Journal of the European Union Chamber of Commerce in China

EURObiz

www.europeanchamber.com.cn
January/February 2012

2012: HAPPY NEW YEAR?

European Chamber
中国欧盟商会


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Chief Editor
Steven Schwankert

Art Director
Vincent Ding

Contributing Writer
Tony Brooks

Publications Manager
Vicky Dong

Marketing & Communications Manager
Jessica Schroeder

For European Chamber Membership and Advertising in EURObiz:

Member Relations & Sponsorship Manager
Fernando Cutanda
Tel: +86 (10) 6462 2066 ext. 31
Fax: +86 (10) 6462 2067
fcutanda@europeanchamber.com.cn

Advertising & Sponsorship Coordinator
Betty Yin
Tel: +86 (10) 6462 2066 ext. 23
byin@europeanchamber.com.cn

European Chamber Chapters:

Beijing
Beijing Lufthansa Center, Office C412,
50 Liangmaqiao Road,
Beijing, 100125, P.R. China
北京市朝阳区亮马桥路五十号
燕莎中心写字楼C-412室
Tel: +86 (10) 6462 2066
Fax: +86 (10) 6462 2067
euccc@europeanchamber.com.cn

Chengdu
04-A, F16, Tower 1, Central Plaza, No.8 ShunCheng Avenue, Jinjiang District, Chengdu
成都市锦江区顺城大街8号中环广场1座16楼04-A
Tel: +86 (28) 6155 7184
Fax: +86 (28) 6155 7194
chengdu@europeanchamber.com.cn

Guangzhou – Pearl River Delta (PRD)
Unit 2817, 28/F, Tower A, China Shine Plaza, No.9 Linhe Xi Road, Tianhe District, Guangzhou, 510613, P.R.China
广州市天河区林和西路9号耀中广场A座2817室
Tel: +86 (20) 3801 0269
Fax: +86 (20) 3801 0275
prd@europeanchamber.com.cn

Shenzhen – Pearl River Delta (PRD)
Rm 308, 3/F Chinese Overseas Scholars Venture Bld, South District, Shenzhen Hi-tech Industry Park, Shenzhen, 518057, P.R. China
深圳高新区南区留学生创业大厦3楼308室
Tel: +86 (755) 8632 9042
Fax: +86 (755) 8632 9785
prd@europeanchamber.com.cn

Nanjing
Zhujiang No.1 Building, 30/F, E1
1 Zhujiang Road,
Nanjing, 210008, P.R.China
南京市珠江路1号
珠江1号大厦30楼E1座
Tel: +86 (25) 8362 7330 / 8362 7331
Fax: +86 (25) 8362 7332
nanjing@europeanchamber.com.cn

Shanghai
Unit 2204, Shui On Plaza, 333 Huai Hai Zhong Road, Shanghai, 200021, P.R. China
上海市淮海中路333号
瑞安广场2204室
Tel: +86 (21) 6385 2023
Fax: +86 (21) 6385 2381
shanghai@europeanchamber.com.cn

Shenyang
Room 20-10. Office Tower 1, Shenyang Rich Gate Plaza, No. 7-1 Tuanjie Road, Shenhe District
Shenyang 110001, P.R. China
辽宁省沈阳市沈河区团结路7-1号
沈阳华府天地第一座20-10室
Tel: +86 (24) 2334 2428
Fax: +86 (24) 2334 2428
shenyang@europeanchamber.com.cn

Tianjin
Magnetic Plaza, Building 17, Room 15A17, Junction of Binshui West & Shuishang East Road, Nankai district, Tianjin, 300381, P.R. China
天津市南开区宾水西道（宾水西道与水上东路交口）
奥城商业广场17座15A17室
Tel: +86 (22) 2374 1122
Fax: +86 (22) 2374 1122
tianjin@europeanchamber.com.cn

EURObiz is published bimonthly by the European Union Chamber of Commerce in China, and is distributed free to all Chamber members.

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How to Reach us:

Simon Wan, President
China Team International | Career Partners Solutions
Tel: 86 21 - 6474 7064
Email: simon.wan@chinateam.com
Global site: www.cpiworld.com
www.chinateam.com

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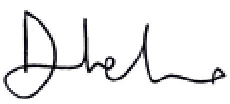
China in 2012

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



China is not immune to global financial crises.

The close to double-digit economic growth in 2011 in China was driven mainly by investments and domestic consumption, boosted by stimulus funds and by further heavy lending. Net exports (exports minus imports) hardly contributed to the growth and are likely to be further affected by sluggish European demand.

More thunder clouds are accumulating: For the month of November the Procurement Managers Index for manufacturing went under 50, indicating a substantial slowdown in the sector. Foreign Direct Investment (FDI) showed negative growth in the same month, reflecting caution on investments and expansion, especially in the U.S. and EU. Real estate and big infrastructure investments have run out of steam, putting pressure on the construction sector that with its supply chain will affect many of us. This might lead to more difficult implementation of further stimulus plans.

In view of all this, caution may be needed going forward but even at the forecasted 8% growth, China remains a great business opportunity. FDI might receive renewed attention as all drivers will be needed to keep growth going and jobs created, regardless of the necessary methodology. More efficiency will be required from state-owned enterprises and monopoly positions might be further questioned.

As China is increasingly competing in government- and public procurement markets abroad, expectations are high for China to allow broader market access as part of its Government Procurement Act negotiations within the World Trade Organization.

At the European Chamber we maintain our support of Chinese investments in Europe. We continue to believe that open markets and level playing fields create mutual benefits. No doubt that a more stable economy in Europe would contribute to the maintenance of the Chinese economy in growth mode.

2012 will present new challenges and European companies in China will have to be their best to weather the storm. At the European Chamber we will support these efforts and we are confident that European Business has the strength it takes to continue its successful contribution to China's development.

I wish all of you a healthy and prosperous New Year.

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Position Paper Presentation Meeting with the Commissioner of the State Intellectual Property Office, Tian Lipu

On 28th October, a European Chamber delegation led by President Davide Cucino met with the Chinese State Intellectual Property Office (SIPO) Commissioner Tian Lipu to present the Position Paper 2011/2012. Commissioner Tian stated that he highly values the strong relationship that the European Chamber and SIPO have developed and that he welcomes the opportunity to regularly exchange information. Joined by various Director-Generals within his Office, both sides entered into discussions on key points raised by the Chairs of the European Chamber's IPR, Rail and Construction working groups, including a discussion on concerns regarding the quality of patents being filed in China. At the end of the meeting, both sides agreed to engage further at the working level to explore the European Chamber's concerns and recommendations in more detail.

Position Paper Presentation Meeting with the Vice Chairman of the Civil Aviation Administration of China, Xia Xinghua

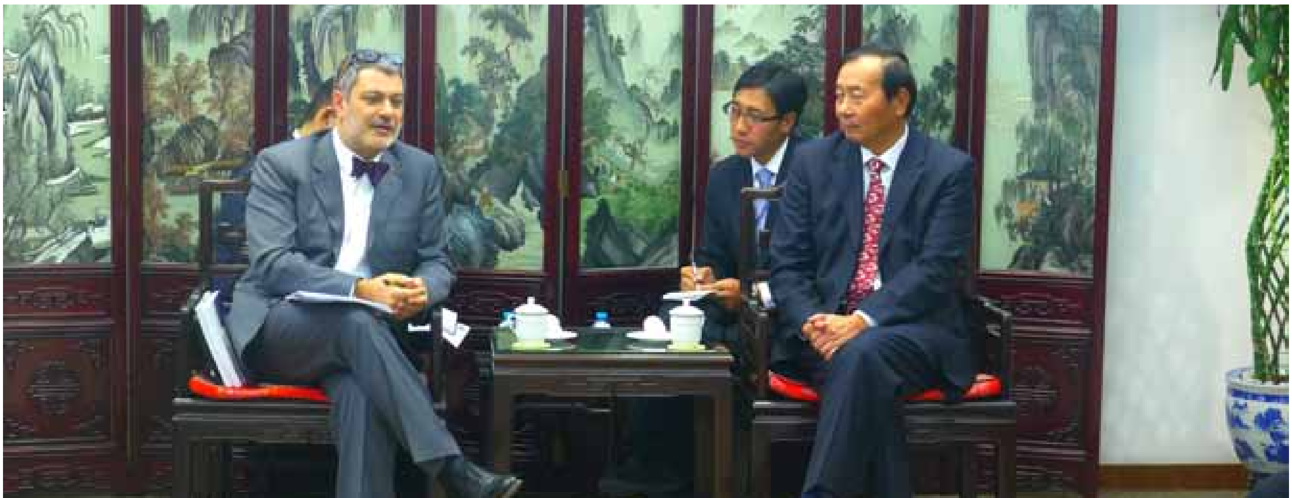
On 1st November, a European Chamber delegation led by President Davide Cucino met with Vice Chairman of the Civil Aviation Administration of China, Mr. Xia Xinghua, to present the Position Paper. During the frank meeting, the two parties discussed issues including the flexibility of timeslots for cargo airlines in China's first-tier city airports as well as current nighttime restrictions. The opening of lower altitude airspace and the European Union Emissions Trading Scheme were also discussed in detail during the meeting, which concluded with both sides acknowledging that although a lot of important developments have been made in the past year, the European Chamber should still follow up directly with the respective Director-Generals of CAAC to discuss remaining issues in further detail.

Meeting with the Former China Banking Regulatory Commission Chairman, Liu Mingkang

On 17th November, President Davide Cucino met with Mr. Liu Mingkang, the recently retired China Banking Regulatory Commission Chairman, in the European Chamber's office in Beijing. During the meeting, President Cucino expressed the European Chamber's appreciation to Chairman Liu, who should be considered an old friend, for the support he gave and the numerous meetings he held with the European Chamber during his tenure. Chairman Liu and President Cucino discussed various issues in a cordial atmosphere, mainly focusing on China's current economic predicament and how it will likely affect the opening of the financial services sector in China. Chairman Liu, who is held in high esteem within both Chinese and foreign expert circles, ended the meeting by stating that he sincerely looks forward to future cooperation with the European Chamber.

Meeting with the Director General of the European Commission Directorate General for Climate Action, Jos Delbeke

On 18th October, representatives from the European Chamber's Aerospace, Aviation and Carbon Market Working Groups met with Mr. Jos Delbeke, the Director-General of the European Commission's DG Climate Action (DG CLIMA). The parties discussed the EU Emissions Trading Scheme (ETS) and its implications for various industries, in particular the aviation industry.


European Chamber President Davide presented the Position Paper to CAAC Vice Chairman Xia Xinghua.

Meeting with the Chief Economist of the European Commission Directorate General for Trade, Dr. Lucian Cernat

On 29th November, the Chief Economist for DG Trade, Dr. Cernat joined a group of European Chamber representatives led by President Emeritus Jacques de Boisséson, to discuss current developments in both Europe and China and how the European Commission should best engage with China on a host of economic and trade issues. Following the meeting, Dr. Cernat opened the European Chamber's Insight China event, on the topic of what China's role should be in dealing with the global economic crisis.

Three Meetings with Vice Mayors in Two Weeks

Reflecting the importance of engaging with local officials, as well as the outreach of the various Chapters, the European Chamber was honoured to hold meetings between 30th November and 9th December with Vice Mayors in three major Chinese cities where European industry has established a strong presence.

Meeting with the Vice Mayor of Guangzhou, Chen Mingde

On 30th November, President Davide Cucino and representatives of the Pearl River Delta (PRD) Chapter Local Board met with His Honourable Chen Mingde, Vice Mayor of the Guangzhou Municipal People's Government to present the Position Paper 2011/2012. During the meeting, the Chairman of the PRD Board, Holger Kunz, gave an overview of European industry operations in Guangzhou.

Meeting with the Vice Mayor of Beijing, Gou Zhongwen

On 5th December, the European Chamber and the Beijing Investment Promotion Bureau co-organised a dinner and dialogue with the Honourable Gou Zhongwen, Vice Mayor of Beijing. Miroslav Kolesar, European Chamber Vice President, hosted the meeting and gave the opening and closing remarks, while presentations were given by six Chairs and Vice Chairs of Working Groups on industry-specific topics related to Beijing municipal policy. From the Beijing municipal government, additional speeches were given by the District Governor of Mentougou as well as by the Vice Mayor himself. Prior to the meeting, the European Chamber had collected questions from member companies that had been submitted in advance to the Vice Mayor's office. On the day of the dinner, the Vice Mayor's office replied with written answers to 10 of the 19 questions that had been submitted and these were distributed to all participants during the dinner.

Meeting with the Vice Mayor of Tianjin, Ren Xuefeng

On 9th December, President Davide Cucino as well as the previous and current Chairs of the Tianjin Chapter, Dr. Eric Bouteiller and Mr. Gabriele Castaldi, met with the Vice Mayor of Tianjin, the Honourable Mr. Ren Xuefeng, and Deputy Directors from the Tianjin Commission of Commerce and the Tianjin Foreign Affairs Office. Both parties agreed to meet on a regular basis in order to exchange views on Tianjin's development and on how the European Chamber can work together with the municipal government to assist the development of Tianjin.

Other Lobby Highlights

European Chamber President Davide meets with SIPO Commissioner Tian Lipu.

President Cucino met former CBRC Chairman Liu Mingkang.

In the closing months of 2011, the European Chamber held three Ministerial level meetings and 13 working-level meetings with the Chinese government. The Chamber also submitted three comments on draft Chinese regulations as well as 12 lobby letters to the Chinese government. In the same time period, the Chamber has met with European officials on 13 occasions.

In addition to the meeting with Guangzhou Vice Mayor Chen Mingde, the European Chamber PRD Chapter attended a meeting at the invitation of the Guangzhou Foreign Affairs Office (GZ FAO) on 25th October. Three PRD Board members, Mr. Nong Keqiang, Mr. Benoit Stos and Mr. Jeremy Sargent led a delegation to meet with the Deputy Director of the Guangzhou Foreign Affairs Office, Mr. Zhu Xiaoyi to present the Position Paper. During the meeting, the GZ FAO offered to strengthen cooperation between the two organizations and to support the promotion of the Position Paper.

To promote an aligned message to the European Union Member States, the European Chamber has held meetings with various Ambassadors to present the Position Paper to Member State embassies. Since late September, the European Chamber has met with their Excellencies the Belgian, Danish, Dutch, French, German, Hungarian, Portuguese, Slovak Republic, Slovenian, Spanish and U.K. Ambassadors.

On 4th November, representatives of the Standardisation & Conformity Assessment (SCA) Working Group, led by the Chair of the Working Group, Dr. Xu Bin, met with Mr. Mei Jianhua, Director-General of the Supervision on Product Quality Department of AQSIQ, and several other division directors. The purpose of the meeting was to introduce the Director-General and his department to the work of the SCA Working Group, to establish a fruitful channel for cooperation going forward and to clarify points regarding the AQSIQ 'Product Quality Sample Inspection and Supervision Measures'.

On 15th November, the Cosmetics Working Group visited the Beijing Food and Drug Administration to gain additional insight into the 'Cosmetics Black List Management Rules' that are currently being drafted. In addition, the BJ FDA gave an overview of their working priorities for 2012 and explored possibilities how they could work more closely with the Chamber on cosmetics-related topics. This meeting occurred after an SFDA-organised Non-Functional Re-classification meeting in Beijing, to which the European Chamber was the only Chamber of Commerce invited. Meanwhile, the Shanghai FDA also requested a meeting with the Cosmetics Working Group to discuss the draft 'Cosmetics Ledger Management Rules', the third meeting between the two parties on this topic.

Chairs of the Environment and Energy Working Groups met with Mr. Yang Chunlin, the International Cooperation Division Chief of the Shanghai Environmental Protection Bureau (SEPB), on Wednesday, 26th October. During the meeting, particular attention was given to implementation and enforcement of environmental laws, possible incentives to speed the uptake of green technology, land redevelopment, energy efficiency and carbon-trading.

On 21st November, the European Chamber sent a lobby letter to both the State Administration of Taxation and the Beijing Municipal Office of the State Administration of Taxation on behalf of the Insurance Working Group. The Chamber asked for clarification on taxation issues for financial services representative offices and foreign insurers in China. This issue was followed up on 5th December, when the Chair of the Working Group met with the Director General of BJ-SAT before the dinner held between the European Chamber and the Beijing Vice Mayor, Gou Zhongwen. During the meeting, the Chair of the Working Group expressed a concern on behalf of European insurance companies operating in Beijing regarding a perceived lack of coordination between regulators on recent taxation developments. Finally, as a result of these meetings, another meeting was held on 8th December with Mr. Zhou Yueshen, Deputy Director of the International Taxation Administration Division.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2012's Dragon: Happy New Year?

Child bearing-age couples all over China are trying to have their bundles of joy arrive during the Year of the Dragon, considered the best of the 12 Chinese zodiac symbols. While astrologically superior, the solar calendar that encompasses most of that period could be a challenging one for China and the rest of the world, with the Chinese economy slowing, leadership changes in China and the U.S. and international trade and military friction elsewhere. In this EURObiz Special Report, **Steven Schwankert** examines the dragon's claws for 2012 and what it means for European Business in China.

The Year of the Dragon could be, for China, potentially tumultuous, one that tests the country's resolve in economic matters and perhaps in other areas.

Having successfully navigated the global economic crisis so far, China enters 2012 with observers worldwide wondering how much falling housing prices — already a concern — affect growth domestically, and what other industries it could influence.

China also continues to feel pressure from overseas, with fragility continuing in Europe and the United States failing to produce significant recovery. The U.S. presidential election in November also adds uncertainty to that currently sluggish economy.

In October, China will undergo a leadership change of its own, although the selection of current Vice President Xi Jinping seems certain. At the same time, like any leader Xi will seek to establish himself and his own style of governance. What that will mean for European Business in China remains to be seen.

This summer will also mark the first Olympics since the Games were held in Beijing in 2008. Although a repeat of China's 51 gold medals seems almost impossible, the world will be watching to see if Chinese athletes can sustain their dominance when they don't the advantage of being the home team.

Overall Outlook

Although a slowdown did occur in some sectors during the initial phase of the global economic crisis in late 2008 and during 2009, that simply meant a decrease in overall growth; at no time was China anywhere near a recession like what gripped parts of Europe and the United States.

China's official growth target for 2012 was in early January revised from 8% down to 7%, in part to reflect Chinese anxiety over the debt situation in Europe, and moves it intends to make to keep the property market cool and inflation down. That would put China's own number below the estimate of the World Bank, which expected 8.4% growth for the year, although they too may revise their number in the wake of China's reassessment.

At least in the first part of the year, things will get worse before they get better, if there is indeed a better to get. "Activity data is likely to point to continuing global weakness. We expect a European recession and renewed weakness in the U.S.", wrote Li Wei and Stephen Green, economists with Standard Chartered Bank, in a research brief. That will weaken areas including foreign direct investment (FDI) in China, along with demand for Chinese goods in their traditional markets.

China is also now facing a potential debt crisis of its own, one it skillfully avoided addressing when the rest of the world was reeling three years ago. In early January, state media reported that 2.5 trillion yuan in loans to local governments by Chinese banks will come due in 2012, with 10.7 trillion yuan worth of aggregate debt owed by local governments as of the end of 2010. Debt ratings house Moody's Investors Service estimates that 8-12% of those loans could be non-performing. Premier Wen Jiabao stated in early January that the debts were "generally safe and controllable".

"Europe and the U.S. are the current poster children for financial problems, but China's ballooning (and significantly under-reported) local government debts will likely become a front-page story"

wrote American strategic analysts Andrew S. Erickson and Gabe Collins in their China predictions for 2012.

"While policy makers still have sufficient maneuvering room to try to coast through October 2012, the problem remains of building infrastructure that likely won't generate the cash flows needed to service the debts that financed those projects. Expect non-performing loans to once again become an albatross for Chinese banks", they wrote.

From the very start of the year, the Chinese government began managing expectations that growth would be slower, especially in terms of trade. With the European Union as its largest trading partner, uncertainty there would be of little benefit to China.

"A slowdown in Europe will add to economic strains in China and will promote the trend already evident under the latest Five-Year Plan for China to rebalance its economy in the direction of domestic expansion", said David Marsh, chairman of consultancy SCCO International and author of *The Euro: The Politics of the New Global Currency*.

"China's efforts to strengthen the banking system, correct the property bubble and to maintain domestic confidence ahead of the leadership change later in 2012 will take precedence. The possibility that the renminbi will weaken, or at least will remain volatile, will have a dampening effect on international confidence but will ensure that Chinese exports remain competitive", he said.

Jack Perkowski, an American entrepreneur and author of both the book *Managing The Dragon* and the blog by the same name [www.managingthedragon.com], sees the glass as more than half-full, predicting China will not only shrug off any economic blues, but will see GDP growth of 8.5%.

"Unlike any other country in the world, the Chinese government has almost full control of the monetary, fiscal and administrative levers that control its economy, and the government pulls on those levers based on purely economic, not political, considerations. As evidenced by the way in which China rapidly shifted from monetary and fiscal tightening to monetary and fiscal ease in October 2008 and successfully navigated the global financial crisis, the government has a good track record of manipulating those controls", Perkowski said.

"Moreover, China is becoming less dependent on export markets as its domestic economy continues to grow. Net exports accounted for 18% of

14.2% GDP growth, but in the first half of 2011, they contributed a negative 0.7% of 9.6% growth", he added.

Real Estate

Whereas the economic worry watchword in 2011 was inflation, in 2012, all eyes are on the property market. It was the government's tightening of monetary policy that began to reign in that inflation and cool real estate in China, but with a visible drop off in prices, homeowners and outside observers have started to become nervous a significant drop — with transaction volume dropping as much as 40% year on year, according to Deutsche Bank — could exacerbate the situation.

However, such concern is not universal. The People's Bank of China (PBOC) — China's central bank — has begun to loosen somewhat compared to 2011, but in a manner designed to prevent the re-ignition of inflation.

"Monetary policy is being loosened, but only very gradually; there is no appetite for a repeat of 2008-09. The conservatives still appear to be in the ascendant, believing the economy needs further deleveraging. We expect further loosening as the economy continues to slow in Q1 and Q2", wrote Li and Green of Standard Chartered Bank, in a research brief.

While a drop in residential property values may be disadvantageous for existing homeowners, an overall reduction in the urban real estate market could be a boon for young, white-collar workers shut out prior to the price increases of the last few years. Concern over a slowdown, coupled with these lower prices, might also encourage an additional loosening of monetary policy that would facilitate the loans necessary to enable a reinvigoration in demand, driven by young professionals wishing to buy their first home. Such moves would also help maintain the government's focus on social stability and reduce the perceptions of inequality, both of which are important points of the 12th Five-Year Plan.

"People are worried about a housing market collapse. This is not warranted", said Prof. Yu Yongding of the Chinese Academy of Social Sciences and a former adviser to the PBOC, told a forum at the New York Stock Exchange in early January.

"Real demand for housing is still very strong", he said, noting that whereas the required downpayment for new home sales required 40% of the purchase price, that level has now been raised to 60%, reducing risk to lenders.

Just as inflation was effectively brought under control in 2011, Perkowski believes that the same will be true of real estate this year.

"Today, the conventional wisdom is that China has a 'property bubble' and that the bursting of this bubble will bring down the entire economy. Based on my on-the-ground view, property will not be the economic millstone around China's neck that many predict. By the end of 2012, no one will be talking about it, just like no one now talks about China breaking up or its banks going bust", he said, referring to mid-1990s speculation that Chinese non-performing loans would bankrupt China's state-run financial institutions.

Inflation

PBOC adviser and Tsinghua University economics professor Li Daokui expects average inflation in 2012 to be 2.8%, which would be a welcome relief from 2011 levels. Although reduced to 4% from 5.5% during 2011, inflation could still be an issue, one that consumers feel more keenly than other economic factors. Consumer Price Index (CPI) inflation should fall to 3% by Q2, according to a Deutsche Bank research note.

In a research brief titled "China - A year of not worrying about inflation", Li and Green wrote, "We expect CPI inflation to average 2.0% and 3.6%, respectively, in 2012 and 2013. We think of inflation as a three-year cycle; 2012 will be the bottom". The pair are expecting five cuts in the required reserve ratio (RRR) during 2012. Deutsche Bank foresees two to three cuts in the first six to nine months of the year.

The RMB, the euro and EU-China Economic Relations The U.S. presidential election (discussed below) will keep the valuation of the RMB in the spotlight throughout the year, as candidates including President Obama use China as a scapegoat for American economic ills. China will likely continue to brush off calls for further action or a hastened revaluation, as no timetable has been set and China consistently reiterates that it will take place only when appropriate market and other considerations are met. Still, China has taken steps towards that eventuality, including the establishment last year of London as an offshore clearinghouse for the RMB, the first such centre outside of Asia.

Just as China is feeling the squeeze on its currency politically, the euro has come under fire due to the sovereign debt crisis in many of its Member States. Although the December 2011 Brussels Summit has stabilised the situation for now, a possible recession in Europe and growing unemployment in countries including Greece and Spain, could require more radical resolution.

David Marsh reiterated a point he first made at a European Chamber event in May 2011.

"The strains between the creditor and debtor nations of the euro are likely to get worse during 2012 as economic growth slows, which will accentuate the recessions in debtor nations and make the creditor even more nervous about advancing the debtor states more funding", he said.

"Very likely the euro will split up into different groupings, with the core countries around Germany forming a stable monetary bloc and the weaker states going back to their own currencies. I expect to see the first signs of this during 2012 with Greece being the first country to split off with its own currency", Marsh said.

Marsh suggested caution for

David Marsh: "Very likely the euro will split up into different groupings".

businesses dependent on the euro for trading.

"European businesses needed to rethink their balance sheet and trading exposure to different parts of the euro region, given the possibility that we will see currency redenomination across the euro area in the next few years. The dollar is likely to be relatively strong, so companies may wish to divert import sourcing into weaker currency areas away from countries linked to the dollar, such as Asia.

A stable euro is of great interest — and benefit to China, especially as the official currency of its largest trading partner.

"A substantial euro decline will not be in China's interests, in view of the continued (although decreasing) export dependence of the Chinese economy. It will take 10 years for the RMB to attain a substantial reserve currency role commensurate with that of the dollar and the euro. But the malaise afflicting both the world's main reserve currencies increases pressure on the Chinese offcals over time to play a more assertive role in world monetary arrangements, including promoting the international use of the RMB", Marsh said.

In an interview with French magazine *Le Figaro* in October, Li Daokui said that China's assistance to Europe could total $100 billion, but that "a better understanding of its interests" would be a minimum requirement for that help.

Perkowski also believed that some kind of financial support from China to Europe would be forthcoming, but that it would not be easy money. "In a speech at the World Economic Forum in Dalian last year, Premier Wen Jiabao called on European countries to put their 'own houses in order before asking China for a bail-out.' But, he also publicly linked any possible Chinese investments with long-standing political demands. A preview of things to come?

"The European crisis provides a good opportunity for China to curry favor and gain allies in Europe for its own agenda at the United Nations, the World Trade Organization and other global bodies. China will find a clever way to provide financial support and kill two birds with one stone — help shore up its largest export market and advance its own agenda globally", he said.

Although Chinese Overseas Direct Investment in Europe has increased in recent years, falling short of $6 billion in 2010, Europe has yet to see anything approaching a Chinese buying spree among European companies.

Notable acquisitions have included auto maker Geely's purchase of Volvo and China Ocean Shipping Co.'s (COSCO) buy of the Greek port of Piraeus, but there has yet to be a major move by China-based, global giants, including Industrial and Commercial Bank of China (ICBC) or China Mobile Communications Corp. (China Mobile) to acquire their counterparts in Europe — in some cases, to the chagrin of European shareholders. Such deals would likely win Chinese government approval, but acknowledgement of a lack of international management skills seems to have put global expansion plans on hold, for now.

Leadership Transition

In October, the leaders of the Chinese Communist Party will arrive in Beijing, as it does every five years, to discuss and determine the Party's direction. At that time, Hu Jintao's decade-long service as China's leader — two terms of five years — will come to an end, and if all goes as planned, Vice President Xi Jinping will become China's new president.

Unlike the U.S. presidential election (discussed below), which can create both domestic and international uncertainty, along with moves by the standing president made from primarily a political standpoint, China's leadership transitions generally have the opposite effect, fostering a desire to maintain the status quo until the new president takes office.

Once complete, Xi will gradually seek to step out of his predecessor's shadow. Regardless of his particular views, he will want to appear strong in his new position.

Xi will also have four years of the 12th Five-Year Plan ahead of him, prior to the 13th, of which he will be a primary architect. The new leader must also continue to address the core issues of the 12th Five-Year Plan, raising household income and reducing income disparity, especially between prosperous coastal province and less developed areas in the central and western areas of the country. "Externally, China is likely to be more intransigent than before", Erickson and Collins wrote. "Internally, Beijing will resist making difficult decisions about economic reforms, particularly reforms that might harm key state-owned enterprises and monopolistic/oligopolistic concerns connected with families of political elites. Domestically and internationally, Chinese leaders will attempt to postpone difficult policy decisions until after the transition".

North Korea

The December death of "Dear Leader" Kim Jong-il and the transition of power to his young son Kim Jong-un has left the world nervous about a nuclear state that already behaves erratically. However, China moved swiftly to assert its continued support for North Korea and its new leader, and commemorating the elder Kim's passing with the *China Daily* headline "A Friend's Departure".

Although China's backing for North Korea irks the West, particularly the United States, it understands perhaps better than any other nation save South Korea what a collapse of that state and potential refugee crisis would mean.

The South China Sea

Tensions over sovereignty in the South China Sea has put pressure on China's relations with some of its Southeast Asian neighbours, namely the Philippines and Vietnam, with Chinese gunboats increasingly appearing in areas claimed by China. The area became so inflamed in 2011 that the United States became involved, requesting calm but also pledging support for the two smaller nations. China states that almost all of the Sea is its sovereign maritime territory.

Southeast Asia isn't the only place where China is involved in seafaring friction. The recent stabbing of a South Korean coast guard officer by a Chinese fisherman has led to a strong reaction from the Korean side.
With new leadership coming into office in October, China will likely maintain its strong position, backed by a growing and increasingly potent naval force.

"The Chinese government's assertive approach regarding maritime issues in the South and East China Seas will likely generate additional friction

China reiterated strong support for North Korea as Kim Jong-un (second from right) assumed leadership after Kim Jong-il's death in December.

The U.S. presidential election campaign could make China's relations with the Obama Administration even rockier.

with Japan, South Korea, Vietnam, and the Philippines. South Korea plans to begin using military special forces personnel armed with firearms on fishing enforcement missions. Serious confrontations involving Chinese fishermen are highly likely", wrote Erickson and Collins, both of whom are employed by branches of the U.S. Navy.

U.S.-China Relations

Although at least secondary for European Business operating in China, the stability or volatility of China's relationship with the United States sets a tone for many foreign businesses operating here.

China's relationship with the Obama Administration has never been particularly warm. Constant U.S. pressure on China regarding valuation of the RMB has irked Chinese leadership, not to mention U.S. borrowing — some of it from China, which owns about 6.6% of U.S. debt.

"It's an election year in the U.S. and the economy will be at the top of the agenda. The talk will be about jobs, and how China has taken all of them. China will be everyone's scapegoat for economic weakness in the United States", Perkowski said.

Leading Republican presidential candidate Mitt Romney has been particularly critical of China in his campaign rhetoric. "As part of his 59-point economic program for the United States, Romney promised that one of his initial executive orders on his first day as president would be to 'clamp down on the cheaters' by slapping duties on Chinese imports if Beijing doesn't move quickly to float its currency", Perkowski added.

Obama could also face criticism from candidate Jon Huntsman, who resigned as the U.S. ambassador to China in order to run for president, enjoying a third-place finish in the New Hampshire primary election.

The President will unlikely want to be seen as being conciliatory to China, at least on jobs and currency issues. That could lead to a further souring of relations, especially if the U.S. pressures North Korea or steps up its support for the Philippines and Vietnam in the aforementioned conflict, or regarding potentially inflammatory issues such as arms sales to Taiwan.

The Olympics

Neither an economic nor political issue, the London Olympics will serve as a potentially welcome distraction in late July and early August. Coming off the success of being both the 2008 Beijing Olympics' host nation and its medal winner, China will be looking to reassert its dominance in many athletic areas, especially women's sports.

Two familiar faces will be missing from the Chinese team this time: basketball player/wine entrepreneur/university student/anti-shark fin activist Yao Ming, who retired from the sport last year, and multiple gold medal-winning diver Guo Jingjing, who ended her competitive career after the 2008 Games. A new generation of Chinese sports heroes could emerge from the London event

The Olympics — and Chinese success there — would create a surge of pride in China, and not just due to athletic prowess. The Beijing Olympics were the last major global event prior to the onset of the global economic crisis, following the Games by about three weeks. This year's event could lead China to ponder how well it has done, both in business and in sport, relative to the rest of the world in that same period of time. Eb

ANALYSIS:

Is the Renminbi Undervalued?

There may be no hotter political potato this year than the value of China's currency. With a U.S. presidential election bringing the issue to the fore, the renminbi's appreciation against the euro and U.S. dollar will receive significant attention in 2012. In an excerpt from his white paper of the same name, Dr. **Sylvain Plasschaert** looks at the underpinnings of the dispute and the economic forces that drive the issue.

Alarmed by the persistent and large U.S. trade deficit and China's rapidly-swelling foreign exchange (forex) reserves, influential policymakers are urging Chinese officials to allow a substantial appreciation of the renminbi (RMB). However, the record growth of China's exports stems largely from joint ventures and affiliates of multinational enterprises; exports attributed to China usually contain a large percentage of imported components with modest value-add attributed to China itself and – indeed, the Chinese export portfolio is in the process of being significantly upgraded. Neither are the gigantic forex reserves primarily linked to the modest surpluses of exports over imports of China, but they are fed by these large net inward direct investments and, in recent years, by 'hot money' that sneaks into China, notwithstanding the non-convertibility of capital flows.

Thus, a moderate appreciation of the RMB would not balance the bilateral trade flows nor remedy current account imbalances. On the other hand, the shift in China's growth strategy – away from export maximisation towards strengthening consumption in its vast interior – is likely to gradually bring about more balance, while appreciating the RMB in the process. There are also recent signs of easing of Chinese restrictions on international financial transactions.

A climax was reached in October 2010, when 348 members of the U.S. House of Representatives, many belonging to the House majority Democratic Party, voted in favour of imposing a solid surcharge on imports from China. Equally, tough action against China's exchange policy is advocated by opinion leaders. During the mid-term elections of November 2010, candidates on both sides did not hesitate to attribute the high unemployment level to the onslaught of China's exports.

Even in academic circles, views clash sometimes bitterly. Thus, Nobel Prize laureate Paul Krugman repeatedly called for a protectionist stance, in order to force China into acquiescing with a substantial appreciation of the RMB. Two other Nobel laureates, Robert Mundell and Joseph Stiglitz (see EURObiz's interview with Prof. Stiglitz in the May/June 2011 issue), have expressed opposite views to those of Krugman. The increasingly politicised dispute has inflamed official circles in both countries, although, in the wake of the international financial crisis, the bilateral trade (and current account) imbalances that were very high in 2008 have perceptibly abated.

In the same context, it is noteworthy that, whereas official International Monetary Fund (IMF) statements express the view that the RMB is somewhat undervalued, the IMF Executive Board, in its conclusions on the 2010 Article IV Consultation, frankly confessed dissension among its members.

Admittedly, the facts invoked by those who indict any deliberate downward manipulation of the currency cannot be denied. Indeed, the deficit of the bilateral trade accounts of the U.S. with China, (and to a smaller extent, its external current accounts), has grown ominously in recent years.

In the 2007-2010 period, U.S. exports to China did not amount to one-quarter of its imports. In 2009, trade was still affected by the international recession, and Chinese exports to the U.S. declined by 12%; the resulting U.S. deficit was still 3.2 times larger than U.S. exports to China.

Over the same period, the European Union Member States also underwent a substantial external deficit in their bilateral relationship with China — barely lower than that of the U.S. On the export front for the EU, China ranks fourth, behind the U.S.

Another strand in the debate relates to the rapid build-up of the official forex reserves by the People's Bank of China (PBOC), China's central bank, which have skyrocketed to more than $2.5 trillion as of October 2010, are now the largest in the world.

An appreciation of the Chinese currency vis-à-vis the U.S. dollar and other currencies, would imply the untying of the peg of the RMB with the U.S. dollar. This tie to the dollar was abandoned in July 2005 but was renewed in September 2008 at the outbreak of the international financial crisis; during that period, the RMB appreciated by 21% against the U.S. dollar, but depreciated against the euro. In July 2010, it was announced that the RMB would again be allowed to fluctuate slightly against a basket of currencies, and will no longer be strictly tied to the dollar. According to China's critics, loosening from the dollar and reflecting more closely forex market conditions would reduce the Chinese trade (and current) account surplus and would alleviate the present disequilibria in the international economy and payments system. It is also often contended that China should reorient its alleged export and investment-led growth strategy and strive to enhance its presently comparatively low macroeconomic consumption-to-GDP ratio.

These claims are now strongly rejected by the Chinese leadership, who maintain that China's surplus is not primarily related to the exchange rate; and that, even if undervaluation were proven, the recent massive reflationary injection of stimulus funds that the Chinese leadership has swiftly put in place at the unexpected outbreak of the global economic crisis, has delivered a potent boost to the resumption of growth in the world economy.

A Closer Look At China's Export Statistics

Since 1980, the Chinese economy has staged an impressive and exceptional growth of around

10% per year, in real terms. One should remember that this double-digit benchmark marks an average, both in its time and space dimensions. Per capita income now reaches close to $3,000, which puts China already in the ranks of the world's lower middle-income countries.

Yet, although several industrial sectors in China have reached a high degree of sophistication – witness the space flights and the announcement that a domestically-produced jumbo jet, with about 165 seats, is slated to enter service in 2016 – China still shows many features of an (albeit rapidly) 'developing' country. The huge rural interior sector, where agriculture still performs a pivotal role, attains a much lower income level than that of the urban populations, and more particularly those in the coastal areas. Although one should be reminded that the de facto privatisation of the cultivation of the agricultural sector – not of the ownership pattern -- in the early 1980s has provided the initial, and major, push along China's growth path.

Another principal engine of growth relates to the spectacular expansion of China's export trade, starting fairly early in the 1980s, but exploding after

China joined the WTO in 2002. In 1980, China's exports totaled only $20 billion. At that time, international trade was arranged by a dozen state companies. As was typical for Soviet-type economies, which negated the time-honoured principle of the 'international division of labour', economic intercourse with the outside world was minimised. In 2005, the value of exports reached $760 billion.

In 2008, the aggregate exports of China rose to $1.429 trillion, but dived in 2009 to $1.202 trillion, or 16% less, on account of the global financial crisis, which curtailed demand for China-made goods.

The worldwide recession took a heavy toll on Chinese exports, especially those to the U.S. and the EU. The trade surplus (exports minus imports) of China vis-à-vis the U.S. declined in 2009 from $268 billion to $227 billion.

Inward Foreign Direct Investment and the Issue of 'Relocation'

This overwhelming performance of China's export trade must nonetheless be considerably qualified by several highly relevant features of China's international trade. To start, a major part (around 60% of the exports out of China) is operated by 'foreign-invested enterprises' (FIEs). This concept comprises both joint ventures between Chinese and foreign companies, and fully-owned affiliates of foreign enterprises as well. In other words, the label 'Made in China' is not synonymous with 'made by Chinese firms proper'. In this context, one must be reminded that firms in Hong Kong and Macao are recorded as FIEs, as they operate from territories that (although they belong politically to the People's Republic of China) are treated as separate economic territories.

At first glance, the production facilities established by FIEs within the territory of China may be viewed as substitutes or alternatives to the exports that would otherwise originate in the home country. This often prompts the complaint that such outward foreign direct investment (FDI) entails 'relocation' of production capacity from the home to the host country. This is said to prevent exports, and destroy a considerable number of jobs at home.

Trained economists can easily refute the sophisms just aired. Hence, a brief digression on the relocation of productive capacities abroad appears appropriate. Genuine relocation occurs when a firm stops producing at home, and starts the same production abroad. The indictment that firms in China are stealing, for example, production and jobs in Europe or the United States, may then be valid. The trade balance of the home country would be even more impaired whenever the FDI is availed of to produce goods that are re-exported to the home country, which thus experiences a rise in its imports.

However, although counterfactual analysis, i.e. 'what would have happened to the firm, in the absence of such relocation', is naturally fraught with a dose of guesswork and quite a number of cases have been documented where domestic firms by moving their production to low-wage cost countries (such as China, or the Maquiladora frontier region with Mexico), or subcontracting the production to unaffiliated 'contract manufacturers' in the host country, would otherwise not have survived in an intensely competitive international environment.

When, however, the output by foreign multinationals in China is destined to serve the Chinese internal market, the indictment of harmful relocation is not valid. As a matter of fact, any firm with a competitive product naturally strives to expand its sales into foreign markets. But often, this profitable expansion of sales cannot be achieved from an export platform in the home country, whereas the setup of a production facility in the country of destination presents itself as the comparatively more efficient alternative. The motivations thereto are diverse, including prohibitive transport costs or import duties or the prior move by a major customer-firm, to which one supplies components. There may also be an urge to expand the scale of production, which can then be located closer to the market.

The accusation of unfair relocation is particularly unfounded, when the manufacturing of the goods in question has already been terminated in the home country, as is the case for footwear in the U.S. Ironically, in the case of ladies' underwear, the complaints by American producers in 2003 against imports from China were particularly hollow, as most of their 'production' was already outsourced to Honduras, within a U.S.-Honduras bilateral arrangement, which provided for duty-free re-entry of the processed goods into the U.S.

Relocation, in the strict sense, occurs especially within labour-intensive end or intermediate- products – such as apparel, shoes and toys – in which China played a prominent role in the early six years of its opening to the outside world. However, against the direct loss of jobs in the home country, one must consider, that provided and to the extent that the lower wage and production costs in China percolate into lower sales prices (at a given quality) in the U.S. or other home countries, they add to the real incomes of consumers (for final goods) or of further processors (when intermediates are concerned); that (the home-country economies benefit from downward pressure on the overall price level and on inflationary tendencies, with resulting positive effects on investments and growth; and that the lower costs advantage reaped by locating production, or subcontracting in low wage jurisdictions, refers essentially to the manufacturing stage, typically only representing a low proportion of the value added during the total production chain, which extends to the servicing of the final customer at the retail stage, and also involves pre-manufacturing activities, such as design.

Yet, already in the early days of China's opening gambit, incoming FDI was mostly directed at nascent market outlets in China itself, instead of being involved in cheaper produc-

tion of export-bound goods. Today, with the rapid extension ahead of the enormous potentialities of the Chinese market ahead, this is even more the case.

The Significant Role of Hong Kong and Overseas Chinese

It was already mentioned that, with respect to trade, Hong Kong and (to a much lesser extent) Macao, are viewed as foreign territories by China. Both 'special administrative zones' run their own customs and currencies; yet, there are dense and deepening links between them and China proper. Thus, Hong Kong is a major (immediate) destination of Chinese exports, amounting to 13.8 % of the total export value in 2009, although much of this export flow only transits through the former British colony on its way to other destinations.

Hong Kong represents by far the largest geographical source of inward FDI into China. A recent tally (March 2010) mentions that, so far, 310,738 Hong Kong enterprises have accounted for 42% of the overall FDI into China.

It follows that much of the outward trade of China is carried out by entrepreneurs and traders, who belong to the large 'overseas Chinese' community in East Asia. Thus, since the early 1990s, the manufacturing of toys has predominantly been relocated from Hong Kong to Shenzhen or to other 'special economic zones' where wages were much lower and that welcomed FDI with favourable incentive schemes.

More recently, and for essentially the same motive of a cheaper labour supply, the manufacturing of electrical appliances and electronic goods, particularly in their final stages of production, has largely been relocated from Taiwan to sites on the Chinese mainland. This happened even prior to the recent political thaw in the relationship between the two regimes on both sides of the Taiwan Strait.

From the above it follows that, if East Asia were considered as a single area, the export record of China would loom less impressive, as part of it results from manufacturing production that has been relocated to China.

Upgrading the Level of Technology

Another noteworthy development is the continuous upgrading of the product quality and of the degree of sophistication of China's export assortment. In the initial years of the 'opening to the outside world', China, thanks to its abundant supply of unskilled labour, drawn from the tens of millions of otherwise underemployed people in the rural interior, has fast become a major manufacturer of simple, labour-intensive goods. The Pearl River Delta, stretching from Guangzhou to Hong Kong, earned the label of 'the world's industrial workshop'. Over the years, firms in China have been able to muster the production of higher-valued goods, confronted with fierce competition and often benefiting from the inflow of FDIs enhanced their productivity.

However, it must also be taken into account that international trade statistics assign the geographic origin and the total value of the final product to the country where the last substantial processing is performed. This is often the case with firms in China (whether in domestic Chinese or in foreign ownership), to which the assembly of the various parts and components is typically entrusted. This remark is closely linked to the subsequent one about today's widespread geographical fragmentation of the production sequence.

The Substantial Role of Processing Trade

The customs statistics of China distinguish between 'processing trade', 'ordinary trade' and'general trade'. In processing trade, components and other intermediates are imported from abroad, prior to their further elaboration and finishing. Processing trade accounts for more than half of China's overall exports, although its relative importance now appears to be shrinking somewhat.

The fragmented manufacturing sequence has expanded rapidly in recent years, as can be inferred from successive annual issues of the UNCTAD's Investment Reports. This is especially visible in the East Asian region, where intra-regional trade acts as a major stimulus to the rapid economic integration in that part of the world, even before the Free Trade Agreement between ASEAN countries and China became effective as of January 2010, creating an immense bloc of free internal trade.
Processing trade partakes in the phenomenon of internationally fragmented production, in which firms from different countries are involved in the manufacture of the end product which is then exported, say, from China -- even abstracting from the activities involved in the further commercialisation of such final goods towards the final customer. The incorporation of intermediate inputs, sourced from foreign countries, into the final product, significantly increases the import content of the exported products.

An iconic and perhaps extreme example is that of Apple's iPod. Researchers at the University of California at Berkeley claimed that out of the iPod's $299 sale price in the U.S., $163 is captured by American companies, $132 by part makers in other Asian countries and only $4 by Chinese workers, who are employed at the final assembly stage (see EURObiz July/August 2011, "How the iPhone distorts China's trade deficit," pg. 40).

There are frequent complaints from the Chinese side that such fragmentation results in a very modest value-add in the Chinese stages of the manufacturing process. Firms in China quite often intervene in the finishing stage, especially when manual labour can still be usefully applied. The complaints relate mainly to contract manufacturing, which involves only the manufacture, in line with specifications, ordered by their principal, of labour-intensive goods, or components.

These sectors have attracted numerous entrepreneurs from China or from elsewhere; they face fierce competition and low-profit margins. In recent years, such profits have been further eroded by the appreciation of the RMB between 2005-08 and by an upward push in wages, brought about by the Labour Law of June 2007, which provides appreciable benefits to the labour force.

The recent global economic crisis, and the related interruption of large orders from U.S. and European firms and supermarkets, has resulted in the loss of 20 million jobs in the coastal areas.

As already intimated, the fragmentation of the value chain in production, even if only at the manufacturing stage, over a number of countries implies that the value added during the production sequence is not fully reaped by the country of the final transformation.

There can be no doubt, nonetheless, that China is making great strides in assimilating technological knowledge and steadfastly entertains high ambitions in that respect. Clearly, as firms in China increasingly source components and parts from within China, thereby substituting for imports, the local content of production in China is also bound to be enhanced.

China's Import Trade

Another important aspect in the debate about the allegedly unfair encroachment of Chinese exports on the U.S. market also tends to be overlooked, namely that the exports out of China are largely offset by its imports. Indeed, without earning convertible foreign exchange by way of its exports, no country would be capable of paying for its imports, although it may badly need the latter.

Since it embarked on its successful strategy of opening up the country, China's imports have in most years been somewhat, but not substantially, lower than the value of its exports. As will be recalled in a moment, it follows that the phenomenal ballooning of China's official reserves has not been fed primarily by highly positive trade balances.

Moreover, as is the case in most countries, the composition of China's imports differs greatly from that of its exports. Raw materials and equipment stand out in the import trade statistics whereas, as mentioned earlier, processing trade results in entries on both sides of the trade balance, especially as regards textiles and electronics.

China's Multinationals on the March

A brand new phenomenon is unfolding, namely the thrust abroad by a growing number of Chinese enterprises, mostly still under government control, to varying degrees. A few years ago, the Chinese authorities loosened some restrictions on capital outflows. Chinese firms invest in African and Latin American sectors of raw materials. In the manufacturing sector, Geely, although small even by Chinese standards, took over the Volvo business from Ford. Lenovo acquired the PC section of IBM. Other firms such as Haier, Huawei and BYD are on their way to becoming household names in the international marketplace; in this way, they establish commercial and even production affiliates abroad.

The outward expansion of Chinese firms is likely to gather more momentum. The entry of Chinese companies is explicitly encouraged by the Chinese government. Moreover, Chinese firms are eager to gain access to top-notch technology, by way of the purchase of patents or the take-over of foreign firms. The abundant forex reserves, partly set aside in 'sovereign funds', provide a potent instrument to finance China's outward FDIs. This rapidly growing flow of such outward FDI flows is bound to counteract somewhat the presently unbalanced bilateral trade and financial accounts between China and the U.S. or the EU.

The U.S. trade balance with China is highly negative – as is that of the EU-27. But, obviously, it makes no sense to myopically focus on bilateral trade figures. Only the overall trade balance vis-à-vis all other countries matters when looking at the positioning of a country's currency in the forex markets, or when assessing the competitiveness of its businesses in the international marketplace.

China's overall stance is much more balanced. Its surplus vis-à-vis the developed economies, the U.S. and the EU, is largely offset by a deficit against other countries, especially those from which it imports crude oil and other raw materials, or from East Asian countries, which supply it with parts and components.

The Erroneous Obsession with Gross Exports

The main conclusion that emerges from these … is that the almost exclusive concern, which, in most countries, political leaders and public opinions attach to the maximisation of export earnings is much overdone, as it is at odds with the present-day workings of the international economy. Almost everywhere, export lobbies are able to secure the audience of their government and to imprint a mercantilist bent to trade policies.

Admittedly, a country would reap a maximum of economic benefits, if it – more precisely, if its enterprises – would succeed in conquering market shares abroad for goods, composed wholly of domestic parts and components. The value added in the production process would then accrue fully to the home country. This would be particularly advantageous in terms of jobs created, to which public opinions are more sensitive than in terms of other segments of the total value of the exported products, which are less directly embodied in human beings.

Conclusion

As amply analysed here, the myopic view and borderline obsession with gross export values, are mistaken. Today, even large countries cannot be fully self-sufficient; some natural resources, such as crude oil or cotton, must be sourced from abroad. Besides, domestic firms are often not in a position to serve foreign markets by way of exports from its home base, but are led to install a base in the targeted country. As an illustration, the Chinese Bureau of Economic Analysis has stated that, in 2007, the value of sales by foreign affiliates of US firms in China is triple the value of U.S. exports. The frequent fragmentation of the manufacturing sequence over a number of countries, adds another break to the traditional analysis which tends to view trade as consisting of the exchange of goods, fully value-added in a single country.

The full white paper is available as a free download from www.ecipe.org. Eb

The Wrath of Grapes:

Ningxia Wines Take on Bordeaux

Not known for their quality until recently, some of China's winemakers are progressing – and giving a scare to wineries in Europe. EURObiz's **Steven Schwankert** looks at a Beijing wine tasting that could have implications for winemakers worldwide.

The scene was reminiscent of Paris in 1976. The wines of France, generally regarded as the best in the world, were once again challenged to a duel by an upstart, in this case, five labels from Bordeaux were asked to compete against five wines from the little-known Ningxia Hui Autonomous Region of northwestern China, which despite its lack of notoriety has been quickly emerging as one of China's top wine-growing areas.

Organised by Grape Wall of China [www.grapewallofchina.com], China's top English-language wine website, five wines from Ningxia were selected, along with five from Bordeaux. The competition was designed to mirror the experience of Chinese wine consumers today: all wines were priced between 220 and 490 RMB per bottle, and all were 2008 or 2009 vintages.

"In essence, we asked this question: If a consumer in China has 500 yuan in his or her pocket, which of the 10 wines would the judges recommend", said Jim Boyce, Grape Wall of China's founder.

"We originally discussed a China versus France theme but I switched it to Ningxia versus Bordeaux for several reasons. Ningxia wines have done well in domestic and international competitions and have received good scores from experts. Ningxia is considered by many in the industry to be making the best wine in China", Boyce said. "In China, Bordeaux is the most respected region for wine and continues to see growth in this country. Also, there are ties between the two regions. Several prominent people involved in making wine in Ningxia, including Li Demei at Helan Qing Xue and Emma Gao at Silver Heights, studied in Bordeaux. The style of many Ningxia wines is influenced by Bordeaux", he said.

Boyce worked with Tony Wang of Chinese wine website TasteV and French sommelier Nicolas Carre to choose the five Bordeaux competitors. Rather than approach the wineries individually, Boyce chose to preserve the consumer experience and acquire the bottles either from distributors, or in some cases, purchase directly from stores.

For Ningxia, Wang and Boyce chose one wine from Helan Qing Xue (Jia Bei Lan Cabernet Dry Red), two from Silver Heights (Family Reserve and The Summit) and two from Grace Vineyard (Deep Blue and Chairman's Reserve). "Grace Vineyard is based in Shanxi but has a vineyard in Ningxia and thus was included in the contest", Boyce said.

From Bordeaux, "we focused on big brands since Chinese consumers are more likely to know them", Boyce said. The five Bordeaux were Barons de Rothschild Collection Saga Medoc 2009, Calvet Reserve De L'Estey Medoc 2009, Cordier Prestige Rouge 2008, Kressmann Grande Réserve St-Émilion AOC 2008 and Mouton Cadet Reserve Medoc 2009.

For wines from both regions, 2008 and 2009 vintages were chosen for their general availability to the consumer.

The participating judges were, from China: Ma Huiqin, professor at China University of Agriculture and wine marketing expert; Frankie Zhao, owner of Pro-Wine Consultancy; Fiona Sun, senior editor at the China edition of Revue du Vin; Jin Yang, wine teacher who spent five years studying in Bordeaux wine programs; and John Gai, of wine distributor and bar operator Palatte.

From France, the judges were Nicolas Carre, sommelier and wine consultant; Jerome Sabate, long involved as wine maker with Dragon Seal in Beijing; Nathalie Sibillet, oenologist, journalist and teacher; Thomas Briollet, with seven years experience in China wine distribution; and Edouard Kressman, wine maker with experience in Bordeaux, California and Argentina. When it was over, the scores were announced, and the cloth bags removed. Out of 10 wines, Ningxia labels had taken the top four places. While perhaps not as definitive as the 1976 'Judgment of Paris', in which California wines defeated their French rivals in blind taste tests, the outcome showed that Chinese wines have come a long way – and that Bordeaux itself may be in part to thank.

Each wine was judged by 10 panelists, five from China and five from France. The wines were poured prior to the arrival of the judges, then each bottle placed in a black cloth bag with only a number to indicate its identity, known only to the organizers and supervised by Philip Osenton of wine distributor Globus and former head sommelier at the Ritz London, and witnessed by members of the media. Judges were given 40 minutes to try the 10 individual wines, providing comments and a score as they went.

Judges were asked to rate each wine with a quality score of one through 10, and to describe their level of enjoyment of the wine, on a four-point scale from "love it" to "hate it".

When the scores were announced and the cloth bags removed, Ningxia was the little autonomous region that could.

For the quality rating, Ningxia wines took the top four slots: Grace Vineyard Chairman's Reserve 2009; Silver Heights The Summit 2009; Helan Qing Xue Jia Bei Lan Cabernet Dry Red 2009; Grace Vineyard Deep Blue 2009.

As for enjoyment, Ningxia shut out Bordeaux. With the combined score of "love it" and "like it" ratings, the most enjoyed wines were: Silver Heights The Summit 2009; Helan Qing Xue Jia Bei Lan 2009; Grace Vineyard Chairman's Reserve 2009; Silver Heights Family Reserve 2009; and Grace Vineyard Deep Blue 2009.

"The contest showed that, at least in the opinion of these judges, Ningxia wines do well against these mass Bordeaux brands in China in terms of quality and value. This is useful information for consumers in general, many of whom might reflexively assume any Bordeaux wine is better than any Chinese wine, and who might not be aware of wines made with grapes from Ningxia", Boyce said.

"As a sommelier in China, I think it was a very fair event", said wine consultant Carre. "This event was for Chinese people", he emphasised, and that it was not intended to be a final showdown between Chinese and French wines.

Despite having been conducted in an open and objective manner, the event drew criticism from France that it was not an apples-to-apples comparison. While the wines selected for tasting were in the same general price range, the French wines faced China's 48 percent import tax. This is true, Boyce said, but he added that consumption and value-added taxes levied on Chinese domestic wines reduces the gap between the two to less than 20 percent, making it far less of an issue.

"[The Bordeaux selected] is certainly simple wine – if you are in France", Carre said. Both he and Boyce also pointed out that such criticism would ultimately reflect poorly not on the event, but on those wines available in China.

"If people say that the Bordeaux we chose is not quality, well, that is what is being exported to China", Carre said.

"This raises the issue of why such wines, from some of the biggest [Bordeaux] brands, are sold at 250 RMB per bottle and up in China", Boyce added.

At the same time, Carre was quick to point out that there was little if any threat to Bordeaux growers, and that the biggest beneficiary was the Chinese consumer. Bordeaux, via the Conseil Interprofessionnel des Vins de Provence (CIVP), has established the region as the premier wine-growing area in the minds of Chinese wine enthusiasts, via vigorous promotion, including strategic placement of labels like Chateau Lafitte in Chinese films.

French wineries shouldn't be worried that Chinese labels will be pushing them off of tables in Europe. "It could be fast to when we are seeing good quality wine that is recognised locally. But even if the quality is good and the volume increases by 100 times, it will still be a challenge to satisfy the demand of the local market", Carre said.

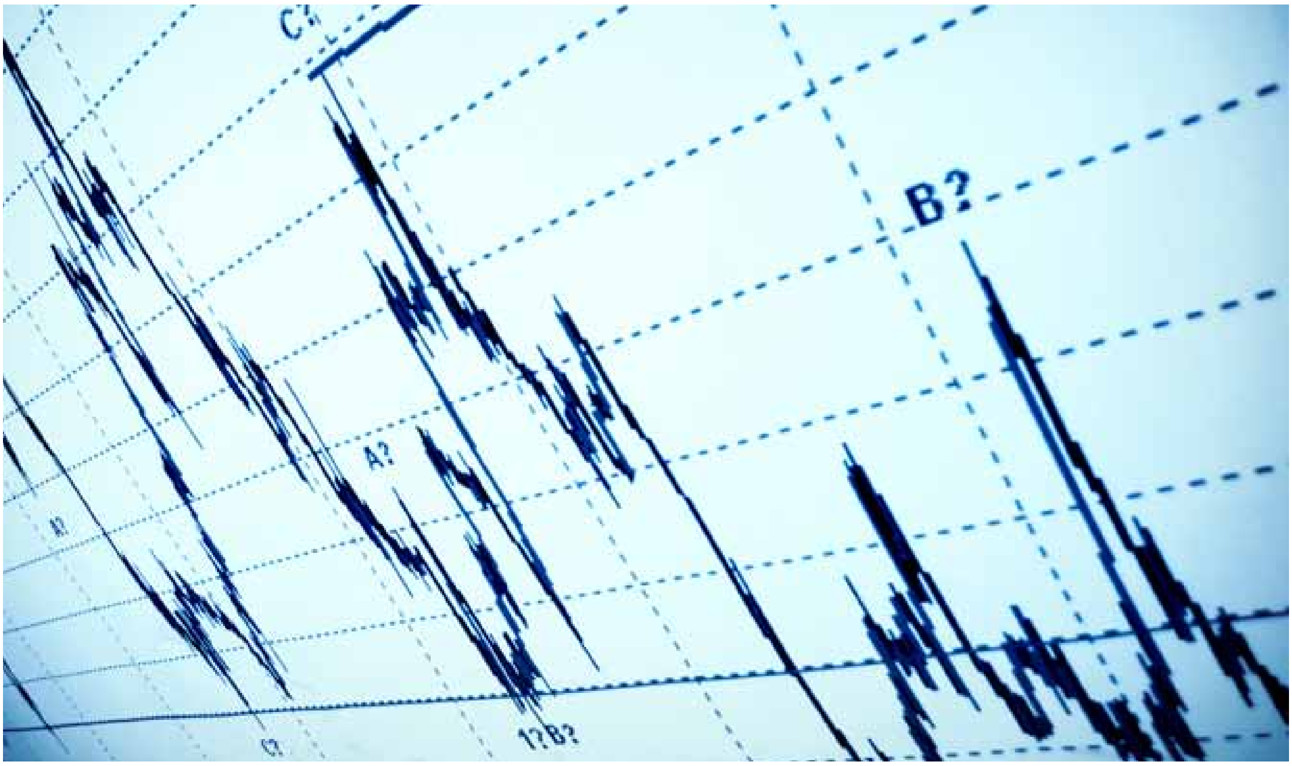
The performance of the Ningxia wines could help push the dry region in northwestern China into more of a leadership position among local winemakers.

"Looking at it from the perspective of climate, water resources, geographical location and policy-making together, Ningxia is currently offers the best package", said Prof. Ma Huiqin of China University of Agriculture".

A growing wine industry could also be a boon to the lesser-developed region.

"Ningxia has a fragile environment for agriculture, natural resources are limited, compared with other grape and wine industries. Under appropriate conditions with wine and wine tourism could be a good combination. It would be of great significance to establish its well-known grape-producing areas, to increase farmers' income and promote ecological protection and maintain the stability of the agricultural economy", Ma said.

The way forward for Ningxia wines would be "excellent quality, flagship products, star winemakers, as well as international standards of communication. The roadmap may also include benefitting farmers and more closely involving them in the wine industry, encourage competition, opening up policy conditions, training of industry personnel, and enhancing the level of education and scientific research on wine", she said.



China in Europe:

Analysing the Investment Landscape

Amidst the current uncertainty in Europe lies the hope that increased Chinese investment, along with the purchase of European debt, could be part of an overall recovery plan. Although the Chinese government has balked at anything resembling a bail-out, the opportunity for private firms and state-owned enterprises to acquire or take significant stakes in European companies remains. Authors of a new report on the Chinese investment opportunity in Europe, Daniel Van Den Bulcke and Dr. Haiyan Zhang talked with EURObiz's **Steven Schwankert** about what 2012 may hold for increased Chinese participation in China's mergers and acquisitions (M&A) markets.

EURObiz (Eb): We hear a lot about Chinese investment in Europe, but how much is really happening now? It still seems like Chinese investors are testing the waters.

Daniel Van Den Bulcke (DVDB): Indeed there is a lot of commotion about investment in Europe by Chinese companies. Sometimes the comments in the media sound like those that were put forward in the 1960s about American investments and in the 1980s about Japanese establishments in Europe. The concern about the so-called Chinese invasion is to some extent a reflection of a certain fear about the surge of the Chinese economy on the world stage and the fact that the mode of entry is often via the take-over of existing firms by large state-owned Chinese companies. Yet many of these initiatives are taken by small and medium-sized private companies. Also the overall importance of Chinese direct investment (FDI) in Europe is still extremely small. At the end of 2010, only 5% of the Chinese FDI stocks abroad are located in Europe.

Dr. Haiyan Zhang (HZ): While I agree with this assessment it has to be stressed that Chinese FDI in Europe has been growing quite rapidly during the last few years. Europe has become the fastest-growing destination for China's FDI in the world since 2008 and the Chinese Outward Foreign Direct Investment (OFDI) flows to Europe expanded more than twice as rapidly in 2010 compared to the previous year. In 2010 these flows reached 10% of total Chinese global OFDI. However, as compared to the global FDI to Europe, China's importance is still very limited -- it accounted only for 0.21% of the global FDI stock in Europe by the end of 2010 and 2.2% in terms of FDI flows in 2010.

Eb: Different European entities have implied that now is a time for Chinese companies to go bargain hunting. Is that the case?

DVDB: Europe certainly offers excellent opportunities to acquire European companies either by buying out the owners or participating in the equity capital of European firms. The financial crisis in Europe makes access to capital for certain companies more difficult and because of these complications, second or third generation managers of small and medium-sized companies (SMEs), look positively to an offer to be bought out by a Chinese firm. In case of a partial acquisition by the Chinese this might even provide them with better access to the Chinese domestic market if they remain in the company as majority or minority partners.

HYZ: Chinese firms are searching for technology and brands in Europe to strengthen their competitive position not only in China, but also in the global market. The take-over of CIFA in Italy, the world's third largest concrete machinery maker, allows Zoomlion to become the first group in the production of concrete machinery in the world. While Chinese companies with cost leadership strategy in the machinery sectors try to acquire their European suppliers of key components, Chinese manufacturers of mass consumer products, e.g. food producers, started to look for brands in Europe to upgrade their product range and safety standards. Chinese companies are also tapping into European knowledge clusters to carry out research and product designing activities, especially in sectors, such as the automotive industry, renewable energy and machinery.

Eb: Why haven't we seen more large Chinese players doing bigger deals? What's holding them back?

DVDB: Larger Chinese companies hesitate in entering into mergers and acquisitions more often for several reasons. First, they want to avoid generating political opposition to the acquisition, as we saw in the U.S. with respect to the experience of CNOOC Such a reaction is likely to be less fierce in European countries where sensitive companies might be targeted. Secondly, the failure of TCL to successfully integrate the French company Thomson after it was taken over, has shown Chinese firms that foreign ventures are not all that easy to manage and finally have even resulted in a withdrawal. Thirdly, even the Chinese government became concerned about certain intended acquisitions as it was thought that the Chinese company had insufficient international experience or was too small to 'digest' the target firm, as happened in the case of GM's Hummer and the Dresdner Bank.

HYZ: Let me add to that that the Chinese companies are quick learners and that they have drawn lessons from their misadventures. Now they attach much more importance to the due diligence process and keep the European management of the acquired firm in order to facilitate its integration into the Chinese group. Also, it looks as if they opt more often for smaller and less visible companies as take-over targets in order to avoid possible opposition by European political representatives and competitors. Leading companies with relatively long experiences in Europe, such as Huawei, China Shipping and COSCO, started to localise or strongly rely on the local management team, while the number of Chinese expats has been gradually reduced. In some cases (e.g. Huawai), these companies act just like their Western counterparts to deal with public relations or to lobby with respect to their interests in the EU.

Eb: In the past, we've seen the Chinese government lean on companies that were trying to expand or list overseas, such as restrictions on many of the Internet companies that were trying to list in Hong Kong or in the U.S. Has that changed at all?

DVDB: There seem to be cases where American officials objected to the insufficient transparency of Chinese listed companies. Meanwhile more Chinese firms are choosing to be listed on European stock exchanges in the UK and Germany. As privately owned companies they do not get the same easy access to bank loans as compared to the state-owned firms. Therefore it is not all that surprising that they look for other financing channels to expand in Europe.

HYZ: Listing in European stock exchanges provides not only additional financial resources for Chinese SMEs to reach their expansion strategy in the Chinese market, but also gives credibility and better image to these companies which usually do not get sufficient recognition by the general public or their business partners in China. During the last few years, more than 70 Chinese SMEs have been listed in Frankfurt and London stock exchanges.

Eb: Could you tell us more about your own recent study about Chinese FDI in Europe?

DVDB: The study is entitled 'The European landscape of Chinese enterprises: An analysis of corporate and entrepreneurial firms and the role of the ethnic communities', and is written by Haiyan Zhang, Yang Shi and myself as a background report for 'The Antwerp Forum', which was organised by the Euro-China Center of the Antwerp Management School on 22-23 November, 2011.

HYZ: The report is mainly based on the Amadeus pan European database and presents very detailed information about the ownership, corporate governance, business operations and financial situation of 4,676 Chinese companies located in 28 European countries. Based on this extensive firm level database, this study attempts to describe and analyze the presence of Chinese companies in Europe and to provide some insights into several important aspects of Chinese multinational enterprises, which have rarely been explored before as most existing studies concentrate on the larger outward Chinese investors and their merger and acquisition activity, and as such present a somewhat biased picture of Chinese investments abroad and in Europe.

DVDB: European-based Chinese companies can be divided into two major groups according to the available ownership information of their shareholders. The first group consists of the so-called Chinese corporate subsidiaries, i.e. 715 subsidiary companies set up by Chinese industrial or service companies and financial institutions which are often state owned enterprises (SOEs) with a relatively strong competitive position in their domestic market as compared to private firms in terms of technology and financial resources. The second category is formed by no less than 3,793 companies, which can be qualified as Chinese individual or family enterprises or entrepreneurial firms. They are mostly established by Chinese individual persons or families, such as migrant entrepreneurs and cross-border traders looking for opportunities abroad. Yet, it is to be noted that a number of these individual and family companies have an important business and industrial background in China. Some of these companies can be considered as "hidden champions" or "global niche market players", because despite their low profile as individual owned company abroad, they are large or strong private companies in China.

HYZ: As already mentioned the so-called surge of Chinese enterprises in Europe is quite recent, as the average age of Chinese owned enterprises is only about eight years. The growth of Chinese investment in Europe during the first half of the 2000s can be attributed to the expansion of Chinese migrant entrepreneurs in the Eastern part of Europe, especially in Russia, Hungary, Bulgaria and Romania. Although some Chinese corporate investors, especially shipping and international trading companies started to invest in Europe in the early 1980s, most of the Chinese companies which are older than 20 years resulted from the acquisition of and participation in existing European companies.

Chinese-owned enterprises in Europe are widely dispersed, although there is a strong concentration in only a few countries. The top five host countries of Chinese companies in Europe are Russia, Germany, Hungary, Romania and the United Kingdom. Together they take up 92% of the total number of Chinese owned enterprises in Europe.

This geographical concentration of Chinese enterprise is not only reflected at the country level, but also at the city level. Nearly three quarters of Chinese companies are located in ten cities and suburbs, namely Moscow, Budapest, Bucharest, Hamburg, Düsseldorf, London, Sofia, Köln, Berlin and Saint-Petersburg. Chinese owned enterprises are more likely to agglomerate around capital cities in Eastern Europe, while in Western Europe they are concentrated in regional hubs either with intensive industrial activities or logistic capabilities.

DVDB: Many more facets are developed in detail in the afore mentioned report which should be of use to both businessmen and policy makers as it allows them to discover a much more extended landscape of Chinese investment in Europe and almost certainly provides a platform for the further expansion of the large corporate investors and the entrepreneurial activities of the individual and family owned firms from China in all corners of Europe.

Eb: What is the biggest misconception Chinese investors have about Europe? And what is it that Europeans misunderstand most often about China?

HYZ: Europe, and more particularly the European Union, is still considered by many Chinese investors as individual countries, rather than a borderless common market. This perception has affected location decision of Chinese companies, as they focus more on large countries with big domestic markets, while often neglecting centrally located small open countries that offer better logistic and distribution networks in Europe as is in the case for Belgium and the Netherlands.

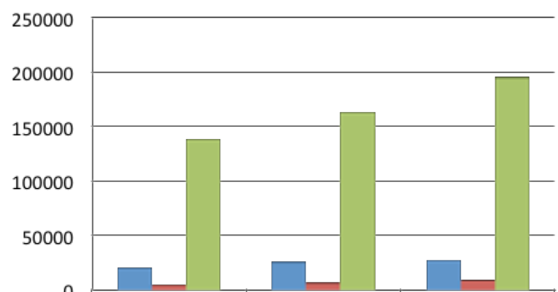
DVDB: Chinese firms are confronted with important cultural differences, just like the Europeans are when entering China. Certain studies have indicated that Chinese managers may be underestimating these cultural differences. On the other hand European promotion agencies from national or regional governments seem to be overestimating the benefits expected from the Chinese investors and should provide more assistance to monitor these investments rather than relying too much on incentives. Yet, it has to be recognized that many Chinese companies shun European consulting and service firms which might facilitate their integration in Europe. Eb

Stability – the Primary Theme of China's Economy in 2012

By Rachel Wang, Merry Zhao and Tiffany Liu, Industry Department, All China Marketing Research

The Central Economic Work Conference was held in Beijing during 12 – 14 December, 2011, set the priorities for the macroeconomic policies in 2012. The conference indicated that 'making progress while maintaining stability' will be the main theme of China's economy in 2012. Prudent monetary policy and proactive fiscal policy will also be maintained in 2012. China's GDP will grow at an estimated 7% in 2012, a lower target than 2011.

Revenue of Electric Power Generation, 2009-2011 (Unit: Million USD)



	2009	2010	2011*
Hydroelectric Power	20898.3	26532.1	27742.2
Alternatively Energy	4444.4	6500	9053.5
Thermal Power	138800	162900	195900

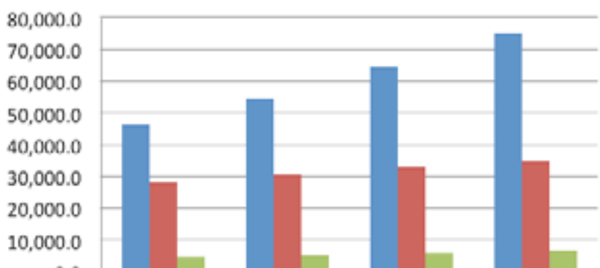
Source: National Bureau of Statistics, ACMR
Note: *Estimates

The Medical Industry Will See Growth in the Upcoming Year

We expect that healthcare will be another promising sector for the Chinese economy in 2012, thanks to increasing demands, strong buying power, and China's aging population, just to cope with the basics of stabilising growth, adjusting structures and managing inflation, in line with the12th Five-Year Program.

In 2012, pharmaceutical industry revenue is expected to total $75.24 billion, up 16.5% from 2011, while the medical devices sector holds prospects for rapid growth. Thus we could expect to see a boost in 2012 for the entire medical sector.

Revenue Growth Trend, 2009-2011 (Unit: Million USD)



	2009	2010	2011*	2012*
Pharmaceutical	46,352.6	54,595.6	64,586.6	75,243.40
Pharmacies&Drug Retailing	28,180.1	30,537.4	32,855.0	34,757.70
Medical Device	4,685.2	5,292.9	5,949.8	6,694.60

Source: National Bureau of Statistics, ACMR

A Rising Proportion of Alternative Energy

The Chinese economy is expected to continue developing at a rapid rate in coming years. A fast-growing economy requires stable and sufficient energy supplies. However, existing coal and petroleum storage volumes are not sufficient to supply the country over the next 50 years. To achieve sustainable development, China must develop new energy sources, be able to operate on multiple with multiple fuels, and depend on long-term energy resources.

In the 12th Five-Year Plan period, the annual electric output of China's wind power is expected to increase to 190 Gigawatts (GW) and the annual electric output of solar electric energy generation is forecast to total 20 GW by 2015. With the addition of other sources including nuclear power, the gross output volume of non-fossil energy will total the equivalent of 480 million tons of standard coal in 2015.

In 2012, the revenue of the alternative energy industry is expected to increase to $11.58 billion, with its proportion in total electric power generation increasing from 2.7% in 2009 to a forecast 4.4%.

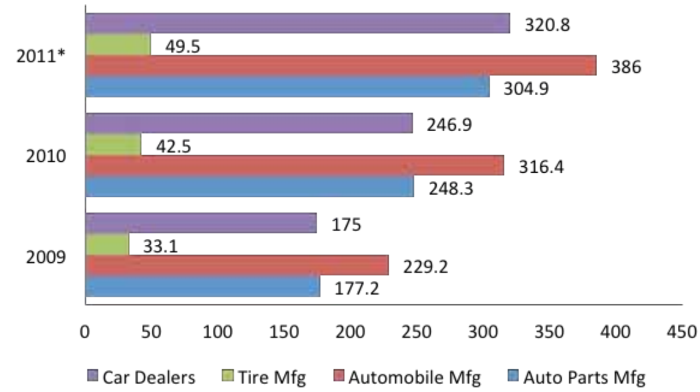
China's Automobile Industry Will Continue Its Slow Growth

China's automobile market has experienced much slower growth in 2011 due to the end of favorable policies applied in 2009 and 2010. As of November 2011, output and sales volume of automobiles in China totaled 16.73 million units and 16.82 million units, up 2% and 2.6% year-on-year, respectively.

In 2012, China's automobile market is forecast to continue its slow growth and competition will be intensified due to the surging production capacity planned by manufacturers in early years. Sales volume of passenger vehicles is expected to increase at a higher rate compared with commercial vehicle sales. In addition, sales growth will vary in different segments. Generally, SUVs and MPVs will grow at higher rates compared with cars. Premium vehicles will show a faster increase in sales than mid and low-end vehicles. Foreign branded vehicles will grow more rapidly and the share of domestic brand vehicles in total automobile sales is expected to continue decreasing. Eb

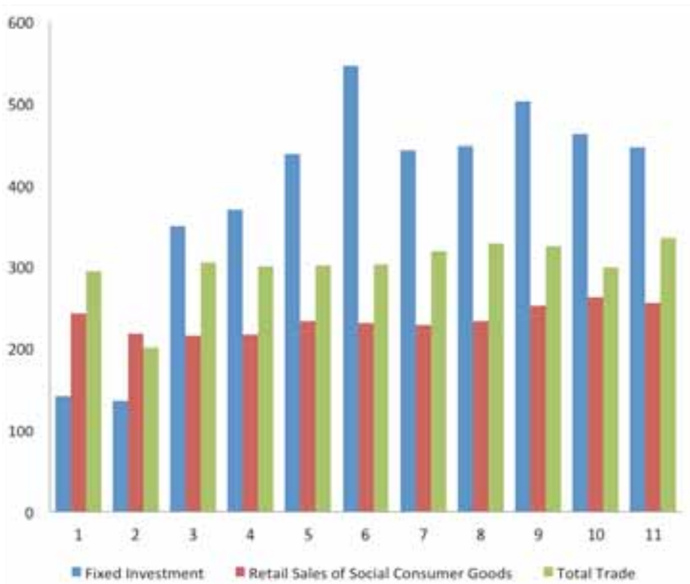
All China Marketing Research Co. Ltd. (ACMR) is a leading provider of business information and market research, focusing on collecting, studying and analyzing data and information on the macro economy, industrial sectors, enterprises and business markets in China. www.acmr.com.cn

Total Revenue for the Automobile Industries in China (Unit: Billion USD)



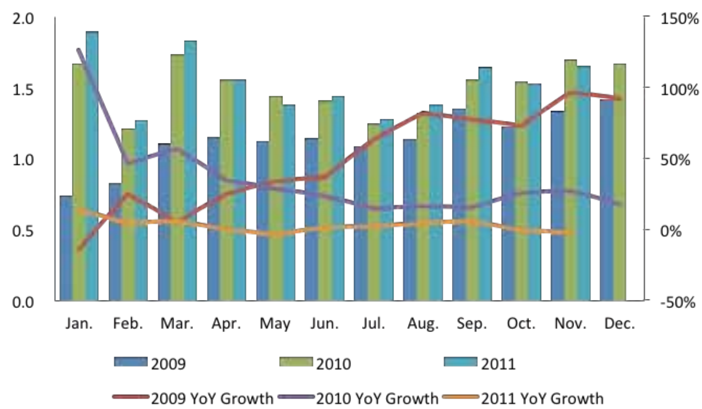
Source: National Bureau of Statistics, ACMR

Fixed Investment, Retail Sales of Social Consumer Goods and Total Trade in China 2011 (Jan - Nov) (Unit: Billion USD)



Source: China Association of Automobile Manufacturers, ACMR

Monthly Automobile Sales in China, 2009-Nov. 2011 (Unit: Million units)



Source: China Association of Automobile Manufacturers, ACMR

Plastered's stores are just one expression of founder Dominic Johnson-Hill's marketing vision.

Getting Plastered in China

One Entrepreneur's Guide to Marketing and Building a Brand

Dominic Johnson-Hill is an executive in a t-shirt. Since founding his apparel maker Plastered, he's taken the brand to the store shelves of Harvey Nichols, and broadcast his message on one of Chinese television's biggest programmes, "An Evening with Lu Yu", with the host herself sporting one of his designs. The British entrepreneur spoke with EURObiz's **Steven Schwankert** about being an SME that markets like an MNC, and the advantages that European companies have in China.

EURObiz (Eb:) How much does an SME need to have a marketing budget that will have an impact?

Dominic Johnson-Hill (DJH): I've never had a clear budget for marketing, just one clear goal to make a huge splash ever year. I see my business as a marketing business, not a t-shirt business. Plastered is a marketing business that sells awesome artwork that happens to be mostly on t-shirts and other apparel. This way I am always thinking of ways to market the business, mostly through guerilla methods. I set outrageous goals and ideas for marketing Plastered, then find a way to make it affordable, this way I can be more ambitious rather than looking at a budget and think… "err what can I do with this".

One thing that has really worked for us is having a story behind the brand. In this case it's me, my life and love for Beijing, the Chinese media have really enjoyed the Plastered story and its values. We have two Chinese Twitter accounts, one for me and my daily life and one for the businesses and its development. I have 50,000 followers and the business 3000. This tells you a lot about what people want to read.

Eb: How much do entrepreneurs need to think about their brand as they are starting up?

DJH: A lot. Be consistent with your brand, set out your core values clearly, work on a brand blueprint by taking someone else's and using it as a template for your own. Once all this is set out it can help you pass this message clearly down through the ranks so you and your staff are all on the same page. The main points a blueprint that can be set out are: core values; core offering; core customer; brand personality; competition. And back all those up with images, too.

Eb: Do European SMEs have any advantages or disadvantages in China?

DJH: There are plenty. I shall just give a couple of examples.

Coming from Europe we have seen markets develop already that have not here, and we are very strong on the service side of things much stronger than here so we can get into markets early that have not been developed and know how to service our customers well, to keep them loyal. European brands are also considered quality so branding the fact that you are a European brand gives you a good advantage.

As non-Chinese, there are many markets that are protected here despite officially being open. One big one is the e-commerce market. If you don't have a majority Chinese partner in your business then you simply can't have your own e-commerce site, one way around this is to use platforms such as Taobao that has a good B2C platform.

Another obvious disadvantage would be misunderstanding the culture. Hiring good people, retaining them and driving them is very, very different to Europe.

Eb: You're a small company with a big brand, and you've done deals with top names like Harvey Nichols. How high should small companies try to aim when finding partners and outlets for their products or services?

DJH: If you have high goals for your business and truly passionately believe in your brand then working with big names shouldn't come as a shock. The bigger brands in my market, as they grow they tend to lose their creative edge so these big brands are always looking to team up with smaller, cooler street brands to bring back some much needed edge to them, I see it as me doing them a favour -- as obnoxious as that sounds.

Eb: How do you keep yourself motivated and excited with Plastered? Do you ever wish you could move on to something else?

DJH: Ideas are everything to me. Seeing new product and artwork in our stores gets me more excited than a bank balance. We are a creative business and I'm the creative director and founder, so if I can use Plastered as a platform to create my ideas, no matter how strange, then I'm alive everyday with blood pumping. I'm also quite a competitive person so keeping an eye on the competition via their social media usually gets me going too. There have been times where I have wanted to give up, but thankfully I have a wonderful wife who pushes me through the times when I'm feeling insecure.

Eb: You've dealt with street-level local officials to do things like hold a fashion show on Nan-Luo Gu Xiang (a popular Beijing shopping hutong). Government affairs is pretty scary to the average SME. Any suggestions on dealing with the relevant departments?

DJH: For me I've always paid a lot of attention to my community, Plastered is very much a community brand. We opened the first creative store on Beijing's first creative street and held the first festival on the street with local government funding. If you can give something back, pay your taxes, then the local government will do a lot to help. I'm a member of my local government in Beijing as strange as that might sound, and I put a lot of time and effort into building the community. Nan Luo Gu Xiang the street is now a brand and it was not built by the local government but by entrepreneurs like me so it's important we are involved in developing it or it will lose its feel.

Eb: How big a difference has speaking the language been to starting and running Plastered? Could you have done it without Chinese language ability?

DJH: To be frank, if you look back on how I built the Plastered brand, it could not have been done without a high level of Chinese, this is because of all my work on Chinese television and work with the local government. Having said that I know of many foreign entrepreneurs who have done well here without knowing how to speak Chinese, depends on the person and the market, but there is no denying the fact that speaking Chinese is a great help.

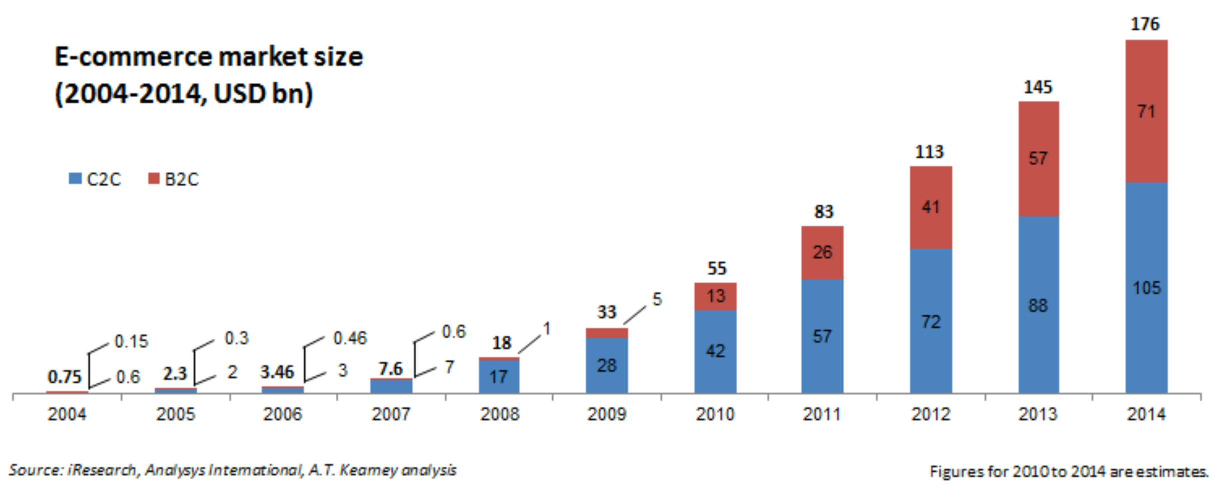
Eb: What's on tap for Plastered in 2012?

DJH: I have no plans to take over the world, or open a thousand stores, I am trying to build a small giant and in doing this we are quite sustainable, I have turned down investment twice now and have settled on the idea of growing organically and at my own pace and not to be too greedy.

Next year we have two more stores opening and have built a great network on Chinese designers all over the country to collaborate with. We are investing quite heavily into search engine marketing and search engine optimisation to build our online sales via Taobao. Chairman Mao Zedong said we should live in a constant state of revolution, this is something I try to do with Plastered especially in marketing and design, taking risks and staying ahead of the competition… and most of all, having a laugh. Eb

Click, click, click …the sound of online selling

A decade ago, many Western observers said that e-commerce in China simply wasn't possible because of low credit card penetration and poor logistical infrastructure. Now, Hangzhou-based Alibaba.com Corp. and its consumer site Taobao.com have run eBay out of town, and the sites have become a virtual online bazaar selling almost every imaginable product, and fueling growth in small and medium-sized enterprises and entrepreneurship. **Chris Cheung**, Market Access Advisor – Business Development and **Lisa Kim**, Specialist – Business Development of the EU SME Centre log on to a new world of sales and commerce.



The growth in the purchase of goods online has been absolutely amazing. Online retail sales have grown by a jaw dropping 11,000% over the last seven years, according to Access Asia, a market research agency. Although starting from a relatively low base when online sales only made up about 0.15% of all retail in 2004 totalling ¥4.5 billion (€0.55 billion); since then online transactions have grown to make up about 7.25% of the total retail pie, or about ¥495 billion in 2010.

A growing middle class, estimated by the management consultants A.T. Kearney to be 200 million strong, with increasing disposable income and a growing trust in conducting online transactions, has been driving this electronic phenomenon. It has now become a habit for many white collar workers in China's major cities to search for and buy a whole plethora of goods online.

Computers, communications devices and consumer electronics (referred to as the three "C"s), along with household goods account for the largest amount of sales by value, but it is the smaller ticket transactions for clothes, books and food stuffs that are actually the most popular types of transactions.

Consumers selling to other consumers (C2C) make up the majority of the transactions at present, but business to consumer (B2C) sales are projected to take up an increasing share of the market. Of the online retail platforms, Taobao is the undisputed king, accounting for 72% of all online transactions in 2009 and leaving its competitors like Pai Pai, 360buy.com and Dangdang.com in the dust, although the latter three are specialised retailers, as opposed to the all-encompassing Taobao.

The rise of e-commerce looks set to continue and figures for 2014 indicate that the market is expected to grow by two and half times to ¥1.117 trillion, according to A.T.

Kearney. As expected, it is the consumers from first-tier cities such as Shanghai, Beijing and Shenzhen that are filling their shopping cart most, but the phenomenon is primed to spread to smaller and regional cities, as long as China's developing logistics infrastructure can keep up with the growing number of deliveries.

Online retail presents SMEs from Europe with an opportunity to reach Chinese consumers across the country. Currently, there are about 150 million online Chinese shoppers and this number is rising quickly; with the number of present and future clicks possible, this is an opportunity that should not be ignored. Eb

The EU SME Centre

The newly established EU SME Centre in Beijing provides a comprehensive range of hands-on support services to European Small and Medium-sized Enterprises (SMEs), assisting them to establish, develop and maintain commercial activities in the Chinese market.

A large number of informative and practical reports and guidelines, which cover business development, legal, standards and conformity and human resource issues, are available on the Centre's website. These reports are freely downloadable following registration: www.eusmecentre.org.cn.

Online Selling in Figures

Number of internet users:
450 million

Number of middle class:
200 million

Number of online shoppers:
150 million

Brand name shops on Taobao: 30,000

Growth rate of online retail sales between 2004 and 2010:
11,000%

Source: A.T Kearney, Access Asia, CNNIC

Using Customs To Protect Intellectual Property Rights In China

Both the import and export of counterfeit goods in China is prohibited, and increasingly China's Customs service is willing to interdict on behalf of companies, both foreign and domestic, to stop such materials from reaching international markets. China IPR SME Helpdesk's **Philippe Healey** introduces the various mechanisms and recourse available to businesses upon whose intellectual property is being infringed.

The Customs Law of the People's Republic of China prohibits the export or import of goods from or to China that infringe intellectual property (IP) rights. Whereas most countries' customs only examine imported goods, China differs in that its customs examine goods being imported and exported. China Customs have the authority to protect IP rights by confiscating infringing goods and imposing fines on infringers. If the infringement of IP rights exceeds a certain threshold, then Customs officials will also arrange for criminal proceedings to be brought against the infringing party.

The Customs IP Regulations provide that IP rights can be recorded with the General Administration of Customs (GAC) in Beijing. Although it is not compulsory to record IP rights at the GAC in order to apply to local customs for enforcement proceedings, it is beneficial for a company moving goods in and out of China because if IP rights are registered with customs, then customs has the power to detain at will any suspected infringing consignment of goods. In addition, local customs offices are more proactive when IP rights are recorded with GAC mainly because the recordal provides customs officials with easy access to internal IP databases and makes it easier for them to determine whether goods passing through customs are genuine or counterfeit. Recordal of IP rights also facilitates the process of commencing customs enforcement proceedings.

Given that the recordal of IP rights is inexpensive and straightforward, recording with GAC is recommended by the China IPR SME Helpdesk experts.

Recordal of IP Rights with GAC

The types of IP rights that can be recorded with GAC are trademarks, patents (including patents for invention, utility model and design patents) and copyrights. Separate applications must be filed for each type of IP. In the case of trademarks, for example, holders must submit a separate application for customs recordal for each trademark in each class. To record IP with Customs officials, the following information must be submitted:

- A copy of the business registration certificate (including a Chinese translation)
- A copy of the trademark certificate (China registration)
- Information regarding related licences (Customs do not want to withhold legitimate goods), photos of the goods and their packaging
- A power of attorney in the name of the agent responsible for the registration process, if one is used
- A fee of RMB 800 RMB

In addition, information about infringers that has been collected independently, such as names, company names, contact details and more may be registered at the same time. If there is detailed knowledge of specific deliveries of goods, customs officials can be informed, who will then examine the delivery in question.

Decision

Within 30 days of receipt of all relevant documents, GAC will make a decision whether to record the IP rights in question. If GAC approves the submission, the recordal of IP rights is valid for the duration of the IP right or for a maximum period of 10 years. Renewal of customs recordal can be filed six months prior to expiration.

Customs Enforcement Proceedings

If there is suspicion that infringing goods will pass through customs, an application may be filed with the local customs office at the place of entry or exit of the infringing goods. The company making the accusation is required to provide the local customs office with a deposit to cover potential losses of the consignee or consignor and/or costs incurred by customs for warehousing, storage and destruction of any infringing goods. This payment is usually made in the form of bank transfer or cash payment. According to the recently revised Customs IP Measures, blanket securities in the form of bank guarantees are now acceptable upon prior approval from the GAC. This option is available those who have not registered with customs, however the process is quicker, easier and more likely to be resolved successfully if the right is already registered.

If customs officials suspect that goods infringe IP rights, they will request that the consignee or consignor make a declaration regarding the status of such goods and the IP rights in question. If a declaration is not provided, the officials will suspend the release of the goods and will immediately notify the accusing company. That company must then act within three days of notification, in order to file an application to detain the goods and commence customs enforcement proceedings as well as provide the deposit to the local customs office. Given the short deadline, if a guarantee is made by bank transfer from an overseas account, local customs officials usually accept an advance copy of the bank transfer slip as preliminary evidence of timely submission of the guarantee. This ex officio action is only possible if you have already registered the corresponding IP right with China Customs.

It must also be confirmed whether or not the goods in question are in fact, counterfeit. Customs officials will make a final decision as to whether the goods infringe the IP rights within a six-month period. Officials will then decide whether to detain and destroy the goods, and whether to also fine the consignee or consignor. If the value of the infringement exceeds limits stipulated by the PRC Criminal Law, customs officials will submit the case for criminal proceedings.

The company filing the complaint will be informed about the final decision and return any security payment made, after deducting expenses (such as for warehousing, destruction of the goods in question, or for losses incurred by the consignee or consignor).

Customs Recordal – Important Points

The purpose of recording IP rights at customs in China is to stop the export or import of infringing products and thereby preventing counterfeit versions of goods from entering the international market. Recordal gives customs the ability to intercede autonomously if they believe this might happen.

Recordal of IP rights has, in the past, produced a number of encouraging results. However, in order for customs officials to make proper and quick decisions when checking goods passing the borders, it is best to maintain close contact with those officials. It is particularly important to provide customs officials with a comprehensive description of the company's products, including pictures and samples (which should be retained by the company), so that the officials can easily recognise counterfeit goods. Officials are also generally willing to attend 'training' meetings with company representatives to allow the best chance of limiting infringing products from crossing through customs in China.

In the latest implementing rules for the customs regulations on IPR protection (effective 1 July, 2009), companies are obliged to provide customs with as much information about the legitimate business usage of the right as possible, if the company wishes to continue to benefit from this service. For example, it is required that if there is any change to the information made in the recordal application, customs must be notified within 30 days. Failing to meet your obligations to customs can lead to your recordal being cancelled, so take time to become familiar with them. 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 www.china-iprhelpdesk.eu. For free expert advice on China IPR for your business, e-mail your questions to: enquiries@china-iprhelpdesk.eu. You will receive a reply from one of the Helpdesk experts within seven working days.

LESSONS FROM THE CRUNCH:

Top Talent Needs Opportunity and Support

The human resources (HR) crunch, an increasing pressure on the labour market, is the bad news that accompanies the good news of continuing economic growth in China. Some international companies feel the pressure of growing costs and even faster-growing expectations of urban labour in first-tier cities. Others struggle with the scarcity and insufficient quality of employees in second- to third-tier cities. Some companies suffer from both. **Gabor Holch** looks at the puzzling phenomenon of a country where 10 million students graduate from higher education every year and yet employers face a skilled labour shortage.

HR between a rock and a hard place

Probing into the causes of the current labour crunch, we will find important macroeconomic trends. The minimum wage has been raised by Beijing, partly in order to even out inflation. Although China has recently abandoned its break-neck, double-digit GDP growth, the government still supports a fast-moving economy, flooding the market with liquidity.

The 10 million annual graduates from the country's higher education system often leave school with unrealistic expectations. Based on past examples, young urban Chinese expect to move up swiftly, by changing jobs often if that is what it takes. "My experience is that young Chinese are ready to move on as soon as they find something a bit better paying or a bit more advantageous," said Gábor Gerencsér, Senior Manager of Shanghai General Motors (SGM). They also expect employers to keep up with the market, providing them with up to a 10% salary increase each year. They often forget that in the midst of global recession, Chinese workers are in competition with countries where labour has actually become cheaper in recent months. In light manufacturing, many companies have left for less costly sources of labour. Many others are considering to do so.

Employers, however, do not always have a choice. For example, in the automotive sector, rising labour costs coincide with a desperate shortage of talent, but China is the only place with steady growth in the world right now. So companies stay and compete for top local talent whether or not it measures up to global standards.

"Companies are forced to accept an unreasonable cost increase for mediocre talent just to stay ahead of competition," reckoned Akyazici Oemer, CEO of Ipsen Industries Furnaces (Shanghai) Ltd., a supplier of several top vehicle brands.

The situation is also not likely to change significantly in the near future. Growth will likely continue in China; there are still huge gaps in industrialisation and consumption compared to the developed world. Talent does not grow so quickly. While the educational system still fails to attach practical value to diplomas, the only reliable sources of skilled people are in-house development and competing companies. Long-term thinking is a challenge in such a fast-moving market. "Very few companies are willing to invest time and effort in talent succession in China," said Mr. Oemer.

Hiring is key

In a time of rapid growth and limited resources, hiring the right employees becomes a skill that makes or breaks companies. As the saying goes, the need to micromanage in the present is a clear sign of a hiring mistake in the past. There is only one way to avoid the gargantuan cost and time loss of hiring and then replacing the wrong employee: a more careful and thorough selection process. Hiring based on a general job description, a resume and a couple of interviews is a thing of the past. In today's environment, companies need to make use of advanced selection tools such as personality assessment and problem-solving simulations. Advanced methods may also impress the majority of applicants that the company does not hire, and build a reputation for the firm as a desirable workplace.

In the competition for talent, the public image of a company is more important than one might think. It is brand image that makes more selective candidates turn up at an interview at all. Candidates are just as aware of the shortcomings of the Chinese labour market as employers; they want to work for a company that fosters learning and innovation, and thus puts them ahead of the market. However, be careful not to promise the moon to candidates, or just say what they want to hear. Headhunters may play up companies, but if employers create unrealistic expectations, they will find themselves stuck with high turnover very soon. "The best way to avoid disappointment and get the most suitable people", said Oemer, "is to honestly share with the applicant how personal development corresponds with salary development".

Should I stay or should I go

The role of a supportive corporate culture does not end with recruitment; it is also the secret ingredient for healthy retention figures. "The current HR crunch forces SGM to consciously build up a strong culture that fosters pride, employee growth and satisfaction among workers," according to Tao Ying, who looks after organisational development and planning at Shanghai General Motors. Such efforts are the added value that companies can create to attract and keep top talent in a highly competitive environment. People with high potential are willing to work hard, but they need to know where their efforts will take them in the next two to three years, where they are now in relation to the required performance, and how the company intends to support them in delivering high performance.

There are two significant challenges to developing a transparent system of talent development and retention. The first one is performance evaluation. In a new age of management where innovation, a sense of achievement and loyalty to the firm are keys to success, how are such abstract concepts measured? In fact, there are several advanced tools in the HR consulting market that could help managers define key performance indicators for any requirement, including fairly abstract ones. Few companies take advantage of such tools even though their costs are negligible in comparison with the costs of losing talented staff.

Another hurdle is that in a progressive company that emphasises retention, managers have to become mentors and trainers as well as delegators and evaluators. Innovation is essential in today's business, but it will only happen if people have the space and support to develop their own style for maximum efficiency. This is a laborious process that often meets considerable resistance in places where performance is traditionally associated with technical skills and experience. Normally it even requires external involvement of management and HR experts who assist technical managers in becoming more aware of how human performance works, and how it can be improved. But companies with good retention records know that the mentoring skills of line managers can turn an otherwise well-functioning firm from a second-best option into a choice destination that attracts top talent from the whole industry.

Performance, performance, performance

People like places that help them use their strengths and overcome their weaknesses. This is why learning new skills is internationally the most frequent reason for changing jobs. (Money is only second.) In China, there is the added pressure of a growing economy combined with a struggling social security system. People have little choice but to become high performers, otherwise they will become the losers of the race. With a combination of opportunity and support, companies must struggle to become catalysts of value-based efficiency, making sure that those who want to make a difference can. Eb

Gabor Holch is the founder and General Manager of Campanile Business Consulting, a team of committed management consultants and trainers in China and the European Union. Since 2004, Campanile has provided management teams with strategic advice and training in leadership, management and communication. www.campanileconsulting.com.

Cleantech Investing: Back in Full Swing

Following a surge in clean technology (cleantech) investing over the last five years, private equity investors seemed to be losing interest in the sector. The Copenhagen summit on climate change was a disappointment and as the global financial crisis has unfolded, many investments made around that time turned sour. Yet in 2011, when considering the broader cleantech landscape beyond traditional renewable sectors, there has been a steady rise in investment in China. In fact, investors in the field have been more active than ever before and dealflow is among the highest across all sectors in China. In this update, L.E.K. Consulting's **Michel Brekelmans** explores the recent trends in cleantech investing in China and argues that the sector should be given further consideration by investors looking for attractive investment opportunities.

The cleantech industry can be defined broadly to include all companies involved in production, processing and other operations that have a smaller environmental footprint, and/or create less pollution, than conventional technologies. Fundamentally these are companies that are addressing one or more of the pressing global needs for cleaner air and water, reduced and cleaner energy consumption, and the safeguarding and improvement of living environments. The industry should be defined in this way, to encompass more than just the traditional focus on renewable energy, an area which has received a great deal of attention in recent years on the back of spectacular fortunes made (and in some cases, lost) by Chinese businesses focussed on wind and solar power.

Thus, cleantech can incorporate a range of technologies and sectors such as recycling, information technology, transportation solutions, chemicals and lightweight materials, and lighting – essentially any application that provides energy-efficient services or reduces air or water pollution. Investment in these new areas has been driven by increased public awareness and government initiatives, particularly in recent years, following the renewable energy investment boom.

Considering first the global picture, cleantech investment has increased over the last five years to reach US$243 billion in 2010, and estimates from the United Nations suggest that 2011 is expected to repeat last year's strong performance. The vast majority of this investment has been in the form of project financing and infrastructure funds, with private equity and venture capital historically accounting for a small portion of total investment, about three to five percent. However, despite this relatively small scale, private equity and venture capital activity in the industry remained strong over the last three years with most of the funds starting in the 2006-08 period still having ample dry powder.

According to the Bloomberg New Energy Finance, venture capital and private equity firms in the third quarter of this year invested US$2.23 billion into 189 cleantech deals, representing the largest amount since the crisis. Given current market uncertainty, investors are charging a higher risk premium that is suppressing valuations. This is increasing the opportunity for larger returns in an industry where the long-term fundamental drivers are strong. However, at the other end, market conditions mean exiting any investment remains challenging with little appetite for new IPOs and investors having to accept lower valuations. Globally, power generation has continued to be the most popular sector for investment, followed by clean fuels, and with recycling and waste treatment a close third.

Muscling its way up

China is seeing resurgent interest in cleantech investing. A recent survey of global fund managers listed China amongst the top regions in terms of attractiveness, and the country has taken centre stage in terms of global cleantech investment activity. Of the 14 cleantech-related IPOs during the third quarter of 2011, raising $1.7 billion, 11 took place in China. In 2010, according to Bloomberg and PEW Charitable Trust, China invested US$55 billion in clean energy alone, representing a 39% increase on the previous year.

Private equity investors have taken note. In 2010, cleantech was one of the most active sectors in terms of private equity dealflow, with 31 investments made, and cleantech was also among the top sectors for private equity exits last year. This momentum has been carried through into 2011, with five of the 10 largest IPOs in 2011 in China (through August) being in cleantech; two in environmental protection, one in energy saving (lighting), one in solar and another in wind energy. Of the cleantech exits, 11 were floated on overseas exchanges, raising US$2.6 billion in funds. China's second-largest wind turbine maker, Xinjiang Goldwind Science & Technology's IPO in Hong Kong was the largest, raising US$917 million. China's cleantech sector has already created significant returns for a number of early investors. Forbes Magazine reported that five of the world's 10 richest green billionaires in 2011 were from China including Zhu Gongshan from GCL-Poly Energy and Han Junliang from Sinovel Wind Group. Private equity players have often played an important role in financing the expansion of these businesses and have been rewarded handsomely.

However, it's not all been smooth sailing. Clearly, some investors have gotten burned betting on the wrong so-called technological breakthrough that has never materialised or as business performance has deteriorated. The latter has been influenced by a number of factors including the collapse of European subsidies, intensive competitive pressure as new entrants have flooded the market with capacity, and market saturation due to rapid increases in penetration, often induced by pressure and incentives from the Chinese government to adopt certain technologies in order to reach energy saving standards. A number of private equity investors were simply caught out by the speed at which new technologies were adopted, seeing incredible growth in one year but demand dry up in the following one.

Where do we go next?

So, the billion-dollar question in cleantech investing today is: where next? What is going to make up the next wave of technologies and businesses set to create superior returns for investors? The attractive sub-segments in the Chinese cleantech industry are changing. The industries that experienced the initial investment such as on-shore wind and solar that now matured. These sub-sectors face overcapacity and increased competition that will likely cause consolidation. There may still be some room in these more established areas, although this will rely on the company being able to sustain a cost advantage in a market experiencing substantial downward price pressure.

The next wave of investments will likely be in new power generation sub-segments such as offshore wind farms and environmental protection (waste treatment, pollution monitoring, and coal bed methane capture).

Of the seven Chinese private equity deals over US$50 million made in 2011, three were made in environmental protection, including a US$114 million investment by KKR in United Envirotech Ltd., a water purification and treatment company, and a US$105 million investment by a group of investors in Chengdu Xingrong Investment Co., Ltd., which monitors and controls pollution levels.

In September 2010 the State Council, China's cabinet, selected seven national strategic industries that it hopes will advance the nation's economic development and which it is specifically targeting for China to become world leaders in over the next (12th) Five-Year Plan period. These industries are: energy saving and environmental protection; alternative-fuel cars; alternative energy; advanced materials; biotechnology; next generation information technology; and high-end equipment manufacturing, three of which directly relate to the cleantech industry, while advanced materials is indirectly linked through areas such as biodegradable plastics and energy-efficient glass.

As is so often the case in China, the government plays an active role in shaping the development of industry and creating conditions for companies to thrive in. Given the stated intention to increase the development of the key strategic industries, companies in these sectors will likely benefit from increasingly favourable government policy in areas such as reduced red tape, subsidies, tax incentives, and guaranteed loans, just as was seen in renewable energy over the last five to seven years. This will encourage increased investment and focus in the sector, providing significant opportunities for private equity firms with the right capabilities to identify and invest in the future market winners. Eb

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and analytical rigor to help clients solve their most critical business problems. Founded more than 25 years ago, L.E.K. employs more than 900 professionals in 20 offices across Europe, the Americas and Asia-Pacific. L.E.K. has been on the ground serving clients in China since 1998. For more information, please go to www.lek.com.

Tianjin: Gateway to Northern China

Sometimes seen by capital residents as Beijing's lesser sibling, Tianjin has emerged as an powerhouse in its own right. Combining one of northern China's biggest manufacturing areas along with port facilities and maritime industry, along with the Tianjin Economic Development Area, Tianjin is now just next door, connected to the capital by high-speed rail. **Steven Schwankert** wanders over to the city by the Bohai Sea.

Tianjin was one of the first cities that became known to foreigners during their interactions with China, with some European nations establishing concessions there during the early part of the 20th century. It was a Belgian company that built the city's first tram network in 1904. That history of interaction and cooperation with foreign firms has helped Tianjin remain one of the most popular destinations for inbound investment and trade in China.

With a population of about 11.5 million, Tianjin is the sixth-largest city in China. It is one of only four cities directly administered by the Central Government (the others are Beijing, Shanghai and Chongqing), Tianjin is located just over 100 kilometers southeast of Beijing. It borders both Hebei Province and Beijing Municipality, and its eastern edge lies along the shore of the Bohai Sea.

Tianjin is divided into the old city and the Binhai New Area, designated to create new opportunities for both domestic and foreign-invested companies to establish themselves. As of the end of 2010, 285 Fortune Global 500 companies have established branch offices in Binhai.

History

In the old city, one can find evidence of the period when Tianjin was home to foreign concessions. One famous former resident is U.S. President Herbert Hoover (1929-1933). Hoover worked for Bewick, Moreing & Co. as its leading engineer in China. Hoover and his wife learned Mandarin Chinese during their stay in Tianjin, and later used it during his tenure in the White House when they wanted to foil eavesdroppers.

The historic Astor Hotel maintains rooms once occupied by Hoover and an even more famous president, Sun Yat-sen, modern China's first head of state, who stayed there while visiting Tianjin.

The Tianjin Municipality also incorporates one of China's most important technology development centers, the Tianjin Economic-Technological Development Area (TEDA).

Home to the well-known Nankai University, Tianjin is considered a source of talent for multinational cor-

The Astor Hotel's history in Tianjin extends back to the middle of the 19th century.

porations, and its proximity to Beijing also gives it access to even more of the country's top graduates.

Economic Development

Nominal Gross Domestic Product (GDP) for Tianjin was 750 billion yuan (EUR 85.6 billion) based on 2009 figures, with per capita GDP of 62,403 yuan (EUR 7,122.4).

Tianjin's main industries include automotive manufacturing, industrial manufacturing, and textiles, along with agriculture for maize, rice and wheat, along with fishing. The city's port also maintains significant trade connections with foreign countries, and is considered the primary port for China's capital, Beijing.

Tianjin's special areas are among its primary drivers for growth and development. These include the aforementioned Binhai New Area, TEDA, and the Tianjin Port Free Trade Zone.

Along with these zones is the Tianjin Tanggu National Marine High-Tech Development Area. Established in 1992 and upgraded by the State Council in 1995, it is the only national-level high-tech development area specializing in developing the marine high-tech industry, including petrochemical processing. It is estimated that oil fields lying offshore but still within the Tianjin Municipality has deposits of about 1 billion tonnes of petroleum, with Dagang District containing important oilfields. Salt production is also important, with Changlu Yanqu being one of China's most important salt production areas. Geothermal energy is another resource of Tianjin. Deposits of manganese and boron under Tianjin were the first to be found in China.

Tianjin is also home to the National Supercomputing Center, home to the world's second-fastest supercomputer, the Tianhe-1A.

Tianjin is connected to Beijing by high-speed rail that can move residents of the two cities to their nearby neighbour in as little as 30 minutes. That link, along with slower trains and connecting highways have brought the two metropolitan areas closer to the point that residents of one can now find employment and commute to work in the other, perhaps even more so than inhabitants of Guangzhou and Shenzhen.

Major European firms that maintain a presence in Tianjin include ABB, Airbus, Akzo Nobel, Alcan, Alcatel, Goglio, Ipsen, Novozymes, Schneider-Electric, Siemens, Standard Chartered, Veolia and Volkswagen.

Some examples of facilities operated by top European players in Tianjin include Siemens manufacturing of medical devices; Schneider Electric is has several investments in Tianjin-based companies, including Tianjin Schneider Electric KIT Co. Ltd., Schneider Electric Low Voltage (Tianjin) Co. Ltd. and Tianjin Merlin Gerin Co. Ltd.; Novozymes produces enzymes; EADS Airbus maintains an aircraft assembly facility there.

With its infrastructure optimised for business, Tianjin continues to welcome domestic and foreign investors in China seeking a stable base and a local environment focused on growth. Eb

Experience One Night in Europe this May

On 12th May, the European Chamber Shanghai Chapter's annual Gala Ball will be taking our guests on a tour through the best that Europe has to offer. Join us for a night that will evoke the richness of European culture, the flavour of the many ancient and diverse countries.

Every May since 2005, members of the European and Chinese business community will converge at the Gala Ball to enjoy an abundance of fine food, wine and performance.

Drawing in many of the European Union member state Consul Generals, senior Chinese government officials and Fortune 500 CEOs, this event has grown into one of the paramount gatherings in the Shanghai social scene. Eb

For more information on how you can be a sponsor for this fabulous evening, please contact Petra Nordin by email at pnordin@europeanchamber.com.cn or call 021-6385 20 23 ext 116

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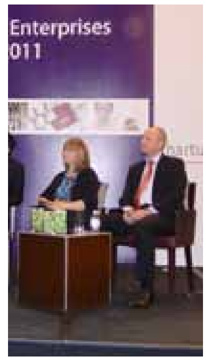

BEIJING

Breakfast with Mr. Michel BARNIER, European Commissioner for Internal Market and Services
17th January, 8:00 am – 12:00 pm,
Regent Beijing Hotel

PRD

Speed Meeting for Business Professionals
10th January

Speed Meeting for Business Professionals
12th January

A Key to Save Money - Active Travel Management Best Use of Your Travel Expenses
28th February

Gala Dinner in Guangzhou
3rd March

TIANJIN

GM Briefing: Food Safety in China
12th January

F&T workshop: Individual Income Tax Filing
13th January

InterChamber Networking
17th January

Event information is subject to change. For full details, please visit our website:www.europeanchamber.com.cn/view/events

Restrictions Placed on International Law Firms in China Hurt China's Legal Services Market

International law firms are important in terms of facilitating technology transfers to China and importing international techniques, legal precedents and expertise in various areas including venture capital to mergers and acquisitions, and bank documentations and others. They have been and still are a training ground for young Chinese lawyers. Further steps to open up the market and allow greater competition can help China establish itself as one of the world's leading legal services markets as well as encouraging more liberalised international trade worldwide.

Due to a number of restrictions, international law firms in China face significant challenges in the legal market. While these policies are directed against international law firms, those hardest hit by these restrictions are Chinese lawyers, the Chinese legal system and clients of both international and domestic Chinese firms.

Under current regulations, lawyers qualified to provide advice on Chinese law are not encouraged to join international firms. If they do join, the licence that authorises them to practice law in China will be suspended for the duration of their employment with the international law firm.

This regulatory restriction prevents Chinese citizens who have spent many years at university studying the Chinese legal system and passing the Chinese bar exam from pursuing a career as a practicing Chinese lawyer and partner (owner) in the China offices of the many international law firms. Moreover, it limits international law firms' ability to transfer technology and know-how to Chinese lawyers as well as lawmakers in the country. The ability to legally practice Chinese law within an international firm would afford Chinese lawyers broader employment opportunities and allow them to gain experience in international best practices in how to best provide advice and assistance to clients. It would also enable them to provide more seamless and better advice to both foreign clients operating in China and to Chinese companies seeking to do business abroad. Thus, both foreign and Chinese clients stand to benefit significantly from less protectionist regulation.

If Chinese lawyers were free to shift from international to domestic firms and vice-versa, the quality of legal services would be improved and best practices more widely shared among all firms, international and domestic. Chinese law would also become a more acceptable choice of law to govern contracts around the world as international firms increase their familiarity with the Chinese legal system.

Currently, Chinese law firms can hire foreign lawyers from many jurisdictions and have those lawyers provide legal advice on the law of their home countries. They can do so here in China or through overseas offices in global centres like New York or London.

In addition to the regulations that restrict Chinese lawyers from associating with international firms, others further discriminate against international firms to the detriment of their clients, both foreign and domestic. For example, in several circumstances, international law firms are prohibited from accompanying their clients in meetings with government officials or administrative proceedings, even though there are no restrictions on attendance by other professionals and advisors or by Chinese lawyers. This is of special concern with respect to meetings before the Ministry of Commerce regarding Anti-Monopoly merger reviews, but has also been an issue with other Chinese agencies and ministries.

With respect to legal services, China's regulations are more restrictive and its market comparatively more closed than its neighbours such as the Hong Kong SAR and Japan, as well as major trading partners such as the European Union and the United States.

To some extent, the challenges highlighted in this article are the result of the enormous successes achieved through partnerships forged between Chinese and foreign business in recent years. While this process has at times been very difficult, stronger integration has generally benefitted all parties and a great deal of progress has been made in establishing a strong and sustainable rule of law in China.

Greater gains will result from further liberalisation of the legal profession that would bring China in line with global trends. Not only would the law firms benefit, but companies would receive better and more efficient advice, Chinese lawyers would prosper and become more influential on the international stage, Chinese law would gain greater acceptance around the world, and Chinese society would benefit from better trained, more professional lawyers. Eb

For more information, please contact Onur Yalcintas at oyalcintas@europeanchamber.com.cn or Xavier SansPowell at xsanspowell@europeanchamber.com.cn

The Human Resources Conference featured sponsorship and support from around China.

Conference Tackles Limitations to Boosting HR Capabilities

The European Chamber held its 7th annual Human Resources (HR) Conference on 25th November at the Longemont Hotel in Shanghai. This year's conference, entitled "Beating Limitations", discussed how HR strategies play an integral role for business growth in China. Renowned Chinese and European CEOs and HR Directors (HRDs) addressed more than 220 attendees, engaging in participants via lively panel discussions and question-and-answer sessions.

This year's conference broke new ground in bringing together experts from both leading Chinese and European companies, forming new channels for dialogue and opportunities to develop. With the proliferation of Sino-European joint ventures, increasing outbound investment from Chinese enterprises and other forms of cooperation, the HR Conference has evolved to meet the demand of further engagement with local players.

One of the key differentiators of the European Chamber's HR Conference is the winning formula of including both CEOs and HRDs in the proceedings, examining the issues at both strategic and working levels. Accordingly, this year, CEO keynote speeches were delivered by both Dr. Dahai Yu, Member of the Executive Board, Evonik Industries AG and Huang Yonghua, Vice President, Powerlong. More detailed discussion came during the CEO panel, which included both speakers alongside Dr. Peter Loeffler, Executive Vice President China, Bosch; Martin Kraemer, CEO Greater China, Lanxess and Zhu Qingyang of SHRCA. The moderator for this session was BASF

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Dr. Dahai Yu of Evonik Industries AG delivered one of the event's two keynote addresses.


Former European Chamber President and BASF Chief Representative Joerg Wuttke participated in a conference panel discussion.


GlaxoSmithKline's VP of HR Gary Zhang addressed the attendees in the afternoon.

Chief Representative and former European Chamber President Joerg Wuttke. Key issues discussed included company strategy as HR costs and wages in China rise, improving productivity and the utilisation of Shared Service Centers.

The afternoon session delved into more practical and operational aspects of the HR field in China, with HRD speeches from Gary Zhang, Vice President HR, GlaxoSmithKline and Kang Lan, HR Vice President, Fosun. Moderator Dan Zhu, Vice Chair of the HR Forum and Managing Director of SRC then led an HRD panel including Ms. Kang alongside Angelo Puglesi, Vice President HR Asia-Pacific, Benteler; Cao Qi, General Manager HR, ICBC Shanghai; Chenyong Dong, HR Director, Ming Yuan Group; and Jennifer Jin, Head of HR China, Standard Chartered. The panel discussed localisation and globalisation of staff, people and career development, management challenges in engaging those born in the 80s and 90s, and other prominent issues.

After the panel, Mary Boyd, Director Shanghai Corporate Network, EIU, The Economist Group, presented on the macro-economic climate in China for 2012 and its effect on the Chinese labour market. The conference ended with concluding remarks from Hans Stremme, Chair of the HR Forum and Managing Partner of Neumann Management Consulting followed by another first in the seven-year history of the conference – a post-event cocktail mixer.

The event was made possible by the generous support of platinum sponsors (ADP, ChinaTeam, CIGNA & CMC and EunaCon), bag sponsor (CDP), gold sponsors (Allianz, Fesco Adecco and Kronos), lunch sponsor (Regalia Resort & Spa) and silver sponsors (Berlitz, Digital Publishing, MTI, New Concept Mandarin, Orisoft, Salans, Tsinghua SEM, United Family Healthcare and Yew Chung International School of Shanghai).

Next year's event is scheduled to take place on Friday, 30th November, 2012. Eb

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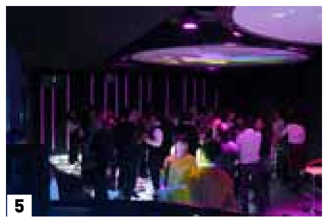
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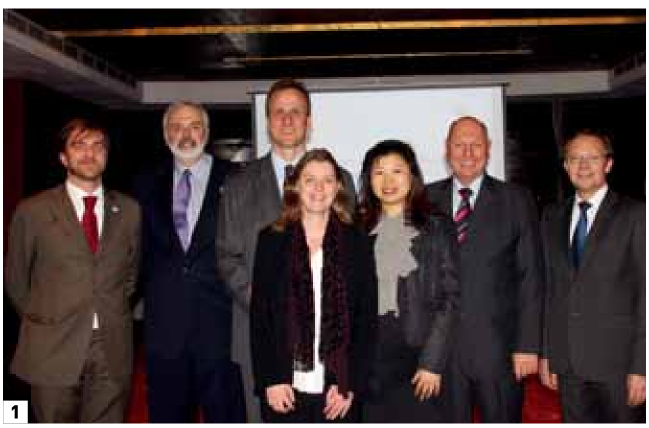
1. On 29th November, the Beijing chapter organised Insight China I, Global Debt Crisis: what part should China play?

2, 3. On 5th December, the Vice Mayor of Beijing, Mr.Gou Zhongwen, delivered a speech during a dinner with European Chamber members.

4. On 9th December, Insight China II, China's Economic Outlook 2012: The Zugzwang Scenario was held in Beijing.

5. On 7th December, the Beijing chapter heldNew Member networking.

NANJING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1. On 17th November, the European Chamber in Nanjing and the Nanjing Investment Promotion Commission co-organised a Government Dialogue. Mr. Diao Renchang, Deputy Secretary General of the Nanjing Municipal Government welcomed Mr. Dirk Moens, Secretary General of the European Chamber. Officials from different government departments made presentations and answered questions. More than 90 attendees joined the event and cocktail networking.

2. On 15th December, the European Chamber Nanjing Chapter and Jiangsu CCPIT co-organised a European-Jiangsu Business Networking. Mr Ma Haining, Executive Vice Chairman of Jiangsu CCPIT and Mr. Helmut Guesten , Chairman of the Nanjing Board of European Chamber provided a speech at the event. More than 120 attendees joined the event and buffet networking.

PEARL RIVER DELTA

1. On 29th October, the European Chamber – PRD Chapter organised the member companies to join the CSR event of Beach Cleaning on the Rose Coast Beach in Shenzhen.

2. Ms. Carmen Cano, Deputy Head of Delegation of the European Union to China and Mr. Holger Kunz, Chairman of the European Chamber PRD Chapter giving a speech in the Opening Ceremony of the 4th European Union Film Festival in Shenzhen.

3. On 3rd December, PRD chapter arranged a Christmas Party, a family event in Shenzhen.

4. On 30th November, European Chamber President, Mr. Davide Cucino, presented the European Business in China Position Paper 2011/2012 to Mr. Chen Mingde, vice mayor of Guangzhou Municipal People's Government.

TIANJIN

1. On 9th December, European Chamber President, Mr. Davide Cucino, the previous and current Local Chair of Tianjin Chapter, Dr. Eric Bouteiller, and Mr. Gabriele Castaldi met with Mr. Ren Xuefeng, the Vice Mayor of Tianjin and other government officials.

2. On 27th October, European Chamber members visited two leading companies in the Tianjin Airport Industrial Zone (Asia Power System – A Caterpillar company and Metso Fabric).

3. On 17th November, the European Chamber invited the Governor and other officials from Tianjin Binhai New Area to deliver speeches to the Chamber's regular GM Briefing event for top executives from member companies.

4. The Award Night for the 2011 European Chamber Photo Contest was held on the evening of 2nd December with almost 200 participants from member companies.

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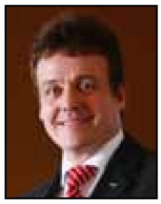

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The European Union Chamber of Commerce in China is driven and funded by its members. The 25 members of the Advisory Council are particularly active in representing and advising the Chamber, and make an enhanced contribution to the Chamber's funding.

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European Chamber
中国欧盟商会
ONE VOICE

THE EXECUTIVE INTERVIEW: Han Li (Cherry)

Han Li (Cherry) Chief Representative, Solvay S.A.

A veteran of both Chinese companies and Foreign-Invested Enterprises, Han spoke to EURObiz's **Steven Schwankert** about overcoming cultural differences and the challenges of being a successful woman in the Chinese workplace.

You've worked for Foreign Invested Enterprises (FIEs), Chinese companies and government entities. What do you find to be the biggest difference between them?

Han Li (HL): The FIEs I have worked for are all major international organisations, they have different cultures that are more or less integrated together. These cultures differ somewhat between hierarchy, divisions and teams. There is also a variety of ethnic cultures that the company's staff bring though the front door, and when they operate in China, they have to think about local, regional and national cultures. The pure Chinese state-owned companies I worked for only followed the same culture.

Your experience includes management positions with both European and American firms. How is the corporate culture different?

HL: At European companies, decision-making tends to involve more stakeholders. This lengthens the decision-making process but also avoids making mistakes. These companies demonstrate more humanity, caring about staff, but talents might not be developed as quickly and also people's underperformance remains more present. In this case, market penetration is moderate to slow.

For American firms the CEO plays a key role in final decision making, and that process tends to be short. There is a focus on individual development, more talents are generated. People underperforming will be rapidly moved out. Market penetration is more aggressive.

What is Solvay's particular niche here in China? How does it divide its business between domestic and foreign?

HL: Solvay is a Belgian international industrial Group active in chemistry, with three sectors of activity, Chemicals, Plastics and Rhodia (from France, which was acquired in Sep. 2011). The Group's headcount is above 30 000 employees worldwide and the sales will exceed EUR 13 billion in 2011 with the particularity that for 90% of the portfolio, Solvay is either number one, two or three in the world depending on the market sector.

The Solvay Group has been active in Asia since the 1980s, with 21 manufacturing entities and over 3000 employees in China. Solvay is very active and invests in research and development of new materials for Chinese customers, such as new high performance specialty polymers and rare earth systems. The fruits of these R&D efforts are an increasing number of patents for new inventions made in China. The Group has a significant R&D centre in Shanghai with more than 100 scientists.

What is the biggest regulatory challenge Solvay faces in China?

HL: In China, we do not have significant specific challenges. The Solvay Group applies the most stringent standards to all of its plants worldwide, even in the absence of local regulation. For example: Solvay applies worker exposure limits to certain substances, even if they are not specified by law.

One issue in China is the frequent and rapid change of regulations, sometimes changing your environment even before you start your plant. This requires a lot of flexibility from your organisation.

What could European business people learn from their Chinese counterparts?

HL: I think both sides can learn a lot from each-other. European business people can learn to respect more the experience of people and the elderly for example. And a more optimistic "can-do" approach might help Europeans to increase business dynamics in Europe as well.

Chinese executives are willing to take risks and learn from mistakes. They focus on size of business and market penetration more than profitability at the beginning. They also believe in relationship-building for the long term. Eb