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Water in China: Everywhere and Nowhere

European Chamber
中国欧盟商会

Organized by the Delegation of the European Union to China

由欧洲联盟驻华代表团主办

5th Film Festival

EUROPEAN UNION

欧 盟 电 影 展

European Chamber

中国欧盟商会

2012年11月1－30日 Nov. 1st – 30th

北京

天津

成都

深圳

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Something More About Love
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The Graveyard Keeper's Daughter
The Phoenicians
The Runway
Tous Les Soleils
Turquaze
9 1/2 Dates

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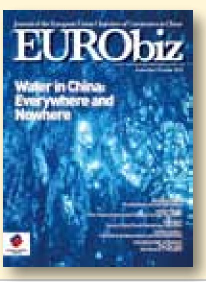

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When people ask me why I chose to work at BJU, I tell them, "I gave birth at BJU. I had confidence in BJU from the very beginning and still do."

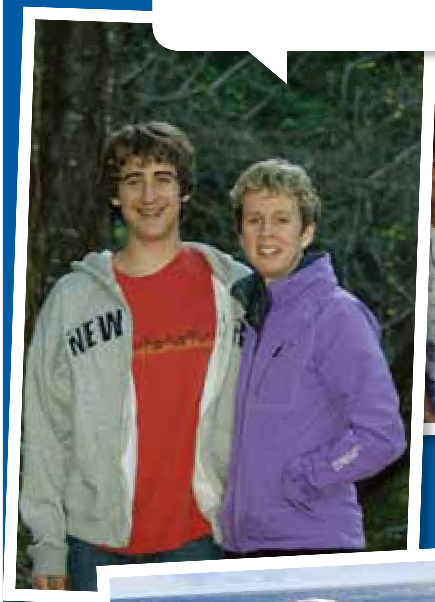
当被问及为什么选择在和睦家生宝宝后又到和睦家工作，我的回答是：我对和睦家充满信任，到今天依然未减。

Jenifer Sullivan

Hi Dr. Chen Haohui, many thanks to you and the BJU team who demonstrated an ethic of care that empowered me to get well after my surgery.

感谢陈浩辉医生与和睦家团队高超的医术和高尚的医德，这份关怀始终鼓励我直到康复！

Stephannie Tebow



WHERE ARE YOU NOW?

To Dr. Khanjani and Dr. Na: I am indebted to you for helping me through some difficult times.

感谢富容平医生和娜仁花医生，在我最艰难的时刻给予我无以回报的帮助！

Jim Fidler

Thank you, Roger, for helping me with the pain in my hip. I'm amazed at how much the little adjustments can do.

整脊治疗对我的帮助难以想象，感谢罗杰医生为我消除困扰已久的身体疼痛！

Maria Vemdal

We are eager to include you in our 15th anniversary celebrations. If you have BJU stories, photos and/or videos you would like to share with us, please send them to **bju_15years@ufh.com.cn**.

我们期待收到您与和睦家的珍贵记忆和您的近况，并邀请您和家人参与北京和睦家医院15周年庆祝活动。请将照片、视频链接和就诊故事发送至 **bju_15years@ufh.com.cn**。

United Family Healthcare
和睦家医疗

United Family Healthcare 15 Beijing 和睦家医疗

Sustainable Growth Demands Open Markets

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

Earlier this month, as President of the European Union Chamber of Commerce in China I was honoured to present the *European Business in China Position Paper 2012/2013* to a record number of our member companies and the media in Beijing. This annual publication has been produced since 2000 and has grown in importance and stature over the years to receive a correspondingly high level of attention in both China and the European Union.

The *Position Paper* is written by the Working Groups and Fora of the European Chamber over a six-month consultation and drafting period. This process involves the contributions of hundreds of European businesses operating in China with the intention of providing a relevant and up-do-date overview of the current conditions in various sectors in the country. Most importantly, it provides detailed and constructive recommendations to the Chinese government that it is hoped are of assistance to the various departments and regulatory bodies in their everyday work.

The *Position Paper* is also intended to be a source of information for the European Union and European Member State governments to be of assistance in their engagements with Chinese policy makers. In addition, it should be of use for all with an interest in the Chinese economy including business, media and academia.

As a part of this process, I will travel with other executives and representatives of the European Chamber to Brussels and 10 other capital cities in Europe, to deliver our message directly to policymakers there. While in Brussels, we will also participate in the Eighth EU-China Business Summit. This joint initiative by BUSINESSEUROPE and the China Council for the Promotion of International Trade (CCPIT), together with the European Union Chamber of Commerce in China, the EU-China Business Association (EUCBA) and EUROCHAMBRES, aims tocontribute to and maintaining the dialogue between these two critical trading partners.

This "European exercise" by the European Chamber will also be done with the objective of reinforcing the recommendations to Europe by speaking with a single voice.

Immediately after returning from the European Tour we will be then engaged in presenting the *Position Paper* to relevant Chinese officials who have attached very high importance to our message in past years

Along with the Position Paper, the European Chamber has recently issued two new publications: *Dulling the Cutting Edge: How Patent-Related Policies and Practices Hamper Innovation,* a look at the state of patent quality in China. This important study examines how quantitative targets are preventing China from reaching its full potential in true invention as it moves up the value chain. Also released in September was the *Second Comprehensive Coaching Study in China*, on the level of corporate instruction and mentoring currently available here.

I hope these efforts will contribute to and provide you with continued success in your business and all your ventures.

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Meeting with President Davide Cucino and Vice Mayor of Beijing Chen Gang to discuss Urbanisation in China

European Chamber President Davide Cucino (left) met with the Lord Mayor of Copenhagen on 27th June.

On 27th June, the President of the European Chamber, Davide Cucino, met with Vice-Mayor of Beijing, Chen Gang, Lord Mayor of Copenhagen, Frank Jensen, and the EU Ambassador to China, Dr. Markus Ederer. During the meeting, the respective parties discussed the opportunities and challenges in the urbanisation sector and the contribution that European Business in China can make to ensure this urbanisation is sustainable. The discussion was focused on the water and energy sectors and the demand that the rural to urban migration place on these systems. Mr. Cucino highlighted that European business has know-how and experience in these areas and that the EU can make an even greater contribution to alleviating the pressures of the added demand from this massive population influx. These discussion topics were subsequently spoken to during the keynote session of the European Chamber organised 'China Goes Urban' event at the Wanda Hotel in Beijing.

Working Level Highlights

The European Chamber has taken the opportunity to use the typically slow moving summer months to engage in more technical and working level discussions with relevant government departments.

On June 19th, the Carbon Market, Aerospace and Aviation working groups met with the Director of European and International Carbon Markets from DG Climate Action (DG CLIMA), Ms. Mary Veronica Tovsak Pleterski, to discuss the inclusion of aviation in the EU Emissions Trading Scheme (ETS). This meeting was a follow-up to a mid-October 2011 meeting with Director-General of DG CLIMA, Mr. Jos Delbeke, in order to further brief the working groups on the recent developments in the EU-China dialogue on the EU ETS. This meeting was then further followed-up on a more technical level with a visit from Mr. Marco Loprieno, Policy Officer of DG CLIMA, where the Chinese ETS pilot projects were discussed on a technical level. These meetings were attended by both the Carbon Market Working Group as well as the members of the Energy, Smart Grid, Renewable Energy, Aerospace and Construction working groups who also may be affected by the Chinese ETS pilot projects.

On 27th June, European Chamber President Davide Cucino (left) met with Mr. Chen Gang (center), Vice-Mayor of Beijing.

On 5th July, representatives of the European Chamber SCA Working Group met with Mr. Guo Chen Guang, Director of International Cooperation Department of SAC. The meeting was held to share specific views on the SAC: 12th Five Year Plan for Standardization. During the meeting, Mr. Guo addressed the quality concern on standardization and expressed the awareness towards related issues. In the future, SAC will have further cooperation with different ministries to seek out corresponding solutions. It was agreed that the European Chamber and SAC will look for more cooperation opportunities on common issues.

Members of the Renewable Energy and Smart Grid working groups participated as industry experts in an EUCTP hosted workshop with the State Electricity Regulatory Commission (SERC) on the topic of 'Integration of Renewable Energy into the Grid' on July 12th. This was a discovery workshop where SERC explained various concerns that they have in the standards making process related to integrating renewable energy. These questions were noted by the European counterparts and will be brought to the respective R&D departments of the participating members of the European Chamber, as well as other European experts, to prepare a document to highlight the European experience related to these concerns. This document will then be relayed to SERC for follow-up in an ongoing dialogue.

In continuing with the focus on energy efficiency and electricity market reform, on 17th July, representatives from the Energy, Smart Grid, Renewable Energy, Construction and Environment Working Groups met with Ms. Paula Abreu Marques, Head of Unit of International Relations at DG Energy. The key topics of the upcoming position paper were discussed as well as the three partnerships signed between EU and China on May 3rd on Sustainable Urbanisation, Electricity Market Reform and Energy Security. As these three EU-China joint statements will be a focal point of DG Energy in the foreseeable future, the related working groups have been continuously working towards leveraging this political attention to push for further market access into China.

On 6th August, the Cosmetics Advisory Council (CAC/PT) had a meeting with Shanghai China Entry-Exit Inspection and Quarantine Board (CIQ). The meeting was held at the European Chamber Shanghai and Beijing Offices, linked through video-conference. The SH CIQ officials Mr. Guo Xiaodong and Ms. Wang Zhenyu introduced the implementation of Order 143 as well as particular practices of the SH CIQ and answered members' questions in order to clarify the implementation of Order 143.

On 14th August 2012 the Aerospace Working Group was briefed by officials from DG Enterprise (DG ENTR) about the new dialogue on space policy between EU and China. Mr. Gonzales and Mr. Bosco were visiting China together with Dr. Paul Weissenberg, the Deputy Director-General of DG ENTR. The purpose of the delegation's visit was to initiate a new dialogue on space policy with China. The focus of this dialogue will be space-related topics other than satellite navigation, such as earth observation, land surveys and weather satellites. This dialogue is an attempt to find additional areas of cooperation between China and the EU.

A delegation from the PRD Chapter of European Chamber led by Mr. Alberto Vettoretti, Vice-Chair of PRD Board on August 15th, met with Ms. Yao Xuan, Deputy Director of the FIE Approval Department, Shenzhen Science & Technology, Industry, Trade and Information Committee. The purpose of the meeting was to communicate the concerns on the approval process of European companies establishing Foreign Investment Enterprises (FIE) in China. The concerns outlined were to clearly communicate the specific requirements concerning the FIE approval process.

European Chamber
中国欧盟商会

InsightChina

European Chamber Quarterly Macroeconomic Seminar

SPECIAL AUTUMN EDITION
CHINA'S INFLUENTIAL ECONOMIC MINDS

BEIJING

12th October, 2012, 3:00 pm

Westin Chaoyang, Beijing

Members: RMB 400 Non Members: RMB 600
Registration: bj_events@europeanchamber.com.cn

Speaker:

Mao Yushi 茅于轼 理事长 天则经济研究所

Mao Yushi is Chairman of the Unirule Institute of Economics, an independent free-market think-tank he co-founded in Beijing. He is a pioneer of micro-finance and poverty alleviation programmes in the Chinese mainland and serves as the Co-Founder and Chairman of the Fuping Development Institute.

SHANGHAI

30th October ,2012, 4:00 pm

To Be Confirmed, Shanghai

Members: RMB 400 Non Members: RMB 600
Registration: mullrich@europeanchamber.com.cn

Speaker:

Liu Mingkang 刘明康 前银监会主席、党委书记

Liu Mingkang served as the first Chairman of the China Banking Regulatory Commission (CBRC) from 2003 to 2011 and was a member of the Monetary Policy Committee of the People's Bank of China. Previously, Mr Liu was Chairman and President of the Bank of China (2000-03) and Chairman of China Everbright Group (1999-2000).

For further information about the European Chamber national events and sponsorship opportunities please contact Mr. Fernando Cutanda at fcutanda@europeanchamber.com.cn

Water

Everywhere and Nowhere

In contemporary parlance, water resource management has always been an issue for China. The Great Flood, a flooding event that occurred in about 3000 BCE, shaped the development of early Chinese culture as it was developing in the Yellow River Valley. One of China's first legendary heroes, Yu the Great, was celebrated for his flood control efforts, which were deemed so successful that Yu became the first emperor of the Xia Dynasty, beginning almost 5000 years of dynastic rule

China's need for water as an essential element for sustaining life, along with its uses in agriculture and industry, has never been greater, and while flooding still torments millions each spring and summer, it is a lack of water, especially in northeastern China, that presents a significant threat.

China also leads the world in water mega-projects, namely the construction of the world's largest dam – the Three Gorges Dam – and the world's largest water movement facility, the South-North Water Transfer Project. Both began as concepts so large that they were not thought possible when first suggested: damming China's largest river, and moving 13 billion cubic meters of water per year 3,000 kilometres from southern China to northern, respectively. The former is already operational; the latter goes into use in 2014.

This summer was no exception. Record rainfall, especially in Beijing and other areas of northern China, led to unexpected flooding and the deaths of 77 people. Swollen rivers in Guizhou, Jiangxi and Yunnan displaced many, interrupting life and business.

Prior to that, a three-year drought had gripped parts of southwestern China, also affecting millions, and leading in some places to a lack of even drinking water. At the beginning of the year, China's largest freshwater lake, Poyang lake in Jiangxi province, which previously covered 3,500 square kilometers, had been reduced to just 200 sq. km, a contraction blamed in part on the worst local drought in 60 years, and partially on water storage in the Three Gorges Dam reservoir, which reduces the flow of water into Poyang Lake.

Even if all supplies were viable, not all of China's water resources are currently potable, due to contamination by agricultural, industrial or residential use. A 2010 Chinese government survey on water pollution indicated that the extent of water pollution in the country was twice as bad as previously indicated when agricultural waste was factored in, measured chemical oxygen demand, as oxygen use in waterways can starve plants and animals of the dissolved oxygen necessary for life.

Also, China's water resources and its ability and willingness to build dams provide a source of clean energy from hydropower. However, energy needs must be balanced against the environmental impact of those dams.

In this special report, EURObiz's **Steven Schwankert** looks at water issues facing China from government, management and business perspectives, looking at the opportunities for both European technology and enterprise to advise and assist with China's tremendous water needs. Eb

China and Water:

Every Drop Counts

Water policy is generally affected by forces from four sides: government; NGOs; industry; and end-users and consumers. Each exerts a different kind of influence upon policy, through use, through laws and regulation and through public awareness efforts and education. Water is at the forefront of policy now not only because 2012 being the European Year of Water, but also with the Yellow River Commission set to be held 24-25 September in Zhengzhou, Henan province, on which European representatives serves.

As part of this special look at water issues in China, EURObiz's **Steven Schwankert** wades into the issue with representatives from three of these four sectors about the state of water in China today, and the role that European business can play.

Water could not likely be a more difficult issue for China. "The climate of China is difficult in terms of a water management perspective", said Simon Spooner, Principal Consultant, at Atkins Water & Environment in China, who serves as a water pollution specialist for both the EU-China dialogue platform and for Yellow River Integrated Water Resources Protection.

With the world's largest population, only 15% of China's total land is arable, and China has access to less than 10% of the world's total fresh water.

Because of this, as an environmental issue, water has no equal in importance. "For me, water scarcity is the number one priority. Human civilisation is written in water and erased in sand", according to Jonathan Watts, environmental correspondent for the British newspaper *The Guardian*, and author of *When a Billion Chinese Jump*.

One academic sees the water supply situation as being so serious that he advised the government to reduce food production in northern China or aquifers – underground water supplies -- "will diminish to a 'dire' level in 30 years", Watts quoted Zheng Chunmiao of the Water Research Centre at Peking University, in a June 2011 report.

Although Watts believes there is slow progress, he believes more needs to be done. Is China addressing its water resources effectively now?

"Absolutely not. There has been too much of an emphasis on expensive, top-down, engineered, supply-side projects (water diversion and desalination projects) and not enough focus on demand-side solutions to improve efficiency through education and culture to reduce waste", he said.

Despite this potential doomsday view of water use in China, European organisations, enterprises and individuals are at work to bring European technology and know-how to assist in addressing the issues.

The China Europe Water Platform

In March 2012, China and Europe agreed to establish a platform for dialogue, joint research and private sector cooperation on better management of water resources. Chen Lei, Minister of Water Resources of China and the European Union, represented by the Danish Minister of the Environment, Ida Auken, signed a joint statement to establish the China Europe Water Platform. This statement, signed at the 6th World Water Forum in Marseilles, France, recognises that China and Europe face similar challenges in managing water resources, and that water resources are expected to become increasingly strained due to socio-economic development and climate change.

The Platform is lead jointly by the Chinese Ministry of Water Resources and Denmark and Portugal on behalf of the European Union.

Henrik Dissing, Chief Advisor of the China Europe Water Platform, sees the issue as being of critical importance to both sides.

"Water in its many shapes and challenges includes drinking water and water provision for industrial use, flood management and waste water treatment; it is a crucial issue in both China and Europe. The implications for a lack of appropriate handling and lack of appropriate water services are quite significant in terms of social costs and economic cost. The estimated economic loss for the gross domestic product (GDP) incurred by various problems for China could total 1-2% per year", Dissing said.

"The importance of this of social and economic development of China is immense. Therefore it is crucial for China to recognise -- and it is reflected in the current five-year plan – the strategic water document and the investments that are set aside and the political attention in the Chinese system all the way from President Hu Jintao down is something they would have to deal with. Therefore it's very important for them to get inside state of the art solutions in Europe, which is recognized as leading in water technology, to get this knowledge and water management systems, and to incorporate these into Chinese management systems. China is very interested in these, through dialogue, through research projects, and through business cooperation", he said.

Dissing sees a range of issues in China that need to be addressed, in terms of supply, distribution, use and treatment. "Particularly in the northeast there is a substantial lack of adequate water resources, and in parallel with this, we see inefficient use of scarce resources. They don't have very much water, but the way it is use is also inefficient on top of that. In some places, the pricing system may not be adequate for creating incentives for resource-efficient use", he said, adding "You will see other places in China where resources are abundant, but wastewater treatment is problematic".

The recognition of water's importance led to the creation of the Water Platform.

"As water is high on the international agenda, we saw from the European side that the last five-year program, which ended this summer, and which was interpreted by both sides as being a platform for policy dialogue and political contact already one or two years before the end of this, and talks began on how to continue this. The China Europe Water Platform was established as a result", said Henrik Dissing, Chief Advisor of the programme."

However, the Platform is more than just a continuation of an earlier scheme. "The previous project had 5 million Euros per year to initiate conferences, studies, study tours. The China Europe Water Platform is very different in its modality. China is not a country eligible for European aid, so now we have cooperation on an equal basis for mutual benefit. That means that we do not, as a programme, have a single euro to spend to initiate activities. We do have strong political support from both sides. We also have a very good situation to approach positive kinds of European and Chinese

How Much Should Water Cost?

One issue that rises repeatedly when discussing water management is the price of water. Observers including Atkins' Spooner and the China Europe Water Platform's Dissing both discussed that the water is not necessarily priced properly.

There are several factors affecting water pricing, beyond normal supply and demand, as there are three major user groups for water in China: agriculture, industry and residential/individuals. Because the quality and quantity demands of agriculture and industry for water are different than those of residential customers, water pricing for the former two categories remains extremely low.

Domestic and home water pricing is controlled by a local pricing bureau, under the auspices of the local branch of the National Development and Reform Commission (NDRC). Prices are often artificially low, as pricing is designed more to remain in line with consumer expectations than to address any water management concerns.

Industrial pricing is handled by the same offices, and in most places is not high enough to be a consideration.

Agricultural water is even less expensive, many times less than city water, and accounts for about 70% of total water use in China. While most agriculture in Europe is non-irrigated, the opposite is true for the raising of crops and livestock in China.

What's wrong with inexpensive water? "It does not exert any kind of behavioural control and does not generate enough revenue to allow investment in better infrastructure", Spooner said. To use a parallel example, when fuel prices for items such as petrol increase, eventually the cost results in the alteration of behaviour, like using public transportation, carpooling, and bicycling, or simply choosing not to go to some places. However, given present water pricing levels in China, the price level does not act as a deterrent to improper use – the cost induces few if any to address leaks, inefficient delivery, waste, or to seek improved or reduced methods of consumption.

funding programmes", Dissing said.

One of the first events that the Platform is supporting is the Yellow River Forum. "What we have to do is have a few but important annual events. The first of these is a high-level meeting in Zhengzhou, in conjunction with the Yellow River Forum, on 24-25 September. This annual meeting is supposed to be the meeting opportunity for Chinese and European politicians, high level officials, as well as business leaders, and this is sort of the place where the political dialogue on water management takes place", Dissing said.

He is also looking for greater participating from other European countries. "We will also build up more thematic cooperation. The secretariat for the Platform is led by the Minister of Water Resources in China and the Danish Ministry of Environment on behalf of the EU Member States. But it's intended that over the next few years, will see a range of EU Member States, and international and Chinese organisations take a co-lead within a given topic or area", he said.

"These will be the kind of centrally-planned and conducted events that can finally get down to the companies, so that if they wish to use the platform to meet partners or search for information or make important government contacts, these events should be a very good opportunity for them. There are also plans to establish a website where companies seeking a partner, seeking financing, seeking facilitation of a programme, can approach and we can manage what will be put forward", Dissing said.

Dissing sees the European role as being both advisory and commercial. "A range of direct partnerships have been established from Chinese and European companies, between, researchers and public partners, so that the number of direct cooperation has taken place. I would also like to see that the actual companies are expressing that access to the Chinese market has been easier. I hope it will be more easy and efficient to get in touch with customers, or that some of the market barriers and transparency will be eased. And of course I would like to see the attention to the events and platforms we are establishing have increased in numbers as well", he said.

Over the five years, how will Dissing judge whether or not the Platform reached its goals? "At the end of the day, the success criteria are that we supported the appropriate solutions brought to appropriate problems and challenges, at a higher speed than we see today".

River Health

One industry figure sees progress, but also room for improvement in handling water resources issues, especially in handling water pollution. "Targets are coming, environmental targets, for government officials. However, there still is not a coordinated plan to address the issue", said Atkins' Spooner. Spooner will chair the water quality management sessions at the upcoming conference.

Water falls under the management of two separate ministries: the Ministry of Water Resources (MWR), which, as Spooner explained, oversees the

quality of water in the waterway; and the Ministry of Environmental Protection (MEP), which addresses the quantity of discharge into those water, although the two "do not cooperate in a coordinated manner yet", he said.

Via projects such as the EU-China Waste Management Programme and the Yellow River Commission, European advisors are helping China to develop its systems for pollution management. While these systems began as a joint MWR-MEP programme, the two ministries have now decided to handling each separately, developing technological tools and implementing them in accordance with environmental protection policies.

One issue has been the Chinese perspective handling water pollution, which is to view the situation using total load management, which generally involves calculating the total acceptable amount of pollution in a body of water, and then move back from that number to find a permissible level.

Spooner suggests that perhaps a better methodology would be to look at "river health", a more holistic view that takes into account water quality along with the overall ecological soundness of the body of water, and its ability to support both life and industry. Spooner expects that by 2016, using river health assessments will be a national requirement, replacing the total load model.
Spooner believes that Europeans are making a positive contribution via projects such as his, and through the development of policies such as the Water Framework Directive, which he described as a "central, biological-quality driven water policy". Enacted in 2000 and enacting in a three-phrase timetable, the first phase will be completed by 2015.

Dammed: Supply and Hydropower

One area where China is often criticised is for its prolific construction of dams. However, Spooner dams have an important role to play in two areas, aside from flood control in areas affected by floods in the spring and summer: the creation of reservoirs in areas where rainfall is irregular; and the hydropower benefits.

"I don't think [Europe] has much to teach [China]" in terms of dam building and use, Spooner said. He saw river engineering as an export business for China, and also one where European companies can cooperate with Chinese ones to find international markets.

However, China's damming of rivers is also a cause for concern, beyond the environmental impact that can not only alter local climates, but have obvious impact on downstream water supplies and communities. Thousands of smaller dams built in the 1950s and 1960s now pose potential structural risks, as seen in dam collapses earlier this year in Hunan and Zhejiang provinces.

Despite his concern about numerous areas, Spooner believes that China is moving in the right direction, not just by adopting river health models, but also in terms of overall understanding and strategic planning. He sees "serious intent from the top pushing it through the system", and backed by a budgeted 4 trillion yuan over the next 10 years, beginning this year, to find China's Water Policy 2012, a strategic vision with clear targets, timetables and finance.

Commercial Interest

Given the size of the opportunity to implement state-of-the-art solutions in China, European companies are keen to play a larger role in China's water industry, especially in the areas of water treatment, waste and sludge.

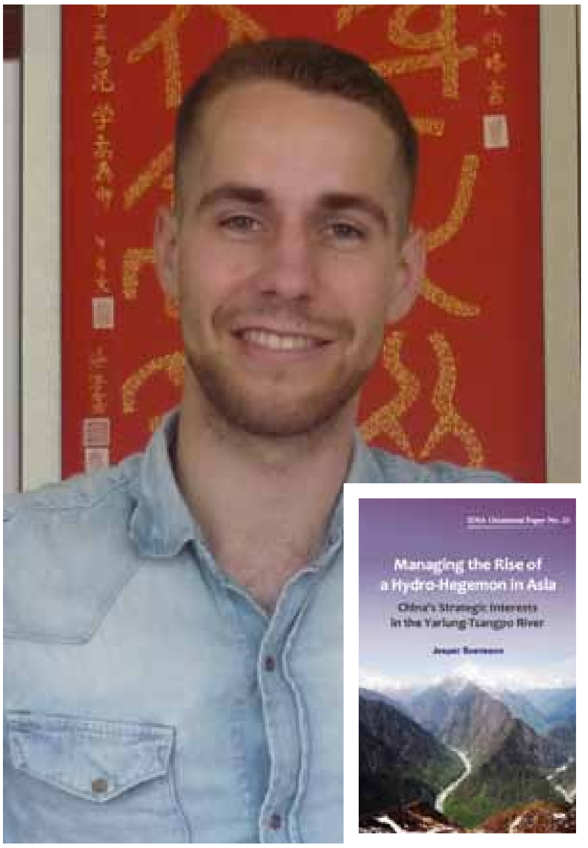
Belgium's Waterleau is one of those companies. With just two years' experience in China, the company is looking to extend its operations in Hong Kong and Macau, where it participates in the delivery of municipal water supplies, and in other parts of China, where its joint venture, Golden Sources, provides industrial water treatment services to customers including breweries such as San Miguel and Diageo.

For industrial water users, outflow from a plant must meet certain effluent, or waste, quality standards. Processed water can be treated and then returned to the waterways from which they are sourced, if they are treated properly, and can even later be used in homes for domestic use. Foreign companies, which often see local environmental regulations enforce against them more stringently than local firms, are more willing to a turn to a firm such as Waterleau that can guarantee water treatment standards in order to avoid potential hassle with regulators.

Proper water treatment offers other opportunities. As water treatment, especially at the municipal level, is often combined with activities such as waste management, opportunities emerge for waste to energy processing, including biogas. Simply put, as kitchen waste degrades, through controlled anaerobic processing, gasses can be produced. Those gasses can then be converted into energy sources, rather than simply just be wasted. At present, European technology in this area is one of the global leaders.

China's water issues remain one of the nation's greatest challenges, both in terms of supplying its people and also in having a sufficient supply to maintain the country's growth. Supply will struggle to keep pace with demand, and different sectors – industrial, agricultural and domestic – will compete with each other to satisfy their own areas. China's own demand will also be pitted against that of neighbouring countries that receive water supplies from major rivers that originate in China but flow beyond its borders. As China strives to manage all of its limited resources, water and water policy will remain at the forefront of concerns for its new leadership. Eb

How China's 'Hydro-Hegemony' Affects its Asian Neighbours



Water supply is normally a domestic matter for any nation, as it attempts to manage its resources to meet local demand. However, water becomes an international issue when waterways originating in one country but flow into one or more others downstream.

China is one such nation, with giant rivers including the Mekong passing its borders into Southeast Asia. As such, a country's 'hydro-behaviour' becomes not only a local and environmental issue, but potentially an international and political one. EURObiz's **Steven Schwankert** spoke with Swedish water policy scholar **Jesper Svensson** about China and its 'hydro-behaviour'.

EURObiz (Eb): You use two great phrases, 'hydro-hegemony' and 'hydro-behaviour', in your paper Managing the Rise of a Hydro-Hegemon in Asia: China's Strategic Interests in the Yarlung-Tsangpo River. Please tell us more – are these phenomena we should expect to see more of from all countries, not just China? What are the standards for hydro-behaviour?

Jesper Svensson (JS): China is not only Asia´s strongest economic, political and military power, but this is reinforced by its hydro-hegemony: it sits at the headwaters of almost all of Asia´s most important rivers where they have the incentive to unilaterally develop the rivers to meet its domestic needs and export all negative externalities to weaker downstream riparians. If water stress is not to become Asia´s defining crisis of the 21st century, Asian states have to find a common political platform to back their economic integration and address their biggest security concerns.

Given the secretive as well as strictly uncooperative manner with which China treats its water management of international rivers, that will not happen overnight. The argument involved in upstream-downstream relationships in Asia is only environmental on the surface. Downstream states may employ environmental or scientific language to protest against upstream dams; however, once they sit upstream on another river, the environmental concerns are forgotten altogether and they build dams themselves. For instance, India criticises China for building dams on the Yarlung-Tsangpo/Brahmaputra, but India is not better, given its complicated river arrangements with its other neighbours such as Pakistan and Bangladesh. All countries regard their rivers as national resources that end at the border, making interstate water sharing increasingly challenging. It becomes couched in security terms (national, economic), which legitimise their economic exploitation.

In the international context, the Sino-Indian relations are particularly unique: no other inter-state relationship shares three trans-boundary river systems as India and China do with the Yarlung-Tsangpo, the Indus and the Sutlej. As described by Indian security expert Brahma Chellaney, China and India together constitute 37% of the world´s population but have to make do with 10.8% of its water.

Given the current state of water stress and that these two giants together account for 52.8% of the world´s rice production and 30.1% of wheat, it raises a key question: What happens if India and China become major food importers? The severe droughts that gripped southwest China in 2010, the Yangtze River Basin in 2011 and the recent drought in India are a harbinger of what is to come. Looking ahead, I believe there is little indication that China is willing to cede water rights to downstream states like India and Bangladesh.

However, I think we can achieve much by improving internal water management within nations by moving beyond state-actors to unlock and unleash the resources of corporations and NGOs. By adopting cross-sectoral, cross-agency approaches to water management, India and China could join hands to improve water infrastructure and coordinate adoption of technologies in order to improve the efficiency of water use for agriculture. For instance, right now, I'm involved in forging a dialogue between Chinese and Indian environmental NGOs.

Eb: Should countries downstream from China be concerned about its hydro-behaviour, namely, its propensity for dam building?

JS: Both yes and no. First, those analysts that have suggested that China wants to divert rivers that emanate from the Tibetan Plateau and channel it into the Yellow river in the Northern China Plain don't know China very well. Launching large water division projects is not technically or economically feasible and has never been included in government plans. Second, energy independence is the key priority and the past two or so Chinese Five-Year Plans have stressed hydropower as a strategic energy source. Right now, the focus is on tapping the hydroelectric potential of the Jinshajiang (59 GW), the Lancanjiang (Mekong) (25.6 GW), the Nujiang (Salween) (21.4 GW) and the Yarlung-Tsangpo (79 GW). Today, China has more than half of the world´s 50,000 large dams, so building dams in difficult locations where it is also expensive has not led Chinese companies to shy away from building them nor Chinese banks from lending money to Chinese companies undertaking such endeavours. Consequently, a disputed and heavily militarised border with India will not deter China from building a 38 GW dam on the Great Bend of the Yarlung-Tsangpo/Brahmaputra.

But today, on the other hand, the ongoing war of words between scholars, NGOs and officials on the Jinsha River shows, I think, the most severe struggle between hydropower and environmental protection in China. More broadly, the environmental protest we have seen this summer in Qidong, Jiangsu province and the Sichuan town of Shifang and in the cities of Dalian last year cast light on state-society relations. The Chinese government has a more positive attitude towards environmental issues. Downstream states should engage China and reach out to those green voices that are opposed to large-scale, supply-side projects. Yet the case of the Mekong River shows that only major environmental crises will induce China into cooperation. It must perceive water to be threatening China´s image as a peacefully rising power, meaning institutionalised river basin cooperation is triggered by the fact that China is sensing some sort of crisis situation or intense regional pressure.

Eb: Water in China is almost always drought or flood. How does that affect China's overall water policy?

JS: China has throughout its history always had droughts and floods so this is not a new phenomenon. However, the scale of China's water problems and the fact that climate change is resulting in more unpredictable weather patterns make things more complicated. The new Asian Development Bank report, Drying Up: What to Do About Droughts in the People´s Republic of China urges Chinese planners to 'apply its engineering and technical strengths to saving water' and strengthening its risk management by preparing for droughts, not just reacting to them during a scarcity event.

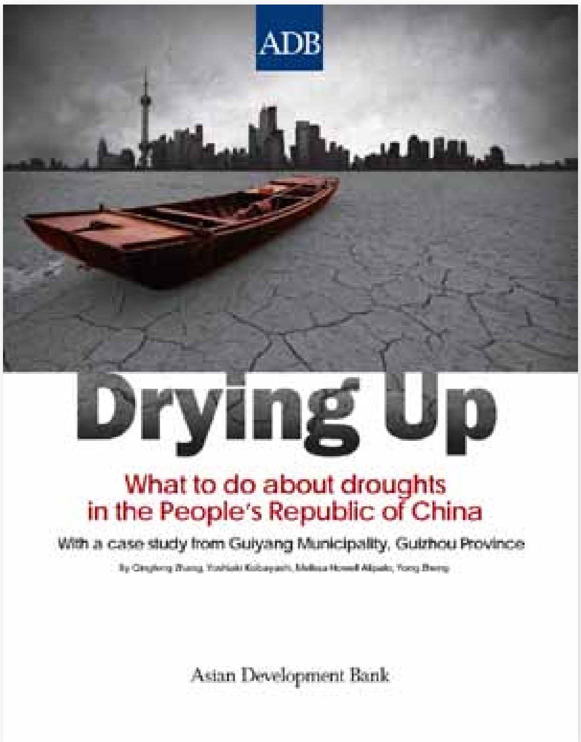
Eb: On the list of environmental issues that China faces, where does water place?

JS: In the water-food-energy-nexus, water plays a key role because it's a resource that cannot be obtained by international trade deals. China is scouring the world for oil and gas but the painful fact is that water is a limited resource that is unevenly distributed: the Northern China Plain has nearly 35% of China´s population and almost 40% of its arable land but have to make do with less than 8 % of its water resources.

To make things worse, we have a water scarcity versus energy demand confrontation: coal – which provides 70% of the nation's energy – is responsible for a fifth of the national water consumption, but the coal reserves are concentrated in the dry northern provinces. So now there are people arguing for going to the Bohai Sea to transfer water from there to Inner Mongolia to help the mining of coal, but seawater desalination is an expensive solution.

Moreover, the drought we saw in the Yangtze River Basin in 2011 – which is supposed to transfer water northward along three routes – raises a key question: What if the south and the north of China suffer drought at the same time? We would probably see a conflict between energy and water: The Yangtze delta needs hydroelectricity from its dams while the north needs water to be transferred from the Yangtze River. Eb

Svensson's paper, Managing the Rise of a Hydro-Hegem**on in Asia: China's Strategic Interests in the Yarlung-Tsangpo River**, may be downloaded for free from the Institute for Defence and Analyses website: www.idsa.in/system/files/OP_ChinaYarlungRiver.pdf.



Drying Up: What to Do about Droughts in the People's Republic of China

This excerpt from the **Asian Development Bank**'s new report **Drying Up: What to Do about Droughts in the People's Republic of China** looks at the ongoing problem of drought in China, which although traditionally a plague of the north, has now expanded to areas in southern China, including the Yangtze River and Poyang Lake, China's largest freshwater lake.

The PRC has a long history of supply-side management. With the natural imbalance between prime agricultural soil in the North and overly abundant water resources in the South, the PRC has depended for more than a millennium on its expert technocrats, engineering prowess, and abundance of labour. It has always been a "hydraulic civilization".

Now, the PRC must apply its engineering and technical strengths to saving water. Managing consumption not only requires technical solutions but also strong institutions and planning. Given the national challenges, which are illustrated at the local level through a case study of Guiyang, demand management is a technical and economically rational and reliable option for addressing constant water shortages and drought situations.

The country's growing water deficit as a result of human demands has rendered the engineering, supply-side paradigm as increasingly inadequate. Integrated Water Resource Management (IWRM) and a balance between supply and demand are necessary. Local governments, as demonstrated in the efforts of the Guiyang Municipality case study, must be deliberate in their reforms and balance their water ledgers. Studies are validating conservation as a viable investment and technically reliable option for closing the supply–demand gap and "de-stressing" the water resources upon which ecosystems, economies, and people have always and will always depend.

Now, the PRC must apply its engineering and technical strengths to saving water. Managing consumption not only requires technical solutions but also strong institutions and planning.

Drought and Shortage—A New Normal or a Wake-Up Call? The scale of the challenges faces the PRC's general economic and social development because of constant water shortages in many places, the reoccurring menace of droughts, and a widening gap between what nature and engineering can supply versus defines what users from all sectors require. We propose demand management as a pathway to increased resilience to droughts and ecological conservation. We examine three tracks to getting on that pathway: risk management, optimal infrastructure, and ecosystem-based management.

The pressure of development on natural resources and general ecosystems in the PRC has been more evident in the recent successive years of severe drought and a growing scarcity of available freshwater resources.

Demand management would help address the constant water shortage in some areas, while creating reserves for droughts and supporting the ecological flows necessary for the rehabilitation and conservation of water resources.

Key Message 1: Natural droughts may be a new normal for the PRC, but unnatural water shortages are making matters worse. Regions of the PRC have a natural proclivity to dry conditions and droughts, but water shortages caused by economic development and unconstrained water consumption are exacerbating the effects of dry periods and droughts. The PRC has committed extraordinary financing to complete what it considers to be essential water infrastructure. A more cost-effective and environmentally sustainable approach would involve three tracks: First, prioritise risk assessment and reduction plans, of which demand management is essential. Second, make optimal use of infrastructure by including non-structural technical options and non-traditional infrastructure to bring demand levels down to sustainable levels. Third, reform water management is required at the local level in order to achieve the healthy ecosystems—the long-term benefit of demand management.

Key Message 2: A risk reduction approach to droughts would spare the PRC much of the unnecessary hardships currently experienced. Droughts cannot be prevented, but the severity of their effects can be reduced through better systems and demand management. The PRC has the national systems for monitoring and forecasting droughts, but its early warning system must be further developed so that subnational governments can respond early and quickly. Provinces and cities should assess the risks associated with current water resource extraction rates and demand levels. Unsustainable consumption rates put populations, industries, and economies at greater risk during a drought. This is unnecessary risk. More conservative consumption in normal times can create water savings in reservoirs and natural ecosystems, which will be useful in droughts and for long-term ecosystem rehabilitation. Billions of dollars have been repeatedly lost in damages and relief efforts from droughts, which can be saved with better monitoring, forecasting, and early warning systems.

Key Message 3: Use an optimal mix of infrastructure for saving water instead of just spending it. The current infrastructure path in the PRC is still navigating toward increasing water supply when opportunities for saving water are vastly underexplored. Provinces, cities, and industries can invest in technologies and systems that can increase supply by saving water and with greater cost effectiveness than building storage. Water-saving fixtures and appliances for domestic users, increased water productivity systems in industry, and more efficient irrigation offer the same reliability that planners are counting on when they build reservoirs and diversions.

Key Message 4: Demand management offers short-term gains in increased supply and long-term gains in more productive ecosystems. Strategic management is the key to achieving specific results, whether they are near-term results (such as water savings) or long-term results (healthier and more productive ecosystems). The traditional way of managing water resources is a large part of the problem—too many agencies are managing a shared, crucial resources and sometimes with contradictory interests. Water resources need a reliable system of user rights and allocations that consider the needs throughout a watershed despite jurisdictional boundaries. These systems need focused management, and PRC's reform trend toward a single "water affairs bureau" is on the right track.

Cities need greater national support in their reform and capacity building efforts to ensure water resources are managed for results—balanced water supply and demand, water savings, and ecosystem protection. The particular needs of a risk management approach require more forward thinking and (short- and longer-term) actions than disaster response. A proactive approach encompasses early warning, monitoring, forecasting, risk assessment, risk mapping, and drought risk management plans that can better address drought for the more vulnerable groups. This highlights the need for a different funding mechanism to address water security needs in vulnerable areas and different operating and management arrangements from the Office of State Flood Control and Drought Relief Headquarters and the Ministry of Water Resources to support better preparedness for drought. Ultimately, this approach can save considerable money in relief and averted losses and damages from droughts.

An entirely new system is not needed to adopt a risk reduction and management approach. Many of the elements necessary to implement this approach nationally already exist within the government's effective administrative system for disaster response. The PRC has an existing institutional structure, policy and regulatory framework, and an emergency response network in place. Demand management has been proven as a pathway that can propel the country to greater resilience. Embodied in demand management is the sound monitoring of flows and the allocation system. It significantly contributes to closing the supply–demand gap, which cannot be done by new infrastructure alone. It has direct positive impacts on the environment, returning or maintaining water that the environment demands for its own ecosystem functions and services.

Demand management is also essential in managing the risks associated with droughts. Given the national challenges, which were illustrated at the local level through a case study in Guiyang, demand management is a technical and economically rational and reliable option for addressing constant water shortages and drought situations. The country's growing water deficit as a result of human demands has rendered the engineering, supply-side paradigm as increasingly inadequate. A disaster response system is also insufficient and misses opportunities to reduce the costs and personal impacts of droughts. An integrated water resources management and a balance between supply and demand are necessary.

All things considered then, local governments must be deliberate in their reforms and in balancing their water ledgers. Studies are validating water conservation as a viable investment and technically reliable option for closing the supply–demand gap and "de-stressing" the water resources that ecosystems, economies, and people have always and will always depend upon—not just for their survival, but also for their prosperity. Eb

Download the e-book **Drying Up: What to Do about Droughts in the People's Republic of China** for free at: www.adb.org/sites/default/files/pub/2012/drying-up-prc.pdf.

Newly-Formed Working Group Focuses on Water

The extraction, distribution, management and treatment of water and waste water are priorities of the Chinese Government. This is highlighted in China's 2011 No. 1 Document "Accelerating Water Conservancy Reform and Development". On a political cooperation level, China and the European Union have engaged in various initiatives related to the water industry in China, with the most recent being the China – EU Water Platform that was launched at the 6th World Water Forum in Marseille in March 2012. This initiative follows the conclusion of the Chine–EU River Basin Management Programme, which has concluded a five-year study with the publication of a report highlighting the policies and regulations that need to be improved in order to address the water situation in China. The European business in China had not, until now, organised on an industry level to engage with the relevant Chinese officials to leverage this important political topic and address the market access concerns of the water sector.

As the independent voice of business in China, the European Chamber was encouraged by European business to investigate this industry further, and on 19th July, 2012, the Water Working Group was officially established.

The Working Group has already begun the process of identifying and developing key concerns in the water industry including the investment barriers, water efficiency, energy efficiency in water related operations, pollution and permit control, waste water treatment, flood control and standards. The Working Group will be expanding these concerns into viable key recommendations to bring to the relevant Chinese ministries in order to illustrate the benefits which further market access for European companies would bring to China in the water sector. Eb

If you are interested in joining the Water Working Group at the European Chamber or would like more information concerning the working group, please contact the Business Manager, Mr. Sam Passafiume at spassafiume@europeanchamber.com.cn.

The European Business in China Position Paper 2012/2013

The **European Business in China Position Paper** is the European Union Chamber of Commerce in China's most important publication of the year. With input from hundreds of member companies and formulated by the Chamber's Working Groups and fora, the Position Paper allows the Chamber to communicate its position on the critical issues facing the EU-China business relationship with a single voice, in order to offer clear and comprehensive recommendations to policy-makers in both China and the EU.

On the eve of a generational leadership transition, China holds a historic opportunity to raise its economy to a new level. To do so, a prompt and fundamental shift is required to carry out necessary economic rebalancing. China's state-led investment development model has supported growth over the last 30 years, but is by design unequal and no longer sustainable. The last decade of stalled and piecemeal reform during prevailing advantageous economic conditions maintained strong growth but failed to create the supporting institutional framework required to sustain China's development.

China possesses the necessary ingredients, including the technology and physical infrastructure bases, as well as the human capital, to make this shift. However, reforms to substantively reduce state involvement in the business environment and to give full play to market principles are needed to unleash the entrepreneurial potential of China's private industry.

The 12th Five-Year Plan recognised this need for change, but meaningful implementation has been lacking. With signs of over-investment and poor productivity returns already perceptible and with China's demographic dividend coming to an end, these changes are now urgently required not only for China, but also for global economic growth. As the next five years will be critical, China's leadership transition provides an ideal opportunity for these bold steps to be taken.

At its core, this process must serve to create the conditions whereby the drivers of innovation, productivity and efficiency will prevail. Rebalancing the economic growth model requires equal access for all companies, whether private or state-owned or whether Chinese or foreign-invested, not only to markets, but also to procurement, technology innovation, treatment under the law and to finance and subsidies.

The *Position Paper* aims to contribute by providing constructive recommendations on some of the required changes to bring about this process of economic rebalancing and the upgrading of China's business and regulatory environment.

China's unequal state-led growth model led to a prolonged period of sustained growth

China's state-led economic growth

model has been well-suited to sustain massive growth and catch up in the transition from a low to middle-income economy. China has become the world's second-largest economy just 30 years after opening up. Its development has lifted hundreds of millions of people out of poverty, raised life expectancy, increased real wages, boosted the value of the renminbi and raised vast foreign reserves. However, this model is unequal by design, favouring large-scale state-owned enterprises (SOEs) over most private domestic companies and foreign-invested enterprises (FIEs).

The state-led economic model is predicated on growth driven mainly by the manufacture of low-end exports, investment and by the technology upgrading that comes mainly from the absorption of foreign investment. So long as China enjoyed a sizeable trade surplus, attracted significant amounts of foreign direct investment (FDI), maintained a closed capital account and retained a high savings rate, funds were available to be injected into investment projects. It was possible for the state to guide and control this development as state-owned banks channelled investment largely to SOEs to carry out state-identified projects. The availability of physical infrastructure and technology upgrading projects with easy productivity returns on investment gave huge impetus to growth, but has led to an over-reliance upon the contribution of fixed capital formation to gross domestic product (GDP) growth. As a result of the structure of China's economy, an interests system has developed that leads to further inequality and favourable treatment. SOEs receive regulatory and procurement advantages, abundant supplies of cheap energy and raw materials, as well as favourable administrative price controls. Along with the technology transfer that has been demanded for foreign enterprises' access to the market, these conditions have allowed for large-scale state-led development and the formation of companies with giant economies of scale that can compete with low prices. At the same time, a financial system has developed to both support and prop up this model, in particular through controlled interest rates on deposits and loans that have effectively allowed household savings to fund SOEs through cheap financing and other forms of subsidies to the detriment of domestic demand and consumption.

Most private-owned enterprises -- in particular small and medium-sized enterprises (SMEs) -- are provided less access than SOEs and discriminated against in the Chinese marketplace. This is most marked in restricted or outright closed market access conditions in various sectors, most notably in administrative monopoly public goods sectors and in strategic or pillar industries; and by a lack of access to financing that has led to evidence of large-scale risky shadow banking with capital often provided by SOEs.

Foreign-invested enterprises suffer from the same examples of unequal treatment as private domestic companies, but are additionally restricted market access in an even greater number of sectors owing to joint venture and licensing requirements as well as claims to national security, causing massive asymmetry in market access conditions for FIEs between the EU and China. Recent Chinese government pronouncements aim to encourage more private investment in sectors currently dominated by state-owned entities, but concerns persist that the government's definition of 'private capital' only covers capital from domestic private enterprises, not capital from partly or wholly foreign-invested companies. Foreign-invested enterprises are also frequently forced to transfer technology in return for market access, are less able to qualify for subsidies, R&D funds and public procurement contracts, and are frequently unable to even take part in standards-drafting processes.

The state-led model can no longer support a second prolonged period of sustained growth

The underlying factors that allowed this model to function are quickly diminishing. The supply of cheap and young labour is declining as China is quickly losing its demographic dividend and calls for a better distribution of the fruits of its 30 years of impressive growth are driving increases in the wages of China's workers. There is steep downward pressure on China's trade surplus due to thinning external demand from the downturn in the world's major markets and increasing internal consumption. The global economic crisis has also contributed to a decline in foreign direct investment as greater caution is being exercised in weighing up returns on investment in a speedily maturing marketplace that lacks a corresponding maturation of the regulatory and market access environment for private and foreign enterprises.

As these supporting factors disappear, the current economic growth model has begun to show its deficiencies. The inequality which served growth so well during catch up is leading to inefficiency, low-productivity and a lack of innovation.

Due to an over-reliance on the contribution of state-controlled investment to GDP, many sectors favoured under the current model are exhibiting over-capacity and signs of bubbles. Inefficient utilisation of capital has led to significant debt and contingent liabilities both at the local level and of SOEs and it is questionable whether the favourable treatment that many SOEs have enjoyed, in particular those in administrative monopoly sectors, has prepared them to speedily adapt and innovate in parallel to the maturation of the marketplace. Industrial and manufacturing growth is also slowing. Following the stimulus package of 2008 that was heavily channelled to SOEs, China is no longer ready to face risks of high inflation and to sustain waste and risk vastly increasing debt and the ratio of non-performing loans through a continued reliance upon state-led investment.

Some consolidated SOEs, in particular those in sectors more open to competition, have developed strong corporate management structures and modern business approaches and are thus able to compete globally in terms of quality and branding. Nevertheless, once favourably provided costs and subsidies are factored into estimations, Chinese central-level SOEs are still on average estimated to produce negative returns on equity; and total factor profitability growth of SOEs has been just a fraction of private industry since opening up . As further pressures on total factor productivity will result from overcapitalisation and reaching the technology frontier, a continued over-reliance on fixed-asset investment will lead to slowed growth and will thus jeopardise China's opportunity to avoid the middle-income trap and attain developed market status.

A speedy rebalancing and a new model suited to prevailing macro-economic conditions that puts economic efficiency ahead of growth is required.

The growth model for a second period of sustained growth has been identified

China still has great resources to stimulate growth. There is massive potential for new growth to come from further productivity gains from industrial upgrading, relocation of manufacturing to central and western regions, stimulating domestic consumption, developing the tertiary sector and advanced technology manufacturing, as well as from competing in global marketplaces through overseas investment. At the same time, there is a continued need for investment projects, including in social housing, the development of healthcare and education facilities, as well as urbanisation and corresponding infrastructure development that poses both great opportunities and challenges for China's development. Reform and opening up was identified as the driving force of the 12th Five-Year Plan to rebalance the economy more towards domestic consumption, industrial upgrading and more services-led value-added and sustainable growth.

China in many important regards is well-positioned to realise this new economic growth model that is needed to transition into a high-income society. The many years of investment spending have led to the development of high-quality physical infrastructure and strong industrial technology. Most important is human capital. China has improved its educational base, including in sciences and engineering, during the process of development. Given the right conditions, China's private industry would be well able to fully unleash its entrepreneurial and innovative potential.

Necessary reforms are not happening Incremental and piecemeal reforms must give way to urgent and comprehensive reform. This requires altering the status quo and must therefore touch upon the vested interests of those that benefit most from the state-led investment model and address the structural conditions that lead to the favourable treatment that SOEs have long enjoyed. As Vice Premier Li Keqiang stated, reform and opening up must 'continue to lead the way in removing the institutional obstacles that hamper the shift of the growth model'. The state must retreat, and the private must advance.

To rebalance the economy, rising costs need to be offset to drive income and consumption growth. As deindustrialisation is needed at the lowest-end of the value chain due to increased labour costs, there must be an accompanying generation of high value-added products and services. Innovation is the key to this process and competition is critical to innovation.

Time is of the essence and European companies can be a catalyst to accelerate this process. European industry has committed to China and is willing to further invest, but in times of economic difficulty and constrained markets, the need for equitable treatment that provides fair opportunity for sustainable returns on investment becomes a much greater consideration when weighing up investments. The advanced, high-tech and green technologies and services of European companies not only provide better choice and value for Chinese consumers, European industry investment also leads to a willing transfer of skills, technologies and processes to Chinese companies. Most importantly, however, is the enhancement of international competition in the Chinese marketplace. Equal access is required.

China needs to create the conditions whereby the most innovative, productive and efficient companies will prevail. At its core, this requires providing equal conditions to all actors, whether state-owned or private, or whether Chinese or foreign-invested. In order to rebalance the economy and bring about the new growth model, China should provide equal access to:

1. **Markets**
2. **Procurement**
3. **Treatment Under the Law**
4. **Financing and Subsidies**
5. **Technology Innovation**

Going forward, Europe and China have both recently issued medium-term development strategies. These two strategies are very similar. At the core of both the EU's 2020 Strategy and China's 12th Five-Year Plan is the drive for green and sustainable growth based on an innovative economy. As China aims to rebalance its economy through increasing domestic consumption, relying less on exports and opening its economy, this process will bring the economies of the EU and China closer together and will bring greater synergies and opportunities for cooperation in the business relationship, for example in joint R&D projects.

The EU and China should together identify opportunities for cooperation where the EU can assist China's development path through imparting experience from the lessons of its own development process. The EU-China Partnership on Urbanisation is one such example where cooperation could be massively beneficial for the overall sustainability of China's urbanisation course, while also providing opportunities for EU business in the process. Such partnerships are not only important for their direct benefits to both parties, they can also assist in moulding a more positive image of the EU-China relationship in the eyes of the public. Eb

Download the Position Paper for free at: http://www.europeanchamber.com.cn/en/chamber-publications.

Dulling the Cutting-Edge:

How Patent-Related Policies and Practices Hamper Innovation in China

In 2011, China overtook the US and Japan to become the world's top filer of domestic patent applications. Some have pointed to this statistic to argue that China is a global leader in innovation; however, according to the European Chamber's recently published study entitled **Dulling the Cutting Edge: How Patent-Related Policies and Practices Hamper Innovation in China**, there are several reasons why this assertion is in fact a myth. The over-200-page study, authored by **Dan Prud'homme**, Manager of the European Chamber's Intellectual Property Rights (IPR) Working Group and R&D Forum, not only debunks this myth, but the core of the study discusses how a variety of Chinese patent-related policies and practices deserve reform in an effort to boost the "quality" of patents in China and to, more generally, boost the nation's innovation abilities. Below is an adapted excerpt from the study.

China's ability to innovate is becoming an increasingly important global issue, whereas without strong innovation as the next stage in the country's development process, its economic growth, while impressive to date, will stagnate and thus create dramatic consequences not just in China but also abroad. To be sure, innovation, which can be defined as the collective act of inventing (creating something considered "new") and exploiting that invention, is touted in an array of economic literature as an important tool for countries to build competitiveness and thus in the long-term drive their economies. Not only will China's future ability to innovate decide its future, but it deeply impacts foreign countries, many of who heavily rely on both demand and supply from China. In short, the future direction of the world economy – inclusive of many businesses, consumers, and governments – to a notable extent hinges on China's ability to innovate.

In assessing China's innovation capabilities, *Dulling the Cutting Edge* looks into a variety of innovation metrics yet focuses on one often overlooked area: patent quality. Patents, which are legal rights to exclude others from exploiting (i.e. making, using, or selling) inventions, are directly linked to innovation as, while by no means an ideal single indicator, they can be used as an intermediate measure of innovation, i.e. an invention output upon which innovation is built. Unfortunately, absolute numbers of patents are often solely used or otherwise overemphasised as a measure of innovation. In fact, "patent quality" provides far more insight into innovation capacity as it measures actual application of inventions in a way that impacts society. Definitions for patent quality and innovation used throughout *Dulling the Cutting Edge* are found in Box 1 below.

Box 1: Definitions of types of innovation and thresholds of patent quality

Dulling the Cutting Edge refers to two main recognised categories of innovation: "breakthrough innovation," creation of brand new/cutting-edge innovations; and "incremental innovation," exploitation of existing innovations in a way that improves upon them, but less dramatically than via breakthrough innovation. While both forms of innovation have value, breakthrough innovation typically affords a higher level of competiveness than incremental innovation. In terms of application, innovation is manifested through exploitation of inventions in goods, services, processes, organisation, or marketing.

The definitions for different thresholds of patent quality used in the study are as follows:

"Quality" patents must (1) meet or exceed the statutory requirements for patentability in China, and (2) have reasonable prospects of (i) ultimately being commercialised or (ii) otherwise being transformed to contribute to social, economic and/or environmental progress in China;

"Highest-quality" patents must (1)-(2) meet or exceed the two criteria for "quality" patents (see aforementioned definition); and (3) best advance Chinese government objectives of sustainably increasing breakthrough research and innovation led by domestic entities and foreign-invested enterprises (FIEs) in China); and

"Low-quality" patents are those that do not meet the aforementioned standard for quality (or highest-quality) patents.

Statistical analysis in *Dulling the Cutting Edge* finds that while patents are exploding in China and certain innovation is also on the rise, patent quality has not proportionately kept up and in fact the overall strength of China's actual innovation appears overhyped. And the analysis not only reveals concerning trends in the quality of China's patents at present, but suggests that while patent filings in China will likely continue to notably grow in the future, patent quality may continue to lag these numbers. In fact, projections in this study indicate there might be over 2.6 million less-than-"highest-quality" patents filed in China in 2015 alone, which is substantially more than estimated "highest-quality" patents filings in that year. With this in mind, and objectively considering its performance on additional innovation metrics, it is clear that China's innovation ecosystem deserves a new type of scrutiny.

The core of *Dulling the Cutting Edge* is devoted to investigating, through in-depth on-the-ground research and analysis, significant reasons for China's patent quality and related innovation shortcomings. In an effort to hone this investigation, the study focuses on key unaddressed institutional and regulatory issues that can be practically remedied in the near future. Although given their intertwined nature it is not always possible to clearly separate their impacts on patent quality as distinct from those on innovation at large, these dulling devices collectively create a vicious cycle: they hamper patent quality which then hampers innovation and vice versa, i.e. hamper components of innovation which then hampers patent quality, which then again further hampers innovation.

By way of specific examples of these dulling devices, China appears to have overemphasised a range of quantitative patent targets, which while ambitious may not encourage quality let alone highest-quality patents and innovation at large as efficiently and effectively as envisaged. In fact, they may actually discourage highest-quality patents and at worst may sometimes actually encourage development and filing of low-quality patents. Similarly, a range of patent indicators in performance evaluation systems deserve scrutiny to determine their impact on patent quality and innovation at large.

Also, China has a wide-range of other patent-specific, and otherwise patent-related, policies and other measures in place meant to encourage quality patents and highest-quality patents in particular; however, some of these can actually discourage such patents and innovation at large. Additionally, there are concerns specifically surrounding rules and procedures for patent application review and those for adjudication of disputes that discourage building of quality patents and related innovation in China.

Conclusion

Dulling the Cutting Edge finds that Chinese government clearly desires to stimulate innovation in China and has already undertaken many commendable initiatives to try and improve the country's innovation system, inclusive of its patent quality situation. Still, it is essential to realise that China's patent quality problem is systemic: it goes far beyond the often cited reasons of patent filing subsidies and occasional tax incentives, having roots in a wide range of policies and other measures, as well as administrative and enforcement approaches, that do not seem to be effectively addressed at present, nor on course to be effectively addressed, and in some cases are not even discussed at all. Individually, and much more so collectively, these dulling devices create a vicious cycle which inhibits patent quality and innovation at large in China. Only when these effects are recognised to be a product of a large network of patent-related issues can China's institutional and regulatory environment for innovation be understood and systematically improved.

Dulling the Cutting Edge is intended as a discussion piece about certain practical ways to in the near future maximise China's innovation and related patent quality potential (although changes, likely only realisable in the long-term, to the educational system and credit system are also fundamentally needed). To be sure, it is clear that China possesses great innovation potential; however, overall, China still lags behind many developed countries in terms of innovation at large and quality patents in particular, let alone breakthrough innovation and highest-quality patents.

While China may indeed be able to largely sustain its economy in the mid-term, i.e. the next five to 10 years, through incremental innovation, the efficiency and effectiveness of certain policies, other measures, and practices meant to stimulate such innovation and the quality of patents produced therein deserve notable improvement. Moreover, it is clear that regulators want to increasingly build breakthrough innovation capacity as distinct from incremental innovation, realising that in the long-term this type of innovation is essential to grow the economy. However, the efficiency and effectiveness of a variety of Chinese policies, other measures, and practices intended to stimulate breakthrough innovation and the highest-quality patents produced therein deserve serious improvement. This study attempts to flag many of these areas needing improvement and provides over 50 practical recommendations for doing so, which will be used as a basis for relevant European Chamber lobbying .

Dulling the Cutting Edge is not just an important read for IPR professionals, academics, business leaders, and government officials, but also anyone interested in understanding both the nuances within and important impacts of China's regulatory and institutional environment for innovation. In fact, it provides insights into arguably one of the most important legal and economic questions determining China's future, and, as a consequence, the future of the world economy. Eb

Download the study for free at: http://www.europeanchamber.com.cn/en/chamber-publications

Government Investment Accelerates Growth of Water Use Industries

By Tracy Li, Industry Research Dept., ACMR

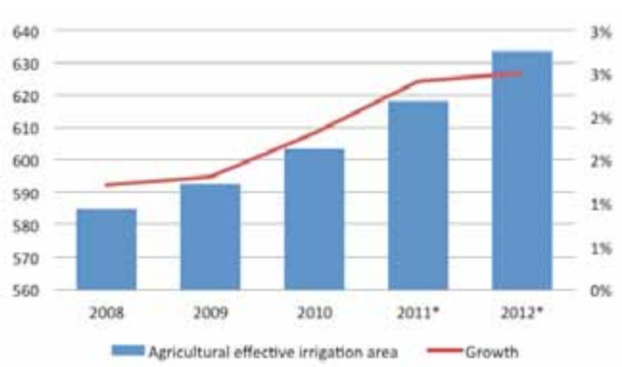
The total quantity of water resources in China ranks sixth in the world. According to the 2010 statistic bulletin on China water activities, the total quantity of water resources in 2010 was 2965.8 billion cubic metres. Water is mainly used in supplying water for life, manufacturing and ecological environment, agricultural irrigation and generating power.

Rising Irrigation and Water Conservancy

From 2006 to 2010, the Chinese central government invested €15.0 billion in irrigation and water conservancy. In 2011, this investment fund was €7.3 billion. During the 12th Five-Year period, the Chinese government plans to make the construction of irrigation and water conservancy projects top priority among all water projects. Moreover, the investment fund will be about €40 billion.

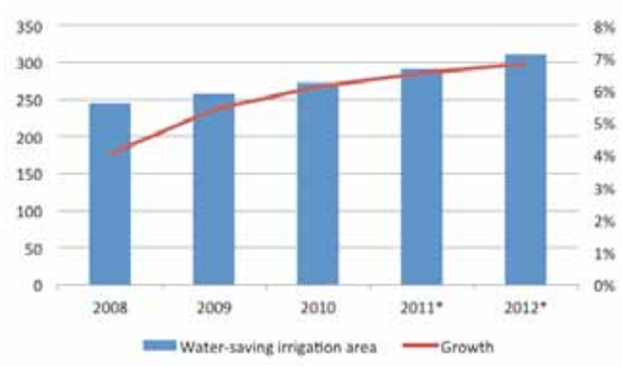
With the promotion of large government investment, effective agricultural irrigation areas and water-saving irrigation areas in China are expected to grow at annualised rates of 1.9% and 5.8%, respectively, from 2008 to 2012. In China's 12th Five-Year plan, 366.7 billion square metres of effective agricultural irrigation area and 333.3 billion square metres of water-saving irrigation area will be increased.

Agricultural Effective Irrigation Area in China, 2008-2012* (Billion m2)



Source: Ministry of Water Resources of China, ACMR
Note: 2011 and 2012 data are ACMR estimates

Water-saving Irrigation Area in China, 2008-2012* (Billion m2)



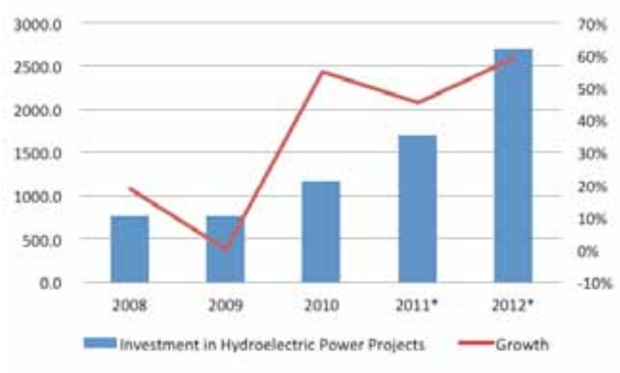
Source: Ministry of Water Resources of China, ACMR
Note: 2011 and 2012 data are ACMR estimates

Growth of Hydroelectric Power Generation

Mainly due to water being a kind of clean energy resource in China, Chinese government has been stimulating the construction of hydroelectric power generation. From 2008 to 2012, the investment in hydroelectric power projects and the installed capacity of hydroelectric power generation are forecast to increase at annualised rates of 33.5% and 12.4%, respectively. From 2008 to 2010, mainly due to environmental and migration disputes, growth trend of installed capacity of hydroelectric power generation slowed. With the decline of hydroelectric output in 2009 and 2011(owing to lack of rain), the annualized growth rate of hydroelectric output from 2008 to 2012 shows much lower, being 7.7%.

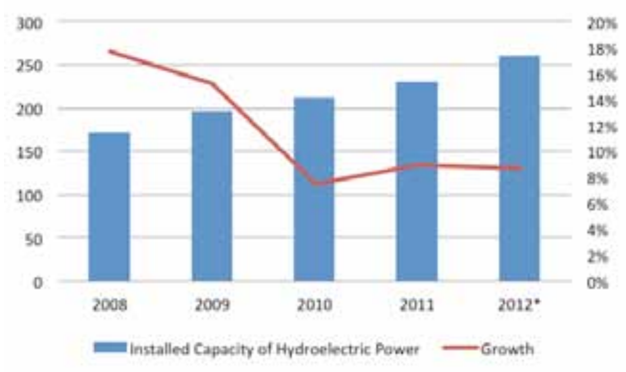
According to China's 12th Five-Year Plan, hydroelectric power generation will be receive top priority among all power generation. The installed capacity of hydroelectric power generation will grow to about 284 GW in 2015 and 330 GW in 2020.

Investment in Hydroelectric Power Projects in China, 2008-2012*(Million Euros)



Source: Ministry of Water Resources of China, ACMR
Note: 2011 and 2012 data are ACMR estimates

Installed Capacity of Hydroelectric Power Generation in China, 2008-2012* (GW)



Source: Power Yearbook in China, ACMR
Note: 2012 data are ACMR estimates

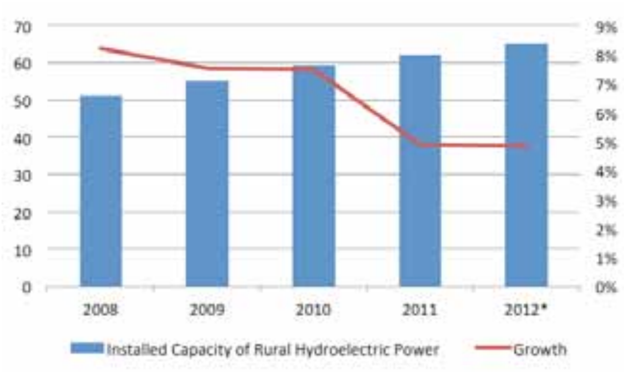
Steady Development of Rural Hydroelectric Power Generation

Rural hydroelectric power stations refer to hydroelectric power stations with installed capacity of 50 MW or below. Rural hydroelectric power stations are mainly located in the southwest and central China areas. By the end of 2011, there had been 45151 rural hydroelectric power stations. The installed capacity of rural hydroelectric power generation was 62.1 GW, accounting for 26.9% of totals of hydroelectric power generation. In 2012, the Chinese government plans to increase three GW, with steady growth of central-government investment.

Overall, rural hydroelectric output shows an increasing trend from 2008 to 2012, with expected annual growth of 6.2%. Also, mainly due to the lack of rain in 2009 and 2011, rural hydroelectric output decreased 3.7% and 14.0%, respectively.

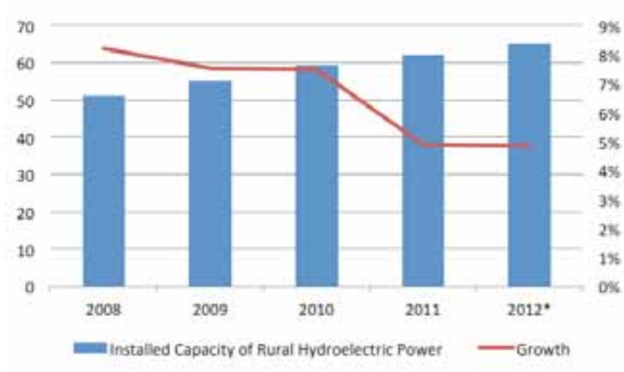
During the 12th Five-Year Period, for rural hydroelectric power, the Chinese government plans to add 15GW of new capacity.

Installed Capacity of Rural Hydroelectric Power in China, 2008-2012* (GW)



Source: Ministry of Water Resources of China, ACMR
Note: 2012 data are ACMR estimates

Rural Hydroelectric Output in China, 2008-2012* (Billion KWh)



Source: Ministry of Water Resources of China, ACMR
Note: 2012 data are ACMR estimates

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Patent Protection in China: Know Before You Go

Every company producing innovative products in China is strongly advised to use the Chinese patent system. It is absolutely crucial to apply for patent protection in China for each and every innovation, even if a launch of the respective product in the Chinese market is not yet on the horizon. **The China IPR SME Helpdesk** looks at how to take the next step.

Markets change rapidly and patent protection has to be requested before the respective product is introduced anywhere in the world. In particular, a European registered patent has no legal effect in China. Intellectual Property (IP) protection measures should not be limited to filing patent applications. It is advisable to implement an overall IP strategy covering legal, technical, administrative, and political aspects. The Patent Office of the Chinese State Intellectual Property Office (SIPO) receives and examines patent applications and 'invalidation requests'. In order to obtain patent protection in China, the inventor or his employer has to file a Chinese patent application. To ensure full protection from infringement, the application should be filed before the innovation is disclosed to the public by marketing or selling.

Application and Registration

Foreign companies without a registered office in China must use a local patent attorney to handle the filing of a patent. The quality of the patent attorney and the quality of the application is critical for the value of the protective right. Treat your patent applications as one of your company's most valuable assets in China.

There are three ways to file a patent:

- Directly filing a patent application in China

- Filing a patent application first in a foreign country (must be a Member State of the Paris Convention, like all European Union countries), and then file a second patent application in China within 12 months (six months for designs), claiming the priority date of the first application.

- Filing an international patent application under the Patent Cooperation Treaty (PCT), naming China as one of the designated states. A PCT application can be filed with the European Patent Office or any national patent office within the EU. The applicant has to initiate the 'national phase', i.e. the procedure with the Chinese Patent Office, no later than 30 months from the priority date.

A very careful translation of the application is of utmost importance. The national Chinese patent application must be in the Chinese language, and only the Chinese patent claims eventually determine the scope of protection. In China, if there are two patent applications filed on the same innovation, the patent is granted to the one who filed the patent application first.

Chinese patent law covers three distinct areas:

An invention patent is granted for innovations in the field of technology that are new and inventive over the prior art (any information relating to the invention which has already been made public), and that possess practical applicability. A utility model patentis granted for new technical solutions relating to the shape and/or structure of an object. In general, the degree of invention required for a utility model patent is not as high as for invention patents.

A design patent is granted for original designs relating to the shape, pattern, colour or a combination of an object. Patent rights commence from the date of publication in the Patent Gazette. The term varies depending on the type of patent.

Terms

- Invention 20 years from the filing date

- Utility Model 10 years from the filing date

- Design 10 years from the filing date

The average duration of application and registration procedure is three to five years for invention patents, while for utility and design patents it amounts to one year. In order to obtain enforceable protection rights as soon as possible, it is advisable to file a utility and invention patent application in parallel, and abandon the utility model patent once the invention patent has been issued.

Practical Tips for Obtaining Effective Patent Protection in China

Translation accuracy is always a major issue for patent applications filed by foreign entities in China. Unfortunately, it is common that a patentee finds out the invention, as defined in a Chinese patent, deviates substantially from the original patent application as a result of inaccurate translation. To avoid translation errors, especiallyin a patent application for an important invention, it is prudent to seek professional confirmation of the translation of the patent specification in Chinese.

The text of the original Patent Co-operation Treaty applications specification is accepted as the authentic text of a national Chinese patent application. It is recommended to use the PCT route to file patent applications in China.

China has a very stringent approach regarding added subject matter and/or amendments made during prosecution. Extending the scope of protection beyond that of the original application may result in a patent beinginvalidated.

There are very strict rules on post-grant amendments of claims. Claims can only be amended by features which are already present in the dependent claims. Dependent claims should include as many useful technical features as possible to cater for possible post-grant claim amendments.

Enforcement of Patent Rights in China

Patentees have two main options for enforcement once they discover that their rights are being infringed. In practice, judicial enforcementis by far the most effective option. Administrative enforcementby the local Intellectual Property Office (IPO) may be an option in rather simple cases, namely design patent infringement cases (inparticular at trade fairs).
In contrast, complex technical questions related to 'invention' or 'utility model' patents are normally much less suitable for administrative procedures.

Filing a civil patent infringement complaint requires very careful planning and preparation of the case. Deficits are likely to result in inadequate court proceedings. Ifa company encounters patent infringement in China: The first step should be to hire an experienced patent lawyer.The second step requires an in-depth analysis of the facts of the case by the patent lawyer (in particular, an analysis of the infringing embodiment and a review of the validity of the patent).An infringement complaint can either be filed at the place where the infringer is located, or where the infringing act (e.g. the sale) occurs. However, unlike the provincial courts, Beijing, Shanghai or Guangzhou courts have more experience in handling patent law cases. It is therefore recommended to file an infringement complaint with these courts. It is also necessary to establish proof of infringement in these cities e.g. by initiating a delivery. For this purpose, it is advisable to use local investigation firms to approach the infringer. The plaintiff can also make a request to the People's Court to stop infringing acts immediately, preventing losses before and during the lawsuit. This is called a 'preliminary injunction'.

If the proceedings are not stayed pending the separate invalidation proceedings before the Patent Re-examination Board (PRB), the average duration of first instance proceedings involving a foreign party is approximately two years. The Civil Procedure Code requires a second-instance case to be completed within three months, but the courts can extend the time limits. For foreign-related cases, there is no definite time limit for rendering a final decision. The court fees for each instance are relatively low (1.0% of the value of the infringement, and 0.5% of the value exceeding RMB 1,000,000).

There are four methods for calculating the amount of damages for patent infringement (reasonable expenses spent by the patentee on investigation and prevention of infringement): The loss suffered by the patentee; the profits the infringer has earned; appropriate multiple of licensing fees; when damages cannot be determined by any of the three methods mentioned above, the court may award 'lump sum' damages up to RMB 500,000.

Conclusions

Protecting your rights can be difficult, however in the long run it will save you a lot of time and money if you ensure you that you apply for the relevant patents before using your product in the China market.

Tailor your intellectual property rights protection strategy to the specific needs of your company; prevention and effective monitoring are key components and should be fully assessed.

Filing simultaneously for a Utility Model (UM) and invention patent provides a quicker way of securing your IP: UMs are often overlooked by foreign entities but can be a powerful tool when used effectively, often in conjunction with an invention patent. Eb

The China IPR SME Helpdesk is a European Commission funded project that provides free, practical, business advice relating to China IPR to European SMEs. To learn about any aspect of intellectual property rights in China, visit our online portal at www.china-iprhelpdesk.eu. For free expert advice on China IPR for your business, e-mail your questions to: question@china-iprhelpdesk.eu. You will receive a reply from one of the Helpdesk experts within seven working days. The China IPR SME Helpdesk is jointly implemented by DEVELOPMENT Solutions and the European Union Chamber of Commerce in China.

When Sisyphus met Icarus

EU-China Economic Relations during the Eurozone Crisis

The Europe-China economic relationship is too big, and too well developed, to fail, but the protection of past achievements is currently the only factor keeping EU-China policy relations in balance. Cooperation on trade and investment is fraught with misunderstanding, offended egos, discontent, and anger. Beijing and Brussels seem content to wait for China's new leadership to take office before they attempt to deepen economic and commercial policy cooperation, but there is little reason to believe that the bilateral relationship will radically improve under changes in the Chinese capital. **Fredrik Erixon**, director and co-founder of the European Centre for International Political Economy (ECIPE), looks at the situation.

The Europe-China economic relationship is too big, and too well developed, to fail. Bilateral exchange recovered quickly from the sharp drop in 2008-09, and bilateral trade, despite the overall contraction in the eurozone, increased considerably in 2011. Even if growth in trade and investment were to slow in 2012, the European Union and China will, under current forecasts, post a record high with two-way trade exceeding €500 billion. The EU is China's biggest trading partner, and China is the EU's second biggest. Neither party will allow the relationship to be fractured by economic and commercial policy conflicts. It is a sign of maturity that current volumes of trade and investment glue the relationship together. That's the good news. The bad news is that the protection of past achievements is currently the only factor keeping EU-China policy relations in balance.

The EU-China Trust Deficit

The climate of EU-China policy cooperation has soured considerably in the past two years. Cooperation on trade and investment is fraught with misunderstanding, offended egos, discontent, and anger. In some quarters, frustration is reaching a boiling point. The EU-China High Level Economic and Trade Dialogue, which followed hard on the heels of the U.S.-China Strategic and Economic Dialogue, has become largely dysfunctional, both as a forum for efficient, business-style negotiations on selective market-access issues and as a venue for forming joint strategic visions for future bilateral economic relations. In some policy areas, e.g. the growing dispute over the EU's carbon fees for aviation, relations are not far from complete breakdown. Key officials do not speak to each other. E-mails and phone calls go unanswered.

There is generally little energy in EU-China talks, and few expect much from them. While U.S. newspapers ran series of articles about the Valentine's Day visit of Xi Jinping, China's President-in-waiting, to the United States, the European media barely bothered to pass comment on the fact that, at the same time, the EU's top leadership – including the President of the

European Commission, José Manuel Barroso, and the President of the European Council, Herman Van Rompuy – were in Beijing for the EU-China summit. Obviously, there is an air of excitement when European leaders such as Chancellor Merkel meet with the Beijing leadership, but national European leaders do not speak for the EU and cannot engage in most economic matters of importance.

Moreover, despite Premier Wen Jiabao's recent defence of a Chinese role in the European Financial Stability Facility (EFSF) and the smaller sums that Beijing has contributed quietly, there is little hope that China will play a greater paymaster role to eurozone countries with wrecked public finances. This is partially due to the failure of Europe's leaders to build China's and others confidence as they pleaded for contributions to the EFSF, more popularly known as the "eurozone's bailout fund." The morning after the eurozone leaders had agreed to court investors to leverage the paltry financial guarantees they had given to the EFSF, French President Nicolas Sarkozy called Chinese President Hu Jintao. Sarkozy was preparing the ground for the message that the EFSF's chief executive officer, Klaus Regling, who boarded a flight to Beijing before the ink had dried on the agreement, would deliver in person the next day: Europe is finally getting its act together; what had been agreed at the crisis summit in October was what was needed to avoid the euro cooperation slipping into chaos; and China now had a unique investment opportunity that would earn them a good return while at the same time helping its key trading partner. And yet, six weeks later, eurozone leaders were in Brussels once again for another crisis meeting to address the profound threats to financial stability in Europe.

That China rejected these requests, disavowed past promises of considerable bilateral loans to individual crisis countries in Europe, and instead aired positive (but guarded) views on increasing its financial support to the International Monetary Fund is a sign of China's frustration with matters related to Europe. Beijing's core strategy had been to deal directly with Europe, preferably through national capitals, allowing it to engage in opaque structures of cooperation and sweeten policy agreements with financial assistance or trade-promotion deals. That China prefers to route money to the eurozone through a multilateral organization, and one it is suspicious about, shows how its confidence in the EU has declined and that it is reluctantly being forced into unknown territory for Chinese international economic policy.

Individual Limitations: Like Sisyphus and Icarus

Beijing and Brussels seem content to wait for China's new leadership to take office before they attempt to deepen economic and commercial policy cooperation, but there is little reason to believe that the bilateral relationship will radically improve under changes in the Chinese capital. Individuals matter, but the problems in EU-China relations are rooted in divergent views on state, government, and international economic policy that are unlikely to diminish anytime soon. The economic crises are not the source of the differences, but they have accentuated the differences and tensions that were on display before Europe slipped into its age of crises.

The EU increasingly embodies Sisyphean traits in its economic and commercial policy posture towards China. Like Sisyphus, the mythological Greek king condemned to repeatedly roll a huge boulder to the top of a steep hill without success, the EU has tried time and time again to pressure China into opening more of its market to European exports by threatening to cut access to its own markets if Beijing does not comply. The rhetoric on climate change has been equally confrontational. But the EU is unconvincing when it is tasked to drum up protectionist threats: it has neither the treaty support nor the necessary policy tools to carry them through. The European Commission's attempt to introduce a European version of the U.S. Committee on Foreign Investment in the United States, which screens all incoming investments for national security threats, was outside of its mandate.

Likewise, the Commission's new initiative to close its procurement market for China and other countries outside the Government Procurement Agreement will hardly cajole them into opening up their procurement. Import penetration in Europe's public-sector demand is 7.5%, and China is estimated to represent as little as 1% of that amount. No doubt it would be beneficial for China to liberalize its public procurement, but Beijing is unlikely to acquiesce to Brussels' heavy-handed move for such small sales.

The broader effort of the Commission to act as archmercantilist in Europe goes against the essence of its role, which has always been to find a compromise between opposing camps in the EU membership. China, aware of these limitations, remains deaf to the EU's empty threats and the demands that accompany them.

The EU, for its part, is also aware of its limitations, but persists anyway. Sisyphus' perpetual struggle, said Albert Camus in the Myth of Sisyphus, has no chance of success but gives meaning to his life. It is an absurd meaning, but as long as he accepts the repetitious struggle, it gives happiness "enough to fill a man's heart". Many EU politicians and officials are satisfied with the current approach to China, despite the lack of progress. As Camus ended his essay: "One must imagine Sisyphus happy".

The EU increasingly embodies Sisyphean traits in its economic and commercial policy posture towards China.

China, on the other hand, is more like Icarus, the Greek mythological figure who failed in his ambition to fly with his wax-and-feather wings because he got too close to the sun. Having acquired serious market power in the past 10 years, China flaunts its fortunes in its relations with the EU (and others) without using it to accomplish anything concrete. Beijing's ambivalence to Europe is the result of what has been a more general strategy of keeping a low international profile, biding its time and avoiding relationships with other big economies that could force it into a position of using its economic power when it is profoundly uncertain about what it should be using that power for.

But inaction is not a policy that befits an economy of China's size. As with the United States in the 19th century, China, on the other hand, is more like Icarus...who failed in his ambition to fly with his wax-andfeather wings because he got too close to the sun. China has grown to become one of the giants of the world economy, but has not yet accepted that its newly acquired systemic importance requires a corresponding and attendant responsibility to the international system of exchange. China's foreign economic aspirations still remain an enigma. Does Beijing support the underlying principle of the post-war international economic policy, a gradual but constant move towards globalization based on a market economy and shared responsibility for a multilateral system of rules? Or does it want to rewrite this principle?

Diverging Views on Global Political Economy

For many in Europe, the crisis has been a litmus test of China's loyalty to the existing international economic system. The EU was created by the same post-war trends of economic cooperation that midwifed multilateral economic institutions, and it has benefited tremendously from their existence. It has been neither capable nor willing to economically underwrite those institutions, leaving that task to the United States. Europe has not been guided by the spirit of "visionary generosity" that once informed United States' policy towards global economic policy. European countries were often unwilling to accept new trade or monetary deals that would have an unequal distribution of gains, even if the net outcome was of benefit to Europe.

There has been partial change in Europe in its outlook. Yet there is a vexing belief in Europe that China has made gains from the global economic system disproportionate to its contributions. For many officials in Europe, the EU-China High Level Trade and Economic Dialogue was established on the premise that China would start returning on some of those gains. When Beijing has made clear that it is not prepared to dance to that tune, it has only served to irritate Europe further.

China is not innocent in all of this. Its stalled economic reform agenda and unwillingness to accept a leadership role corresponding to its economic size are now major sources of friction in the global economy. Beijing's ham-fisted diplomacy towards Brussels has not made them many friends. It has repeatedly tried to bypass Brussels in its negotiations with Europe, preferring instead to work through member states more susceptible to Beijing's faiblesse for trade promotion deals and avoidance of hard policy negotiation. It has been far more serious in the Strategic and Economic Dialogue with the United States, repeatedly agreeing to improved market access, than in its equivalent dialogue with the EU.

Beijing's officials often excuse themselves by claiming that they do not understand how the EU works. It is an excuse that could be believed. Confusion about how the EU works has also increased as a consequence of Europe's response to the sovereign debt crises, and the further entrenchment of the EU's post-modern political personality. While other regions operate on the basis of the classic, Westphalian, modernist view of nation, state, and government power, the EU has been in the rival business of substituting modernist government with post-modern governance. Governments in Europe have deliberately and willingly weakened their own autonomous authority and power even when new pan-European structures of power have proven inadequate. National economic interests are now channeled through Brussels and arduous negotiations between EU member states. Chinese politicians, who are used to hard-power realities and schooled in a one-nation mentality, find working with a centralized Europe both difficult and threatening. In Beijing's view, the EU is unpredictable.

While the EU's complicated structures might be confusing, Beijing's bypassing of Brussels is at least partly deliberate. Beijing prefers to deal directly with big European capitals, even on those issues where policy has been clearly centralized in Brussels, because it has more leverage over individual governments than over the Union as a whole. There are short-term gains for China from a divisional approach to Europe. A divided Europe will put less pressure on political change and economic reform in China.

But a fractured EU will have negative long-term consequences for China and its economic interests. Beijing has taken its big-power strategy too far for EU-China policy relations not to be weakened.

Icarus has a lesson for China. Daedaleus, according to the Roman poet Ovid, tells Icarus to keep to the middle range and don't fly too high. But Icarus, increasingly hubristic, wonders "what limits there are to his father's invention. He flaps his wings and rises higher – but nothing bad happens". Those watching Icarus from earth assumes the winged creature is a god. What Icarus cannot see is that the wax melts. Soon he plunges into the sea.

China has made a bad bet in assuming that its interests are better served by weak rather than effective centralized policies and institutions in Europe. The divisional strategy may work for yet another few years. But before long China will learn the same lesson as others in the past 60 years of global economic policy: a fractured Europe will be less reliable and predictable, and occupied by intra-continental squabbles rather than designing rules and policies for global commerce. Eb

About the Author

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About the Stockholm China Forum

This is part of a series of papers informing and informed by discussions at the Stockholm China Forum. The Stockholm China Forum is an initiative of the German Marshall Fund, the Swedish Ministry for Foreign Affairs and the Riksbankens Jubileumsfond. It brings together policymakers, intellectuals, journalists, and businesspeople from Europe, the United States, and Asia on a biannual basis for an ongoing and systematic dialogue to assess the impact of China's rise and its implications for European and U.S. foreign, economic, and security policy.

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The Second Comprehensive Coaching Survey in China

Rainer Schmidt and **Sarah Wang** discuss the results of this second survey, with double the response rate over v_1.0 (2010), which included the same number of responses from companies, but a significantly higher level of replies by Chinese coaches gave us a deeper insight into the Chinese coaching market.

Coaching continues to be a good business in China, and a good developmental investment for companies operating in China. Though the European financial crisis and America's slow economic recovery make predictions about the coaching business difficult, China-based companies are optimistic. 91% of Chinese firms have a positive business outlook, as do 75% of non-Chinese companies here.

Over half of the participating companies have a coaching program in place, and of those w ho have not yet established one, the overwhelming majority – 88% of Chinese firms and 86% of foreign firms – are actively considering it.

In v_1.0 of our coaching survey we found a pretty balanced offering between one-on-one coaching, team coaching and coach training; this year we note a shift towards team coaching, targeted mainly at High Potentials and senior managers.

The "Chinese touch" in coaching

China continues to be a developing market for coaching (none of the Chinese companies surveyed started their coaching journey more than two years ago), but we observed positive evidence that it is maturing:

1. One-fifth of the companies have a structured coaching programmes in place.
2. One-third of the coaching programmes are corporate driven.
3. Slightly higher satisfaction with coaching (71% vs. 68% in 2010).
4. Certification and accreditation remains strong among all coach nationalities.
5. Half of the companies ask for certification certificates (an increase over the 30% reported in 2010). Coaches confirm the trend.
6. An increase in longer coaching assignments, up to 12 months involving less frequent sessions, among foreign companies. Chinese companies sign up for six months or fewer, but with greater interaction between coach and coachee; (50% involve bi-weekly sessions).
7. Two-thirds of companies are using feedback loops to measure coaches' satisfaction with their coaching experience.
8. Position of coaching remains developmental.

However there continue to be some worrying elements:

1. Almost 1/5 of the companies are 'not really satisfied' with coaching' 1/3 of Chinese companies see coaching as 'more or less not fulfilling'.
2. There is a significant price difference between Chinese and foreign coaches; Chinese coaches are cheaper.
3. 'No secrets in China'. About 2/5 of the companies request that coaches share information they learn during coaching sessions, which damages coaches' efforts to build trust with their clients and violates the guiding principles of the ICF's 'Code of Conduct'.

Coaching continues to be a 'face to face' culture with an increasing trend towards phone conversations. It's still a referral business (83% down from 95% last year); websites are becoming additional business drivers, as are global contracts via corporate HQs.

Chinese companies differ in some aspects:

1. In general they pay less for coaching services.
2. They prefer to assign Chinese coaches, rather than foreigners.

Internal coach trends:

1. They are almost all Chinese
2. Two-thirds have fewer than five years' coaching experience, but significant business experience (95.7% have more than 11 years).
3. Internal coaching is used at a lower level in the organisation.
4. Coaching and mentoring is dominant (69.6%).

External coaches are even more positive about the coaching business than they were a year ago (up from 84% to 92.5%). 82.6% of internal coaches are also positive, though a significant proportion (17.4%) see the outlook as only 'fair'. Companies are also mainly positive, but some mentioned that they may be spending less on coaching in the future. Eb

Co-sponsored by the Asia Pacific Alliance of Coaches and the European Union Chamber of Commerce in China

在德国收购企业

Acquiring Companies in Germany

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China Investing, Both at Home and Abroad

Foreign direct investment in China has seen a decline throughout 2012, and while Chinese investment overseas is growing, it remains cautious, and in some cases, not always welcome. In this piece, **Jack Perkowski** looks at investment both in China and Chinese investment abroad to give us a better picture of where the money is.

When I was in the auto business, the statistics published by the Chinese government said that there were approximately 2,500 components companies in the country. Those of us in the industry, though, knew that this number only counted the firms that were registered with the government and vastly underestimated the number of companies actually making auto parts. We referenced a number more like 20,000 when thinking about the competitive landscape, but knew that this also was most likely a vast understatement. Taizhou, a small city in Zhejiang province, once ran an advertisement in the local newspaper saying that there were more than 8,000 auto components companies operating in Taizhou alone!

Every industry in China is the same in that way: the number of companies competing vastly exceeds the official figures provided by the government and the number of firms that one might expect to find in the same industry in a more developed economy. Estimates of the business population are all over the map, but Ted Fishman, author of China, Inc., once told me that there are over 85 million private companies in China. That means that every industry in China is extremely fragmented. The sheer number of companies that operate in any industry is one of the reasons why the China market is so competitive.

The venture capital and private equity industry in China is no exception. China had more than 10,000 venture capital and private equity firms at the end of 2011, according to Liu Jianjun, an official in the department of fiscal and financial affairs at the National Development and Reform Commission (NDRC). Those companies managed nearly 2 trillion yuan ($313.9 billion) in assets according to Liu.

Officially, however, the NDRC reported recently that there were 882 venture capital and private equity firms registered with the NDRC at the end of 2011, a 34.3% increase compared to 2010. The NDRC also reported that the value of assets managed by these 882 firms had increased by 41.5% to 220.7 billion yuan ($34.6 billion) at the end of last year. In other words, the number of officially registered venture capital and private equity firms in China, and the amounts that they manage, are most likely less than 10% of the actual business that is being done in this space today.

Whatever the numbers, the private equity business in China is already large and is growing rapidly. Size and rate of growth are not the problems. The biggest problem by far is that there is too much money chasing too few deals. Every major private equity firm around the world wants to invest more capital in China, while China's strong economic growth means that more and more capital is being accumulated in the country. With China's stock exchanges in Shanghai and Shenzhen still in an early stage of development, private equity and venture capital are natural outlets for the growing pools of capital that are springing up all over. A shortage of good deals, not a shortage of capital, is the key issue.

In the competition for deals, international firms like The Blackstone Group LP that have active programs in China have an advantage due to their global networks and reputations. The local firms, however, can act faster and have more exits available to them in China. Both types of firms are disadvantaged by the fact that debt financing is hard to come by in China. Therefore, deals have to be financed with all equity, lowering returns in the process, and narrowing the list of potential investments to companies that are growing fast enough to generate the returns required by private equity investors.

Who's winning the private equity battle in China?

In the opinion of many, homegrown firms such as Beijing-based Hony Capital Ltd. Investments are gaining market share at the expense of their international rivals. According to the Asian Venture Capital Journal, investment by Chinese firms rose to $7.8 billion in 2011, exceeding for the first time the $7.4 billion invested by U.S. and other foreign funds. Moreover, yuan-denominated private-equity funds have raised $41 billion in the past two years, more than double the U.S. dollar amount in China. The shift to investors using Chinese currency has resulted in a 45% drop in investments by foreign funds in 2011, even though the value of private-equity deals has doubled since 2009.

While China poses many challenges for firms trying to make investments in the country, the development of the venture capital and private equity industry bodes well for China's small and medium-sized enterprises (SMEs). For years, SMEs have been deprived of capital by China's financing infrastructure, which has mainly consisted of a handful of large, state-owned banks that only knew how to make loans to other state-owned enterprises. With so many international and Chinese investors now looking for good companies in which to invest, the availability of capital for SMEs will only increase in the years ahead.

At the same time that good money is looking for better deals in China, China is finding that even the money it can offer to ailing businesses in struggling economies is not always welcome. Opposition to Chinese ownership of raw material or energy businesses has occurred in several countries, scuttling deals that may have gone forward with different potential buyers. However, one bid made earlier this year could provide a working formula for such deals in the future.

Earlier this year, CNOOC Ltd., China's largest offshore oil and natural gas explorer, announced that it had agreed to pay $15.1 billion in cash to acquire Canada's Nexen Inc. in the biggest overseas takeover by a Chinese company. The price tag that CNOOC put on Nexen represented a 61% premium over the company's stock market value the day before the offer. Nexen's board recommended the deal to its shareholders, but the deal is still subject to regulatory approval.

CNOOC's announcement immediately brought to mind the company's failed $19 billion bid for Unocal Corp. in 2005 that was blocked by strong political opposition in the United States, as well as the more recent failure of a $40 billion hostile takeover bid by Australia's BHP Billiton Ltd. for control of Potash Corp. of Saskatchewan Inc. In 2010, Canada's Prime Minister Stephen Harper rejected BHP's bid, saying it didn't provide a net benefit to the country. It was only the second rejection of a foreign takeover in Canada in 25 years.

Clearly, CNOOC has learned a great deal since Unocal. In the Unocal transaction, CNOOC was competing with Chevron Corporation, a U.S. company, for control of Unocal, while the bid for Nexen is a negotiated deal that is uncontested and has the full support of the company's board of directors. Also, CNOOC has gone out of its way to reassure management and the Canadian government that Nexen will remain a Canadian company. CNOOC said it will list its stock in Toronto, keep Nexen's employees and make Calgary its North American headquarters. The latter should help deal with the wild card of provincial politics in Canada.

Apart from these rather significant differences with the Unocal transaction, though, CNOOC's bid for Nexen has a more fundamental difference that also distinguishes it from the proposed takeover of Potash. The Nexen transaction involves a company from a "consuming" country (China), purchasing a company from a "supplier" country (Canada). By way of contrast, Unocal involved a company from a consuming country (China), purchasing a company in another consuming country, in this case the United States. Similarly, the Potash transaction involved a company from a supplier country (Australia) trying to take over a company from another supplier country (Canada).

In Nexen, the interests of the two countries involved can easily be seen to be aligned, while it's much more difficult to see alignment in either Unocal or Potash. In Unocal, the countries represented by the companies involved are in head to head competition for oil, while in Potash, the countries involved are competing for markets.

The respective leaders of large consuming nations such as the United States and China are understandably concerned about their country's ability to have continued access to the natural resources needed to keep their economies growing. That's why America's dependence on imported oil is a constant theme in political campaigns.

It's also why China, as the biggest energy consumer in the world and the second-biggest consumer of oil, has been snapping up resource assets across the globe.

However, supplier countries like Canada and Australia that have large stores of natural resources, but relatively smaller populations and economies, are most concerned about finding long-term, stable markets for their products. Developing and selling more of their natural resources is their path to prosperity.

Canada has the world's third-largest oil reserves — more than 170 billion barrels — after Saudi Arabia and Venezuela. Daily production of 1.5 million barrels from the country's oil sands is expected to increase to 3.7 million by 2025. Finding a reliable market for this output is one of Canada's key concerns, and developing China as a long-term customer is a prime objective.

Moreover, CNOOC has an incentive, as well as the financial wherewithal, to accelerate development of the oil sands as well as Nexen's Canadian shale gas prospects, boosting investment and tax revenues in the country. In this context, it's easy to understand why the Nexen deal is likely to receive regulatory approval.

Canada's essential problem is that the United States market currently absorbs approximately 97% of the country's oil exports. As any businessman will agree, having one large, important customer can be a big asset for any company. It also represents a key vulnerability, as Canada saw first-hand when the Obama Administration rejected the Keystone XL pipeline, which would have taken oil from Alberta to the Texas Gulf Coast. Harper remains determined to build a pipeline to Canada's Pacific Coast where tankers can then be filled to supply needs in China and Asia.

It's no coincidence, therefore, that Harper visited China to discuss oil sales and other economic ties shortly after U.S. rejection of the Keystone pipeline. In February, Harper headed a delegation of 40 Canadian business leaders to China. While in Beijing, Harper met with President Hu Jintao, Premier Wen Jiabao and other top Chinese officials.

Harper's visit to China highlighted Canada's determination to diversify its energy sales. Chinese state-owned companies have invested more than $16 billion in Canadian energy over the past two years, and Chinese state-controlled Sinopec has a stake in a proposed Canadian pipeline to the Pacific Ocean that would substantially boost Chinese investment in Alberta oil sands. Overall, trade between China and Canada surged to almost $50 billion in 2011.

If anything, the failed bid for Unocal in 2005 taught CNOOC not to "fight the tape". Deals for critical natural resources such as oil will come much easier if they are done with companies in countries whose interests are more naturally aligned with those of China. Eb

Read Jack Perkowski's blog at www.managingthedragon.com.

Guangzhou Still a Center for Trade and Innovation

Guangzhou plays a unique role as the capital of Guangdong province, which has the largest regional GDP of China's provinces and is the country's biggest exporter, accounting for more than one-third of China's total foreign trade. **Alberto Vettoretti** of Dezan Shira & Associates looks under the hood of one of China's top economic engines.

Surrounded by three out of four of China's original special economic zones – Shenzhen, Zhuhai, and Shantou – Guangzhou still holds its own economically. Over the past 30 years, Guangzhou has achieved annual GDP growth of around 13%, ranking third in the county in terms of economic scale, after only Beijing and Shanghai.

Guangzhou's Five-Year Plan (FYP) issued in 2011 focuses on developing the city's innovation capacity, strengthening its trade standing and promoting its role as the heart of the Pearl River Delta.

One of Guangdong's Two National Centers for Innovation

Guangzhou and Shenzhen are repeatedly mentioned as Guangdong province's pioneering cities for innovation. Shenzhen is the first pilot city of innovation in China approved by National Development and Reform Commission (NDRC) in 2008, while Guangzhou was approved in 2009.

In 2011, Shenzhen was elected as the most innovative city in China, according to the China Urban Competitiveness Ranking released by the Hong Kong-based China Institute of City Competitiveness, while Guangzhou was ranked third in innovative competitiveness. The ranking evaluates Chinese cities based on their innovativeness in economy, governance, science and education, culture and eco-environmental protection. This ranking is representative of Shenzhen's earlier start in promoting innovation; the Shenzhen government issued the Overall Plan for Shenzhen as a National Innovative City (2008-2015) in 2008, while Guangzhou's Overall Development Plan for Guangzhou as a National Innovative City (2011-2015) was promulgated in 2011.

Among various goals, Shenzhen's Innovation Plan aims to establish a group of state, provincial and city-level laboratories, research and development (R&D) centres and enterprise technology centers in the fields of electronic information, biotechnology, new materials, new energy, digital equipment, medical equipment and energy saving and environmental protection industries. In addition, Internet-based, newly-emerging service industries, such as spatial information services, modern logistics, digital content, software outsourcing, e-commerce, and value-added service animated games are also actively promoted, as well as the general merging of high and new technologies with traditional industries. Under the plan, innovative talents in the areas of R&D, operation management, creative design, and intellectual property rights will be recruited from abroad. Meanwhile, local talents will be sent abroad annually for training. The plan also promises a steady increase in investment into technology by the government and funding support for enterprises and R&D institutions in Shenzhen carrying out key state-level plans and projects.

Guangzhou's Innovation Plan echoes Shenzhen's in many ways. It hopes to cultivate a group of high- and new-technology enterprises and to increase the ratio of the output value of high- and new-technology products in the total industrial output value. It aims to promote information technology, biology and health, new materials, energy saving and environmental protection, new energy automobiles and new energy industries. It also encourages the development of modern service industries, including researching and developing systems related to e-commerce, online banking, and online trading for use in the finance and insurance industries. In addition, it encourages finance institutions to commence adherence to intellectual property rights and offer loans to businesses and insurance companies to provide for high- and new-technology enterprises.

An International Center for Commerce and Trade

Provincial and municipal governments speak of Guang¬zhou's future as a regional financial and logistics hub, an international business destination, and a regional shopping center. Specifically, Guangzhou's FYP includes a vision of "sourcing global commodities to distribute in Guangzhou" and expanding the international influence of the "Guangzhou Price". Moreover, the city will fully play out its advantage as a trans-regional RMB settlement pilot city to support the internationalisation of RMB.

In mid-2011, Guangzhou issued a key official document emphasising that the government will open more sectors to foreign direct investment (FDI), offer more fiscal support as well as regulatory convenience, and build up better infrastructure give more incentives to attract FDI.

The document states that the city

encourages FDI into sectors of urban transport, public services as well as infrastructure construction, and supports foreign investors' involvement in the restructuring of state-owned enterprises. It specifically calls for more FDI into equity investment enterprises as well as equity investment management enterprises, hoping to promote Guangzhou into one of the pilot cities included in China's Qualified Foreign Limited Partner Program.

Guangzhou also intends to diversify the avenues for foreign investors to increase registered capital, maintain cash flow and raise additional capital. In the future, foreign investors will be able to utilise distinct types of capital – including capital funds, undistributed profits, domestic company equity, registered foreign debt and reserve funds – to increase their registered capital for the companies. It is also hoped that companies can obtain local currency more easily by completing foreign exchange settlements due to various company needs, rather than payment needs only, and also by being allowed to invest with their legal RMB income overseas. Moreover, the government even plans to recommend qualified foreign joint-stock companies to list at home and abroad, providing them with a larger platform of capital-raising.

Headquarters of foreign-invested enterprises (FIEs) as well as small and medium-sized FIEs settled in Guangzhou are going to enjoy favorable tax treatment and other public services provided by the government. More incentives will also go to FIEs that are involved in technological innovation, strategic emerging industries and outsourcing services. FIEs will receive incentives for participation in major scientific research projects, benefit from the government's special fund for the development of strategic emerging industries, and enjoy business tax exemption on their offshore outsourcing services. Companies certified as service providers with advanced technologies will continue paying their corporate income tax at a favorable 15 percent-rate between 1st January, 2009 and 31st December, 2013. FIEs that are involved in Guangzhou's encouraged industries can also obtain the land use rights faster and at lower prices.

Human resource mobility is also planned to become easier in Guangzhou than in other cities. If an FIE has a registered capital of over US$30 million in Guangzhou or engages in key industries, its foreign staff who need to travel overseas frequently for work can apply for a one-year F Business visa with multiple entry, while its senior managers and technicians can apply for a two to five-year F Business visa with multiple entry, and its legal representative, (deputy) general manager and chief financial officer can apply for a two to five-year residence permit. Chinese staff who need to travel to Hong Kong and Macau often for work in such an FIE can also apply for an exit-entry permit for travelling to and from Hong Kong and Macau with multiple-entry endorsement. In addition, the high-level talents FIEs hire will also enjoy favorable policies from the government, including benefits given to their spouse and children.

Heart of the Pearl River Delta

The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020), put forward by The National Development and Reform Commission (NDRC), describes the PRD region as an experimental development area and calls for the creation of three super-metropolitan areas comprising Guangzhou and Foshan, Hong Kong and Shenzhen, and Macao and Zhuhai.

The Plan also includes the following key goals related to Guangzhou:

- Establish financial centers in Guangzhou and Shenzhen, as shown by projects such as the second board at Shenzhen Securities Exchange and construction of Guangdong Financial and High-tech Services Zone.

- Promote Guangdong as a world-class logistics center by promoting the construction of a number of hub-type modern logistics parks, including those at Baiyun Airport, Bao'an Airport, Guangzhou Port, and Shenzhen Port and improve infrastructure

- Develop a series of specialized conventions and exhibitions, including the Guangzhou Export Commodities Fair and Guangzhou Small and Medium Enterprises Fair

- Increase the innovative capacity of the region as a whole. This includes building 100 new R&D centers and developing three to five high-tech industrial clusters.

A number of new infrastructure links are also planned to better connect the greater PRD and integrate it with the pan-PRD area. Major ongoing infrastructure developments directly related to Guangzhou include:

- Express railway from Guangzhou via Shenzhen to Hong Kong

- Coastal railway, the Guizhou-Guangzhou railway, the Nanning-Guangzhou railway

- Guangzhou's urban rail transit systems

- Improvement of the modern functions of Guangzhou port

- Expansion of the Baiyun Airport in Guangzhou

Final Thoughts

The city has more than 2000 years of history, the same as Rome, according to the city government. As an ancient Capital of Commerce, Guangzhou has served as a major starting point of the famed Ancient Maritime Silk Road, a hub of inter-Asian and cross-continental trade since Tang Dynasty, and the center of Lingnan Culture.

Now, in what the government refers to as "the post-Asian-Games era", the city government's FYP aims to emphasise Guangzhou's historical legacy and transform Guangzhou into an international cultural city with a cultural identity on a par with its economic might and fitting of a modern international metropolis. Eb

China and the Glocal Mix

Which model works best for marketing in China, established methods used in other countries and territories, or only locally-developed practices? According to Wolf Group Asia CEO **David Wolf**, a third, hybrid way will be most effective. He writes about the creation of a new, 'glocal' approach.

There are two basic schools of thought on marketing best practices in China. One school, the Exceptionalists, holds that China is such a unique place that there is little or nothing of value to be learned from overseas experts, academics, or practitioners about the marketing crafts that is applicable here. Only practices that are home-grown and developed with long local experience and a deep understanding of the Chinese culture can ever hope to succeed.

The other school, the Integrationists, holds that China is basically like any other market, just not quite as far along in its development. You may not be able to pull the latest marketing books off of the shelves at Barnes & Noble in New York and apply the recommendations here, but China is pretty much like the U.S. was 10, 20, or 30 years ago. (One member of this school of thought actually said that Chinese advertising agencies bore spooky resemblance to the HBO Miniseries Mad Men.)

I have been to both schools, and I have wound up as what I would call an Experimentalist. I believe that effective marketing in China comes from a combination of global best practices and locally-specific, highly relevant tactics and techniques. Let's call this the Glocal Mix.

Marketing Mixology

If that seems like a no-brainer, think again. The challenge is that there is no viable formula for how to strike this balance. Not only does the Glocal Mix vary from company to company and sometimes from product to product, but also the given Glocal Mix of a product changes over time as new tools are introduced, old ones lose effectiveness, and the media mix changes.

The most obvious issues with a global approach come in social media. Facebook pages are de rigueur for companies around the world, but they don't work in China for obvious reasons. Simply 'localising' the tactic by taking pages on social media site Renren.com will not garner comparable results, if for no other reason than differences in how people in China use social media, and how much those people have to spend. A year from now, however, this might not be the case.

Engaging bloggers is less effective in China than elsewhere as well, because with a few notable exceptions, blogs play a lesser role in shaping opinions than, say, online forums, QQ, or microblogs. Yet changes in China's political landscape, and the growing willingness of China's online "opinion platforms" to actively manage the conversations could well change that. When public discourse is controlled, private platforms get precedence, and it will be the voices who can master tools like WordPress.org who will retain their influence.

The Geek and the Chic

But for those industries where customers around the world share many of the same concerns, lifestyles, and habits (and indeed often directly influence each other), the Glocal Mix tends to be more global. Early adopters of technology and luxury products are prime examples.

Technology early adopters are a part of a global subculture, so much so that buying habits and priorities are often more similar between, say, an early adopter in China and his Korean counterpart than between the Chinese early adopter and his less technically-oriented next-door neighbour. This phenomenon is not restricted to hardware: games tend to make the leap among global early adopters faster than they leak into the general populations of any country.

Luxury early adopters also share a global sub-culture. It would be trite and simplistic to think of this as the global "jet-set," because the crossover in relationships is limited to the pinnacle consumers in the group, but the similarities in culture are notable: Hong Kong society types may not mix with their counterparts in Paris, Beverly Hills, or the Hamptons, but the toolkits to reach the women waiting for the next Louis Vuitton purse or the men waiting for the next Breitling watch are remarkably similar.

The challenge in selling to the global early adopters is the same for each group: finding the global mix early, and executing simultaneously worldwide.
Once the early adopters are on board, however, companies find that the tactics and approaches need to change in order to reach into the wider market. This is where local focus comes into the mix. Culturally specific, locally-relevant approaches become essential.

Meet the Glocal Team

Operationally, this means that rather than fighting over who owns the campaign design and strategy function among local and global marketing teams, the answer is more nuanced. For those companies, products, and campaigns that depend on an initial bump from early adopters or from markets where there is a high degree of cultural commonality across geographies, global marketing teams create the master plan and strategy, and local teams localize (in coordination with global) and then oversee execution.

For those products or campaigns that seek to leap into wider, even mass markets, the strategy, messages, creative, and execution all need to be developed in market, sharing as much commonality with the global campaign as possible, but not shackled to it. This is the point where considerable autonomy must be granted to local marketing teams.

The challenge for the CMO and his direct reports is to come up with a shared view of the nature of the global market. Is there a global sub-culture that would allow for a more global approach? Or is it necessary to reach a culturally distinct audience in each market, and thus decentralize campaign planning. Regardless of company, this is the essential step, and it can be the most difficult of all.

Being Experimental

Once that agreement is reached, however, focus should be off of massive annual marketing plans and onto highly flexible teams (including agencies) working from clear, measurable, and consistent objectives. Strategies should be in flux as the nature of the market changes and as competitors respond to campaigns.

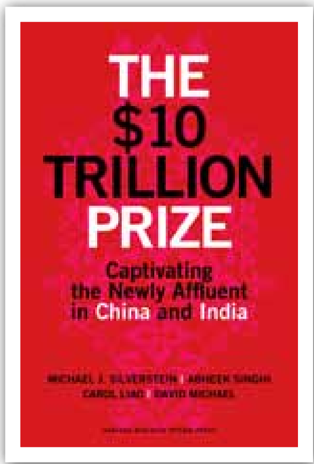
The idea of committing to yearlong media buys and marketing commitments is passé, especially with both the media landscape and the global economy in a state of flux. Experimentation (in the form of rapid measure-analyse-strategise-execute cycles) takes precedence over research and commitments, and diverse toolkits made up of global and local approaches, tactics, and techniques become more valuable than 'Big Bang' marketing.

This will all be brutally difficult for companies used to more traditional marketing practices. Those who can master it, however, will turn marketing from a cost centre into a genuine competitive advantage. Eb

Read David Wolf's blog at www.siliconhutong.com.

The $10 Trillion Prize:

Captivating the Newly Affluent in China and India



The lure of the Chinese consumer has tantalised global business since the beginning of openness and reform in the late 1970s. 'If I could just sell one of my products to every person in China…' the thinking went, or even just several hundred million of them, then business would boom and the company would be a success.That mode of thought has now matured, but the prospect of selling not only to more consumers in China, but now also those in India, continues to excite companies worldwide. On one hand, the offerings now include services and higher-value products. On the other, heavy regulation in many sectors of both markets prevents many companies from realising their Asian dreams. In T**he $10 Trillion Prize, Michael J. Silverstein, Abeek Singhi, Carol Liao and David Michael** of The Boston Consulting Group examine the realities of doing business in countries, the barriers and risks, and the prize that awaits those who get it right. At minimum, it will bolster a start-up's business plan.

The companies that succeed in China and India's consumer markets will be the ones that succeed at home as well. That's the viewpoint of Michael J. Silverstein and his team from The Boston Consulting Group in their dive deep into China and India, The $10 Trillion Prize. Introducing businesspeople from outside those countries to the consumers who are shaping the future of the global economy, the authors analyse what it takes to succeed in those countries – and why success there will also lead to success in Western markets.

Much has been written about China and India – but not much attention has been paid to the people who are driving the economic boom: Chinese and Indian consumers. For the book, the authors conducted proprietary research and extensive field interviews by The Boston Consulting Group, provides new insight into the hopes, fears and ambitions of the rapidly growing Chinese and Indian middle- and upper-class. It introduces individual consumers and entrepreneurs, discusses the major trends that are shaping the consumer economy in China and India and provides lessons for business leaders who need to succeed in China, India and in their domestic markets.

The Number

Despite significant problems and hurdles, Chinese and Indians are ambitious and ready to power the consumer economy. The authors developed their model, and the figure from which the book's title is derived, using the following:

- Consumer spending in China and India will triple by the end of the decade. By 2020, Chinese consumers will spend $6.2 trillion annually on consumer goods and services; Indian consumers will spend $3.6 trillion. The two figures combined add up to the $10 trillion prize: The total amount of consumer spending in China and India that businesses can capture by the end of the decade.

- If Chinese and Indian consumers dip into savings and take advantage of credit, the prize could be even bigger – as high as $13 billion annually by 2020.

- The newly affluent are driving the upsurge. In both China and India, runaway growth in the middle and upper classes will fuel the consumer boom.

- Chinese born in 2009 will consume 38 times more than those born in 1960. Indians born in 2009 will consume 13 times more than those born in 1960.

- A combination of population and productivity growth will fuel the massive upsurge in consumer spending.

- By 2020, there will be nearly one billion middle class consumers in China and India – 320 million households.

- From 2010 to 2020, annual per capita incomes will increase on average from $4,400 to $12,300 in China and from $1,500 to $4,400 in India.

Four Key Concepts

According to *The $10 Trillion Prize*, businesses that successfully seize the China-India opportunity are those that master four key concepts.

These concepts reveal the drivers of the Chinese and Indian consumer economies, and point the way to the global success that, the authors say, is the natural result of mastering China and India:

'Paisa Vasool' or 'Money's Worth:' Paisa vasool is a Hindi phrase that means, literally, "money's worth." Loosely translated, it means "more for less." (It describes the priorities of Chinese consumers as well.) Many consumers in China and India – even the most affluent – remember poverty and hardship. They're also used to bargaining in the marketplace. Even the wealthiest don't want to part with their money lightly. They want the best value from any purchase no matter what the price. Companies will succeed by setting the right price point (or multiple price points for different kinds of consumers), creating small packages that can be sold for pocket change, and making sure that they can communicate and demonstrate features and benefits in a convincing, compelling way.

The Boomerang Effect: Booming growth in Asia will strain worldwide prices for commodities ranging from food and fertilizer to copper, cotton, steel, cement, electricity, oil and gas. This will result in higher global prices for a host of products and services – from manufactured goods to food and heating oil. Western customers, already struggling with the lingering after effects of the financial crisis, are likely to face even more price pressure. They'll adopt their own form of paisa vasool. "Money's worth" will be a mantra not only in China and India but in Europe and the U.S. as well. The companies that master paisa vasool in China and India will succeed if they apply the same concept to their domestic pricing and product features.

The Accelerator Mindset describes the way top executives in China and India work – their relentlessness in pursuit of success. Strategy to them means a big-picture vision; they are not beholden to common business processes or logic. They don't aim for perfection or fear failure – they start with a clean slate and refocus as needed, learning from experience and changing direction quickly. They are committed to a '10 by 10' strategy – tenfold growth in 10 years – and their ambitions make them formidable competitors.

The Triple Crown awaits business leaders who realize that success in China and India means success at home as well. The companies that succeed in the next wave of global competition will be those that won in India and China then used the lessons to dominate their home markets.

Feeling Emotions

Silverstein and the authors also suggest that companies seeking success in these countries will also have to create emotional satisfaction for consumers in six areas:

- Help Chinese and Indian consumers fulfil their dreams – give them a moment of gratification and elevation.

- Help brand them as "in the know" – discerning, informed and visibly affluent.

- Help them live big on less. Understand they "work hard, spend hard" – every renminbi, every rupee is precious and causes them angst as it leaves their pocket.

- Understand that painful memories still haunt Chinese and Indian consumers. Every consumer has either firsthand or family memories of deprivation and personal risk. Companies must respect this history and provide them with an optimistic view of the future.

- Earn their loyalty and reverence by aiding in the advancement and health of their children.

- Listen hard. The new consumer wants to engage in a dialogue and is looking for your respect and appreciation.

Local Companies are Foreign Competitors

The book introduces readers to homegrown Chinese and Indian companies that are growing fast in their home markets – and are ready to compete on the global stage as well: The Godrej Group of India exemplifies the "10 by 10 vision" – the commitment to grow tenfold in the next decade. The company pioneered a new market and created a landmark success by developing the Chotukool refrigerator, a tiny, inexpensive unit with no compressor that introduced the benefits of refrigeration to India's poor, in villages where homes are too small and the power grid is too unreliable to support conventional home appliances.

Huawei Technologies, the world's largest telecom equipment manufacturer, built from scratch in China on Maoist principles; it is now challenging established players in Russia and Western Europe, and hopes to expand to the U.S. as well.

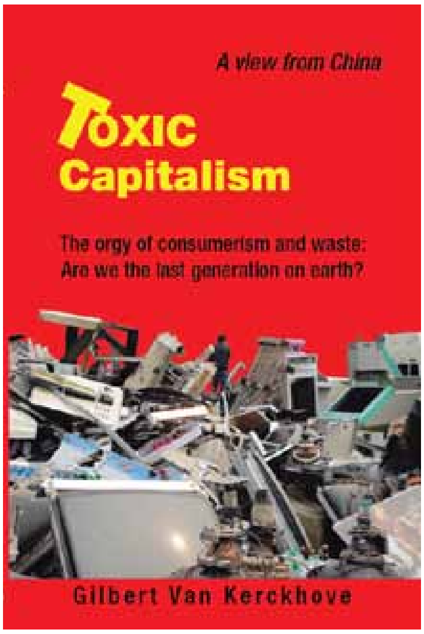
Empowering Local Managers Indicates Success

The authors tell the stories of global businesses that made their mark in China and India by paying close attention to local market needs and giving authority to local managers and their teams. Yum! Brands turned its KFC restaurants into wildly popular family destination in China, by changing the menu and adding staff to host events such as children's birthday parties. Also, Kraft turned its hallmark Oreo brand into a runaway Chinese success by reformulating it to meet local tastes (the less sweetened Green Tea Oreo is a favourite).

The authors maintain that China and India represent both a $10 trillion prize in themselves, and the gateway to global success. *The $10 Trillion Prize*, through survey data, concrete examples and on-the-ground reporting, shows business leaders what they're up against in these two massive markets, but also reveals that mastery over the China and India consumer marketplace can lead to dominance in every global market. Eb

The $10 Trillion Prize: Captivating the Newly Affluent in China and India will be available from 2nd October from Amazon.com and local booksellers.

Toxic Capitalism: The orgy of consumerism and waste: Are we the last generation on earth? A view from China



In his new book, **Toxic Capitalism**, European Chamber Public Procurement Working Group Chair **Gilbert Van Kerckhove** calls attention to an aberrant strain of capitalism being practice in Europe, the United States, and now China, and suggests how its direction might be changed to create a sustainable world.

EURObiz (Eb): Tell us about the title of your book. Does that mean it's more about capitalism, or more about environmentalism, or is it about a collision of the two?

Gilbert Van Kerckhove (GVK): The book is about the impact of a bad strain of capitalism on the environment. It is the collision between the promotion of excessive consumption and the health of our planet.

Eb: Is European business playing a positive or negative role in China's environmental protection?

GVK: European companies have a lot of expertise in terms of environmental protection, how to minimise pollution and damage to the environment, how to clean up water, air and soil, how to save energy and natural resources. As mentioned in the book, for example, the construction industry in China is plagued by poor quality, high energy and water consumption and insufficient training of construction workers. Europe has a lot to offer to help China build efficient buildings that also last longer. However, some European companies also contribute to China's environmental problems by buying cheap products with poor quality and durability and at ridiculously low prices.

Eb: China is perhaps the largest consumer society in the world now. How can that society, in which many families are experiencing a semblance of material wealth for the first time, be shifted to a different direction?

GVK: China is facing the difficult task to impose better quality and durability of products and services and to fight against indiscriminate waste. It will require solid government policies to aid the industry to improve quality and after-sales services, and to protect the interest of consumers. As mentioned in the book, we already see a trend that the Chinese consumers look for better quality products, hence the appeal of some foreign brands. For China it is a challenge, many people still have little buying power so prices should remain reasonable while waste through shoddy products should be avoided.

Eb: Does Europe or any other region or nation have the moral authority to suggest that China should develop differently than it did?

GVK: The Western world has a responsibility to promote a sustainable consumption and way of life. Too often China is blamed for being the big polluter, for treating their workers badly and for delivering shoddy products. But as long as the West does not insist on better quality and durability and does not pay a fair price, the Chinese industry will be tempted to cut corners, not respecting environmental and labour laws, as the margins are too thin and foreign buyers make good money with the low-quality goods. Foreign buyers should insist on a clean supply chain but that requires first of all paying the right price for good quality. Westerners can be hypocritical, happy to buy cheap leather goods while criticising the poisonous working conditions (glue and other chemicals) in the leather workshops. At least Europe is more conscious of the need to save energy and to become really green.

Eb: Is it capitalism itself that is toxic? Would socialism inherently be less toxic?

GVK: What is toxic capitalism? We are already familiar with toxic loans.

It is a strain of capitalism, invented in Europe, perfected by the Americans, and being assimilated by China and other countries. Hiding behind the mantra of open markets and dubious ideologies it is one type of capitalism with tragic consequences, allowing a minority to accumulate fortunes for themselves through political patronage and at the same time slowly destroying our planet by inducing us to embrace excessive consumption. It is toxic simply because of its impact on the environment. It is not the type of capitalism we should embrace. The dramatic environmental deterioration in China, global warming, and the frantic quest for natural resources are all linked to it and to each other. It makes us buy too much and at too rapid a pace. Poor quality and the throw-away mentality let us slowly destroy our environment, while exhausting precious resources and even tearing down the fabric of society. Many people seem happy to go along.

Despite its shortcomings, capitalism is still the winner to make this world better and more advanced, and to bring people out of poverty. However, we should not go to a free-for-all extreme and we should make capitalism more human. Call it "capitalism with socialist characteristics" if you want. Socialism can be as toxic as any other system if it does not genuinely care for efficiency, quality and durability; some communist and socialist regimes have also shown their failure to preserve the environment and to encourage real efficiency and innovation.

Eb: As a business organisation, and as you are a Working Group chair of that organisation, what role can the European Chamber play in all of this?

GVK: The European Chamber is already playing a role to help China improve quality, durability and efficiency. Our Public Procurement Working Group contributes through our efforts to make public tendering more transparent and fair for all; it is the way to deliver the best products and services to the Chinese customers at the best price. In our key recommendations we also insist to take into consideration the issues of life cycle cost and environmental concerns when evaluating tenders, and not only to go for the cheapest bid. The Chinese government fully supports the principle but fair implementation is where more efforts are needed. Eb

To purchase a copy of Toxic Capitalism, visit http://www.toxiccapitalism.com/buy.html.

CALENDAR

Shanghai:

18th September
China adjusted VAT & consumption tax policies for exported goods and services

Tianjin:

31st Aug. & 1st Sep., 2012
2 days' training program: Process Management and Process Optimisation

11th Sep., 2012
Training: Labour inspection regulation

12th Sep., 2012
China-EU Sustainable Urbanisation Conference in Wuqing, Tianjin

15th Sep., 2012
Concession Tour of Tianjin

18th Sep., 2012
InterChamber Networking in QingWangFu

20th Sep., 2012
Workshop: China VAT Reform

22nd Sep., 2012
Oktoberfest in Drei Kronen 1308 Bierhaus

12th Oct., 2012
2012 European Business Gala Dinner - A Night of Stars

Upcoming Events:

1st-30th November
European Union Film Festival 26 European Union films screen in Beijing, Chengdu, Tianjin and Shenzhen during the festival's fifth edition.

8th European Chamber HR Conference 2012/2013 – HR Innovation:

Efficiency and Productivity Optimisation

Building on the successful HR Conferences of 2005-2011, the European Union Chamber of Commerce in China's Shanghai Chapter is delighted to host its 8th annual HR Conference on 30th November, 2012, at The Longemont Hotel, Shanghai. This full-day conference will unite Chinese and European CEOs, HR directors, and innovation leaders in a dialogue on the main HR challenges for companies doing business in China.

The annual European Chamber HR Conference has evolved into one of the premier gatherings of industry decision-makers and HR professionals, averaging more than 200 participants. This has given the HR Conference an unrivalled scope of both high-level insight and practical application.

By featuring dialogue and presentations from top business leaders on best practices and trend watching, this year's conference, entitled 'HR Innovation: Efficiency & Productivity Optimisation', highlights the need for companies operating in China to develop new approaches as China's business and related labour environment matures.

During the conference, attendees will also have the opportunity to learn more about the many services offered by our sponsors. This full-day event has a reputation for receiving a large turnout of HR directors, HR managers and industry professionals.

Tickets are now on sale for just 1000 RMB (Member Price) and 1500 RMB (Non-Member Price).

For ticketing sales, sponsorship opportunities or more information please contact Melanie Ullrich at mullrich@europeanchamber.com.cn / 021 6385 2023 + 103.

InsightChina

European Chamber Quarterly Macroeconomic Seminar

Insight China in Beijing and Shanghai:

CHINA'S CONSUMPTION CHALLENGE: REBALANCING CHINA'S GROWTH

On 29th August, the Beijing chapter organized the event Insight China: China's Consumption Challenge: Rebalancing China's Growth. It was an honor to host speakers Wang Tao from UBS Investment Bank, Ben Simpfendorfer from Silk Road Associates, and Chorching Goh from World Bank. They delivered informative and enlightening presentations at the event, which was moderated excellently by Nick Edwards from Thomson Reuters. In total, 120 participants attended, and the Chamber received enthusiastic and positive feedback.

On 30th August, Insight China Shanghai Section -- China's Consumption Challenge: Rebalancing China's Growth -- was successfully held at Le Royal Meridien Hotel Shanghai. With more than 120 participants from member companies, the Royal Meridien Ballroom was fully occupied, when EUCCC Shanghai held the Quarterly Insight China event. Leading economists Mr. Fred Hu ZuLiu, Mr. Arthur Kroeber and Mr. Patrick Chovanec, analysed the different alternatives available to meet China's consumption challenge and its implications for China's future economic growth.

EUROPEAN CHAMBER EVENTS GALLERY

NANJING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1-6: Life's Soundtracks, this year's HR Mixer

To celebrate this year's 5th Annual Human Resource Mixer the European Chamber in Nanjing was very honoured to welcome the Chamber's President, Mr. Davide Cucino and Secretary General, Mr. Dirk Moens. The art exhibition was themed "Life's Soundtracks" exhibiting photographs from Nanjing based photographer Nicolas Harter. Guests received at the entrance a "concert ticket" as they viewed musicians' portraits. Around 120 people joined a relaxed afternoon filled with net-working, meeting new friends, art, and jazz. Fine wine and delicious appetizers were served as the guests enjoyed a sky-high view.

SHANGHAI

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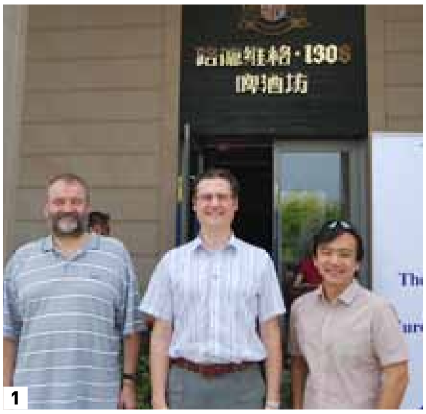
1-2: Insight China: On 30th August, the European Chamber Shanghai welcomed Dr. Fred Hu ZuLiu, Founder and Chairman of Primavera Capital Group, Mr. Arthur Kroeber, Founding Partner of GK Dragonomics, and Mr. Patrick Chovanec, Associate Professor at Tsinghua University's School of Economics and Management, for Shanghai's first 'InsightChina" Seminar. The speakers and audience vividly discussed China's Consumption Challenge and potential policy tools available to rebalance China's economy."

TIANJIN



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1,2. On June 2nd, 2012,
more than 50 members came together with their family and friends on EU Family Day to enjoy a relaxed afternoon organised by the European Chamber Tianjin Chapter. Besides the delicious food and fresh German beer at the outdoor garden in Drei Kronen 1308 Brauhaus, participants also enjoyed a scenic boat tour along Haihe river to see the remains of old Tianjin as well as its new and modern skylines.

3.4. June 7th, 2012
GM Briefing: Launch of 2012 European Business in China Confidence Survey On June 7th, 2012, Mr Dirk Moens, the Secretary General of the European Union Chamber of Commerce in China presented the major findings of this year's "European Business in China Confidence Survey" at the regular GM Briefing event.

5. July 11th, 2012
On the on July 11th, 2012 the European Chamber Tianjin Chapter hosted a workshop on "Performance Management and Continual Improvement" the Event was co-organized with German Chamber and TEDA International Chamber

6. July 20th, 2012
Finance & Taxation workshop: Individual Income Tax Update The European Chamber Tianjin Chapter invited experts from PwC to give an update of the Individual Income Tax on the afternoon of July 20th at the Tianjin Renaissance Lakeview Hotel.

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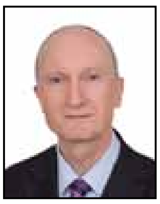
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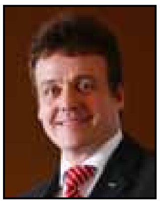
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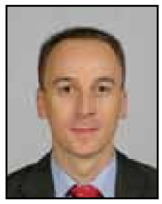
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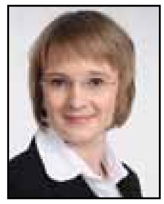
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THE EXECUTIVE INTERVIEW: Piter De Jong

ING Bank N.V., Shanghai Branch, Managing Director
Chairman, Board of Directors, European Chamber Shanghai Chapter

Following his presentation of the **European Business in China Position Paper 2012/2013, Piter De Jong** talked to EURObiz about his leadership of the Shanghai Chapter and Shanghai's continuing rise as an international city.

EURObiz (Eb): How long have you been in China now, and how long in Shanghai?

Piter De Jong (PDJ): I have been in China since 1998 and have only lived in Shanghai. At that time foreign banks were "asked" by PBOC to move to Pudong as it was one of the criteria to obtain a local currency licence, so all foreign banks moved from Puxi to Pudong in 1998. After a few months in Puxi I moved to Pudong which I guess makes me a "Lao Pudong Ren" (Old Pudongnese).

EURObiz (Eb): Both you and your wife Zhu Dan are very active in the European Chamber. Why do you feel it's important to be the Chamber's 'first family'?

PDJ: Dan has been a driving force behind the HR conferences in Shanghai and I have been active as board member for three years, and now Chairman of the Shanghai board for 2.5 years. From my experience in the banking industry I see the European Chamber has a lot to offer. The market share of all foreign banks combined in China is still below 2%. Therefore, in addition to competing with each, other foreign banks need to lobby together to create the conditions for banks to reach their potential in China. Working for the Chamber is a great experience since it exposes you to a wide range of industries and government officials from China and Europe.

Eb: How are local issues in Shanghai different from those in other parts of the country? Where is Shanghai leading?

PDJ: Shanghai is a very practical city with a very practical leadership that likes to solve practical problems. When we complained about internet speed, the Shanghai government immediately offered free IT checks to improve the speed for our Shanghai European Chamber members. We have now established four strategic dialogues with the Shanghai government (Shanghai DRC, Customs, SCOFCOM and the Shanghai Finance Association) and in our meetings we see the genuine willingness to make the city more attractive to European companies. Shanghai is no longer competing with cities in just the Chinese mainland, but more and more with Hong Kong and Singapore in attracting foreign direct investment (FDI) and regional headquarters. While FDI in China has been trending down, FDI into Shanghai is still increasing by 15%. The city remains a magnet for investments and is leading as a financial and shipping centre.

Eb: How is Shanghai doing in its quest to become an international banking centre?

PDJ: Shanghai is facing several issues in its quest to become a global financial centre. More delegation in authorities from Beijing to Shanghai is required, more local financial institutions will have to set up their China headquarters in Shanghai, the legal framework needs a bit more work and taxes may have to become more attractive in comparison to the other competitors for the position of leading financial centre in the Asia time zone; HK and Singapore.

However the main obstacle Shanghai faces is the inconvertibility of the RMB. We have seen encouraging steps in opening the RMB for cross border business. As usual this is "two steps forward, one step back", but the trend to a more convertible RMB is clear. When I just arrived in China in 1998 everyone told me the RMB will become convertible in 8 years-time (8 being a lucky number). It has been a moving target ever since, however 8 years from today brings us in 2020, the year by which Shanghai wants to become a world financial centre.