).

2 Report of the China Internet Society and the China Internet Network Information Center (CNNIC) in 2013 (see <http://www.isc.org.cn/download/2013report.pdf>).

CHINA'S BROADBAND STRATEGY

Although China's telecommunications markets are developing at a rapid pace, **Dr Thomas Hart** of the **EU-China Policy-Dialogue Support Facility (PDSF)** says that overall they are lagging behind developed nations. Although a plan to bring the nation up to speed has already been tabled, the challenge now, he says, is its implementation.



China already boasts the world's largest online population, having just surpassed the threshold of 600 million online users. There are around 1.2 billion mobile subscribers, 400 million of whom are using 3G services. According to the Ministry of Industry and Information Technology (MIIT) however, only 175 million Chinese users had access to fixed broadband services in 2012, a penetration rate of just 13 per cent, and way behind the developed nation's average of 25.7 per cent.

By the end of 2012, the rural broadband penetration rate was only 6.3 per cent. Bandwidth and network speeds suffer by international comparison, and prices are way above international standards. Misrepresentation of available connectivity quality and frequent service flaws add to the government's dissatisfaction with sector players. In October 2013, the National Development and Reform Commission (NDRC) urged China Telecom and China Unicom to cease monopolistic behavior and collusion.

At the end of 2013, China Mobile received a license to offer fixed-line broadband services, finally completing the process that was started in 2008 when the Chinese telecommunications companies were consolidated into the three major players as they exist today (China Mobile, China Unicom and China Telecom), with the aim of establishing three companies offering the full range of services, and promoting competition between them.

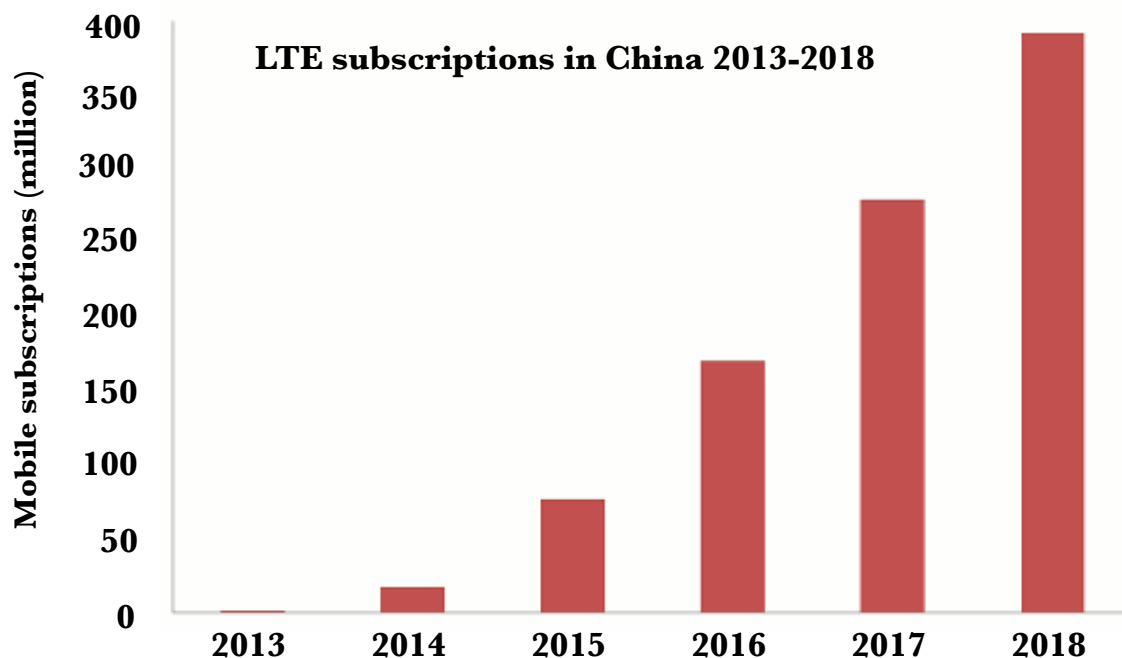
The goal of "facilitating the construction of broadband, compatible, safe and ubiquitous next generation national information infrastructure" was included in China's 12th Five-Year Plan for National Economic and Social Development. In 2012, the State Council started preparing a 'Broadband China Strategy', jointly developed by 11

ministries or commissions, including the NDRC and the MIIT.

The *Broadband China Strategy and Implementation Scheme* was finally published in August, 2013. It stresses that "broadband networks are the strategic public infrastructure in the national economic and social development of the new era." The strategy introduced ambitious broadband targets: by the end of 2013, 40 per cent of households are to be covered with fixed broadband and 25 per cent of citizens should have 3G or 4G mobile available, increasing to 50 per cent for fixed and 32.5 per cent for mobile by 2015. By 2020, all rural and urban areas are to have broadband coverage, with connection speeds of at least 50 Mbps (megabits per second) for urban areas and 12 Mbps for rural areas.

The challenge now is how to implement this plan and this depends on how it will be paid for, how the investment burden is shared between the public sector and the operators. China is not alone with these questions—the EU member states are facing the same challenges. While China comes from a starting point of state-owned enterprises with limited decision-making authority on their broadband investment strategy, the EU markets have been almost fully liberalised, with a strong focus on market-driven solutions.

Both starting points now face their limits when it comes to encouraging the large investments needed for ensuring comprehensive broadband availability, and even more when the challenge is to roll out next-generation networks providing ultrafast connectivity. The frequently updated EU Digital Agenda Scoreboard already indicated that many EU member states will be unable to achieve their respective broadband targets, the short-term EU-level Digital Agenda targets are already almost impossi-



Source: Pyramid Research Mobile Demand Forecast, Q3

ble to achieve.

In China there are now several main actions underway that directly or indirectly support the broadband plan. Rollout of 4G has just started and promises to bring very quick results. This is also expected to be an important piece in the puzzle of connecting rural areas where fixed-line infrastructure is not a commercially viable option. The MIIT announced that before the end of 2014, commercial 4G services will be offered in more than 300 cities, and expects the number of 4G users to exceed 30 million.

All three operators were awarded a Time-Division Long-Term Evolution (TD-LTE) license in December 2013, allowing the official commercial rollout of 4G services after years of trial services. Just as with the allocation of 3G licenses, there was an element of politics and strategy involved: the home-grown TD-LTE standard is given space to first establish itself before the internationally-licensed competing FDD-LTE standard, with its much more mature supply chain, will be permitted—these licenses are yet to be awarded.

It appears that China Mobile will benefit from this approach as the company has the greatest interest in moving on to TD-LTE, which it developed together with Huawei, ZTE, Datang Telecom, Qualcomm and others, and leaving the less impressive TD-CDMA behind. China Mobile also announced it would push for low-cost handsets for less than RMB 1,000, allowing China's 4G market to become Asia's most rapidly growing one, despite its comparatively late start.

Parallel to this development, a long-awaited new element

of competition was introduced. At the end of December, eleven companies were named that would receive a license to operate as Mobile Virtual Network Operators (MVNOs). Virtual operators buying capacity wholesale and repackaging it for end customers have been a decisive force in bringing down prices for both fixed and mobile services in the EU; with the strict regulation of the Chinese MVNOs, and the limit to Chinese-owned companies, the same is not likely to happen in China. Still it can be seen as an important step to gradually introducing market elements in a telecoms sector that has been dominated by companies still essentially being state-owned utilities without much interest in competition.

Implementing these existing policy measures is one challenge, but there are plenty more open questions. In the EU, as in China, the operators are facing over-the-top service providers offering mobile communications services through mobile applications, cutting into the operators' revenues while not being subjected to the obligations and restrictions of telecoms operators. The surge of smartphones, online video services, the Internet of Things and ubiquitous computing are all putting high pressure on network capacity, especially mobile. [E](#)

Dr Thomas Hart is Senior Advisor to the China Academy of Telecommunications Research (CATR) and to the **EU-China Policy-Dialogue Support Facility (PDSF)**. The PDSF was asked by the EU Commission and the MIIT to support the EU-China Dialogue on these issues and help identify current trends, challenges, solutions and areas for joint action. In a first step, the project procured a report on the broadband market and policy environment, and in a follow-up activity this will be complemented by the analysis of emerging trends and challenges. For more information see www.eu-chinapdsf.org/.



4G IS COMING: CHALLENGES AND OPPORTUNITIES IN CHINA

After two year's of speculation from industry and the public, the world's largest communications market initiated the commercial deployment of fourth generation Time Division Long-Term Evaluation (4G TD-LTE or 4G) networks late last year. The Ministry of Industry and Information Technology (MIIT) issued 4G licenses to China Mobile, China Telecom and China Unicom on 4th December with an overall frequency resource allocation of 210 MHz. Dr **Shen Jia** of the **China Academy of Telecommunication Research** (CATR) says 2014 will see the construction of new networks with hundreds of thousands of base stations and the deployment of millions of 4G phones.

China's ambitious '4G Plan' will undoubtedly be a gold mine for the global mobile communications industry. However, companies attempting to seize the available opportunities should be prepared to be confronted by a series of challenges.

For the infrastructure vendors, the first '4G feast' was carved up in China before the licenses were even released. In June, 2013, China's largest carrier, China Mobile, launched the first-round, main network equipment tender bidding process for its TD-LTE network, which contained a purchase of 207,000 base stations. Several vendors, including Huawei, ZTE, Ericsson, Alcatel-Lucent and Nokia Solutions and Networks, shared the estimated RMB 20 billion (USD 3.27 billion) worth of contracts.

China Telecom and China Unicom are also planning to construct their LTE networks in 2014 although the investment scale will be smaller. Together, the three Chinese operators' 4G bidding processes should return some growth optimism to network vendors over the coming years.

What may disappoint the network manufacturing industry, however, is that the purchasing price of communications equipment continues to fall, which will cause vendors' profits to shrink. Rivals during China Mobile's bidding process posted only RMB 35,000 per carrier-sector on average. Although this was a substantial increase over the recent 3G purchasing price (about RMB 10,000), the price is only around 60 per cent of that in China Mobile's first-round 3G bid (about RMB 60,000) in 2008.

Some analysts also reckon that, rather than putting in additional funding, carriers may merely redirect their original 3G investment to 4G. If this is the case, the emergence of the 4G market would not necessarily expand the aggregate market demand for telecom network equipment.

China's 4G commercialisation plan will bring new marketing opportunities to leading terminal and chipset vendors. As a market leader in mobile device chipsets, Qualcomm is taking advantage of 4G's introduction to shake off its pursuers. Benefiting from its mature 28nm (nanometre)-based semiconductor design, Qualcomm is able to integrate 4G, 3G and 2G modes into a single chip supporting over 10 frequency bands and operating with a low power consumption. This has allowed them to take a 90 per cent share of the LTE chipset market so far. In the terminal field, by tenaciously pushing out LTE products, Apple and Samsung have taken about 70 per cent share of the 4G handset market, thereby strengthening their dominant positions.

Furthermore, the highly-enhanced system capacity brought by 4G is integral to supporting a larger number of always-online terminals, which has encouraged the development of new types of mobile devices. Examples of this are wearable terminals like 'smart glasses' (e.g. Google Glass), 'smart watches' (e.g. SONY SmartWatch) and 'smart clothing', which allow a single user to use multiple mobile devices simultaneously.

Another example is 'machine-to-machine' (M2M) terminals which are used for communication between automatic sensors, rather than humans. With their emergence it is conceivable that the number of mobile devices may soon considerably exceed the human population. The limited capacity of 3G networks prevented operators in China from promoting the wide deployment of wearable and M2M terminals. Now this obstacle is expected to be eliminated with the support of 4G.

A critical problem that chipset and terminal vendors face comes from increasing R&D and manufacturing costs. The tape-out (a semiconductor manufacturing process for chip production) cost for a chip has increased from USD 1 million for 3G (40nm) to USD 2-3 million for LTE (28nm). In order to accommodate additional 4G antennas—together with the legacy 3G, 2G and WLAN ones—within a slim and fashionable phone, vendors need to increase R&D resources to design a highly-integrated structure; meanwhile manufacturers cannot reasonably expect consumers to pay more for a 4G terminal to cover these increased costs.

It is predicted that the number of 4G subscribers in China may exceed 70 million in 2014. While 4G will provide users with a richer mobile broadband experience, it will also bring service providers more profitable opportunities. The increased speed of 4G networks will more effectively support video-sharing functions, leading to an increase in video-based, real-time apps in smartphones such as video gaming, video shopping and video social-networking.

It will also encourage app providers to develop more attractive location-based services or so-called 'augmented reality' services. Coupled with 4G smart glasses, users will be able to enjoy real-time reviews of the local environment while walking down a street, such as interior views of nearby restaurants or available discounts in nearby shopping centres, and then book dinner reservations or reserve cinema tickets using their 4G phones.

Some analysts suggest that the introduction of 4G will actually aggravate price competition between carriers. Taking advantage of a lower cost-per-bit, pioneering LTE operators in the USA and Korea have attempted to increase market share by introducing more appealing 4G price plans, such as unlimited talk, unlimited text and a single pool of shareable data for multiple devices.

China Mobile's 4G price plan, released last December, was regarded by Chinese users as a disappointing start. The plan, providing 600MB of data for RMB 50 seems too expensive compared to users' expectations. Some may argue that this tariff implies that Chinese operators are intending to prevent a price drop when migrating from 3G to 4G. However, a substantial price reduction would be inevitable sooner or later before 4G becomes widespread in China.

A good development that 4G has brought China Mobile is that its cooperation with Apple is finally consolidated, after the fruitless, marathon negotiation during the 3G stage. The TD-LTE iPhones might help the largest operator



by subscriber base to win back high-end subscribers from its competitors selling 3G iPhones.

Finally, it is worthwhile mentioning the risk to information security issues entailed by 4G development; it will lead to an inevitable increased significance that mobile terminals such as Smartphones play in our lives. They will be employed not merely for information exchange between people, but for various socio-economic behaviours, such as processing work affairs, paying bills and maintaining social contacts. Therefore securing information on mobile phones and avoiding its leakage from theft or hacking will become extremely challenging in the 4G era.

By 2013, 90 per cent of 4G users in the world (estimated at 120 million) were in the USA, Korea and Japan. In 2014, the hotspot for global 4G developments will shift to China. Similar to other emerging technologies, 4G will bring opportunities as well as challenges to industry and public alike. Only the companies or industries who keep adapting to developing trends will survive and grow in the 4G era. We do not yet have a clear picture of where 4G will finally bring us. One thing is clear though: a single entity could never successfully overcome all the challenges and

seize all the opportunities by itself, it will require interaction and cooperation across the whole ICT spectrum.

The China Academy of Telecommunication Research (CATR) is a telecommunications research organisation attached to the Ministry of Industry of Information Technology (MIIT) of China. For more than 50 years, the CATR has organised the standardisation and industrialisation activities for China's telecom industry, and also supported the MIIT to form China's telecom policy and regulations. Since 2004, the CATR has organised the LTE (4G) standardisation, test and trials in China before its commercialisation, and promoted the maturity of TD-LTE industry. [Eb](#)

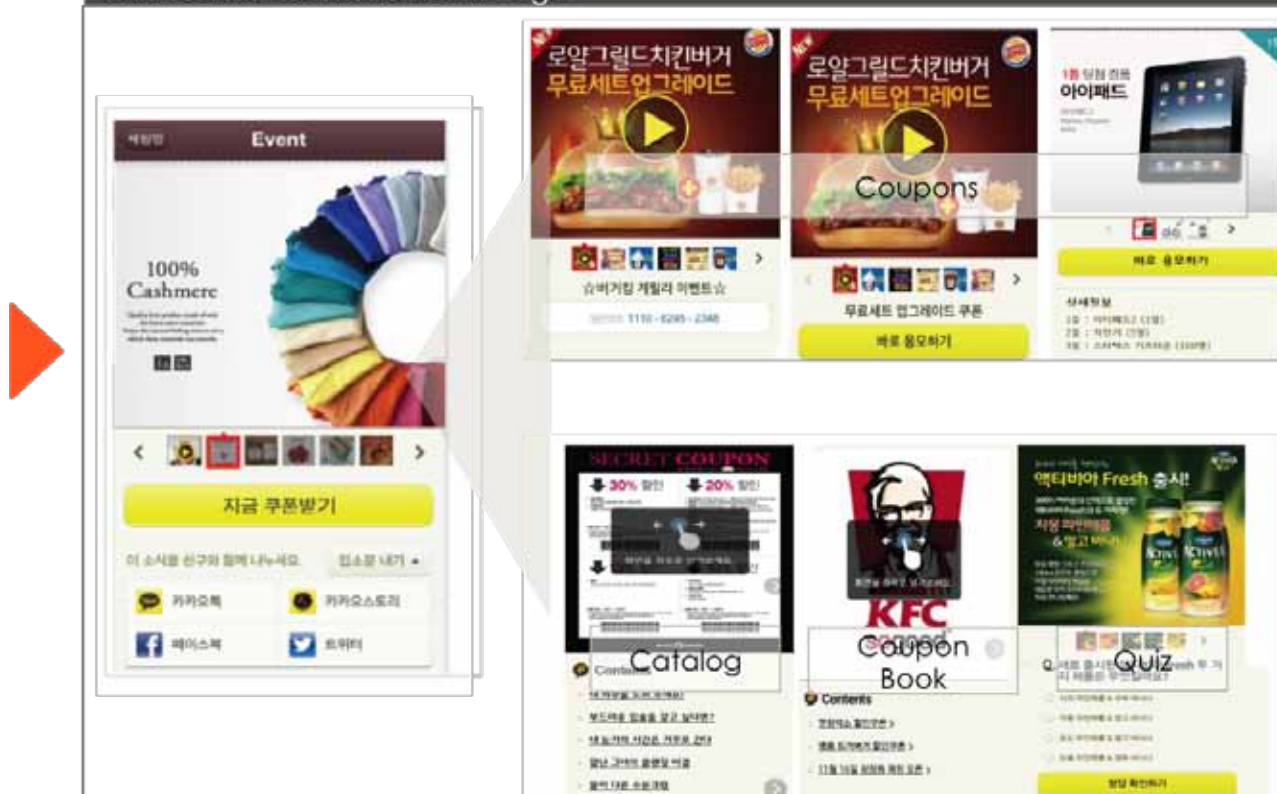
Dr Shen Jia has been working with the CATR since 2004. Now he is a director engineer focusing on research, standardisation and tests of 4G, 5G, M2M and other broadband wireless communications technologies. He received his BEng degree from Tsinghua University, Beijing in 2000 and his Ph.D. degree from University of York, England in 2005. Dr Shen is the first co-author of one of the best LTE tutorial books Long-Term Evolution: Technical Theory and System Design. He has three invention patents granted, and another six pending patents.



WE NEED TO TALK: HOW SOCIAL INSTANT MESSAGING IS REDEFINING BRAND-CUSTOMER RELATIONSHIPS IN ASIA

Just when companies were starting to get the hang of Weibo and other social media platforms, social instant messaging was added into the mix. **Renaud Edouard-Baraud**, CEO of **L'Atelier BNP Paribas Asia**, says that companies will have to rethink their digital sales and communication channels again in order to adapt to the new mobile, social instant messaging era.

KAKAO Talk Plus Friend Event Page



The rapid emergence of social instant messaging (SIM)—Line in Japan, Kakao Talk in South Korea or WeChat in China—means that online conversations could soon be a thing of the past. No more spam, no more complicated paths to unsubscribe from and no more targeted advertisements to deal with. The time of landing consumers like fish is over: we could be finally entering the much-anticipated era of one-to-one marketing.

Five years ago companies operating in China began entering willingly, or unwillingly, into a spiral of semi-open social media following the 2009 launch of Renren and Sina Weibo, equivalents of Facebook and Twitter respectively. Tencent Weibo followed in 2010.

Businesses were quick to understand the importance of these platforms for interacting with current and potential customers. These customers soon emerged from anonymity and became real people living in actual cities, and they stopped merely consuming information and began providing it themselves; this ushered in the era of UGC or user-generated content, where users began marketing themselves as brands ('personal branding').

The birth of SIM

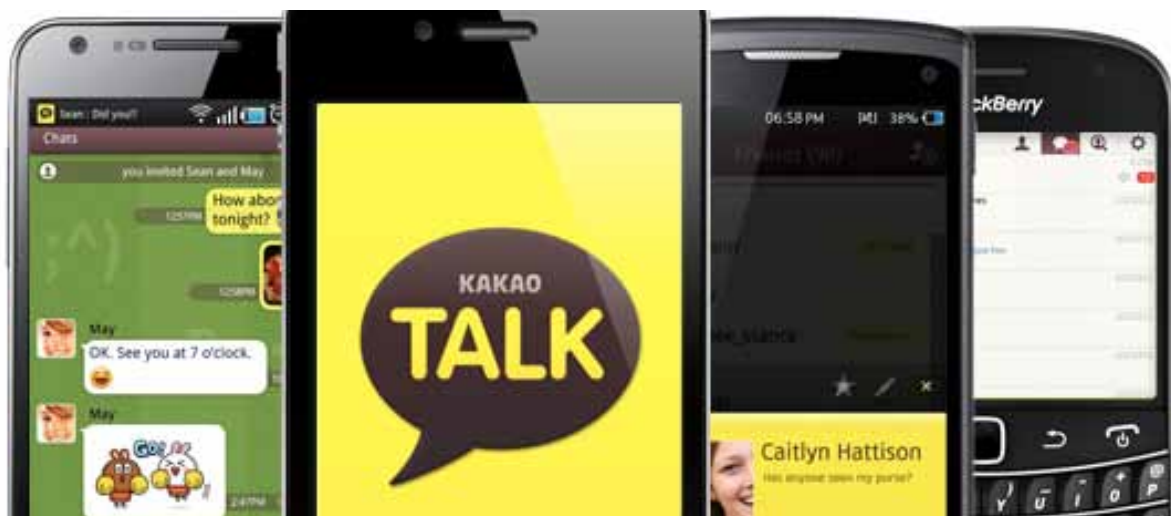
The buzz in Asia has now passed to SIM, but what exactly are these new platforms? They are essentially applications for mobile phones that allow users to post or exchange voice, text or video messaging using wireless

technology. Unlike their ancestors, such as Skype or MSN, these platforms were born after the rise of collaborative media, thus you can share multimedia messages with your contacts, as well as on external social media. In order to view this content, users must be already connected to the contact and then access specific sections of the application.

Brands are able to communicate with mobile users as if they were contacts, but there are some limitations. Users can unsubscribe from a brand in two clicks and a company has no recourse. Paid accounts present a potentially more interesting function but they are restricted in terms of frequency with a maximum of one message per week allowed. There is also no way of advertising within these platforms.

In WeChat the only way for a company to be visible to 'non-connected' consumers is if another 'connected' consumer shares the content sent by the company in their personal timeline or 'moments'; it then has the potential to be viewed by their personal contacts. There is also no guaranteed way of recruiting consumers by sending a message, as to do this requires the users ID. Even if a company had such information, there is nothing to prevent the user from blocking such unsolicited messages.

Another unwanted consequence of these platforms is that consumers are becoming quieter. Conversations challenging a brand or service are hidden behind an



electronic curtain, and such posts cannot be accessed via search engines.

For now SIM, and WeChat in particular, are user-centric, not brand-centric. Monetisation only occurs during the purchase of emoticons or when users subscribe to paid accounts, which puts the power firmly in the hands of the consumer.

If these tools were still in their infancy, known only to a handful of hipsters, they would not pose a challenge, but Kakao Talk has over 100 million users, Line more than 250 million and WeChat reached 600 million users last November; their respective penetration rates are 60 per cent in South Korea, 40 per cent in Japan and around 50 per cent in Mainland China. Companies will disregard these figures at their own peril.

Adapting to change

When a company manages to recruit subscribers through stores, campuses or websites operated by Tencent, the consumer experience is very fluid. If the company sends a message to a mobile user, the user may choose to click on it if it interests them. This will take them to the company's mobile website without having to leave the WeChat app. It is even possible to make purchases directly in the app, as third-party payment systems (Tenpay and Alipay) are already part of the user experience.

This has an immediate implication—the digital assets of a company must be optimised for mobile. They should eventually feature the same functional capacity of mobile devices, for example, the ability to capture images and sound, and the ability to locate itself. Brands must also revise their physical communication channels, such as posters and flyers, to incorporate quick response (QR) codes, the most efficient method of connecting consumers to WeChat accounts.

A current aggregate of subscribers to various Weibo services represents 80 per cent of Chinese netizens, but

WeChat is gaining fast. It is already the largest social media platform in tier-one cities, and just needs to wait for higher penetration of smartphones in tiers two to five to continue its inexorable growth.

As a consequence traffic on open social media, like Sina-Weibo, is declining and traffic on semi-closed platforms, like SNS and Renren, even more so. Admittedly, most of their customers are already accessing these services via mobile devices, but they are already outdated: they were created for the PC and the 'personal branding' era.

The SIM movement is not limited to Asia: Twitter has announced its private message system, and there is Snapchat, Facebook messenger and BlackBerry's BBM, which has just been opened to brands. Others worth mentioning are MXit, used by nearly seven million South Africans (with just 12 million total internet users), and WhatsApp with almost 200 million active monthly users.

This paradigm shift in digital media dictates that companies must adapt and grow with these new platforms or risk getting left behind. Even if you don't want to buy a verified account straight away, consider at least testing free accounts in order to understand how they work and how other brands are already utilising them.

The question remains: how will your brand adapt to this new reality? **Eb**

L'Atelier, a subsidiary of BNP Paribas, operates as a tracking and analysis centre for disruptive innovations. Since its creation in 1978, L'Atelier's purpose has been to bring innovative ideas to the various sectors of industry and to help them identify opportunities and possible directions for future growth and development. L'Atelier is also an interface between fortune 1,000 companies and innovative communities (start-ups, innovation clusters, etc.). L'Atelier headquarters are in Paris, with two regional offices: Shanghai for APAC and San Francisco for the Americas.

INSIDE THE FIREWALL

Among the challenges of operating in China, one issue that most European companies face with their IT systems and business applications is how to provide their users in China with acceptably fast access to such resources. Time spent waiting for pages to load or applications to respond can cause frustrating delays within your organisation, and it can also lose you customers.

Arthur Hamon, Asia Pacific Director for **ip-label**, says that if it is worth spending the time and money optimising and deploying systems for use on the Chinese mainland, then it is worth investing time and money to identify and fix connectivity or slowness issues to ensure that these systems are working at their optimal capacity for Chinese users.

When a website's homepage takes more than 2.6 seconds to appear, it is estimated that 58 per cent of visitors will click away from the site. Eighty per cent of these visitors will not come back and two out of three will talk negatively about their experience with people around them. For e-commerce websites

the business impact is obvious; for brand awareness sites there can be an adverse effect on a company's image. This is true in the fashion industry, but also for B2B activities too. How is it possible to consistently convey an image of quality and know-how to your prospective and current Chinese customers if your website does not display cor-

rectly for them? The waste of time, efforts and e-marketing budgets goes without saying.

For internal applications the impact must be estimated in terms of time loss, delays in processing and reporting, as well as data loss. Employees are captive users of these applications, and have to wait until required transactions are fully completed. In the case of severe delays or time-outs, some processes may require a return to the tried and tested solution of paper and Excel spreadsheets.

For external applications, the impact is more direct: a slowdown of an e-procurement system will impact the number of suppliers able to respond to the online bidding procedure, or resellers won't be able to replenish their stocks.

Here are a few typical, average delays before a user can view the full content of a webpage:

- from China to China: 10 seconds
- from China to Asia: 18 seconds
- from China to the USA: 22 to 24 seconds
- from China to Europe: 35 to 55 seconds

(Source: ip-label Datametrie measurements)

Distance-related latency only partially explains matters. Some common factors that can affect performance are:

- **Hosting:** servers located outside of China generate latency. Local hosting providers offer a variety of performance levels that must be assessed and monitored properly;
- **Telecom links:** even if they are hosted locally in China, your sites and applications need to be well connected to the Chinese Internet. Chinese telecom networks are not interconnected the way they are in Europe. A site hosted in Beijing may be practically unavailable from Shanghai because of peering issues;
- **Content Delivery Network (CDN) service providers:** a common solution for speeding up sites and applications, CDNs must be selected carefully. Local CDN providers are legally authorised to operate in China but do not always provide the same level of quality as major, international CDNs. What's more, some of the major providers may not operate efficiently in China;
- **Content:** filtered content, from sites such as Facebook or Twitter, will not display and will make the site slower; and
- **Design:** heavy design (high definition images, for example) which might perform well in an optimised environment will only weigh the site down in this context.


Balancing the cost and constraints of these factors and optimising some of them should enable you to find the right solution to meet your users' need for satisfactory application performance.

As much as this looks like a purely technical issue, teams in China also have to deal with the very real challenge of internal organisation and communication; in other words, any parts of your organisation outside of China need to be made aware of, and be sympathetic towards, the problems and constraints affecting you inside China.

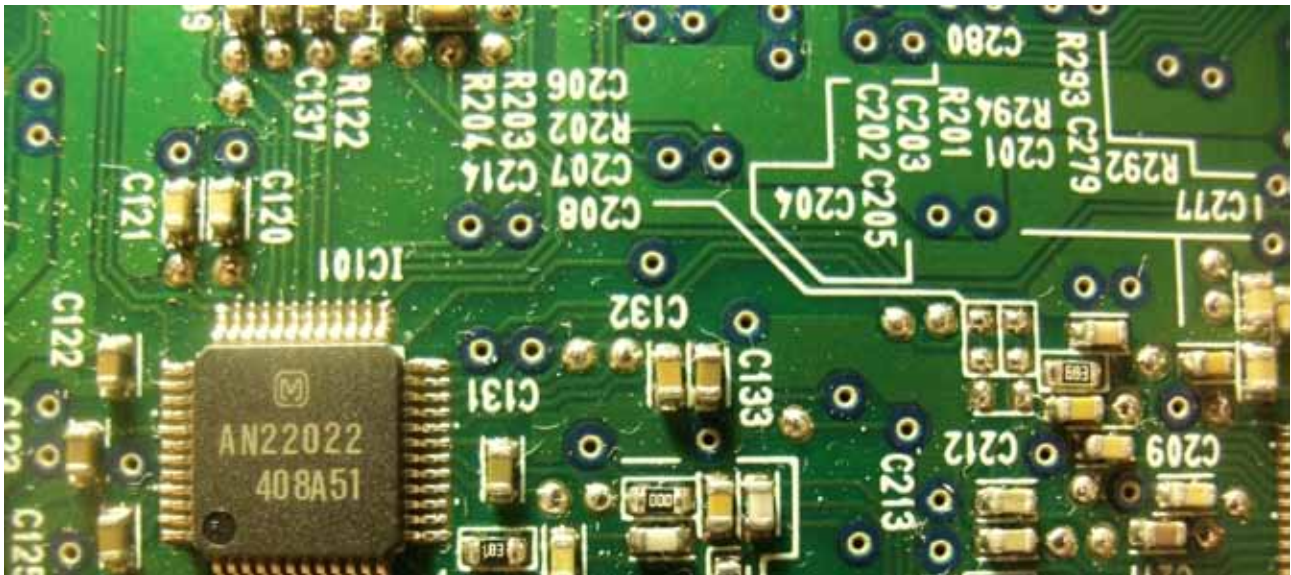
Your colleagues based at headquarters in London, Frankfurt or Madrid conduct their measurements locally, so perceived differences in performance between Europe and China could be significant. Also, with six to eight hours' time difference between Europe and China, they might also perform their 'night' maintenance tasks during peak hours for Chinese users.

For their part, IT teams find it challenging to analyse feedback from their teams in Chinese subsidiaries. It is difficult to supply diagnostics on the basis of complaints with a low level of specificity, like:

- "The system is running very slow": slowness without detailed measurements and comparisons is very subjective. If you're used to mobile internet in Japan or Korea, "slow" could mean waiting more than a second for a response. This is not a realistic performance target in Mainland China.
- "It was not possible to log on to our ERP [enterprise resource planning] system last week": was it unavailable for the whole week or a few hours? When exactly did the incident occur?
- "A customer told our sales manager that he could not access the extranet": was it a customer from Shenzhen, Beijing, or somewhere else? Were they connecting from a PC, Mac, or tablet?

Given the amount of time and effort that has probably been devoted to adjusting your website content to the Chinese market, or to deploying and adapting systems for use in China, your website or application deserves in-depth, objective, end-user monitoring. The resulting detailed data is essential to the diagnostics that will eventually improve the quality delivered to your Chinese users. 

*The **ip-label** group markets services for internet and intranet monitoring as well as solutions for auditing performance from the end-user point of view on all digital applications. Above and beyond measurement, ip-label also offers IT and operations executives its consulting expertise to assist them with managing the risks and reducing the costs associated with the way business application performance affects business and customer service. Present in China since 2007, ip label offices are located in Shanghai and Beijing.*



BYTES OF CHINA: OPPORTUNITIES AND CHALLENGES IN CHINA'S ICT MARKET

Despite the rapid catch-up process that is being fostered by the 12th Five-Year Plan and other influential policy documents, the technical innovation capacity of the Chinese information communications technology (ICT) industry is still weak. At the same time, a large number of mostly small- or medium-sized European companies are at the forefront of current research and development in this area.

In a recent report by the **EU SME Centre**, the authors identify specific opportunities that present themselves because of this competitive edge and highlight ways in which small companies from Europe can capitalise on them. A look at the market structure shows, however, that only companies with expertise in highly sophisticated technologies will be able to enjoy sustainable success in this highly competitive environment.

The ICT market has been one of the main priorities of China's economic policies for more than ten years. The government has been pouring money into large-scale research and development efforts, ICT clusters and business support services to achieve fundamental breakthroughs in core ICT

technologies and turn the domestic industry from the global assembly line into a world-leading innovation hub. These investments have paid off, and after years of annual growth rates of around 17 per cent the industry is now worth EUR 1.3 billion, contributing six per cent to China's GDP and providing 14.3 million people with em-

ployment.

Market Structure and Opportunities for EU SMEs

The ICT industry covers a wide range of products and services which can be divided into four more or less distinctive categories: telecommunications, hardware, software and services. Below are some examples of specific technologies and services for each of these categories:

Telecommunications

- Basic service
- Value-added services
- Telecommunications equipment

Hardware

- Computers
- IT network equipment
- Storage devices
- Consumer electronics

Software

- Software products
- System integration and support
- Embedded software
- Software-related IT consulting
- Design and development

Services

- Network services
- System integration
- IT outsourcing services
- Maintenance and support services
- IT consulting services
- Education and training services

Telecommunications

Telecommunications is dominated by the three state-owned carriers—China Mobile, China Unicom and China Telecom—and communication equipment giants such as Huawei and ZTE. Their comprehensive competitive strength, combined with the restrictive regulatory environment, makes it very difficult for small European market entrants to succeed in this segment.

However, the issuance of 4G licences to utilise the domestically developed 4G TD-LTE technology and the subsequent commercialisation of the networks will have profound effects on the entire industry. Although large companies will occupy a big market share, in particular for equipment procurement, SMEs will have opportunities to provide small equipment, components, software

and other supporting systems.

Hardware

With revenues estimated to have grown to EUR 172.5 billion in 2013, China's hardware industry is the established production base of the world. At the same time, China is also the largest market for computer products. Development has been focused on mobile phone technology in recent years, which drives demand as well as innovation. Selected cutting edge computer (high-performance and grid computing), integrated circuit (system-on-a-chip design and micro electromechanical systems) and display (LED and projection) technology is being especially promoted by the Chinese Government.

The internet of things is one niche in which European SMEs will find opportunities in China's IT hardware market as the Chinese Government is realising the huge potential benefits of increased efficiency in logistics and the smart metering of the energy and water supply. Thus, demand for network-embedded systems will increase, an opportunity for EU SMEs owning cutting-edge technologies in customised application microprocessors.

Software

China's software industry has likewise been growing at a fast pace. In 2012, total revenue reached EUR 291.6 billion, representing a year-on-year rise of 32.7 per cent. The general market is dominated by domestic developers—there were more than 28,000 software companies in 2012—while global software companies like Microsoft, Oracle or SAP are serving the high-end clientele.

With over a quarter of the Chinese population accessing the internet through mobile phones the demand for applications is huge. As willingness to pay for software is still low in China, many developers opt for in-app sales and advertisements to generate returns. The same applies for game developers, where the so-called 'freemium' model (software-as-service) has proven to be the most economically viable option.

Services

IT services, which include extremely popular consumer services such as mobile applications, e-commerce, online gaming and cloud computing, have developed on a par with the rapid spread of internet connectivity in China. With Chinese mobile applications like WeChat starting to go global and domestic e-commerce booming, recent developments in this market are proof that indigenous Chinese innovation is quickly becoming a reality. Online gaming and cloud computing are growing fast as well, with the gaming market expected to reach EUR 5.9 billion in 2014 and an estimated 200 million cloud users in 2013.

The service sector arguably affords the most opportunities to EU SMEs, especially in IT consultancy (develop-

ment and integration of databases and IT systems, green ICT) and web development (website design for foreign companies in China, e-storefronts).

Challenges in the Market

In addition to challenges related to market fragmentation, fierce competition and HR issues, EU SMEs looking to enter China's ICT market are also facing a restrictive legal and regulatory environment. For example, foreign companies are effectively blocked from entering a number of industries because only private Chinese companies (with very limited foreign involvement) are qualified to apply for a licence.

Intellectual property (IP) protection is still a big issue for most European SMEs as well. Over the years gaining market access in exchange for bringing foreign technology to China has been a successful bargain for many European companies. Unfortunately some Chinese companies seeking to acquire foreign technology still obtain it through inadvertent leakage of IP or the breach of agreements or Chinese law.

Regulations (and the lack thereof) also impede access to China's public procurement market. There is very limited regulation of government procurement to refer to and projects that are of public interest and/or use public funds are often not included. In addition, because of policies to support indigenous innovation, products with IPR owned by Chinese companies are prioritised in some pro-

jects.

All things considered, the Chinese ICT market is a challenging arena for European SMEs. However, companies with a thorough knowledge of the market and a good network of local contacts will be able to benefit from China's digital revolution, assuming they have the right product and people for the market and the persistence and expertise necessary to navigate the regulatory framework. **Eb**

*The **EU SME Centre** assists European SMEs by providing a comprehensive range of free, hands-on support services including the provision of information, confidential advice, networking events and training. The Centre also acts as a platform facilitating coordination amongst Member State and European public and private sector service providers to SMEs. The EU SME Centre is a project funded by the European Union. To find out more about the Centre and its services, visit www.eusme-centre.org.cn.*





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WHY SYSTEMIC APPROACHES ARE BETTER

In the European Chamber's *Executive Position Paper 2013/2014*, we made three main recommendations to the Chinese Government. One of these was to adopt a more systemic approach to overcoming challenges and problem solving, but what exactly does this mean? **Mats Harborn, Vice President of the Chamber** and **Vice Chair of the Chamber's Automotive Working Group** provides an explanation and puts this recommendation into context with some smart examples.

In China, as in many countries around the world, there is an over reliance on complicated, state of the art and expensive technologies to solve problems. This often occurs because the benefits of taking a holistic view are not immediate enough; the temptation is to quickly arrive at a conclusion and then spend time and effort trying to find a solution. Despite being expensive and inefficient, this approach is sometimes encouraged by governments that believe they can dictate solutions to (incorrectly) perceived problems.

It is far more preferable to place problems in a larger context and carefully analyse how they are influenced by other external factors. Instead of dictating a solution it is healthier and more efficient to set a goal or target and then encourage society and the market to create solutions. This approach can be illustrated by using examples that we all can relate to.

Traffic congestion

An immediate conclusion to the problem of traffic congestion is that either there are too many cars, or too few roads; quick solutions may be to invest in more roads or introduce a congestion fee. However, the problem may be caused by built-in bottlenecks within the existing road system.

An important goal in planning traffic is to ensure a smooth flow as disruptions quickly lead to jams. If, for example, an exit from a ring road has been badly designed (this can be seen everywhere in China where the entrances to and exits from major arteries are constructed within a few metres of each other) traffic cannot easily flow to and from adjacent roads. This leads to traffic jams both on the ring road and on the adjacent road.

Poorly synchronised traffic lights can also cause serious congestion, and even something as simple as road sign placement can cause disruptions to the flow of traffic. For example, if a road has poorly placed or insufficient signage a driver may need to slow down in order to ascertain the correct exit. This will cause vehicles behind him to brake leading to an accumulation of traffic. This clearly demonstrates the benefits of taking time to analyse the bigger picture—it is far cheaper to increase and improve the placement of signage than it is to construct a new road.

Air pollution

In many Chinese cities air pollution is a serious challenge. Because they emit exhaust fumes cars are visible and obvious contributors to the problem and are easy targets to blame. However, while they certainly contribute there are bigger culprits.

A major source of air pollution is the process of heating and cooling buildings. It is extremely important to build energy-efficient buildings, particularly in areas where there is a frenzy of construction activity. In China there is a wealth of construction standards but very little enforce-

ment. This frequently results in buildings being constructed with sub-standard materials, single-glazed windows and no heating-control systems.

Maintaining an optimum temperature in these kinds of buildings results in huge amounts of energy wastage: because they are fed a surfeit of energy to compensate for their poor insulation, the lack of a thermostat means the only way to regulate the temperature is to vent by allowing the excess heat to escape—it is far too common a sight to see buildings in the north of China with the windows wide open in the height of winter.

A recent report showed that if all single-glazed windows in China were replaced with double glazing a staggering 20 per cent of the total energy used for heating could be saved.

The housing challenge in China has been solved for hundreds of millions of people, but a lack of enforcement of construction standards and a lack of energy-conserving technologies has resulted in buildings that are inefficient and adversely affect the air quality. It is a huge concern that many new, poorly constructed buildings will stand for many tens of years to come and thereby continue to contribute to this most serious of problems.

Traffic safety

The Swedish Government set a target of zero fatal road traffic accidents. It was identified that a significant step towards achieving this would be the separation of opposing lanes, but in a country with an abundance of class one highways (roads that do not have an existing separation between opposing lanes) an immediate solution did not appear simple or cheap. Roads could be widened to allow for a central reservation to be constructed, but this would entail huge costs to society.

The smart solution was to separate the opposing lanes without widening the roads using soft wire fencing, and to reconfigure the road layout into alternating two-lane sections. This means that traffic in each direction has lengths of road with two lanes where it is safe to overtake, before reverting back to a single lane. Drivers drive more calmly in these single-lane sections because they know that in a couple of kilometres the road will revert back to two lanes and they will once again have the opportunity to overtake if they need to.

This small but clever solution achieved both a better traffic flow and helped to reduce fatalities on the road.

Conclusions

When a problem is identified it is important to set a clear vision of what should actually be achieved by solving it. This vision or goal needs to be clearly communicated so that the stakeholders can begin working towards the best solution. This process is the foundation of creative and innovative thinking.



It is not feasible for one person, or even a single ministry, to provide answers to our problems. Instead, it is the role of government to articulate goals and then trust society and the market to generate efficient solutions. This entails governments understanding how issues are interconnected and leveraging all relevant stakeholders instead of relying on inefficient silo management. All ministries and government agencies need to strive towards the same goals and seek cross-departmental cooperation and coordination to facilitate the most efficient solutions.

In today's complex world there is increased interaction between people, services and processes that were previously unrelated, and this illustrates why standardisation is integral to providing efficient solutions. A standard has no purpose in itself, but it exists to ensure the development of common interfaces in all aspects of society, from the smallest to the largest. To be meaningful a standard should serve a specific purpose, and its users should be involved in its design from the beginning through to its implementation.

It is tempting for a developing nation to allow the government alone to write all standards and to just base them on existing standards from other countries. The problem is that such 'copies' are not developed with a clear understanding of the underlying principles of the particular standard, which leads to a lack of understanding of how to adhere to or enforce it.

Europe and European industry wants to partner China in this important area but often companies find it difficult to do business here as the products or services they offer are usually developed as complete system solutions, or at least as part of a system solution. The wish of European companies is to offer more value than just the cost of the product or service alone, but when these products or services are viewed in isolation from the system that they were created for they may appear expensive or irrelevant. It is therefore in the interests of European industry to encourage China to move towards systemic approaches, which in turn will benefit China as its consumers will begin to see the emergence of cheaper and more efficient solutions. [Eb](#)

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Position Paper Presentation to Commissioner, SIPO



President Cucino with Commissioner Shen Changyu

On 16th January, a European Chamber delegation, led by President Davide Cucino, presented the *Position Paper 2013/2014* to Mr Shen Changyu, the newly-appointed Commissioner of the State Intellectual Property Office (SIPO). The SIPO clarified their priorities for 2014 and addressed IPR protection in relation to utility models, trademarks, service inventions as well as the rail industry. Commissioner Shen praised the long-term partnership between SIPO and the European Chamber, welcoming further working-level communication to share best practices.

Meeting with Jeroen Dijsselbloem, President of the Eurogroup



Vice President Morcillo (right) with Minister Dijsselbloem

On 14th January, European Chamber Vice President Eduardo Morcillo met with the Dutch Minister of Finance, Jeroen Dijsselbloem, as part of a briefing meeting at the Embassy of the Netherlands. Minister Dijsselbloem was visiting China in his role as President of the Eurogroup for a number of meetings with Chinese government authorities.

Eduardo gave a presentation during the meeting that had been organised to allow for an exchange of views about the current investment climate in China and to brief the minister on how the European Chamber perceives various policy developments in the business environment.

Position Paper Presentation to Vice Commissioner, SCLAO



President Cucino presenting the *Position Paper* to Hu Keming

On 17th January, a European Chamber delegation, led by President Davide Cucino, shared a productive exchange with Mr Hu Keming, Vice Commissioner of the State Council Legislative Affairs Office (SCLAO) responsible for foreign affairs. Working group representatives discussed a wide range of topics including the public consultation period of legislative drafts and the status of key sectoral regulations such as the *Draft Food Safety Law* and the *Draft Implementing Regulations of the Trademark Law*.

Position Paper Presentation to Vice Commissioner of CAAC



President Cucino and Vice Commissioner Xia Xinghua (far right)

On 17th January, European Chamber President Davide Cucino and representatives from the Aerospace and Aviation Working Groups met with Mr Xia Xinghua, Vice Commissioner of the Civil Aviation Administration of China (CAAC).

President Cucino expressed gratitude to the CAAC for the developments of market access issues in the past year, and Vice Commissioner Xia Xinghua highlighted some of the CAAC's key achievements. He pointed out that differences between the EU and China still exist and that the CAAC hopes to see improvements in the year to come such as speeding up the approval of the C919.

Other Lobby Activities:

On 11th December, 2013, European Chamber representatives, led by **President Davide Cucino**, met with **Mr Li Yang, Vice President of the China Academy of Social Sciences (CASS)**. Despite the current, positive reform agenda, President Cucino raised concerns such as the continued strong presence of SOE's and the limited progress with the Shanghai Free Trade Zone Negative List.

As the first of the European Chamber's thematic meetings on Shanghai Free Trade Zone with the central government, on 5th November, Secretary General Adam Dunnett and working group representatives shared a positive exchange with **Deputy Director General Huang Feng**, Department of Foreign Investment Administration at the **Ministry of Commerce**, (MOFCOM).

On 5th December, the European Chamber hosted a policy seminar with Mr **Mo Tan, Director of International Cooperation** from the **Torch Centre of High Technology Industry Development**. Director Mo gave members an overview of the Torch

Programme as well as innovation-based policy grants available to foreign-invested companies.

Chamber representatives, led by **Beijing General Manager Jaspal Channa**, met with **Liu Deping, Director General** of the Customs Clearance Department of the **General Administration for Quality Supervision, Inspection and Quarantine (AQSIQ)** in Beijing on 29th November. DG Liu introduced AQSIQ's role in drafting SHFTZ entry/exit inspection and quarantine rules. At the end of the meeting, both sides designated points of contact for closer cooperation in trade facilitation.

On 6th December, European Chamber representatives, led by **Secretary General, Adam Dunnett**, met with **Director General Wang Wei**, Tariff Department at the **Ministry of Finance (MOF)**. The meeting clarified the MOF's role within the Shanghai Free Trade Zone and shed light on China's future policy trend in tariff rate adjustments. Tariff-related concerns from the Cosmetics Working Group and Paediatric Nutrition Desk were also positively addressed by DG Wang.



THE KEY TO EU-CHINA IP COOPERATION

Benoit Misonne and **Dan Prud'homme** from **IP Key** say a number of significant pieces of intellectual property (IP)-related legislation in China will undergo revisions in 2014. In the following article they urge EU businesses to stay abreast of these changes, in order to contribute to the reform process and to ensure that they are able to adapt and compete effectively in China's rapidly changing IP landscape.

Change is afoot

Over the coming year there will be an ongoing review of the latest revisions to the Patent Law and implementing and administrative guidelines to the law will be drafted. Similarly, the Copyright Law and its implementing and administrative guidelines will undergo further review and revisions.

The Trademark Law, on which new revisions were finalised in 2013, is set to take effect on 1st May, 2014, and implementing regulations and according administrative/examination guidelines will need to be finalised and promulgated.

A range of other IP-relevant laws, regulations, and other measures including: the Service Invention Regulations; a judicial interpretation, and perhaps other measures, related to trade secrets; Regulations on National Standards Involving Patents; the Protection Measures for IP Rights During Exhibitions; and the Promotion of Science and Technology Achievements and Transformations Law, among potential others, will also undergo revisions.

Additionally, key changes are being considered or are taking place within China's IP-related institutions. One of the most significant leadership changes was the replacement of Director Tian Lipu of the State Intellectual Property Office (SIPO) with Shen Changyu, an engineer and academic, as of 1st January, 2014.

In terms of responsibilities at IP-enforcement institutions—pending passage and implementation of the latest revisions to the Patent Law—local IP bureaus will enjoy increasing administrative powers. In Shanghai the authorities have announced a novel structure for enforcing IP rights in the newly launched Shanghai Free Trade Zone, with a unified administrative organ handling patent and copyright disputes and a branch of the State Administration of Industry and Commerce (SAIC) handling trademark disputes; and there are ongoing discussions about exactly how different aspects of IP enforcement will work inside the zone. Further notable institutional changes in China's IP environment are possible in 2014.

What this means for EU businesses

As of the latter half of the last decade, the IP reform process in China has changed from one responding largely to foreign pressure to comply with the WTO Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement commitments, to one arguably driven more so by domestic necessity for reform.

Chinese firms are inventing more than ever and while in some areas awareness of the importance and workings of IP rights are still underdeveloped, Chinese entities do understand and are taking notable steps to protect their own IP rights. For example, in terms of patents, it is telling that 98 per cent of recent patent litigation cases are between Chinese entities. This increasing awareness and utilisation of the IP system has also translated into pressure by Chinese entities to further improve/reform their domestic system. In the same vein Chinese academics and government recognise that the only way China will become more innovative in the future is to improve its IP protection environment.

Given that some of China's IP reforms in 2014 will be significant it is critical for EU businesses to be mindful of these revisions and how they might impact their business. The reforms may create or otherwise warrant changes in firms' innovation spending, IP management and enforcement, and their overall profitability and competitiveness. By being aware of these changes firms can capitalise on opportunities and attempt to mitigate risks posed by the reforms.

Moreover, in addition to being aware of the changes, EU businesses should become as involved as possible in providing input into the reform process. Institutions like the European Union Chamber of Commerce in China (European Chamber), and their various working groups, including the IPR Working Group, have long been highly involved in commenting on and providing suggestions to China's IP authorities in terms of revising IP-related laws, regulations, other measures, and even via suggesting some institutional reforms.

Feedback from numerous Chinese government ministries and agencies indicate that these comments and suggestions are taken seriously and often integrated into

the reform process. As of 2014, the European Chamber's efforts in this regard will be supplemented by a new EU project set to officially launch activities in January: IP Key.

Conclusion

China will witness a variety of changes in its IP framework in 2014, including legislative and institutional reforms. These reforms are increasingly part of China's efforts to protect IP to stimulate domestic innovation, but are equally important to EU businesses operating in China and provide an important opportunity for EU firms to potentially influence these reforms for their own benefit. Alongside the European Chamber, the new IP Key project—funded by the European Commission (EC) and implemented by the Office for Harmonisation in the Internal Market (OHIM) and the European Patent Office (EPO)—has planned over 30 activities in 2014, which will channel EU businesses' interests into the Chinese legislative and institutional-reform process. Through these efforts, EU businesses will hopefully enjoy an IP and innovation environment in China that is increasingly effective, fair, transparent and otherwise based upon international best practices.

The IP Key project is the EC's financial vehicle for the EU-China New Intellectual Property Cooperation, an agreement between the EU and China. Concluding in 2016, this three-year project will build on the long and productive history of EU-China cooperation on IP issues—most recently via the IPR2 project—and will further enhance cooperation by:

- Providing support to the EU-China IP Dialogue and EU-China IP Working Group;
- Facilitating the development of an IP and innovation framework in China that better allows for self-determined "sustainable competitiveness" and better mitigates business risk; and
- Improving the IP legal framework and predictability of IP enforcement in China.

IP Key will undertake activities in these areas both independently and in partnership with Chinese government counterparts. The activities will take the form of workshops, peer exchanges on best practices, database/IT tools implementation and studies, among others, and will cover all types of IP rights and certain related innovation issues. ^{Eb}





HANGZHOU: HEAVEN ON EARTH

The capital of Zhejiang province, Hangzhou has historically been credited as being one of the most beautiful cities in China along with neighbouring Suzhou (the famous saying "上有天堂，下有苏杭" – translates to "heaven is above, Suzhou and Hangzhou are below"). **Yao Lu** from **Dezan Shira & Associates** takes a look at this heavenly city and discovers an abundance of fertile land, as well as a financial centre with a thriving manufacturing base.

Economic overview

Over the past decade, Hangzhou has earned recognition for its remarkable economic development. Its economic strength sees it continuously rank among the top ten medium to large cities in the country.

In 2012, Hangzhou's GDP exceeded RMB 780.4 billion and grew at an annual rate of nine per cent. The city's primary industry contributed RMB 25.6 billion (2.5 per cent growth) and its secondary industry RMB 362.7 billion (8.5 per cent growth). The remaining RMB 392.1 billion came from the service sector, which grew 10.1 per cent year-on-year.

For the first time in its history, Hangzhou's service sector contributed to more than half of the city's GDP in 2012 at 50.2 per cent. Tourism—which brought in close to RMB 140 billion in 2012—accounted for a major portion of service sector revenue, with close to 84 million foreign and domestic tourists visiting the city last year alone.

Industry also plays a vital role in Hangzhou's economic development, and the city has constructed a diverse manufacturing system with the following five pillar industries:

- Electronics and information
- Medical and chemical engineering
- Mechanical manufacturing
- Textile and garments
- Food and beverage

In addition to manufacturing, the city has a solid agricultural foundation. Thanks to its rich land, subtropical climate, lakes and mountains, Hangzhou is known as the 'land of fish and rice', the 'tea capital' and the 'home of silk'.

Development zones

Hangzhou's main development zones include:

Hangzhou Economic & Technological Development Zone

This was approved as a national development zone in 1993 and has five pillar industries: machinery and electronics, biology and pharmaceutical, high-tech chemistry, textile and chemical fibres, and food processing.

Xiaoshan Economic & Technological Development Zone

Also approved as a national development zone in 1993, it has already built itself into a strong, export-oriented model based on machinery, textile and garment industries. Specialised structures such as a women's garment industrial park and equipment manufacturing centre have been established in this zone.

Hangzhou Export Processing Zone

Established in 2000, following approval by the State Council, this zone mainly focuses on electronics, telecommunications and home appliance industries.

Hangzhou Hi-Tech Industrial Development Zone

Established in 1990 and approved as a national hi-tech zone in 1991, it has formed eight industrial clusters including software and service outsourcing, e-commerce, internet of things, cultural and creative industry, communication equipment manufacturing, Photovoltaic, IC design and digital television.

Hangzhou Qianjiang Economic Development Zone

Also known as the 'Hangzhou High-Tech Industrial Park' and the 'Hangzhou Qianjiang Science and Technology City', it focuses on new materials, biotechnology, chemical production and processing, and electronics manufacturing and packaging.

Investment Opportunities

The municipal government has rolled out various preferential policies to foreign investors including tax incentives, financial support and subsidies.

According to the *Several Opinions on Better Utilising Foreign Investment*, released by the Hangzhou Government in 2011, the city will gradually open the education, medicine and sports industries to foreign investment, and will encourage foreign investors to participate in the development of the city's culture and tourism sectors.

Moreover, the municipal government will award financial support to investment projects by Fortune 500 companies and foreign investment projects in the following industrial fields:

- Energy-saving and environmental protection

- New generation information technology
- Biology
- High-end equipment manufacturing
- New energy
- New materials
- Modern services

In addition, the government will also provide the following preferential policies to foreign investors:

Tax Incentives

Qualified, foreign-invested R&D centres are exempted from import duty, value-added tax and consumption tax for the import of R&D equipment and facilities.

Qualified high-tech enterprises are able to pay corporate income tax rate at 15 per cent, while qualified foreign service-providers are exempted from business tax for the provision of offshore services and may pay corporate income tax at a rate of 15 per cent.


Land Policies

The land use rights may be granted to foreign investment projects at a price no less than 70 per cent of Zhejiang's lowest price of industrial land.

Foreign Exchange Policies

Upon compliance with national foreign exchange administration policies, foreign investors may use offshore RMB to increase capital, borrow RMB, loan or return RMB foreign debt. For foreign-invested enterprises (FIEs) that fail to pay registered capital on time due to capital shortage, the term of capital contribution can be extended upon approval.

Financial Support

The Hangzhou Government will encourage financial institutions to provide more support to foreign investment projects and will encourage FIEs incorporated in China to issue short- and middle-term financing instruments in the inter-bank bond market. 

Dezan Shira & Associates is a specialist foreign direct investment practice, providing corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia. Since its establishment in 1992, the firm has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam as well as liaison offices in Italy and the United States. For further details or to contact the firm, please email china@dezshira.com or visit www.dezshira.com.



9TH EUROPEAN CHAMBER HR CONFERENCE 2013

On 29th November, the European Chamber held the ninth edition of our annual human resources conference, attracting 160 attendees. Under the theme 'Bolstering Market Responsiveness – Creating China-innovated Strategies', CEOs and HR Directors of European and Chinese companies discussed how global best practices can be applied to China, what challenges China faces due to economic developments and how new approaches and ideas can be created and implemented.

The conference opened with speeches delivered by Stefan Sack, Vice President and Chairman of the Board, European Chamber Shanghai, and Johannes Dietsch, President of Bayer Greater China Group. The former Deputy Mayor of Shanghai, Mr Liu Zhenyuan, also delivered a congratulations speech.

In addition to the programme of plenary presentations and panel discussions, conference participants had the chance enter into deeper dialogue through industry and HR practice roundtables, which focussed on different topics such as life science and healthcare, retail and distribution, compensation and benefits, and talent management. Much of the discussion centred on talent acquisition, talent management know-how for managers and new approaches in leadership development.

Market trends

Christine Raynaud, CEO of MRI, delivered an interesting and informative presentation based on the preliminary findings and trends of their annual Talent Report.

This report indicates that the high level of fluctuation in China's labour market will remain throughout 2014, with more than 20 per cent of all respondents choosing 'Yes, I will definitely seek to make a change in 2014', and 64 per cent responding with 'maybe, if the right opportunity presents itself'.

When it comes to employee priorities the report reveals that work-life balance still tops the list. In response to the question of top relocation destinations, China-based respondents ranked North America at number one, with Europe on the rise once again. It is also noteworthy, although perhaps unsurprising, that cities with a record of poor air quality are rapidly falling from favour.

Another significant finding of the report was the dramatic drop in job offers in the banking and financial services sectors during 2013.

CEO panel

Moderated by Hellmut Schütte, Vice President and Dean, CEIBS, the CEO panel on 'Growth, Competition & Innovation' consisted of Johannes Dietsch, Zhang Jinrong, Manpower Group China, Yu Hai, ZTE Corporation, Liu Guilin, Baoshan Iron & Steel Co Ltd, and Su Yonghua, Normstar Group. During their discussion on the current changes in the Chinese job market a consensus emerged that the mismatch between supply and demand is seen as the biggest challenge companies in China are facing right now.

They also identified and discussed six of the most common challenging characteristics of college graduates entering the job market: 1) they are often unsure of their career path and lack stability; 2) they are easily influenced by peers in terms of salary, and are more likely to leave a company purely because they are dissatisfied with their income; 3) they can be irrational when choosing a




job as they do not have a clear life purpose; 4) some of them talk a good game, but are inefficient in practice; 5) some of them cannot work under pressure; and 6) some of them have a negative attitude towards life and like to complain. It was concluded that, more than ever, companies need to have a more proactive approach in entry selection and offer targeted training programmes to help young people grow and develop.

HRD Panel

Prior to the HR Directors (HRD) panel on trends and best practices in talent management in China, Christophe Gamet, HR Director of L'Oréal, presented his company's Talent Strategy. He explained that setting up a talent-retention action plan is the highest priority for his company.

The HRD panel was moderated by Daniel Hein, Country Manager China, DNV GL Energy, and consisted of Christophe Gamet, Gao Lihua, SCA Asia Pacific, Jan Anne Schelling, DSM (China) Ltd, Julie Zhu, Akzo Nobel North Asia, and Professor Han Zheng, Tongji University. The discussions emphasised that one of the major concerns of multinational companies, is the challenge of finding enough qualified staff.

Due to the scale and complexity of the growth of China's markets, along with its growing contribution to global business, it is imperative for companies to acquire, develop and retain talent with both strategic views and China-focused best practices. European companies will be competing more intensely against local Chinese competitors with further market penetration of inland cities planned. 

*This event was generously sponsored by **Cornerstone, Jobedin, MRIC, New Concept Mandarin, UniGroup and YCIS.***



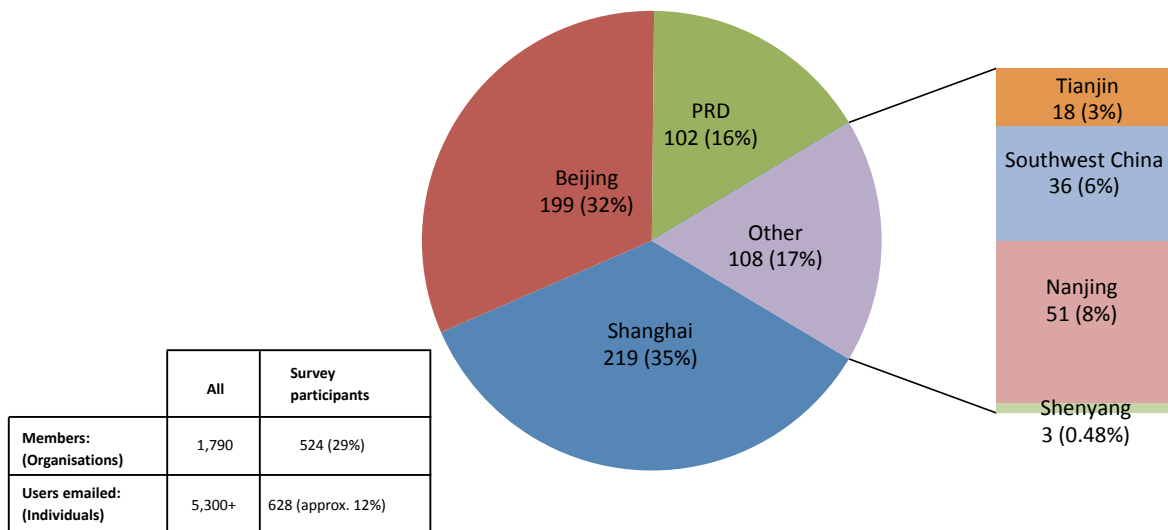
MEMBERSHIP SURVEY

From the 20th June to 12th July, 2013, we surveyed our members to gauge the level of satisfaction with our membership services.

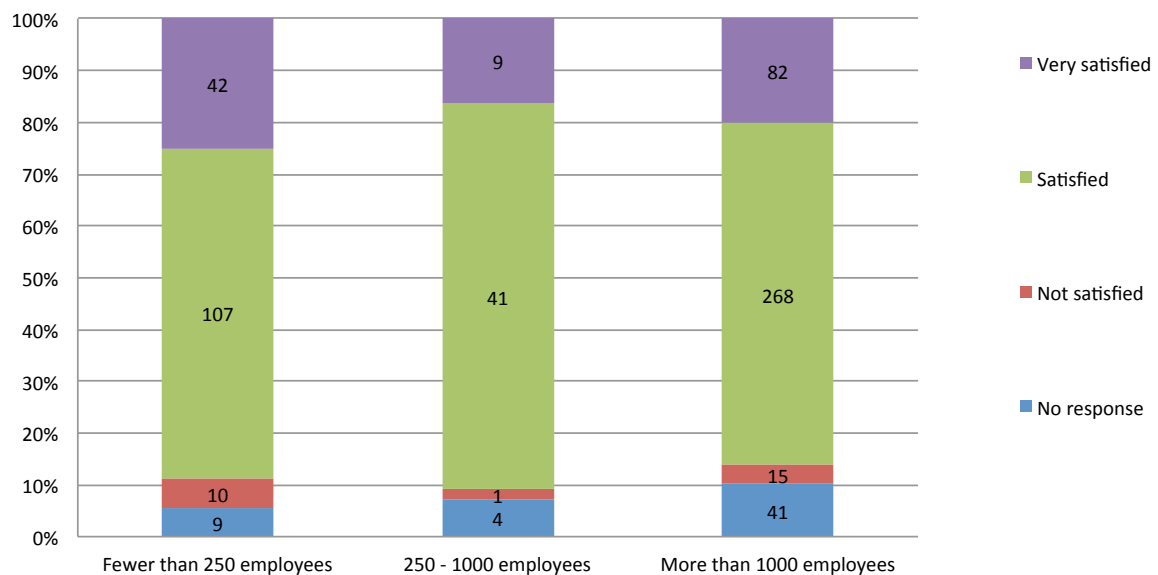
The feedback from this survey is important for shaping future interactions with members and improving Chamber services. The survey covered questions about our working groups and fora, our events and our communications.

We are proud to announce that the vast majority of respondents (approximately 90%) declared being 'satisfied' or 'very satisfied' with our services. To follow are some samples taken from the survey:

628 respondents registered at the following chapters:



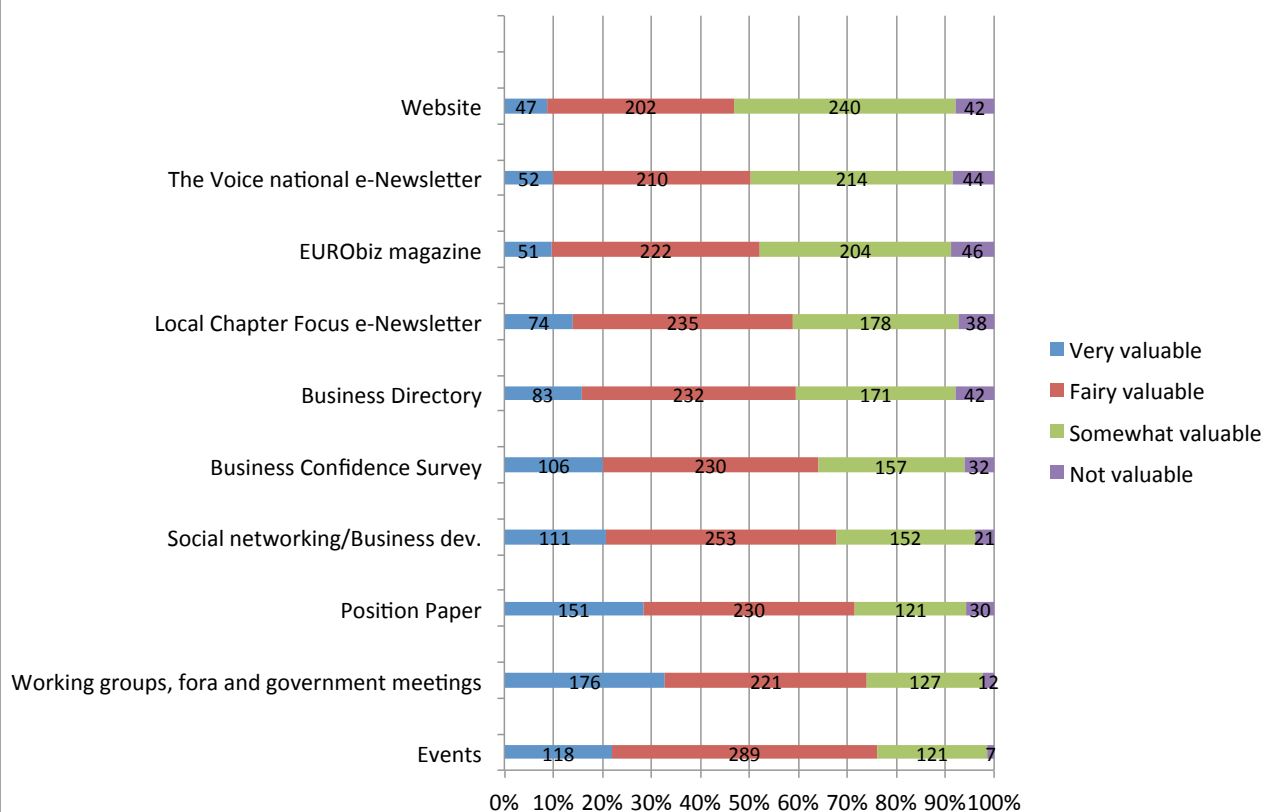
General satisfaction:
"Are you generally satisfied with the Chamber's services?"



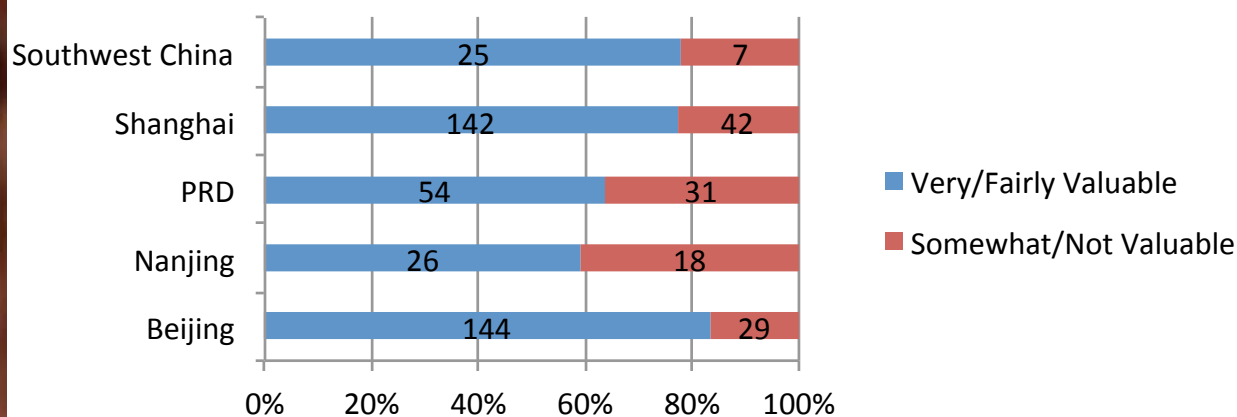
Some of the comments from dissatisfied members:

- The Chamber "is too general"- it should treat its members more personally.
- The Chamber "should better understand the individual needs of it's members and provide services that are more client-oriented (and should) closely communicate with members to know their requests."
- The Chamber should not "cancel (events) at short notice".

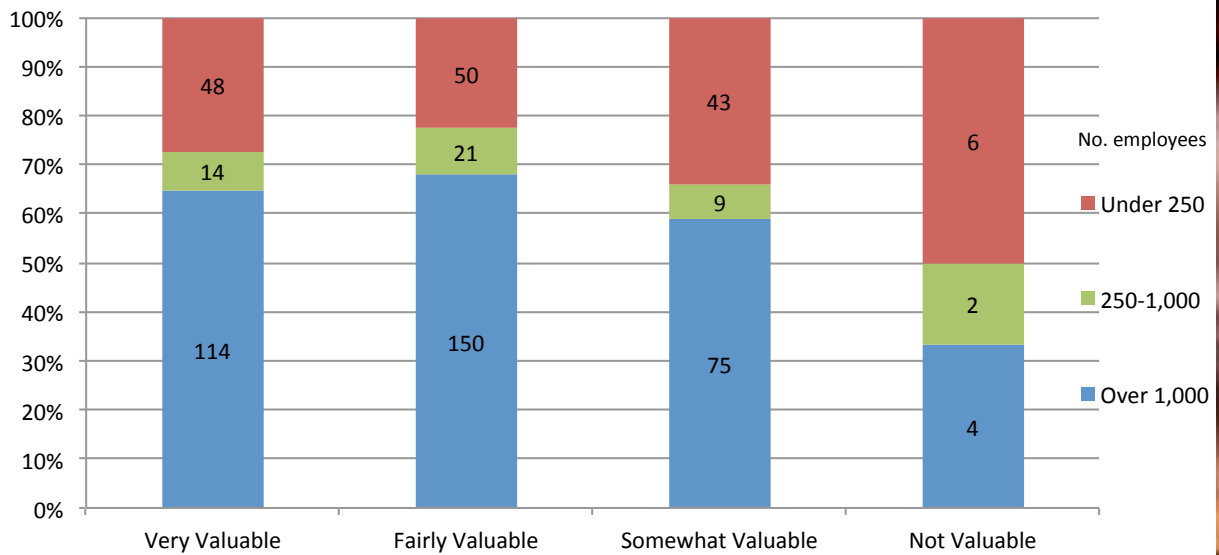
The value of Chamber services (excluding 'no responses')



The value of working groups/fora Chapter breakdown

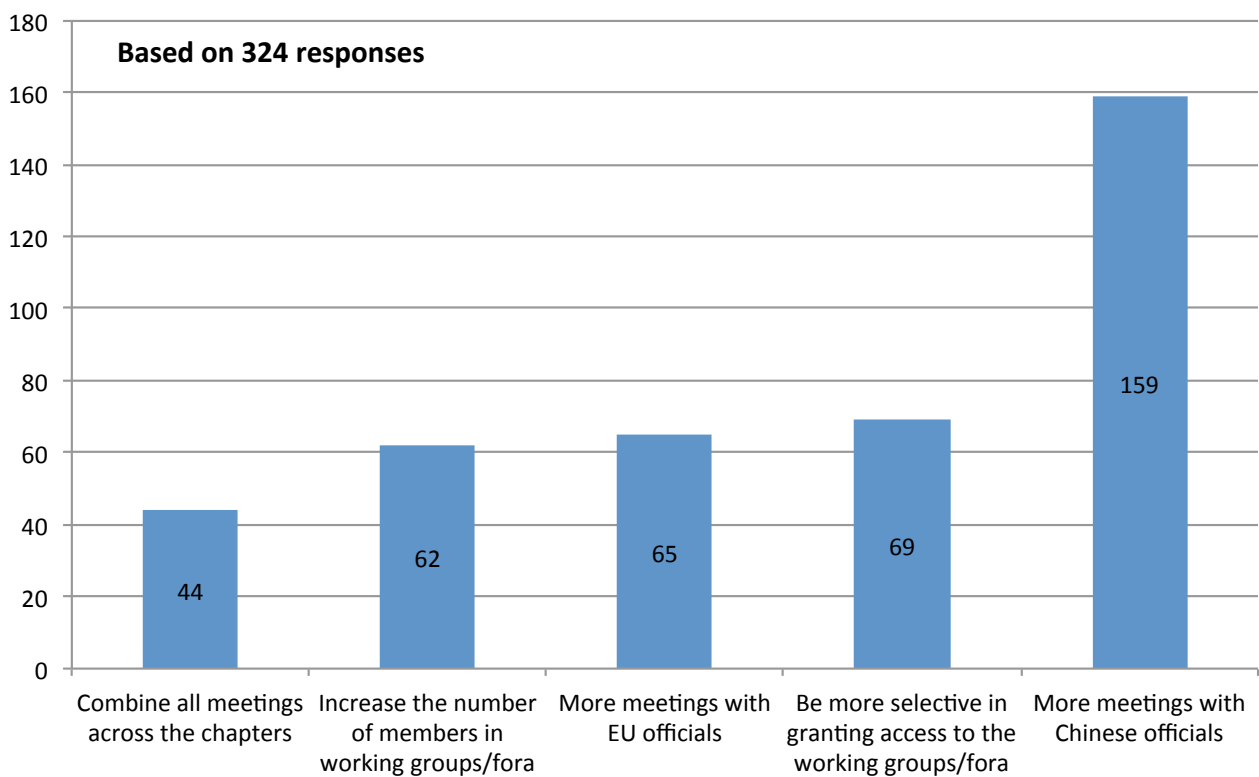


Working groups and fora are more valuable for larger organisations



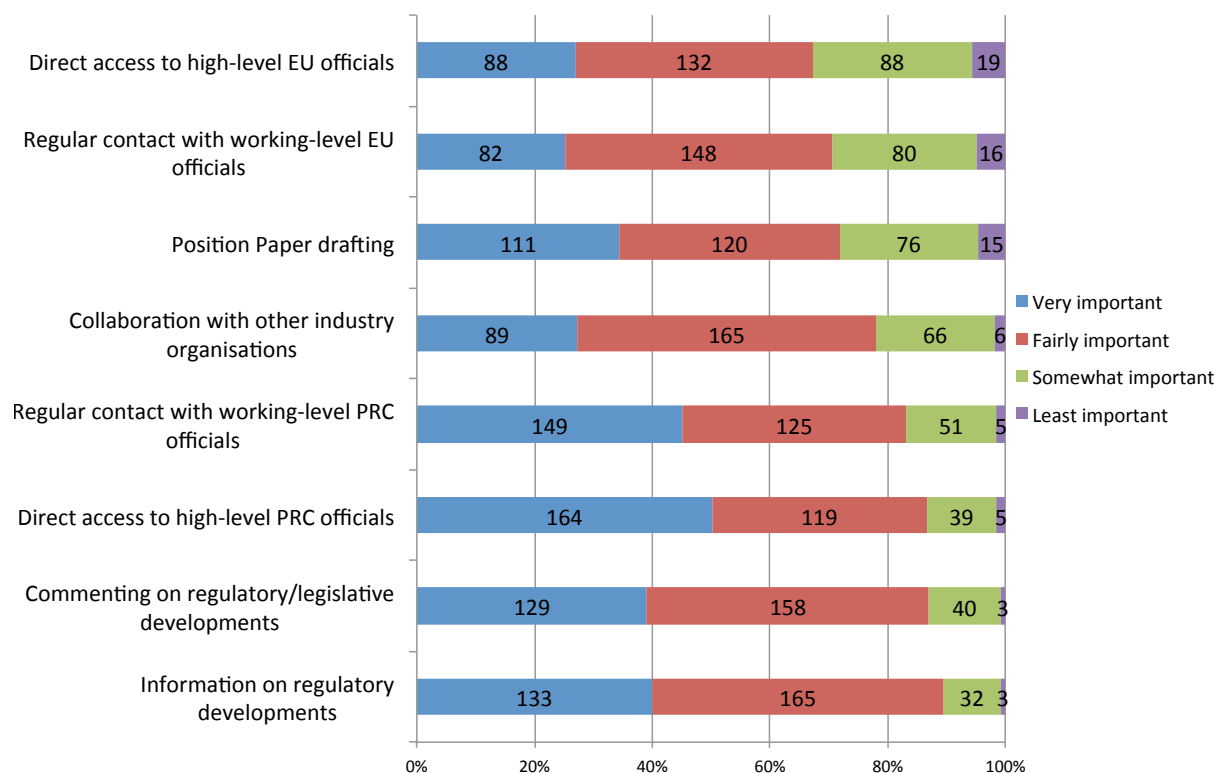
Improving Chamber working groups

Based on 324 responses



Chamber lobbying activities

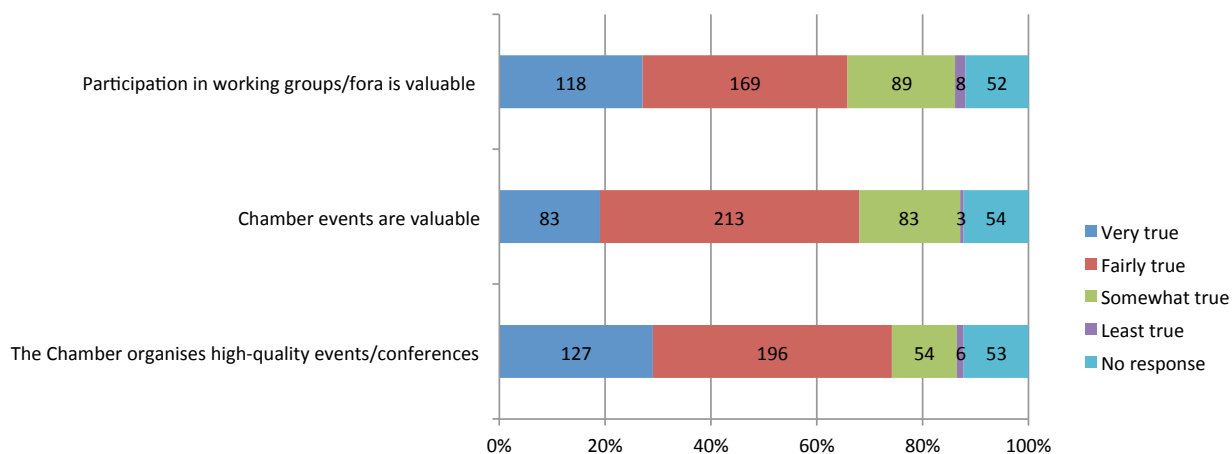
Lobbying activities rated by importance
(excluding 'no responses')



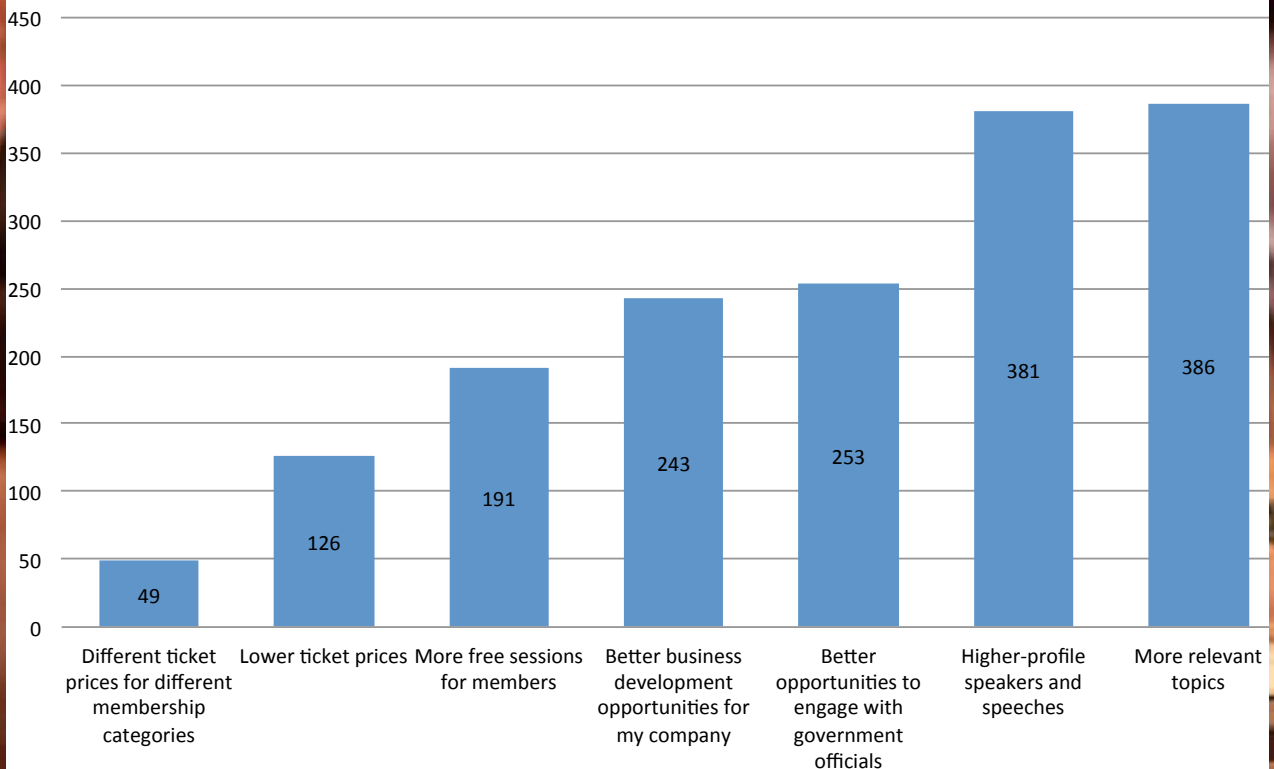
Expectations vs satisfaction

(of those who joined the Chamber 'to gain access to events that could give me industry expertise, professional skills and more information')

Total of 436 respondents (69% of total)



How to attract more members to events?

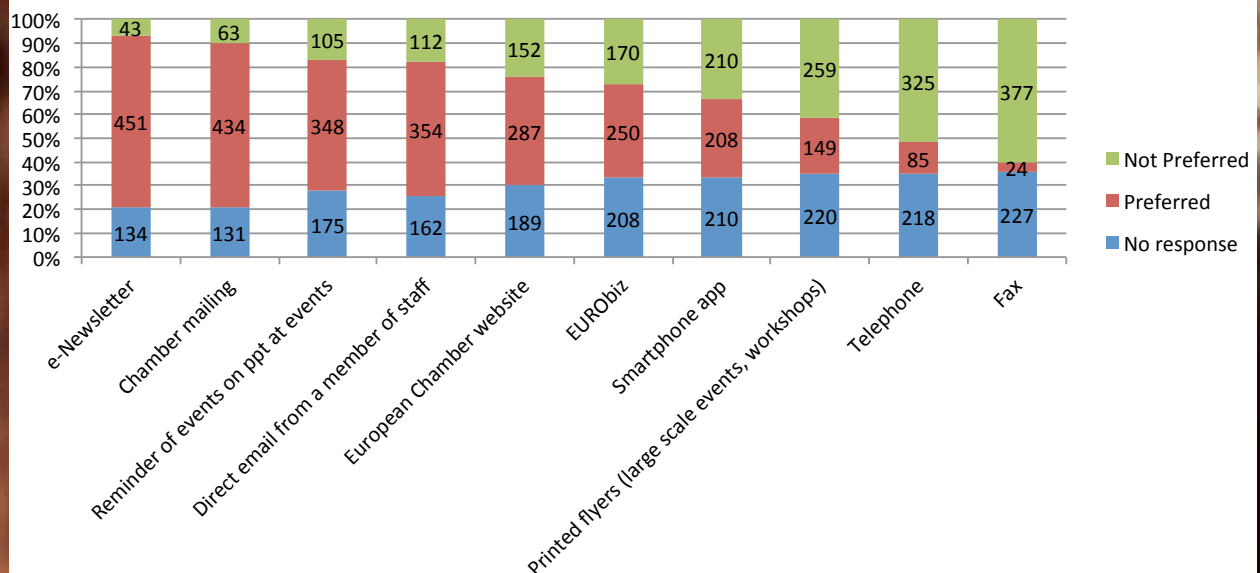


Chamber communications

Are you satisfied with communications sent by the Chamber?

- 112 'very satisfied' and 395 'satisfied' (81% of total respondents); 92 respondents provided no answer (15%); and only 29 were dissatisfied
- Most complaints about 'frequency of emails'
- Most respondents agree to being contacted directly via email (but NOT phone)

What is your preferred way to receive European Chamber communications?:



EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER



Capital Beat: China's Third Plenary Session of 18th CPC Central Committee (1)

The Chamber held the second edition of our public affairs seminar, Capital Beat, on 15th November, 2013, at the Beijing Marriott Hotel Northeast, with leading China experts discussing the results of China's Third Plenary Session of the 18th CPC Central Committee and its implications on international businesses operating in China.



The EU-China Business Summit 2013 (2)

The EU-China Business Summit, organised by the European Chamber and CCPIT, under the patronage of the European Commission and the MOFCOM, and with the collaboration of EU-China Business Association and BUSINESSEUROPE, took place at the Great Hall of the People on Thursday 21st November.

NANJING CHAPTER



Nanjing Government Dialogue (1)

On 10th December the European Chamber held the Nanjing Government Dialogue at Aglie Riverside International Club, with 20 participants from the Nanjing Government. The European Chamber Nanjing Chapter would like to thank the sponsors BASF-YPIC, BSH, Ericsson and Picozzi & Morigi for supporting the event.

Meeting with Suzhou Government (2)

A Chamber delegation, led by Chairman of the European Chamber's Nanjing Board Carlo D'andrea, travelled to Suzhou to present the *Position Paper 2013/2014* to local Government Officials on 13th December.

SHANGHAI CHAPTER



Presentation to Italian Business Community (1)

On 13th December, European Chamber President Davide Cucino joined a briefing to the Italian business community held by the Italian Consulate General in Shanghai. The event was chaired by Vincenzo de Luca, Italian Consul General in Shanghai. The European Chamber in Shanghai was represented by Carlo Leopaldi, Shanghai Board Member.

China and the EU in 2020 (2)

Kerry Brown, Executive Director of the China Studies Centre, and Professor of Chinese Politics at the University of Sydney, was the guest speaker at the first event of 2014.

SHENYANG CHAPTER



1



2

Shenyang Christmas Market (1&2)

The Shenyang Christmas Market took place at Noble Mansion Clubhouse on 7th December, 2013.

SOUTHWEST CHAPTER



1



2

Inter-chamber Charity Christmas Party (1&2)

The European Chamber, together with Amcham and Britcham in Chengdu, co-hosted the 2013 Inter-chamber Charity Christmas Party on 30th November. Over 300 participants enjoyed this annual charity event, which donated RMB 125,800 to the Chinese Relief & Development Foundation to help the left-behind children in Sichuan.

Welcome dinner for AMI (3)

On 2nd December, the European Chamber and Chongqing Beautiful Grassland Montessori International School co-organised a reception dinner at Radisson Blu Plaza Chongqing to welcome André Roberfroid, President of the Association Montessori International (AMI) and his delegation visiting Chongqing.

Annual tax conference (4)

On 6th December the European Chamber and KPMG Advisory (China) Limited Chengdu Branch co-organised the Annual Tax Conference at the Ritz-Carlton, Chengdu.



3



4

TIANJIN CHAPTER



1



2



3

2013 Tianjin Annual Tax & Business Seminar

This seminar was jointly organised by PwC, the European Chamber, Amcham, German Chamber and three other major business chambers in Tianjin on 6th December 2013, with around 100 finance and tax people from multinational companies of different industrial sectors attending.

Workshop: Legal and practical precautions against commercial bribery and duty encroachment

At this workshop on 15th November, Mr Xu Yongge (David), a Senior Partner at Winners law firm, shared related law and cases in practical precautions against commercial bribery and duty encroachment.

PowerPoint and Excel training course

On 11th November the European Chamber organised this PowerPoint and Excel training course for managers from member companies.

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THE EXECUTIVE INTERVIEW:

Philippe Verneuil

President, Michelin China Zone

Michelin entered Greater China in 1988 through a sales office in Hong Kong, with a representative office being created in Beijing a year later; their first manufacturing presence was established in 1995 in Shenyang. Today Michelin employs over 8,000 people and operates four plants with support from a Research Development and Innovation (RDI) platform in Shanghai and eight regional sales offices. **Philippe Verneuil** has been the President of Michelin China Investment Co Ltd since August 2012, having originally joined the Michelin group in 1978.

Can you tell us a bit about Michelin's company culture?

The development of the Michelin Group is based on five values: Respect for Customers, Respect for People, Respect for Shareholders, Respect for the Environment and Respect for Facts. These values have been formed during the Group's long history of more than one century and are practiced every day by all employees worldwide. In 2011, Michelin published a series of communication documents that consolidate the Group's corporate culture, values and practices, which serve as a common reference for all the employees.

How important a market is China?

With rapid growth of its auto and transportation industry, China has become one of our most important strategic markets.

We continue to research and develop innovative and high quality products to meet the various needs of Chinese consumers. Our distribution channel network is dedicated to providing better and more personalised services to Chinese car owners. Looking to the future, we are full of confidence in achieving continued success in China.

What do you feel is Michelin's biggest achievement in China?

Among all our achievements in China, I would like to focus on the opening of our new factory in Shenyang in 2013, which represents Michelin's largest

investment in China at around USD 1.47 billion. Boosted by the rapid growth of auto sales, the Chinese tyre industry has maintained great momentum in recent years, and this has given us confidence in the Chinese market. The production expansion in Shenyang is to meet our customers' increasing demands for tyres, especially high-performance tyres.

With a total production of more than 10 million passenger car and light truck tyres, and 1.8 million truck and bus tyres, this will be the largest Michelin factory in the world.

How much has your business evolved over the years due to advances in ICT?

Michelin China is the first country in the Group to fully deploy all available enterprise resource planning (ERP) project components. For the past 20 months, the marketing and sales, information systems, finance, procurement and supply chain teams, including many external partners, have been working hard to define the business processes and develop the tools to manage supplier inventory, order-taking, credit checking, invoicing, accounting and travel expenses.

We worked on our Chinese website to make it immediately relevant to users by enabling fast access to the right choice of tyres for their needs. They can find a dealer who can provide services close to where they live.

We went beyond that with an application

available on smartphones for people on the move. We also share free content and advice on car and tyre maintenance on autohome.cn. This programme is getting significant traction from the community members and we will continue in that direction. Not to mention that we are active with our many friends on Weibo.

In 2013, we tested the concept of bringing our travel guides to the iPad through the China appstore. We will definitely explore more possibilities in this area in the future. In a nutshell, we want to use digital technologies to improve the experience that Chinese consumers can have with our brand and our products: so bear with us because 2014 will be a key digital year for Michelin.

What are Michelin's future ambitions in China?

Over the next decade, China will see the greatest potential for mobility growth and it will continue growing. Forty per cent of worldwide truck production takes place in China. In 2013, China was the world's largest tyre market for original equipment (OE) passenger cars, and in ten years the OE market and replacement market will be as big as North America and Europe combined.

Our strategy is to deploy a programme to create a better life through sustainable mobility.

Michelin's purpose worldwide and in China is to give people 'A better way forward'. **Eb**

THE ADVISORY COUNCIL OF THE EUROPEAN CHAMBER

The 29 members of the European Chamber's Advisory Council are particularly active in representing and advising the Chamber, and make an enhanced contribution to the Chamber's funding.



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