Journal of the European Union Chamber of Commerce in China

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May/June 2013

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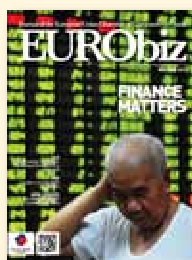
Investor photographed at a securities office in Jiujiang, Jiangxi Province on July 16th, 2012. The A-Share market plunged and more than 100 stocks hit rock bottom on the Shanghai and Shenzhen indexes.



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FINANCE MATTERS

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

Since the onset of the financial crisis in 2008, China's financial system has maintained an appearance of relative stability in comparison with its counterparts in Europe and the United States. But the strength of China's financial system is also its greatest weakness. While strong links between the government and the large, state-owned banks mean that the government can easily intervene in a crisis, it also distorts market forces and may affect the efficiency of the economy as a whole.

Despite the rapid commercialisation of China's financial system that has taken place since the reforms of the 1980s, it remains closely linked to the state. State-owned banks are still widely used for policy purposes, such as supporting state-owned corporations with favourable loans. While this has proved useful in the past it is becoming increasingly obvious that this model is no longer sustainable. As pointed out in the World Bank and DRC's *China 2030* report, China's financial system is "repressed, unbalanced, costly to maintain, and potentially unstable."

The need for financial reform is recognised at the top level of the Chinese Government and Premier Li Keqiang has made it one of the State Council's top priorities. On 6th May the State Council laid down plans to introduce measures to reform the *renminbi* exchange rate among other financial reform measures, and on 18th May the government sent further signals that changes are about to happen this year when the State Council approved the NDRC's guidelines for deepening economic reform in 2013. This document reiterates the ambition to liberalise interest rates and to set up a market-based interest rate mechanism.

This will be a difficult process since many powerful stakeholders are involved, and it remains to be seen if these ambitions will translate into action. Several of our Working Groups are following this closely and are also working with government stakeholders to ensure that the voice of European business is heard in the ongoing reform process. As in many other sectors, allowing for more foreign participation in China's financial industry could help accelerate China's efforts to create a modern, efficient and strong financial sector.

We analyse some of these important issues in this edition of EURObiz, with exclusive pieces from a number of distinguished economists.

A lot has happened at the Chamber in the last two months. On 24th April we held our Annual General Meeting at the European Union Delegation to China. At this meeting I had the honour to be re-elected for a third and final term as president of the European Chamber.

Two new Vice Presidents were elected in Mats Harborn and Eduardo Morcillo, while Jens Ruebbert was re-elected for a third and final term. Both Mats and Eduardo represent interesting and important industries and I believe they will be a good addition to our Executive Committee.

I would also like to congratulate Holger Kunz, Chairman of the PRD local board, who was re-elected to the Executive Committee and welcome Stefan Sack, Chairman of the Shanghai local board, who will serve on the Executive Committee for the first time.

Out of the 27 National Representatives of the Supervisory Board, three were elected to the new Executive Committee — Patrick Horgan (UK), Maija Kurte (Latvia) and Tom Sorensen (Denmark). I am proud to say that the Chamber's higher body is now represented by a wider range of nationalities than we have seen before, demonstrating unity in diversity, an important characteristic of the European Union as a whole.

I want to take this opportunity to thank our two outgoing Vice Presidents, Bruno Gensburger and Juan Ignacio de Motiloa, for their great contribution over the past year. A special thanks is reserved for Piter De Jong who stepped down after completing three terms as Vice President of the European Chamber and Chairman of the local Chamber Board in Shanghai. A complete report of all Chamber election results is included in this issue.

Finally, the Chamber's *Business Confidence Survey 2013* has just been released. This is an important annual study that provides a snapshot of European businesses' success and challenges in China, and one that deserves close scrutiny. An overview of the findings appears in this issue, and I would encourage all of you to visit the Chamber's website — www.europeanchamber.com.cn — to download a full copy of this report.

REALISING THE CHINA DREAM: THE NECESSITY OF FINANCIAL REFORM

In the following report **Murtaza Syed**, Deputy Resident Representative of the **International Monetary Fund in China**, examines the myriad challenges to China's programme for economic reform, and proposes a clear roadmap that will allow China to achieve a stable, modern financial system. Syed says that the necessary financial reforms can be implemented over a five-year period and, if done right, will spur the next wave of productivity in China.

Recent concerns surrounding wealth-management products and the build up in local government debt have focused attention on the dangers of the rapid expansion of China's informal financial system. The Chinese authorities have responded with measures aimed at containing the near-term risks.

There is also greater recognition that while financial innovation is in some ways welcome, uncoordinated and disorderly growth of the nonbank sector — which tends to be less well regulated than banks and less affected by the tools China uses to exercise monetary policy — could pose a danger of financial instability and erosion of macroeconomic control in the coming years. To forestall this risk, China needs to reform its financial system. Without such reform, it will also be difficult to realise the China dream, which hinges on sustaining healthy economic growth and rebalancing the economy towards consumption.

Let us begin with a stylised description of China's current financial system. The system is flush with liquidity, both because of a high stock of savings that is held domestically by China's closed capital account, and large inflows associated with the country's balance of payments surpluses and intervention to manage the exchange rate.

To prevent this liquidity fuelling dangerous lending booms, the People's Bank of China relies on control — predominantly direct tools like quantitative limits on bank credit and increases in bank reserve requirements. These have proven quite effective in recent years. By contrast, interest rate hikes are used more sparingly as they conflict with other goals — both loan and deposit rates are kept artificially low to provide cheap credit to certain firms, protect bank margins and subsidise the sterilisation of foreign exchange intervention.

So why should we worry about this status quo? There are two main reasons.

First, as we are already witnessing in the rapid expansion of 'social financing', quantitative controls on credit create enormous incentives for banks to find other ways to lend, including off balance sheet and through informal means. By not actively using interest rates, China is unable to choke off the demand for credit and instead relies predominantly on attempting to stem its supply by banks. But the more intermediation occurs outside of banks, the less effective these supply controls become and the tougher it is to enforce the credit policy needed to manage the trajectory of the economy. This is clearly risky and could begin to compromise macroeconomic control over time.

Second, the financial system perpetuates China's unbalanced growth model by under-pricing capital and depressing interest rates. China's inflation-adjusted deposit rate has averaged only one quarter of one per cent over the past decade. As a result, households — whose savings are mainly held in bank deposits — are charged an inflation tax, suppressing household income and holding back consumption. At the same time it boosts the returns enjoyed by the state-owned corporate sector through extra-low interest payments, raising their profitability and investment and, ultimately, adding to corporate saving, which today accounts for over one third of China's national savings.

By depressing household incomes and boosting savings in this way, China's financial system contributes to low consumption. By mispricing credit it also perpetuates excessive investment and excess capacity, putting pressure on the balance sheets of financial institutions; by preventing capital from flowing to the most productive enterprises and sectors, the existing system limits the economy's medium-term growth potential.

So the rationale for financial reform in China is powerful. However, there is a complication. Changing the system is not without risk. International experience cautions that many countries that have tried to liberalise their financial sector have lost control over monetary aggregates. When badly handled financial liberalisation can lead to the unintentional injection of an enormous amount of credit and monetary stimulus into the economy. Eventually, this can end in the heartache of over-heating, asset bubbles, bad loans and sometimes even a banking crisis.

Countries that have been successful in containing these risks — such as Australia, Belgium, and Canada — did three important things: first, they mopped up liquidity and tightened monetary conditions early on to drive up the real rate of interest; second, monetary policy was nimble and independent enough to guard against an excess supply of credit as interest rate constraints were removed; and third, they upgraded regulatory and supervisory


At the sharp end of financial reform: Lou Jiwei, China's Minister for Finance

frameworks early and continuously.

So there is a way forward for China to reform its financial system but it will need to be carefully sequenced. Unlike most reforms undertaken over the last three decades — such as those in agriculture and the setting up of special economic zones for manufacturing exports — financial reform cannot be piloted or restricted to certain banks or geographical areas. The likelihood of arbitrage will not allow for such experimentation. So it is important to have a broad roadmap for financial reform, albeit one that is flexible enough to adjust to unforeseen events. Indeed, the new Chinese leadership has also stressed the need for the next generation of reforms to be anchored on a top-level design and strategy.

What could such a roadmap look like? There is no single, superior approach for use in all cases. But cross-country experience and China's specific features suggest that the key elements of a plan could usefully include:

- **Allowing relative prices — including the exchange rate — to be more market-determined to stem the continuous inflow of liquidity**. At the same time, the stock of excess liquidity would need to be absorbed by issuing central bank bills and moving to a point where interest rates clear the credit market, not quantity controls. This would facilitate a shift away from quantitative limits on credit and toward the use of conventional monetary tools. Significantly, it will also give the central bank increased ability to run a more activist, independent, and counter-cyclical monetary policy.

- **Adopting a new monetary policy approach**. As the exchange rate becomes more flexible, quantity controls wane and monetary aggregates become less stable. It would appear sensible to shift to a framework that establishes clear objectives on growth, inflation, and financial stability, and deploys a combination of monetary and macroprudential tools.

- **Explicitly withdrawing implicit public guarantees of financial institutions**. Instead, such blanket backing should be replaced with an explicit scheme for deposit insurance. It could be complemented by continuing to reform and commercialise China's state-owned banks. Ensuring banks face hard budget constraints would be an important prerequisite for a more commercially-oriented banking system that adequately prices risk and efficiently allocates credit. It also helps mitigate moral-hazard risks and prevents banks from taking undue risks as interest rates are liberalised, restrictions on bank activities eased and new markets opened. Improving the resolution framework is also key to allowing an orderly exit of weak or failing financial institutions. It is also important to ensure that losses on assets backing non-deposit instruments are fully borne by investors. This will promote risk awareness and prevent the perception that investments are implicitly guaranteed.

- **Continuously upgrading regulation and supervision to monitor and identify macro-financial vulnerabilities**, particularly those that pose serious risks to credit quality.

- **Liberalising interest rates**. As the next step toward interest rate liberalisation, upward flexibility of deposit rates should increase. This will help reduce regulatory arbitrage that currently favours wealth-management products over bank deposits. Full liberalisation of deposit and lending rates could be completed over time and based on prevailing conditions, gradually widening the flexibility along the way. Fully liberalising interest rates too early in the process — particularly before a more nimble monetary policy and better regulation and supervision are in place (see below) — would risk 'over-competition' by banks that erodes margins or precipitates a lending binge that poses risks to financial stability. One should expect liberalisation to lead to higher interest rates, in large part to reflect the true risk premium which to date has been implicitly subsidised by the government.

- **Developing capital markets to promote alternatives to the current bank-based intermediation system**. This would help improve the pricing and allocation of capital, while also providing households and investors with a broader range of potential saving instruments. This could include further efforts to encourage the development of mutual funds, corporate bonds, equities, annuities, and insurance, as well as building a stronger institutional investor base. It is important to ensure that financial market development is coordinated and does not advance too far ahead of banking reform, lest deposits start to flow out of the banking system in a disruptive manner.

- **Fully liberalising the capital account as the final step**. A more robust system of monetary control, market-determined interest rates, a strong prudential regulatory system and putting a more flexible exchange rate in place, will ensure China is well-positioned to gradually free-up the existing controls on capital flows. Such steps will also permit China to internationalise the *renminbi* at an appropriate pace, thus making its currency more freely usable for international trade and finance.

Prior to the global crisis, China was on a firm trajectory toward a modern financial system capable of addressing the challenges of a more mature and complex economy. Tremendous progress had been made to deal with problem loans and recapitalise and commercialise the large state-owned banks. At the same time, the regulatory infrastructure was improved with the establishment of individual regulators for insurance, banking and securities markets. Interest rates on a range of fixed-income instruments were modified to become determined by market forces, while an interbank bond market was established to allow corporations to raise funds from securities markets, reducing their dependence on the banking system for credit.

However, as financial systems across the globe suffered severe setbacks, Chinese policymakers paused. In some ways this was natural but over the medium term China needs to accelerate the pace of change. If financial reforms stall rebalancing the economy may well prove elusive and the risks to macroeconomic stability will escalate.

Thus, it is encouraging to note the prominent role assigned to financial sector reforms in the 12th Five-Year Plan as well as in more recent announcements by the new Chinese leadership. Indeed, the roadmap laid out above can be completed over a five-year horizon. Done right, financial liberalisation would be the next big wave of reform that China needs to unleash another round of productivity gains. It could be as significant as the state-owned enterprise reform of the 1990s, laying the foundations for continued strong growth in the coming decades and for fulfilling the promise of the China Dream. Eb

*For more information on the **IMF**'s proposed economic roadmap for China, view the IMF (2011)* People's Republic of China: 2011 Article IV Consultation *staff report (Washington DC), at www.imf.org/external/pubs/ft/scr/2011/cr11192.pdf.*

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CHINA'S CAPITAL MARKETS: UNTAPPED POTENTIAL

Progress in China's capital markets is far from satisfactory, falling well short of China's economic developmental needs, the expectations of policy designers and indeed the market itself. In the following article **Chen Xingdong**, Chief Economist for **BNP Paribas (China) Ltd**, examines the current situation and finds that although it currently bears no comparison with the sophisticated markets in the west, the desire for radical development — both from investors and the general demand for capital raising — means China's capital markets have enormous potential.

After 30 consecutive years of rapid growth, increased affluence amongst many Chinese has created a demand for financial asset or wealth management, particularly amongst those in the top 10-20 per cent of China's wealthiest citizens. Under current conditions China's underdeveloped capital markets has given rise to a distortion of capital allocation and damaged capital efficiency; it has also driven bubbling for certain classes of assets. From our perspective, with the new Chinese leaders committed to a fresh round of reforms, we believe that bold restructuring of the financial system, and specifically capital market development, will be one of the fundamental reform programmes undertaken.

An underdeveloped market

It may be easier to understand the current situation of China's capital markets in the context of corporate capital raising — known as direct financing when raised through capital markets, or indirect financing when raised through commercial banks. Even after more than two decades of development of the capital markets, indirect financing remains in a dominant position. Bank loans (including *renminbi* and foreign exchange loans) made up 57.8 per cent of total social financing in 2012, with the bond market accounting for 14.3 per cent and the equity market taking a mere 1.6 per cent.

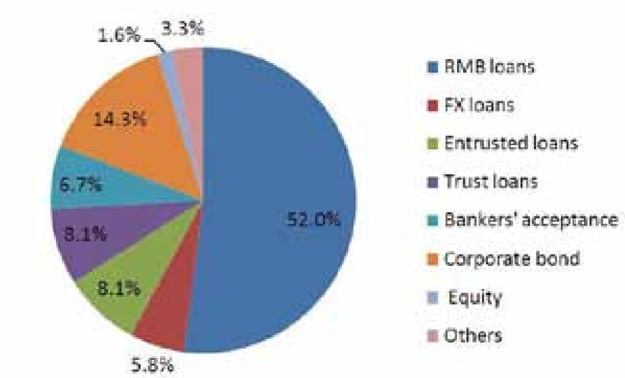


Figure 1: Total social financing structure (2012)
Source: CEIC

Although we must take into account the different stages of economic development in each country, figure 2 illustrates a stark comparison. Equity market capitalisation (market cap) against GDP in China stands at just 37.4 per cent, compared to 142.4 per cent in UK, 120 per cent in the US, and is even lower than India which is 59.3 per cent. China is already the second largest economy in the world and its GDP is some 53 per cent of that of the US, yet its equity market cap is only 16.4 per cent of the US.

	Market cap (USD bn)	2012 GDP (USD bn)	Market cap as % of GDP
UK	3465.4	2,433.78	142.4%
US	18760.9	15,653.37	119.9%
Japan	4139.2	5,984.39	69.2%
India	1154.9	1,946.77	59.3%
Brazil	1207.9	2,425.05	49.8%
Russia	750.3	1,953.56	38.4%
China	3082.2	8,250.24	37.4%

Figure 2: Comparison of international equity market cap
Note: Market cap as of 10th April, 2013.
Source: CEIC

By contrast, China's financial market has been over monetised. Broad money supply (M2) in China rapidly expanded from RMB 18.5 trillion in 2002 to RMB 97.4 trillion in 2012. Over this ten-year period, broad money supply increased 4.3 fold, growing by 18.2 per cent in compound annual growth rate (CAGR), compared to 10.4 per cent in CAGR in real GDP growth or 15.7 per cent in CAGR in nominal GDP growth. Broad money against GDP increased to 187 per cent in 2012. Over monetisation distorts capital distribution, reduces capital efficiency, and causes deterioration in capital equity.

Poor performance

China's A-share market performance has been disappointing. If we take January 2008 as the base of 100, the China A-share market, represented by the Shanghai Stock Exchange Composite Index (SHCOMP), is the poorest performing market when compared to the S&P 500, MSCI Emerging Market, Euro STOXX, and even the HSCEI (trading in the so-called H-share — shares of companies incorporated in Mainland China and traded on the Hong Kong Stock Exchange).

Figure 3: Comparison of international equities stock market performance
Note: As of 3rd May, 2013
Source: Wind Financial

China's GDP in 2012 was 42 per cent higher than that of 2008 in real terms, or 65 per cent higher in nominal terms. Over the same period the US only increased three per cent, while the EU's economy is currently at a level below 2008. This indicates that China's poor performance has nothing to do with economic fundamentals; rather it can mainly be attributed to irrational market fundamentals, poor legal framework and enforcement, poor investor protection and lack of effective government oversight.

Bond market gained strength

In contrast, the credit bond market in China has performed extraordinarily well since last year. Though total bonds (including treasury bonds, financial bonds, People's Bank of China (PBOC) bills, corporate bonds) issued rose by only 3.5 per cent to RMB 8.1 trillion, generic credit bonds, covering enterprises bonds, corporate bonds, medium-term notes and short-term financing bills surged 44.6 per cent to RMB 3.6 trillion. Local government financing vehicle (LGFV) bonds were particularly strong, with an issuing amount of RMB 892.8 billion, more than double the RMB 371.5 billion issued in 2011.

The bond market has become an increasingly important funding channel for corporate and local government. Net financing via the bond market reached RMB 2.25 trillion last year, soaring by 64.7 per cent, and accounting for 14.3 per cent of total social financing of RMB 15.8 trillion, compared to 10.6 per cent in 2011.

This encouraging development in direct financing is exactly what policymakers have been hoping to cultivate for many years; however, the flourishing bond market has its latent problems as well.

The key problem for the bond market is market segmentation due to political and administrative reasons. It is artificially divided into the platform of stock exchanges in Shanghai and Shenzhen under CSRC regulations, the interbank market under PBOC regulations and large corporate bonds issued through general financial institutions under the administration of the National Development and Reform Commission (NDRC). In the absence of an integrated system the different bonds markets can result in competition, conflicts and inconsistency.

Furthermore, the bond market is over protected. The government — mainly local — and financial institutions implicitly provide ultimate guarantee of repayment. No defaults have yet taken place, which is an anomaly for a healthy market. The anticipated default of Hailong and LDK Solar last year failed to transpire as they were bailed out by local governments at the last minute. This kind of artificial suppression of credit risk will inevitably lead to a systemic underestimation of risks. Meanwhile, the ambiguous status of LGFV bonds — issued by a corporate in name but backed by local government — is another source of risks in the bond market.

Great potential

Taking the equities stock market as an example, by 2012 there were only 1400 LISCOs (listed companies) in the Shanghai and Shenzhen bourses and 700 SMEs listed in the Shenzhen Stock Exchange.

One thousand companies traded in over-the-counter (OTC) trades — trades done directly between two parties without supervision of an exchange — and China has just started to develop the so-called Third Board exchange (an OTC market for growth enterprises), with the first one being set up in Beijing in the second half of 2012.

But China has in the region of 13 million companies, and it is almost beyond comprehension how many of these are demanding capital raising each year — it is reported there are at least 800 companies queuing up for IPOs right now, all urgently looking for equity capital even under the current bearish market conditions.

At the same time, as the population becomes increasingly prosperous due to the 30-year period of sustained, rapid growth, living standards have moved beyond subsistence conditions and many Chinese are becoming increasingly strong savers. The demand for wealth management is enormous.

The situation of China's underdeveloped capital markets and its great potential for expansion can be illustrated with the following comparison. The governor of the People's Bank of China, Zhou Xiaochuan, recently highlighted the underdevelopment of financial and capital markets in China by referring to an IMF study.

It's reported that in 2011 the ratio of aggregate financial assets against GDP reached a global average high of 366 per cent: 424 per cent in the US; 449 per cent in the eurozone; 784 per cent in the UK; 540 per cent in Japan; 544 per cent in the 'Four Asian Tigers' (Singapore, Korea, Taiwan and Hong Kong); but only 303 per cent in China.

It suggests that China's financial markets lagged 30 per cent behind where they should have developed in line with its economic size and development. It also clearly emphasises the contradictory nature of China's capital markets, as its broad money M2 ratio to GDP reached a high of 187 per cent by 2012, the highest in the world.

We believe that the new leaders are committed to the bold reforms required to develop China's capital markets, and that these reforms, as a key part of a larger reform programme, which is under formulation, would become policy in the autumn of this year.

The opening up of capital markets and the participation of foreign companies in its development will be a key element in China, and will prove to be even more important going forward. Financial opening up has so far been much less than anticipated when China entered the WTO in 2001.

It is estimated that current foreign investment made up less than two per cent aggregate of outstanding financial assets in China by 2012. Ten years ago analysts expected the ratio to have reached 20 per cent by now. With the understanding that, on average, foreign financial assets make up 16-35 per cent of domestic aggregate financial assets in the world, the former CSRC Chairman, Guo Shuqing, believed the Qualified Foreign Institutional Investor (QFII) quota can be expanded by nine to 10 times (QFII quota is USD 80 billion, RQFII is RMB 270 billion at this point), and called for an acceleration in the opening of China's capital markets.

*With 475 staff in China, **BNP Paribas** provides banking, financing and advisory services via its Corporate & Investment Banking and Investment Solutions divisions. Through other vehicles in China, the Bank is also engaged in corporate advisory, overseas equity fund raising and retail banking activities. With both RMB and foreign currency capabilities in China, and leveraging on BNP Paribas' global platform in APAC, Europe and the Americas, the Bank provides specialised financing solutions to our clients, both in China and overseas.*

SHOULD EUROPEAN COMPANIES WELCOME A DECLINE IN CHINA GDP?

There are certain generally-accepted views about the Chinese economy that are not entirely correct which can lead to misunderstandings about the market potential for European companies operating in China. Incorrect interpretations of the economic and social landscape may lead to poor investment decisions or ill-thought-out marketing plans.

In this article, **Michele Geraci,** Head of China Programme at the **Global Policy Institute (GPI)** and professor of finance at **Zhejiang Univeristy** and **Nottingham University, China**, examines two topics which he says are prone to such misconceptions: Chinese savings rates and GDP growth. The scenario he presents is far from the commonly-held belief that China is a market with 1.3 billion potential consumers waiting to be tapped. He also explains that the expected slowdown in China's GDP growth could actually be a positive development, provided the 'quality' of GDP improves.

"The challenge for China is to improve the quality of its GDP and make it more dependent on internal demand. This is a process that will take several years, but it must be done, and the sooner the better."

One of the greatest myths that I often hear is that Chinese people have a high level of savings and, therefore, it should be relatively easy for European exporters to tap into this potential market. Unfortunately Chinese individuals are not big savers and, in any case, the little that they save is not likely to be spent.

This misunderstanding arises from an incorrect reading of how national accounts work: in general, we look at GDP broken down according to the expenditure approach (i.e. GDP is equivalent to the sum of investments, consumption and net export). We know that the consumption component in the Chinese economy is low — about 49 per cent of GDP at the end of 2011. Using the familiar concept that what is not consumed is saved, savings then represents 51 per cent of GDP. The problem is that the savings rate thus calculated is the aggregate savings rate for the whole economy and not the personal savings rate, because that figure also includes government savings and other items.

Hence, the general conclusion that the average Chinese person saves 51 per cent of their income is incorrect. In order to obtain the actual amount of personal savings we must turn our attention to the household survey that provides the relevant figures. (It should be noted that the GPI takes no responsibility for the accuracy of these figures but they do represent the best information that we have access to).

The four charts provided (right) show the historical data series of personal income and expenditure for both rural and urban citizens over two decades and the current breakdown according to income level. They provide some interesting facts, and paint a different picture than that of the national accounts.

Figure one tells us that half of the population — those in rural areas — spend almost all the money that they earn and their saving rate is very low (eight per cent). Therefore, they have limited potential for additional expenditure. As a result a foreign company that wishes to tap into this market should offer substitute products and encourage those consumers to shift their expenditure from current products to, say, European ones. Unfortunately, these rural residents spend most of their income

Figure 1

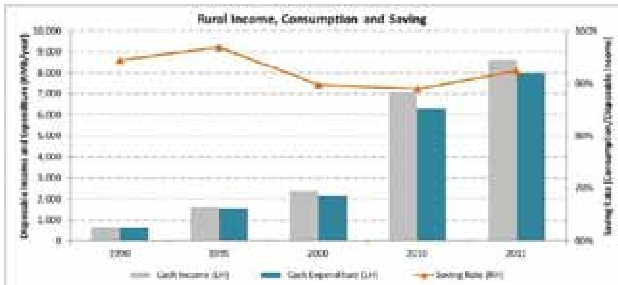


Figure 2

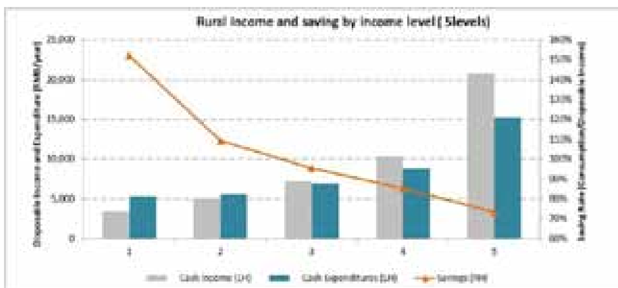


Figure 3

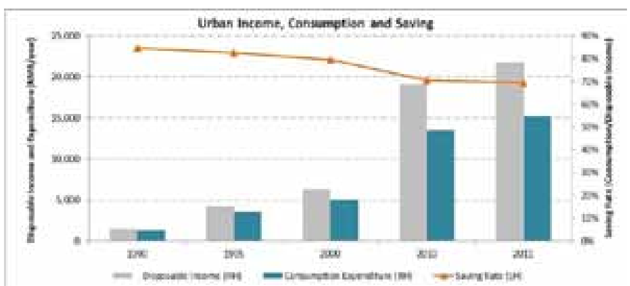
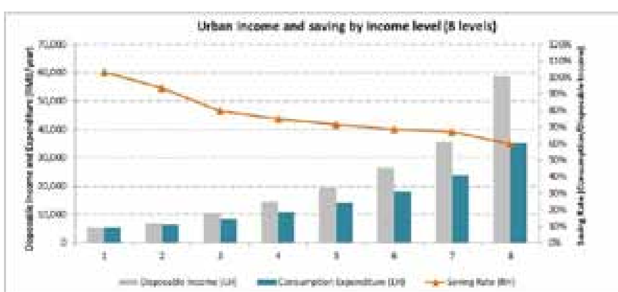


Figure 4



Source for figures 1–4: National Bureau of Statistics on food and clothing and price is their main decision factor: therefore it is going to be quite difficult for a European product to have a price point that is more attractive than the locally produced ones; even offering a product of a better quality may do little to swing consumer preferences.

Figure two displays rural savings rates broken down by income levels and we see that only the top two income quintile have some spending power. We can discount the idea of selling them credit cards, therefore the rural market really leaves little potential.

The situation looks a little better for the urban citizens who, on average, save about 30 per cent of their income (see figure three). However, we must not over estimate the value of this figure: figure four — urban saving rates divided by 8 income levels — tells us that the bottom two earners (15 per cent of total urban population) spend almost everything they earn.

As income levels grow savings rates increase, as expected — if someone earns a million dollar a day they cannot spend a lot and, even in China, there is a limited number of luxury goods that one can purchase. Furthermore, the recent anti-extravagance policy introduced by President Xi Jinping may dampen demand for luxury products.

Therefore, stripping out top earners and bottom earners, we are left with the so-called middle class, representing about 60-70 per cent of the urban population, or 30-35 per cent of the total population. Those people spend 75 per cent of what they earn, thus leaving 25 per cent of their income as a potential market to tap into. In addition, because of the lack of social security net and, increasingly, uncertainty about future economic growth, there is a large component of precautionary savings that is not going to be easy to tap into, although the health or life insurance markets may be exceptions, if/when they become accessible en-masse to European companies.

In summary, the potential target market could be as little as one third of the population, and their potential additional expenditure is about 25 per cent of their income. Just to be clear, this is still a large number and China remains an attractive market, but this potential is very different from the initial assumption indicating that there are 1.3 billion people who save half of their income and are lining up to purchase European products.

One way to increase consumer spending to is to increase wages, a view shared by our friend Michael Pettis of Peking University, one of the most vocal economists in this area. And this brings me to the second point of this article: GDP growth.

GDP growth in China is mainly driven by government

Figure 5

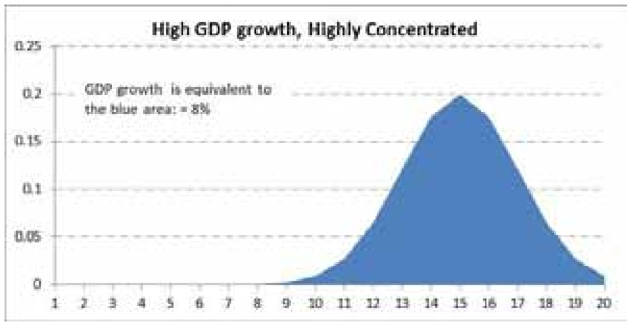
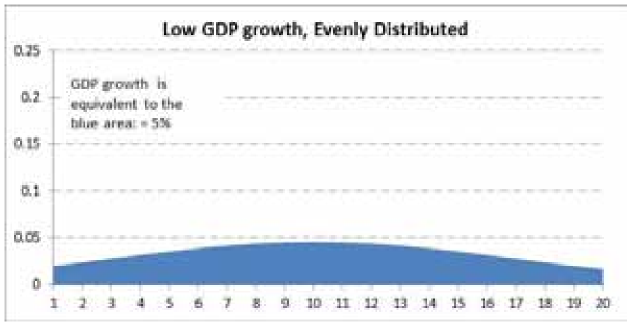


Figure 6



investment and the faster the GDP growth, the more imbalanced the economy becomes. This is because the contribution to GDP from consumption tends to decrease, even if, in recent months, this trend seems to have improved. Using corporations' annual results as a metaphor, and imagining that a country's GDP corresponds to a company's revenues, Chinese 'revenues' are of a low quality. It is as if, say, a retail company grew its sales volume by increasing the number of shops: total revenues naturally grow, but same-store revenues may not and, even more worryingly, return on investment (ROI) may be negative (and I suspect this is the case for most Chinese investment projects).

This GDP growth model, that favours large infrastructure projects, works well for resources and raw materials-rich exporters; unfortunately, countries like Australia, Chile and Russia, do not belong to the European Union. But the current model has benefited countries like Germany that — thanks to the artificial system called the eurozone — has successfully exported its technology products to China.

The challenge for China is to improve the quality of its GDP and make it more dependent on internal demand. This is a process that will take several years, but it must be done, and the sooner the better. There are many ways that such rebalancing can be achieved. The one I favour is to, a) lower the GDP growth while, b) simultaneously spreading the economic growth more evenly across the population. The above charts are a conceptual illustration

of this idea.

Figure five depicts the current situation in China: a high level of GDP growth (for example eight per cent) accompanied by a high degree of concentration of such growth in the hands of a few 'groups', represented by the x-axis (e.g. coastal or inner provinces, city or urban residents, construction or retail sector etc); it shows that even if growth is high (represented by the total blue area under the curve), it is concentrated only in the hands of a few (groups 10 to 20, along the x-axis).

An alternative, possible future scenario is shown in figure six whereby GDP growth rate slows down to perhaps five per cent (the total blue area is now smaller), but this growth is better distributed across all sectors, across all provinces, across all income groups and so on. Such a new and more harmonious growth model can be achieved in several ways. Fundamentally, the aim is to let as many groups as possible benefit from economic growth.

Bearing in mind the previous point I illustrated regarding the lack of spending potential of Chinese consumers, let's ask ourselves this question: if you operate a business that needs to target Chinese consumers, would you prefer a scenario with a high GDP growth but with benefits limited to only a few groups, or sacrifice overall growth in exchange for being able to reach a wider market? Depending on the nature of the goods being sold the second scenario may well be more attractive.

In conclusion, we tend to overestimate the spending potential of the average Chinese consumer which is, instead, limited by a low level of income and concentrated only within a few groups. For consumption power to increase, personal income must be more evenly distributed and this can be achieved, even — and perhaps more easily — if GDP growth slows down and the 'quality' of GDP improves. Eb

*The **Global Policy Institute** is a Research Institute that was founded in August 2006 to analyse the issues of globalisation and to formulate innovative policy solutions. Based in Jewry Street in the City of London, it draws on both a rich pool of local academic and business professionals and its extensive international connections. The Institute gives non-partisan guidance to policymakers and decision takers in business, government, and NGOs.*

__Michele Geraci__ is also Senior Research Fellow and Adjunct Professor of Finance at Zhejiang University, and Visiting Assistant Professor of Finance at Nottingham University Business School, China. Prior to coming to China, Michele worked in the investment banking industry for more than a decade.

RESTORING GROWTH IN THE EU

There are finally signs that the eurozone is beginning to regain some strength, however, there is still some way to go. If Europe is to regain sustainable, long-term growth competitiveness gaps between European nations need to be addressed; if Europe is to compete with the rest of the world there needs to be increased emphasis on innovation and R&D, and SMEs must be given better access to funding.

Michel Barnier, European Commissioner for Internal Market and Services, looks at the steps being taken at EU level and says that it's time for Europe's trade policy to be rethought.

"Despite tough competition from China or India, we can still be big producers of manufactured goods, as well as services, provided we have the courage to launch a modern industrial policy based on innovation."

More than five years after the onset of the financial crisis, Europe's economic situation is still very fragile. After last year's slight recession, growth is expected to be very modest in 2013. Unemployment in the euro area stands above 11 per cent and many small- and medium-sized companies still have trouble finding finance for new projects.

Against this backdrop, the EU hasn't been passive. We are trying to restore stability and confidence through the most comprehensive EU financial regulation agenda ever. In just three years, we've put forward legislative proposals for all the financial regulation measures agreed by the G20; and we're going beyond that with measures to prevent the manipulation of benchmarks like the LIBOR (London Interbank Offered Rate) accompanied by an ongoing reflection on structural reforms in the banking sector. This year I plan to propose legislation on shadow banking.

EU member states have also decided to take strong measures to address the negative feedback loop between banks and sovereign debt. The European Stability Mechanism (ESM) that has now entered into force will be able to re-capitalise banks directly once the new Single Supervisory Mechanism (SSM) for banks is in place. We are also working on the two other pillars needed to build a proper banking union — effective deposit guarantee and bank resolution mechanisms, with a proposal for a single European resolution mechanism for member states participating in the SSM which I will present this year.

Another encouraging step, that would prevent a fresh surge in the sovereign debt crisis, is that the process of fiscal consolidation is producing good results; the average government deficit of eurozone countries, which stood at 6.2 per cent of GDP in 2010, is expected to have shrunk to 3.6 per cent for 2012. The new 'fiscal compact' will, of course, involve stricter rules with structural deficits limited to 0.5 per cent.

We now have a genuine growth strategy in place, and EU leaders have agreed a compact for growth and jobs which includes EUR 120 billion-worth of new joint investments. We are also going to use our financial regulation agenda to promote growth, and a good example of this will be the calibrating of bank capital requirements with our legislative proposal on EU-wide venture capital funds as well as the upcoming reflection on our capacity to direct savings towards long-term investments. The structural reforms being implemented in EU member states and Europe-wide are decisive steps for the short and medium term, but if we want to put Europe back on the path to lasting growth I'm convinced we need to go further and take up two competitiveness-related challenges.

The first is that of the widening gaps in competitiveness between member states. To take just one example, according to Eurostat average labour costs in France are now 12 per cent higher than in Germany. Over the past ten years labour costs in France have risen by about 40 per cent but only 18 per cent in Germany. Gaps of this order are simply unsustainable in a monetary union, and if the difficulties faced by some eurozone members are not dealt with rapidly they cannot fail to affect the others.

So how can these competitiveness gaps be reduced? Certainly not by hampering our most competitive economies, because that way Europe as a whole would lose competitiveness. Instead, what we should be doing is putting in place enhanced European economic governance alongside budgetary governance measures.

It's vital to give more thought to the relative competitive positions of each of the European economies. In which sectors do individual countries have a competitive advantage and added value? What are the most promising areas for each to invest in?

As well as that, we must try and exploit to the full the existing framework, especially new economic governance tools like the 'European semester' for the co-ordination of national reform programmes so as to help each country develop its most competitive sectors.

We must also make better use of things like cohesion policy because since the start of this crisis EUR 17 billion in cohesion funding has been re-directed towards research and innovation, SMEs and labour market policies to help the most vulnerable. We must use the EU's structural funds to consolidate those comparative advantages that exist, especially by investing in infrastructure and by training workers for the most promising sectors.

If better economic governance is to reduce Europe's competitiveness gaps it must be based on the solid foundation of a single market that works. We need to deepen our internal market, and that's the aim of the Single Market Act we launched in April 2011. It's made up of 50 proposals and 12 key actions to make life easier for Europe's 22 million companies and 500 million consumers through the creation of a genuine digital single market, better recognition across Europe of professional qualifi-

Michel Barnier, European Commissioner for Internal Market and Services

cations through an EU-wide professional card, the simplification of EU public procurement rules, especially for SMEs, and the full application of the Services Directive, which alone could, by 2020, add up to 2.6 points to the EU's GDP.

As to the 12 new priority actions, they support four drivers for growth — fully integrated European energy and transport networks, better cross-border mobility of citizens and businesses, the digital economy and improved social cohesion.

As well as the competitiveness gaps between EU countries, a second challenge is that of Europe's competitiveness vis-à-vis the rest of the world. Despite tough competition from China or India, we can still be big producers of manufactured goods, as well as services, provided we have the courage to launch a modern industrial policy based on innovation. After all, the whole project of European integration was born out of an industrial policy when Jean Monnet and Robert Schuman proposed the pooling of coal and steel.

Sixty years on from that simple industrial beginning of the European Union it's time to think about new common investments targeted at promising sectors like clean products and vehicles, bio-based products, key enabling technologies and smart grids. So how best can we promote these technologies? The Commission's recent communication on industrial policy drafted under Antonio Tajani's leadership offers an overall vision of this problem. And, from where I stand, four issues need to be tackled simultaneously.

First, we need to create the right conditions for innovation, particularly by improving innovative SMEs' access

"…we need to create the right conditions for innovation, particularly by improving innovative SMEs' access to finance. Only two per cent of SMEs' funding needs are covered in Europe by venture capital, compared to 14 per cent in the US."

to finance. Only two per cent of SMEs' funding needs are covered in Europe by venture capital, compared to 14 per cent in the US. The Commission has proposed the creation of a Europe-wide market for venture capital to allow these funds to raise money and to invest anywhere in the EU. In addition to that I hope that final agreement on the single European patent, to dramatically reduce the cost of protecting innovations, is at last within our grasp.

Second, we need to invest much more resolutely in research. It isn't inevitable that young researchers from European universities leave for greener fields elsewhere. We must give our universities greater resources, along the lines of the European Institute of Technology which brings together innovative companies, research centres and universities to create the conditions for innovation.

Third, we must give European companies the resources to invest in research and the development of prototypes. One way to do this is to target public funding in areas identified as of strategic importance, just as the United States, China and Korea all invest heavily to support their own strategic sectors. The EU's competition Commissioner Joaquín Almunia has now adapted our rules on state aid to make it possible to provide state support to underpin agreed EU guidelines.

And fourth, in the area of trade policy we must show openness without being naive. The EU cannot go on being one of the most open trading areas in the world while our own companies have difficulty entering other countries' markets. That is why trade Commissioner Karel De Gucht and I have proposed a regulation making it possible to impose reciprocity in public procurement on countries that don't practise this.

All these are steps under preparation. They don't stand in the way of the strong measures needed to restore Europe's economic growth in the short and medium term, but they are vital if this new growth is to be sustainable.

Michel Barnier *can be contacted at michel.barnier@ec.europa.eu.*

This article originally appeared on www.europesworld.org.

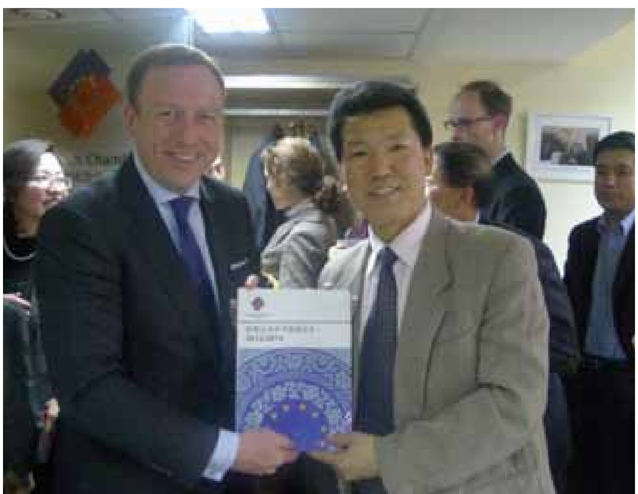
EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

DG Sun attends Advisory Council Annual Summit


DG Sun (centre) with Chamber President Davide Cucino, Vice Presidents Jens Ruebbert, Stefan Sack, Mats Harborn, Eduardo Morcillo, former President Joerg Wuttke, Secretary General Adam Dunnett, Director Yu Yuantang, Beijing General Manager Jaspal Channa and other guests.

Dr Sun Yongfu, Director-General of the European Affairs Department, Ministry of Foreign Affairs, attended the Advisory Council Annual Summit on 25th April. During a speech at the event he congratulated the Chamber's new leadership and spoke of the strong bilateral trade partnership between EU and China and China's support for the EU and its single currency. He expressed his wish for continued success for EU companies as a result of China's economic development, as well as a desire to settle disputes through dialogue. He also emphasised the value of the Chamber's *Position Paper* and *Business Confidence Survey* in helping Chinese policy makers to better understand the sentiments of European companies. He concluded by pledging to keep communication channels open between the Chinese Government and business.

Meeting with Deputy Director-General Guo Jianwei, People's Bank of China


Chamber Vice President Jens Ruebbert with Deputy Director General Guo Jianwei

On 17th April, the Banking & Securities Working Group invited Deputy Director-General Guo Jianwei, Monetary Policy II Department of the People's Bank of China, to take part in an informal and open discussion on cross-border use of the *renminbi* (RMB). During this meeting Deputy Director-General Guo gave an overview of the steps that have been taken towards internationalisation of the RMB. Other topics that were covered were regarding the Qualified Domestic Individual Investor 2 programme and policy coordination between the People's Bank of China and the State Administration for Foreign Exchange.

At the end of the meeting Jens Ruebbert, Vice President of the European Chamber, presented the Deputy Director-General with a copy of the Chamber's *Position Paper 2012/2013* and an invitation to the European Chamber's Annual Conference, 'The Road to Reform'.

Seminar on Customs Regulations for the Aviation Industry


The seminar in progress

On 24th April the Chamber's Aerospace Working Group organised a one-day seminar for officials from the General Administration of Customs and Beijing Customs to discuss customs regulations for the aviation industry. The seminar took place at the Airbus China headquarters in the Beijing Airport Industrial Area. Among other topics, participants discussed the relationship between customs clearance procedures and the speed and cost of repairing and exchanging aircraft components. Presentations were given by Air China, Lufthansa Technik Shenzhen, Thales and Airbus, as well as the General Administration of Customs. Thirty-five people participated in the seminar, including Thorsten Eckhoff, the Vice Chair of the Aerospace Working Group, and 10 officials from China Customs who were led by Ms Zhao Ruxia, Deputy Director-General of the GAC International Department.

Other Lobby Activities

On 2nd April, a delegation from the European Chamber, led by President **Davide Cucino**, met with **Liu Haixing**, **Director-General European Affairs Department** of the **PRC Ministry of Foreign Affairs** for the first time. During the meeting it was pointed out that both Chinese and European companies operate as informal ambassadors of their own countries when operating abroad. It was in this context that the Chamber proposed to develop more common activities together in order to improve mutual understanding and enhance dialogue.

On 21st March, the European Chamber organised a seminar with the **Deputy Director-General of DG Competition Bernd Langeheine**. The seminar took the form of a discussion with European Chamber members of the Legal & Competition Working Group. During the discussion, Mr Langeheine explained DG Competition's efforts to support the development of a level playing field for business. He also focused on DG Competition's dialogues in the area of antitrust and mergers policy with NDRC, SAIC and MOFCOM. Members used this opportunity to give recommendations for the development of both EU and Chinese regulatory environments.

The 52nd Chengdu Symposium of Enterprises with Foreign Investment was hosted by **Chengdu Municipal People's Government** and organised by Chengdu Investment Promotion Bureau on 28th March. **Li Kunxue**, **Deputy Party Secretary of Chengdu Municipality**, welcomed **Paul Sives**, acting Chairman of the Chamber's Southwest China Chapter, to learn about the recent concerns and problems encountered by European Chamber member companies in Chengdu, and to listen to suggestions on relevant government services.

On 10th April, the European Chamber met with the **Far East Unit of DG Trade** in order to prepare for a high-level meeting between MOFCOM and DG Trade. During the meeting both parties briefly discussed the current business environment in China, what can be expected from the new leadership and an overview of the main policy dialogues between EU and China.

A Southwest Chapter delegation, led by acting Chairman Paul Sives, met with **Gou Zhengli, Vice Mayor of Chengdu**, on 12th April to discuss the Fortune Global Forum 2013 (FGF). Yang Yu, Chengdu Municipal Deputy Secretary General, commenced the meeting with a summary of current progress on the FGF preparation, in terms of guest invitations, urban transportation planning, city hardware and software improvements, FGF marketing & promotion and security & logistics support. Mr Sives provided an update on the Chamber's support for the FGF preparation.

GAUGING THE BUSINESS CLIMATE

On 30th May, 2013, the European Chamber of Commerce in China released its annual Business Confidence Survey. The purpose of the survey is to take an annual snapshot of European companies' successes and challenges in China. Published since 2002, it has enabled the Chamber to build a rich data set to serve as a broad indicator of how European companies judge the business environment in China, both now and in the future.

"Improvements to the rule of law and the promotion of fairer competition and fewer monopolies, alongside promoting domestic consumption, continue to be seen by European companies as the major potential drivers of Chinese economic performance over the next few years."

The Chamber invited its members to take part in the *Business Confidence Survey 2013* (*BCS 2013*) over a two-week period during March 2013. The survey was conducted in cooperation with Roland Berger Strategy Consultants.

There were 1,403 eligible entities. With 526 respondents completing the survey, the *BCS 2013* achieved a response rate of 37 per cent. Of those respondents, 61 per cent participated in last year's survey. This number has increased each year suggesting an increasing stability in the data set. It has also enabled year-on-year comparisons, coupled with new insights identified by first-time participants.

The survey comprised 47 questions, grouped under four key themes:

- Company Profile and Statistics;
- Outlook on China, Competition, Company Strategy and Regulation;
- Human Resources;
- Financial Performance.

Executive Summary

Tougher business conditions, both globally and in China, have led to a diminished financial performance for European companies in China in recent years. In 2012:

- Increased revenues were reported by only 62% of companies, versus 75% and 78% in preceding years;
- Profitability was only reported by 64% of companies, compared with 73% and 74% in preceding years.

Many market dynamics are contributing to this. Key factors having strong impacts on net profit margins include:

- Slower economic growth in European and Chinese markets named by 40% and 38% respectively;
- Labour costs cited by 52% of companies;
- Competition from privately-owned Chinese companies mentioned by 30% of companies.

The relatively poor financial results are further exacerbated by the regulatory environment.

Missed business opportunities owing to market access and regulatory barriers were reported by 45 per cent of all European companies. These challenging market dynamics, coupled with a difficult regulatory environment, show that significant economic reforms are needed more than ever before to ensure continued strong growth, mitigate cost increases, unlock market opportunities and create an overall well-functioning and efficient business environment.

But as uncertainty still prevails, with 53 per cent deeming that market access issues will also continue to be a significant challenge, optimism is waning:

- Optimism about future revenue growth has shrunk to a four-year low of just 71% of EU companies.
- The outlook for optimism regarding profitability for the next two years has reached an all-time low of only 29% of companies.

Despite many of the lowest business confidence results since the onset of the global economic downturn, it is clear that China is still being perceived as the best of a challenging global situation. China continues to be a priority in global strategies and a mainstay for global revenue generation. European companies are resigning themselves to this reality and remain committed to the Chinese market:

- China is seen as increasingly important in global strategies by 64% of companies, albeit a decline from 74% in 2012.
- China is rated as a top-three country for future investments by 43% of companies.
- Further expansions to current China operations are considered by 86% of European companies.

Going forward, respondents are overwhelmingly united in their view of the key drivers for China's future economic performance:

- Rule of law and transparent policy-making was identified as a significant key driver by 76% of companies.
- The promotion of fairer competition and fewer monopolies was also regarded to be a potentially significant driver of China's future economic performance by 68% of companies. Eb

To download a full copy of the Business Confidence Survey 2013, *please go to www.europeanchamber.com.cn/en/publications-business-confidence-survey.*

DECREASED FINANCIAL PERFORMANCE

> Percentage of companies reporting an increase in revenues

78% FY 2010

75% FY 2011

62% FY 2012

> Percentage of companies reporting a positive EBIT

FY 2010 74%

FY 2011 73%

FY 2012 64%

CHALLENGING MARKET DYNAMICS & REGULATORY ENVIRONMENT IMPACTING PERFORMANCE

> Significance of market challenges affecting company net margins

Labour costs 52%

Slower growth in home market 40%

Slower growth in China 38%

Competition - foreign and domestic 31%

> Regulatory environment further negatively impacting financial performance

45% of companies reported missed business opportunities owing to market access and regulatory barriers

FUTURE CHALLENGES

	Rising labour costs	Chinese economic slowdowns	Global economic slowdowns	Market access issues
2013	63%	63%	57%	53%

Challenges to future business perceived to be significant (% in agreement)

LOWER EXPECTATIONS

	Optimistic about growth	Optimistic about profitability
2012	76%	34%
2013	71%	29%

WHAT ARE COMPANIES DOING TO REACT?

74% 2012

64% 2013

of companies see China as increasingly important in their company's global strategy

> China as a top-3 destination for future investment

43% of companies rank China as a top-3 destination for future investment

> Further expansion in Mainland China

86% of companies are considering further expanding their current operations in Mainland China

WHAT WILL DRIVE CHINA'S ECONOMY FORWARD?

> Need for reforms...

76% of companies identify rule-of-law & transparent policy making as a significant key driver of China's economic performance

68% of companies regard the promotion of fairer competition and fewer monopolies as a significant key driver of China's economic performance

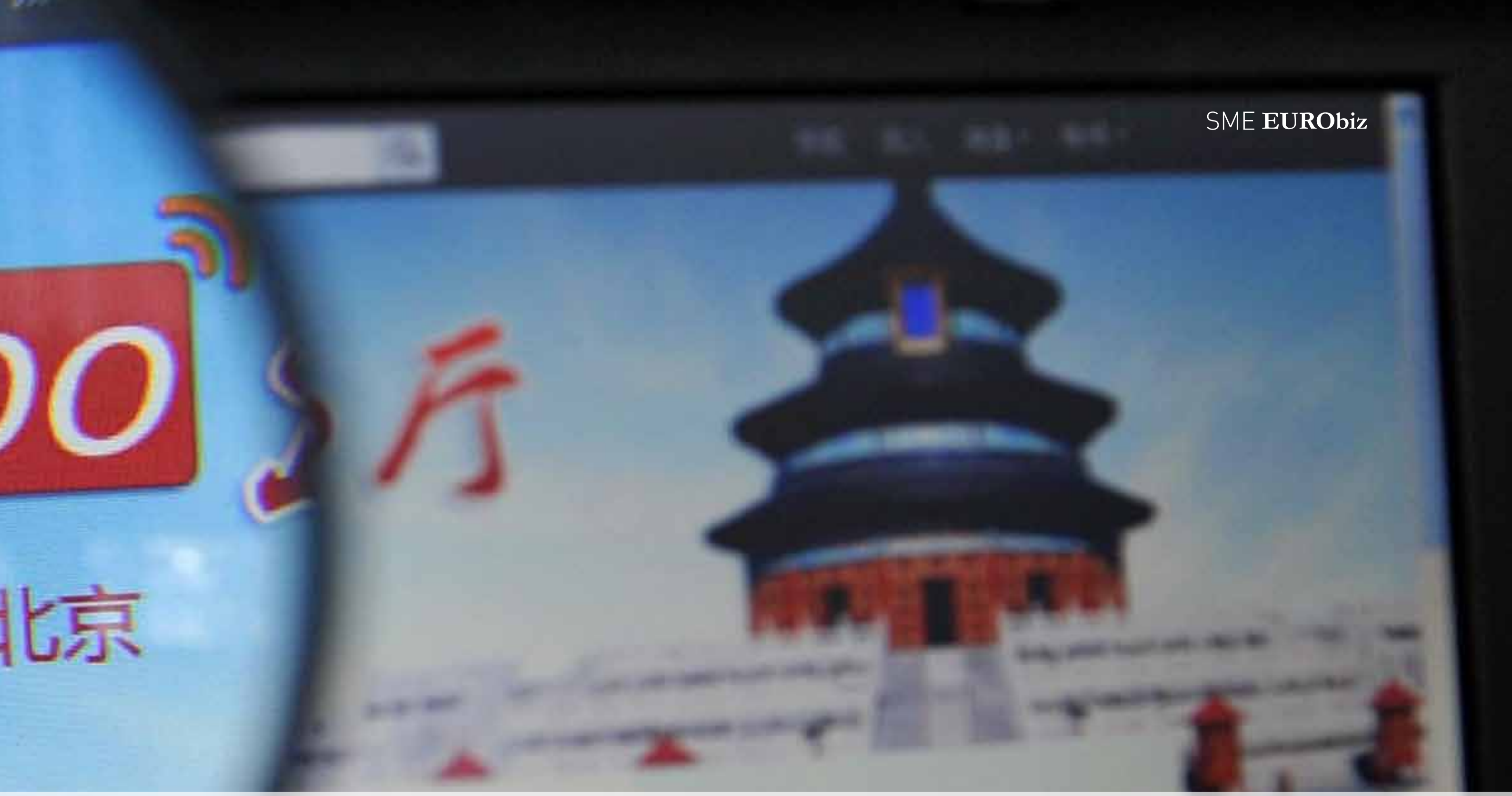
> ... But unsure about the prospects for significant reforms

50% of respondents are unsure that China's leadership will address significant reforms

OF MICRO BLOGS AND MACRO MARKETS

When entering the Chinese market one of the key challenges for any foreign company — especially small and medium-sized enterprises (SMEs) — is effective marketing. Whereas traditional media such as newspapers, magazines, radio and television are hardly an option — mainly due to the costs involved — ease of access, low costs and high relevance make the booming social media landscape in China the prime playing field for European SMEs looking to increase visibility of their brands and products here.

Jonas Rasch of the **EU SME Centre** says that in a recent webinar they conducted 83 per cent of participating SMEs stated that marketing is the principal reason for their online engagement in China. In the following article he gives some pointers as to how this can be done successfully.



Guanxi 2.0

With news of censors in China blocking Google, Twitter or Facebook repeatedly broadcast on Western media, Europeans might be misled to believe that the social media wave that swept the world in the last few years has not been able to breach China's Great Firewall. While it is generally true that foreign market leaders in social networking, Ecommerce and mobile internet have not been allowed to operate freely within the country, this has in no way hindered the rapid development of social media in China.

Precisely because dominant Western companies have been kept at bay, a large number of local competitors and start ups have had the opportunity to first copy, and later innovatively adjust and expand, their services, turning China into the largest internet market in the world today.

By December 2012, there were 564 million internet users in China, almost 200 million more than in the European Union. This number translates into a penetration rate of 42.1 per cent of the population, leaving ample room for growth in the coming years. More than 90 per cent of all users are active in social media, a higher percentage than anywhere else in the world.

A number of reasons have been given for the rapid spread of internet usage in China, amongst them increasing purchasing power, affordable broadband internet connections and the wide use of smart phones (today, more people access the internet via smart phones than desktop computers in China), whereas cultural factors might explain the popularity of social media in particular.

Personal connections, or *guanxi*, have always been highly valued in Chinese society and social media offers all the tools necessary to maintain these relationships independent of time or location. A general mistrust towards official media channels is said to motivate the Chinese to look for independent information online, while a lack of personal relations amongst young Chinese might explain the intensity and openness with which they publish their views to a potentially limitless audience.

In addition, China's younger generations are known to be early adopters of innovative technology: the instant messaging application Weixin (or WeChat in English), for example, was launched in January 2011, went global in August 2012 and now boasts more than 300 million users.

No matter what the underlying reasons are, Chinese consumers spend a remarkable amount of time online and use a huge amount of that time for interacting with others via social media. When factoring in that 44 per cent of respondents in a recent Nielsen study stated that they use social media to learn about products, and with many users in China experiencing the internet almost exclusively via social media, the potential of attractive, localised marketing activities on China's social media becomes apparent.

The right platform for the right audience

Social media encompasses a number of different modes of online communication, presented in different ways to different audiences. Whereas the number of popular service providers is fairly small in the West, each Western platform has many equivalents and spin-offs in China, making the market vast and difficult to assess at any given moment. Platforms popular a year ago might be struggling today, while newcomers can attract millions of users within a few months. The market can be divided into the following main services:

Service	Chinese market leaders	Western equivalent
Online video sharing	Youku, Tudou	Youtube
Microblogging	SinaWeibo, TencentWeibo	Twitter
Instant messaging	WeChat, QQ Messenger	Skype
Social networking	QZone, Renren	Facebook
Bulletin board systems	BaiduTieba, ClubSohu	Forums
Location-based services	Jiepang, Kaikai	Foursquare
Ecommerce platforms	Taobao	eBay
Image blogging	PinFun, Huaban	Pinterest

While social networking sites (SNS) like Facebook are dominating social media in the West, microblogging platforms (the equivalent to Twitter) have overtaken SNS in China, reaching 97 per cent of all mainstream social media users — though it has to be noted that microblogging sites in China offer many more options to users than Twitter, thus blurring the line between the two services.

SinaWeibo is by far the most popular microblogging platform, with an estimated 320 million registered users. It has been allowing users to post videos and photos for years, while companies can set up their own branded pages, including streaming videos, launch micro activities like competitions and polls and publish so-called Wei Magazines that group high-quality content into a magazine-like format without the usual 140 character limitation.

While SNS tend to be used to communicate with friends, microblogs constitute a more public environment and are thus better suited for marketing purposes. That being said, a sustained marketing effort should not ignore other social media arenas as Chinese users are active on multiple platforms and popularity of a single platform can shift rapidly.

European SMEs also need to be aware that China's social media sector is very fragmented and local, with different players catering to different audiences in terms of age, interests, education, income levels and geographical location. While QZone — the first and largest social networking site in China — attracts mostly youth to the age of 25, often from second- and third-tier cities, Douban is frequented by students and academics passionate about arts and culture living predominantly in first-tier cities.

It is advisable to work with local staff familiar with the different platforms and services available and versed in local preferences in style and presentation to increase the likelihood of reaching a higher percentage of your target group.

Taking it seriously

Social media marketing is not advertising. The term 'media' is misleading in that it is still associated with traditional media, which generally constitutes a one-way street from sender to receiver. Social media is all about two-way conversations, with the responses deserving just as much, if not more, attention as the original message. It is imperative to think of social media marketing in terms of ongoing conversations with your past, current and potential customers.

Social media is a unique tool in that it is useful at every stage of the consumer pathway: it creates awareness through your own posts and advertising; it enables potential customers to interact with your company, leading to engagement and active consideration of your products; and after the purchase has been made, social media is ideally positioned to facilitate after-sales services and relationship building.

However, the ultimate goal of all marketing efforts in social media goes beyond establishing and maintaining relationships — it is a tool to turn customers into advocates for your company by motivating them to inform their peers of your offerings through their own links, reposts and publicly accessible responses.

Naturally, negative posts spread just as quickly as positive ones and Chinese companies have been known to go so far as to intentionally spread fabricated complaints about a rival's products to harm their reputation. Even if it is unlikely that small European companies will be confronted with this kind of malicious intent, it is important to follow the trail of your followers.

Many Chinese customers rely exclusively on the internet to gather information before making a purchasing decision. Newly acquired products are closely scrutinised and many post detailed accounts of their experiences online to help others in their decision-making process. The only way to influence these discussions and respond to grievances quickly is to be present on these same platforms and be as active on them as your customers.

Setting up accounts is free on almost all platforms available in China, but their maintenance needs to be a top priority, which means allocating knowledgeable and responsive staff to the task. Ideally, the conversation needs to be kept going (or at least monitored) around the clock, so as not to miss any development that might seriously influence your business.

All of this goes to show that while social media marketing in China is a great way to connect with your target group and (influence them to) spread the word on your products, it is only effective if done with commitment, knowledge and appropriate funding. Even though it is difficult to determine the return on investment in social media marketing, as analytic tools are even scarcer in China than they are in the West, it is by far the most cost-effective and versatile way to raise visibility amongst Chinese consumers to date. Eb

For more information, including the report Selling Online in China *and a recording of the recent webinar How to Develop a Robust Digital Marketing Strategy in China, please visit www.eusmecentre.org.cn. A report specifically on marketing in China is planned for publication later this year. To keep up-to-date about the Centre's events and publications, find us on Twitter, Facebook and LinkedIn.*

MANAGING YOUR TALENT

An employer in the PRC will likely face various challenges when trying to cultivate a high-performance culture and attract, and then retain, innovative talent.

One key obstacle is that PRC law is protective of the rights of employees in general and limits an employer's flexibility to implement decisions and policies that may infringe upon those rights.

Amongst other things, PRC law restricts an employer's ability to terminate employment or implement disciplinary action against employees for performance reasons. Moreover, policies or decisions regarding incentivising employees (such as payment or withholding of performance bonuses), may be challenged and overturned if the rules are not clearly specified in the policy document or the policy document has not been subject to mandatory employee consultation procedures.

In this article, **Johnny Choi**, Associate, **Simmons & Simmons Beijing**, discusses how an employer may overcome these legal obstacles and manage the related risks, so as to promote retention of high performers and innovative talent.

Introducing Employee Incentive Policies

It is common for employers to introduce incentive compensation packages, such as performance bonuses, commission plans and phantom share schemes, in order to encourage high performance and innovation within an organisation.

The payment of performance bonuses or other cash-based variable incentive compensation is not regulated in the PRC. The law here merely provides that bonuses should be included when calculating any employee entitlement that is based on the employee's total wages.

Due to the lack of regulation and the pro-employee approach taken by the PRC labour arbitration commission and courts, if the eligibility and payment rules of the incentive compensation packages are not clearly documented, the company's decision to pay or withhold the benefit may be challenged and overturned. This runs contrary to the original purpose of the incentive policy to reward those employees who match the company's culture and values. Labour arbitration commission and courts are reluctant to apply, and may disregard, clauses that give broad and unfettered discretion to employers to make decisions on the payment or withholding of bonuses.

For example, the majority of companies operate incentive compensation packages on a payment condition tied to service: in order to be eligible for payment, the individual must be employed by the company on the payment date. This reflects the fact that the purpose of the incentive compensation is not only to reward employees for high performance, but also to retain those employees.

However, there have been cases where the labour arbitration commission or court in the PRC supported an employee's claim for an unpaid performance bonus where the employee had left the organisation at the time of payment because that payment condition was not clearly specified in the policy document. The labour arbitration commission or court held that clauses that gave broad and unfettered discretion to employers on the bonus payment violated mandatory requirements to pay wages and therefore disregarded those clauses.

On the other hand, well-drafted incentive compensation policies with clear eligibility and payment conditions are much more likely to be enforceable in the PRC. In addition to the employment condition mentioned above, if possible, the policy should also contain a condition related to employee performance, such as deeming those employees with below-expectations appraisal results ineligible for performance bonuses.

Companies introducing or updating their policies on incentive compensation packages also need to build in consultation with their employees with respect to these policies. If an employer does not conduct the consultation process the rules or conditions in the policy, which may result in a reduction in benefits (such as the employment condition mentioned above), may also be challenged and overturned. Generally speaking, the consultation process involves a consultation period and meeting with the employees to discuss the policy. During the consultation period the company should consider and respond to any questions and suggestions from the employees; this should not be a hollow exercise. Publication and implementation of the final policy should then follow.

Managing Employees' Performance

The limitations placed on managing employees' performance provide another obstacle to cultivating a high-performance culture and retaining innovative talent in the PRC. These limitations at times frustrate an employer's ability to terminate employment of an employee who has proven to be unfit for the organisation.

Under PRC law, an employer wishing to terminate employment for performance reasons must first provide training or adjust the employee's role and if the performance issue remains it may then terminate employment.

The law does not elaborate on the nature and content of the training or adjustment of duties, or the relevant procedures. If an employer terminates employment for performance reasons, and the employee challenges the decision before a labour arbitration commission or court, the employer must produce evidence to convince the labour arbitration commission or court that, before terminating employment, it satisfied the above-mentioned requirements. In practice the bar is set quite high for the employer. If the employer fails to satisfy the above requirements, it may be ordered to pay additional compensation to the employee or reinstate the employee to his/her original position.

A properly devised performance management scheme may be used by a company to convince a PRC labour arbitration commission or court that it has taken steps to satisfy the above mentioned requirements. This would be helpful in the event that the employee fails to improve at the end of the performance management process, and the company needs to consider terminating employment or negotiating with the employee to terminate employment.

Performance improvement plan (PIP)

A company may place an employee with persistent or substantial performance issues on a PIP. The PIP should note the following:

- The areas where the employee's performance is not meeting the required standards.
- The specific performance standards that the employee is required to reach.
- The actions that the employee is advised to take in order to meet the required performance standards.
- The measures that the company has adopted to assist the employee to meet the required standards. Where possible, this should include one or more of the following: offering training courses for the employee to attend; regular review meetings to discuss and guide the employee on performance improvement; and details of any adjustment to

the employee's role.

- The time by which the employee must improve performance to the required standard.
- The employee's acknowledgement of the performance improvement plan. The company may rely on the acknowledgement as an admission by the employee that his/her performance does not meet the job requirements, thus preventing any future argument by the employee (such as at the time of termination) that he/she is not capable of performing the role to a sufficiently high standard. However, the company need not withhold implementation of the PIP merely because of the employee's refusal to acknowledge it.

Other documentation

In addition to the PIP, other documentation that a labour arbitration commission or court may consider in the event of a dispute with an employee on performance (such as termination of employment due to performance reasons) include:

- The job description (which is commonly attached as an appendix to the employment contract);
- A performance evaluation report from the regular performance evaluation cycle.

The labour arbitration commission or court will regard the job description as evidence of the employee's duties as agreed by the parties. The performance standards that the company requires the employee to meet should generally be consistent with the employee's duties set forth in the job description.

Employers should be aware of the limitation placed by PRC law on their flexibility and discretion in implementing incentive and performance management policies in the PRC. In this regard, well-drafted policy documentation and implementation procedures that comply with the legal requirements, including mandatory consultation requirements, will help employers overcome the obstacles and assist companies to promote high performance and innovative talent within the organisation. Eb

***Simmons & Simmons**' award-winning China employment team is among the largest of its type in Hong Kong and China. Clients include international investment banks, other financial institutions, government agencies and multinationals. For more information go to www.simmons-simmons.com.*

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Does this infringe the trademark of a well-known, Seattle-based coffee shop franchise? Image courtesy of enterthepanda.com.

FIGHTING TRADEMARK INFRINGEMENT

You've found someone infringing your trademark in China, but what's the next step? The **China IPR SME Helpdesk** follows up on their article on how to register your trademark, which appeared in the last issue of EURObiz, and provide details on three different approaches that can be taken — administrative, civil and criminal.

Administrative procedure

Administrative enforcement through the Administration for Industry and Commerce (AIC) and the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) are practical routes to consider when seeking seizure of infringing goods and imposition of a fine on the infringer, although neither administration is able to grant compensation.

Lodging a complaint

A complaint can be lodged with the local trademark bureau of the AIC, above county level, where the infringement is committed (manufacture, sale, storage, etc), specifying the trademark rights of the owner (a copy of the trademark registration certificate) and providing any evidence of the infringement (sample of the infringing product).

AQSIQ is in charge of managing the quality of products: setting out national standards, certifying the quality of products and taking anti-fake and poor quality goods actions. Since the main issue is a quality issue, and not the protection of an intellectual property right, any person may go to AQSIQ and complain without having to justify a personal interest.

It is necessary to base the claim on one of the two following grounds:

- Sub-standard quality of the goods.
- That the goods are sold in a package bearing the name and address of another person.

The fine for fake and poor quality goods is, in most cases, between two and five times the value of the goods.

Civil procedure

Protection of trademark

The civil procedure is operated according to the following steps:

- A complaint needs to be filed with the civil division of the People's Courts.
- The court decides on a date for a pre-trial hearing, during which evidence is examined and discussed by the parties before the court.
- In theory, the court may act as fact finder and order inspection, however, evidence is usually produced by the parties themselves.
- At the end of the hearing the court asks the parties if they wish to settle the dispute.
- The judgment is delivered within a few months, depending on the complexity of the case.

Remedies as a result of civil procedure

The court may apply the following measures:

- Order to cease the infringements (injunction).
- Confiscate infringing goods, materials as well as the tools and equipment used in the production of the infringing goods.
- Order the payment of damages. Damage for infringing a trademark right is calculated according to:
- The losses suffered by the IP owner;
- The profits gained by the infringer out of the infringement;
- An amount of damages, not exceeding RMB 500 thousand, where difficulties arise to determine the illicit profit that the infringer has earned or the loss suffered by the injured party.

Criminal procedure

What acts constitute a trademark crime?

The activities concerned are:

- Manufacturing or knowingly selling counterfeits;
- Forging or selling unauthorised representations of a trademark.

Public prosecution

Generally, criminal cases are brought before the court by a bill of indictment of the People's Procuratorate. This action is mainly of a 'practical' nature and is aimed at investigating and seizing. At the end of a raid, if the AIC is satisfied that an infringement has been committed, it will order the infringer to stop the infringing acts immediately. In principle, the AIC should systematically confiscate and destroy the infringing goods and the tools specially used for manufacturing the infringing goods or labels.

The AIC may also impose fines. The amount of the fine depends on the size of the illegal business, and cannot exceed three times this amount. However, the calculation of the 'illegal business' is not an easy matter since in most cases the infringer does not produce any accounting material, and reference to the price of authentic goods is still not, as a rule, accepted by the Chinese authorities. If the fine cannot be easily calculated, a fixed amount may be decided by the AIC, up to a maximum of RMB 100 thousand. The AIC cannot grant compensation, it can only act as a mediator. Assessing and granting compensation is therefore within the exclusive jurisdiction of the People's Courts.

Take-away message

- Protecting and enforcing your trademarks (and the products bearing them) in China is extremely difficult, if not impossible, without registration. Make sure you register your trademarks early.
- Use your trademark correctly; both your Roman and Chinese language versions need to be used on your products to enjoy protection.
- Monitor the market to make sure your rights are not being infringed and enforce them when necessary. Eb

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

ABUSE OF THE SEAL IN CHINA

The use of seals, as a signatory instrument and a way of legally binding entities, is a deeply-rooted tradition in the Chinese business world. Like the emperors in ancient China who rendered their decisions with the imperial seal, business managers today recognise and authorise the contents of a document by affixing their company's seal — colloquially known as a chop — or gongzhang (公章).

In the following article **Emmanuel Meril** and **Raphael Chantelot** of **LPA (Lefèvre Pelletier & Associés)** discuss some of the potential abuses that can occur when company chops fall into the wrong hands and provide some measures that can be taken to prevent these situations from arising.

For the day-to-day running of the company, in addition to the principal and official seal of the company, specific seals are used for various operations such as opening bank accounts, issuing invoices or paying taxes.

The importance of these seals is too often neglected by foreign managers who, from a cultural standpoint, are used to relying on the handwritten signature of an authorised company representative. Unfortunately, many of them are not even aware of the sometimes dramatic consequences for their subsidiary in China resulting from the loss or theft of seals, which can lead to loss of control of the subsidiary or the misappropriation of its assets.

It is thus vital to know how to use each seal properly and to identify and prevent the most common risks associated with the use of the company's seals.

The use of seals

Under Chinese law, any entity that is legally registered in China must possess an official company seal and several additional seals with specific functions. These seals have to be made by a specialised company and registered with the local Public Security Bureau.

The **company's official seal** may be used to sign all company documents except those pertaining to financial transactions.

Since the Contract Law of 1999, in order to be valid, a contractual document theoretically requires the handwritten signature of an authorised person or must bear the seal of the company. Thus, a document with no signature but which bears the official seal legally binds the company. It is thus advisable to implement extremely strict control of this seal because the holder of the seal essentially controls the company.

The **financial seal** (mandatory) is used for all financial transactions of the company, such as issuing cheques, and is generally kept by the finance director of the company.

The **seal of the legal representative** of the company (optional) contains his/her name or his/her handwritten signature. If the legal representative is not available or present in China it is possible to carry out financial transactions using this seal provided it was registered with the bank and accompanied by the financial seal.

Dramatic risks

There are frequent risks associated with the fraudulent use or theft of seals to which foreign companies in China may be exposed, such as the following:

- In the event of a dispute with an employee, the employee may try to put pressure on the employer by stealing one or more seals. Thus, the company's operations could be constantly interrupted if the seal is not returned quickly. He/she may then blackmail the employer and negotiate severance pay. In practice, such situations are generally resolved amicably.
- The holder of official seal can bind the company in important transactions, even if they were not authorised by the legal representative or the shareholders. Thus, this person could sell company assets using the company's seal. It is subsequently very difficult to cancel these sales because they are legally binding.
- If all the seals and certificates are stolen or lost, the company can be completely paralysed (i.e. unable to pay wages, sign contracts, withdraw funds, etc). This may occur if the licences and seals are kept together in a place to which unauthorised persons have easy access.
- The most common risk is that someone will use the seals and/or official documents to take control of the company unbeknownst to the actual managers (in particular, when the managers are outside China and if no regular checks are carried out on the company). If the perpetrator is the legal representative or chief executive officer of the company, it will be very difficult, or even impossible, for the shareholders to remove them and declare their removal to the authorities in the absence of the seals and corporate documents.

What to do?

If a seal is lost or stolen, an announcement must be published as quickly as possible in an official journal recognised by the local authorities. This public advertisement makes it possible to request the cancellation of the lost or stolen seal, to have it remade and to register the new seal with the Public Security Bureau. The company can then prove that any documents stamped subsequent to this new registration were stamped using a stolen seal and will thus be able to annul them.

The original business licence must be presented in order to officially register the new seal. If the licence has been stolen too, another declaration of theft and a request for a replacement will have to be made, which can take several weeks.

It is also possible to lodge a complaint with the police, producing proof that the theft actually occurred. However, the police intervene very rarely in commercial affairs, which poses something of a problem. In addition, filing a complaint generally requires the company seal.

Preventive measures

Since the consequences of the loss or theft of the seals can be extremely detrimental and difficult to correct, it is essential to put in place internal control systems and preventive measures, for example:

- Expressly designate the persons responsible for each seal in the internal regulations of the company (e.g. the HR manager will keep the HR seal).
- In large companies, avoid the situation where one person keeps the financial seal and the seal of the legal representative as that person would then control the bank account.
- For smaller companies, the seals and licences should be kept in the safe of the chief executive officer or of the legal representative and all documents bearing the seal should be checked.
- Keep and file a copy of all documents that bear the seal.
- In the event of the risk of litigation with the holder of a seal, or if the latter leaves the company, it is vital to recover control of the seal.
- Persons designated to keep the seals must be trustworthy, especially the person who holds the seal of the company. Eb

LPA (Lefèvre Pelletier & Associés) *is currently one of the top French law firms. It provides advisory and litigation assistance to clients in all areas of business law. LPA has expanded internationally with the opening of overseas offices in China, Europe and North Africa.*

Emmanuel Meril *is a partner of LPA in Shanghai. He has 21-year's experience in foreign investment in China.* ***Raphael Chantelot*** *is a partner of LPA and head of the China Desk in Paris. He had been stationed in Shanghai for six years and has 15 year's experience advising on cross-border M&A transactions.*

LANZHOU: TRANSPORTATION AND LOGISTICS HUB FOR NORTHWEST CHINA

Lanzhou, once known as the 'Golden City', has been an important regional commercial centre and transportation hub since as early as the Han Dynasty (206BC – 202AD). The city used to be a major link on the ancient Silk Road and has played a vital role in the cultural and economic exchange between China and countries to its west throughout Central Asia, the Middle East and Europe. Today, Lanzhou is the capital of Gansu Province, covering an area of 1,631 square kilometres and home to approximately 3.14 million residents.

Yao Lu of **Dezan Shira & Associates** takes a look at this ambitious city and explains how the local government is creating some extremely generous incentives to attract investment into the area.

Economic overview

Gifted with vast natural resources, Lanzhou is an important production base for petrochemicals, energy and raw materials in China, with over 40 industries turning out 20,000 varieties of products. The city is also the transportation hub and logistics centre of Northwest China. Strategically located in the heart of the country, the city has a well-developed transportation system consisting of railways, highways and aviation infrastructure, and is accessible by extensive road and rail links that radiate in all directions.

However, crowded into a steep valley carved between mountains by the Yellow River, the city suffers from a serious shortage of land, which largely hampers the region's overall development. Even with China's 'Go West' policy, introduced by the central government in 1999, the city has failed to achieve any profound economic achievements in the past decade while many of its regional counterparts have witnessed rapid economic development.

Take Chengdu for example: the city's annual GDP growth has outpaced many of the country's first- and second-tier cities in recent years, and in 2012, its GDP grew 13 percent year-on-year to RMB 814 billion, ranking eighth nationwide. Meanwhile, the GDP of Lanzhou stood at only RMB 157 billion, one-fifth that of Chengdu, ranking it 99th nationwide.

In response China's State Council approved the establishment of the nation's fifth state-level development zone in Lanzhou on 20th August, 2012. The national zone, named the Lanzhou New Area (LNA), is located in the Qinwangchuan Basin in northern Lanzhou. It has been strategically chosen to increase the connectivity with the surrounding regions of Xinjiang, Qinghai, and Ningxia, and covers an area of 806 square kilometres.

The Lanzhou New Area

The LNA is the first national-level zone in Northwest China and fifth in the country, following the Pudong New Area in Shanghai, Binhai New Area in Tianjin, Liangjiang New Area in Chongqing and the Zhoushan Islands New Area in Zhejiang Province.

The establishment of the LNA marks the central government's latest efforts to boost the development of Northwest China. Lanzhou, situated in the country's geographical centre, obtains strategic significance by linking together the region, serving as a gateway between the Northwest's two megacities of Urumqi and Xi'an, and a go-between for the adjacent capital cities of Xining and Yinchuan. Therefore, the economic development of Lanzhou is of immense importance for the overall development of Northwest China and for the country as a whole.

The LNA has been designed to focus on the development of advanced equipment manufacturing industry, petrochemical industry and strategic emerging industries. It will also promote the industrial upgrading process and develop a circular economy with energy-saving industries with local characteristics. The GDP of the LNA is expected to reach RMB 50 billion by 2015, and RMB 270 billion by the end of 2030.

Investment and opportunities

In order to attract more investors to the LNA, the local government has offered a range of preferential policies to both domestic and foreign investors. In the recently-released Preferential Policies of Lanzhou New Area, various financial rewards and tax incentives have been made available to investors. Specifically:

- For companies registered and listed in the LNA, the local government will offer a one-off reward of RMB 5 million;
- For professionals qualified under the Thousand Talents Plan who have started a business in the LNA, they will receive RMB 1 million in supporting funds, as well as free offices and apartments from the local government;
- Senior technical personnel and management personnel of financial enterprises and high-tech enterprises incorporated in the LNA will be exempt from individual income tax for 10 years starting from the first tax year, and such taxes will be paid by the local government instead;
- Industrial enterprises established in the LNA will receive RMB 200 for each LNA resident they hire;
- For industrial projects and high-tech projects initiated in the LNA and put into operation before 31st December, 2015, such projects will be exempt from the infrastructure supporting fees;
- For regional headquarters of multinational companies and headquarters of domestic enterprises registered in the LNA, as well as manufacturing enterprises established in the LNA by foreign investors, the corporate income tax and business tax paid to the local government will be fully refunded.

Moreover, the population of the zone is expected to reach 300,000 in 2015 and 500,000 by 2020, which offers great opportunities to investors in the service industry and related businesses to develop supporting facilities in the area.

As of the end of March this year, the LNA has lured 143 investment projects, with total investment amounting to RMB 146.5 billion. Moreover, 70 per cent of the infrastructure plans within the core area of the LNA have been completed, with the rest set to be completed within the year. However, the infrastructure for the whole LNA won't be finished until 2030. Eb

***Dezan Shira & Associates** is a specialist foreign direct investment practice providing corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia. For further details or to contact the firm, please email alberto.vettoretti@dezshira.com or visit www.dezshira.com.*

Image courtesy of Siemens China

CHAMBER MEMBERS RESPOND TO YA'AN EARTHQUAKE APPEAL

On 20th April, 2013, another devastating earthquake struck Sichuan Province, with the epicentre located in the city of Ya'an, Lushan County. The magnitude seven quake was just 116 kilometres from Chengdu along the Longmenshan fault, which was responsible for the Wenchuan earthquake of 2008

The GM of Grand Mecure Shenzhen Oriental Ginza and his staff

The quake resulted in a loss of more than 200 lives and thousands injured, with nearly 1,000 seriously so. Major structural damage occurred — 2,986 kilometres of road and 327 bridges were damaged, 24 substations and 224 power lines were destroyed, and 724 fixed and mobile communication base stations were damaged leading to communication breakdown in 16 townships. Many buildings collapsed and it was reported that nearly 10,000 homes had been damaged. The people of Sichuan have had their lives devastated once again and must start the rebuilding process for the second time in just over five years.

The Sichuan Government responded by deploying thousands of soldiers and medical staff to assist with the emergency effort, and excavators and other heavy machinery was used to shift earth that had blocked roads and rivers as a result of landslides.

At the Chamber we coordinated efforts amongst staff to put together aid packages including milk powder, food, hygiene products and clothes which were delivered by the Shunfeng courier company free of charge. We also sent letters of condolence to the Sichuan Provincial Government, the Chengdu Municipal Government and the Ya'an Municipal Government, and a letter was drafted and sent to member companies and friends of the Chamber asking them to support the earthquake relief effort by donating supplies and funds.

The response we received, either from those responding to the Chamber's call or those who had already instigated their own efforts, was fantastic and we are pleased to acknowledge their generous efforts below:

- **ABB (China) Ltd** made a cash donation of RMB 2 million through the China Foundation for Poverty Alleviation (CFPA) and were on standby to assist local power companies restore power to the region.
- **Allianz** mobilised their employees to donate and to volunteer for relief efforts.
- **Arcelor Mittal China** donated vital medicines worth RMB 30,417 through Shan Yi Xing (an NGO).
- **Atlas Copco (Nanjing) Construction and Mining Equipment Ltd** made a cash donation of RMB 81,056 through Save the Children.
- **Baluff Sensors (Chengdu)** made a cash donation of RMB 20 thousand to the Chengdu, Xindu District Government.
- **BASF China** donated RMB 2 million in cash through BASF Stiftung, a Germany-based charitable foundation. BASF set up an employee programme and have continued their support for local schools that were rebuilt following the 2008 earthquake.
- **Bayer Greater China Group** made a cash donation of RMB 1 million through the One Foundation and donated medical supplies and public hygiene products totalling approximately RMB 8.36 million. They also initiated an employee donation drive, pledging to match all employee donations, with the total funds raised being handed to the One Foundation at a later stage.
- **BSH Home Appliances (China) Co Ltd** made a cash donation of RMB 500 thousand through the CFPA, and are planning to donate a launderette.
- **Coloplast China** donated RMB 1 million in cash and wound care products to the value of RMB 3,219,600 through the China Foundation for Disabled Persons (CFDA).
- **Evonik Degussa (China) Co Ltd** made a cash donation of RMB 500 thousand through the Sichuan Provincial Charity Federation, and called for voluntary donations from all employees in the Greater China region.
- **Grand Mecure Shenzhen Oriental Ginza** donated bed sheets, clothes, water and medicine and mobilised their employees to participate in relief efforts.
- **NIVEA (Shanghai)** made a cash donation of RMB 200 thousand, RMB 88 thousand of which came from employees, through the Shanghai Song Ching Ling Foundation.
- **Siemens China** donated medical supplies totalling more than RMB 2.4 million and sent an engineering team from Siemens Healthcare to Ya'an hospitals to check and fix medical equipment.
- **Thyssen Krupp (China)** coordinated donations and support from all of their branch offices.
- **Wharf Group** (Chongqing Times Square and Chengdu IFS) made a cash donation of HKD 10 million.

On behalf of Secretary General Adam Dunnett and all Chamber staff, we would like to extend our thanks to our members and friends for such prompt and generous actions.

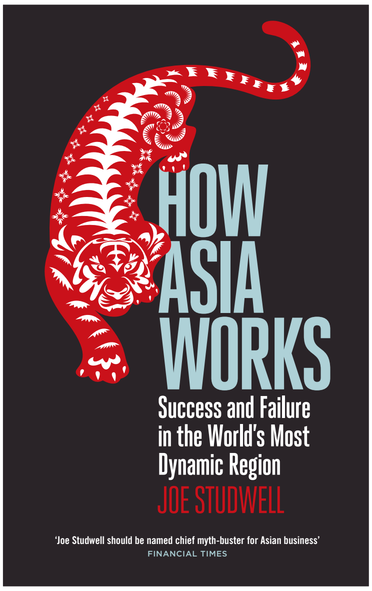
Our thoughts remain with the people who have been affected by this disaster and we hope that they can put their lives back together as quickly as possible. Eb

LEARNING TO FLY

China's economy, and its meteoric rise, has been dissected many times before and continues to be a subject that deserves constant examination. The challenge of financial reform facing the Chinese Government was one of the topics keenly debated at the European Chamber's annual conference, where a consensus emerged that a key condition for carrying out the necessary reforms is an emphasis on rule of law.

In **Joe Studwell**'s latest book ***How Asia Works: Success and Failure in the World's Most Dynamic Region***, he closely examines the economies of Asian countries. In the article below he expands on the themes that he discusses in his book in relation to China.

Studwell says that while the agrarian reforms and successful development of an export-based manufacturing model, coupled with tightly-controlled capital flows, has seen China climb to become the world's second largest economy (with first place now firmly in its sights), it may not be enough to keep it there. To maintain their position, China needs to focus on efficiency and shift its attention to developing solid institutions.



The size of China's population means that the Middle Kingdom's economic development has truly shaken the world. But the economic policies behind the country's take-off are remarkably similar to those pursued earlier by Japan, South Korea, and Taiwan.

The starting point of success in all these places — and what primed industrialisation — was land reform programmes after the Second World War that turned agriculture into a form of super high-yield gardening.

Backed by agronomic training campaigns, rural credit, and marketing arrangements that ensured farmers — not middlemen — captured profits, yields and output in Japan, Korea and Taiwan increased by between half and three quarters in 10–15 years. After China reversed out of its Maoist-collectivisation cul-de-sac in the late 1970s, its grain output jumped by more than a third, even as household farming was still being implemented; it then rose much further.

The surpluses created in agriculture provided initial capital for development strategies with an acute focus on the manufacturing industry. Manufacturing is essential to developmental success because it is the best way to utilise surplus labour migrating from farming.

Parents stayed on farms, their kids left, and factories became the secondary schools of successful developing states in East Asia. They took low-skilled workers and trained them on the job. In many exportable services there is a hurdle to participation — you cannot write software until you know software code. But in manufacturing workers add value from day one by working with machines.

The requirement for more highly-trained workers in a manufacturing economy is limited to small numbers of technicians who organise production lines based on machines that are bought on the world market (and are then reverse engineered into cheaper, and sometimes superior, local variants). Through manufacturing, a developing country leverages its minority of skilled personnel. Or, looked at the other way, it circumvents the limitations of its average worker.

Equally important is the fact that manufactured products are much more freely traded in our world than services. This is partly because of trade barriers erected by rich countries and partly due to practical obstacles. Manufactured goods are packed in containers and sent one way to anyone who will pay.

The opposite of a manufacturing approach to development is India's services-based strategy. Today, India's vaunted information technology sector employs three million people out of a population of 1.2 billion.

Not entirely kindly, I call India's economic development strategy 'the emancipation of the posh Indian'. It works fine for graduates of the elite Indian Institutes of Technology who go to work for Infosys and Tata Consultancy Services, but not so well for the average Indian. The idea that India will replicate the broad-based development success of China and Northeast Asia is a fantasy.

However, there is nothing original about Northeast Asia's manufacturing-based development. When China today builds plants of huge scale to reduce unit costs below what other producers can achieve, it is repeating the trick that Germany played on Britain in the 19th century. In turn the United States did the same thing to trump both Britain and Germany. Japan used the approach to become the first rich non-white country; Taiwan and South Korea targeted Japanese manufacturing competitors with factories that were bigger and newer.

The main contribution of northeast Asian states to this game has been to improve returns on subsidies given to manufacturers to support their development. Most of these subsidies do not go direct to production and fall in the grey areas of international trade law: free land, cheap electricity, government orders, centralised bargaining to cut costs of technology acquisition, and abundant (though, contrary to popular opinion, not always cheap) credit.

Crucially, all the subsidies are loosely linked to export performance, which gives governments a clear sense of whether their investment is yielding globally competitive manufacturing. The failed industrialisation strategies of Southeast Asia, Latin America and Africa have been characterised more than anything by the failure to impose this 'export discipline'.

The main mechanism for such discipline is financial systems. North-east Asian states maintained restrictions on international capital movements, and closely controlled banks, so the allocation of money was determined by the core developmental objective of technological learning.

The IMF and the World Bank, by contrast, encouraged countries to lift capital controls and open up financial systems so that money was allocated on the basis of short-run profits (in line with the 'efficiency' economics of rich countries). Southeast Asia listened, but Northeast Asia did not. One manifestation of this today is that among the major East Asian economies, the ones that are industrially most backwards — the Philippines, Indonesia and Thailand — are the ones with the best-performing stock markets.

Land reform, export-oriented manufacturing and closely controlled finance, however, are not a panacea. They can make a country quite rich very quickly, but then the economics of efficiency and good institutions are needed to keep development going. Japan's 25-year hiatus, or the condition of Italy and France in Europe, are the proof of that pudding.

The bigger lesson is that — contrary to what many economists claim — there are two kinds of economics. There is the kind that fosters technological learning to enable countries to switch to more value-adding activities (akin to an education process); and there is the kind that fosters greater efficiency and becomes ever more important once the basics are in place (akin to life as an adult). The East Asian success stories have become masters of the first kind of economics, but they know little about the second. Eb

How Asia Works: Success and Failure in the World's Most Dynamic Region, *is published by Profile.*

A version of this article was first published in the UK's Sunday Times *and is published here by permission of the author.*

EUROPEAN CHAMBER ANNUAL CONFERENCE

THE ROAD TO REFORM

Coinciding with Europe Day on 9th May, the European Chamber of Commerce in China hosted its inaugural annual conference, attended by distinguished guests and featuring a diverse collection of expert panellists from government, industry and academia.

The conference theme provided the perfect backdrop for some serious discussion on China's future reform challenges and the increasingly important role it will play in the world. Panellists provided thought-provoking, incisive commentary on all of the big issues, such as urbanisation and demographics, social, political and economic reform, and how China will help to shape the world. These themes were set against a context of the varied roles that European businesses and institutions can play in helping China to achieve its long-term goals. The presentations and skilfully-moderated panel discussions were open, frank, engaging and genuinely insightful.

Carl Hayward provides an overview of the event, emphasising some of the key themes that emerged.

The information provided below is taken from the personal opinions of conference participants and do not necessarily represent the views of the Chamber. Actual quotations have not been attributed as the Chatham House rule prevailed in order to facilitate a more honest and open dialogue throughout the event.

EU-China relations still strong

The conference was opened with speeches delivered by Dr Markus Ederer, Ambassador and Head of Delegation, Delegation of the European Union to the People's Republic of China and Mongolia, Sun Yongfu, Director General, Department of European Affairs, Ministry of Commerce and Jens Reubbert, Vice President of the European Chamber.

The conference was further supported by a keynote speech delivered by Wei Jianguo, Secretary General of China International Economic and Exchange Centre and former Vice Minister of the Ministry of Commerce.

It was encouraging to hear, from both European and Chinese sides, recognition of the value of the trade partnership between the EU and China, a genuine commitment to continued cooperation and development and a call to move away from protectionism and focus on the bigger picture of strengthening trade relations. It was also gratifying to hear glowing support for the Chamber and the role that we play in facilitating dialogue between industry and government in furthering these goals.

Appreciation was also shown for the Chamber's study *Chinese Outbound Investment in the European Union* in bringing balance to the EU-China relationship by focussing on the role that Chinese investment plays in the EU.

Collaboration is key

The global information technology and communications (ITC) market is developing at break-neck speed and competition has become fierce, but there is common ground that requires collaboration between competitors.

Each person will be downloading, on average, one gigabyte of information per day by 2020. The current capacity of the technology that deals with information flow will need to be increased by a factor of 1,000 in order to cope with this demand. The technology to store and process this data in real time also needs to be vastly improved.

The telecoms industry is, by definition, global, and this requires the adoption of global standards of technology. Only when this occurs will the market be successful.

There is also need for European companies to meaningfully contribute to China's energy consumption and environmental challenges. In order for this to take place companies in this sector need to feel encouraged to increase their investments in China, yet the current regulatory environment and market access restrictions are not giving companies the confidence to do so.

These challenges can be met through collaboration. This requires open dialogue between companies in order to resolve issues of competition, but government reforms are also urgently required in the area of market access and to the regulatory landscape. There is also a need for more government attention to be placed on protection of intellectual property rights.

China's influence will continue to grow

China's increasingly dominant position in the world economy means that it will inevitably shape the world in greater ways. Improved spending power amongst Chinese will force industries to adapt more of their products and services to suit Chinese tastes, but at the same time, as Chinese people travel and become more internationalised, there will also be a convergence between the way that Chinese and Westerners consume.

European companies should bear in mind that they need to view China in local terms rather than treating it as one complete entity whose citizens share common preferences, as it is a fragmented marketplace. The way that people consume in Beijing is not the same as Shanghai, Shenzhen or Chengdu, and products must be developed accordingly.

China's laudable behaviour during the Asian financial crisis of 1997 suggests that their ineluctable rise to becoming the top economic power in the world will be dealt with responsibly. As one panellist pointed out, over the last 30 years China has benefitted from the financial systems


The Road to Reform
European Chamber Annual Conference 2013
9th May 2013





Xu Xiaonian


Chen Xingdong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In 2009, the State Council formally gave Shanghai the go-ahead to develop an international financial center by 2020.
A Yes
B No


and market rules that were created by the West, and they are not about to shoot themselves in the foot and alienate themselves. They have to take a responsible global role.

It was also emphasised that Chinese companies who wish to develop more soft power need to cultivate more deals that are win-win.

Social challenges abound

China currently has an urban population of 710 million, of which 250 million have no *hukou*, meaning they have no access to social benefits. Every year eight to 16 million more people flow into cities, raising the question: what model of urbanisation should be adopted?

Food security is also a challenge — seven per cent of arable land was lost to urbanisation last year alone — and there needs to be an increase in productivity as increasing the acreage of arable land is not sustainable.

Pollution is another major problem, as larger urban populations burn more energy and produce more waste. As the density of China's cities increase, they need to look at European models and learn how to move towards lower-carbon cities and deal with water treatment more effectively. It was emphasised that, on the issue of urbanisation, there is a strong axis between China and Europe through the European Chamber's Working Groups that can be drawn upon.

China's population is rapidly ageing. In 30 years one in four people will be over 65 and the ratio of tax payers to benefit receivers will go from 5:1 to 2:1. It was suggested that increasing the retirement age would present a huge opportunity and that perhaps the one-child policy should be revised.

Pension systems require reforms and the healthcare system is under increasing strain due to a lack of primary healthcare. Above all there needs to be reforms to avoid social unrest amongst the cities' urban migrant populations. *Hukou* reform is urgently required, with one panellist suggesting that the system should be abandoned altogether.

Financial reforms will drive future growth

Although financial reform is key, over the last 30 years it is perhaps the area that has lagged behind all others. It was suggested that the last 10 years were something of a 'lost decade', and that it isn't so much that financial reforms stalled, rather they actually went backwards. However, the last decade is in the past and China must move forward.

What should be done to reform the financial system and what will actually be done, though, are two very different things, and people should lower their expectations. It is likely that the bad assets that have accumulated over the last decade — mainly through loans that are backed by local governments — will begin to appear on the balance sheets of banks. This could trigger a fiscal crisis, although it was emphasised that this would probably not be on the scale of Europe's.

The worst case scenario is that moving forward there will be little or no financial reform. One panellist expressed the view that under the NDRC there will be no development and no reform, and that in order to progress there needs to be a taskforce, independent of the state council, that drives change.

Necessary reforms are being ignored because they cause pain. According to one panellist, financial reforms now are 100 times more difficult than they were under Deng Xiaoping. This was attributed to Deng's decisiveness, when compared to the government of the last decade, and also because these days groups with vested interests are greater in number and wield much more power.

A general consensus emerged that financial reform will not be considered to have taken place until there has been a reform of state-owned enterprises (SOEs), who one panellist referred to as "too powerful, too aggressive and too inefficient." SOEs produce an uneven playing field, do not allow fair competition and demoralise the private sector. The government should reduce SOEs to less than 10 per cent in order for China to be called a market economy.

The other issue that was put forward as a key condition for financial reforms to take place was the rule of law, and this must be addressed as the new leadership moves forward.

Overall the conference was a resounding success and we would like to take the opportunity once again to thank our distinguished guests, speakers and all who attended. We would also like to extend a special thanks to the conference sponsors. Eb

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER

Visa Regulations Presentation

On 11th April 2013, the European Union Chamber of Commerce in China invited Mr Xu Ruoxin, Visa Section Chief of the Beijing Municipal Public Security Bureau, to introduce China's New Visa regulations to our members at the Hilton Hotel Beijing. More than 120 participants attended this event.

SHANGHAI CHAPTER

1

2

Fraud Risk and Compliance Conference (1)

This half-day conference on 21st March, 2013, highlighted practical strategies to tackle challenges in combating corruption and fraud in high-risk growth markets and the obstacles that multinational companies had to overcome in their daily operations.

First edition of Capital Beat held in Shanghai (2)

The first edition of Capital Beat, the Chamber's quarterly public affairs seminar, was held on 16th April, 2013, at The Westin Bund Center Shanghai. Leading China experts Vijay V. Vaitheeswaran, China Business & Finance Editor of The Economist, Rose Wang, Partner at Brunswick Group, and Dr David Ellis, Political Counsellor, British Embassy in Beijing, analysed and discussed the latest changes in China's leadership and what implications the 12th National People's Congress will bring to China and China's business environment.

SHENYANG CHAPTER

1

2

Farewell to Sierra (1)

The Shenyang Chapter bid a fond farewell to Sierra Wang, who served as its General Manager for five years, on 25th April at DoubleTree Shenyang by Hilton.

Visa Seminar (2)

Shenyang Chapter organised a Visa and Working Permit Seminar. Three public security officers were invited on 27th April to lecture on this key topic for local foreign companies.

SOUTHWEST CHAPTER

1

2

Inter-Chamber Spring Mixer (1)
The European Chamber Southwest Chapter, together with local British, American, French and Belgium Chambers co-organised an Inter-chamber Spring Mixer on 10th April, 2013 at the Crowne Plaza Chengdu City Centre.

5th Chongqing Industrial Forum (2)
On 25th April, the 5th Chongqing Industrial Forum, organised by the European Chamber and British Chamber, was held at Inagiku in Glenview Grand Hotel. Zhou Chuanxin, Advisor for Safety & Operation at British Petroleum Chongqing delivered a presentation on 'Continuous Improvement on Plant Operation'.

TIANJIN CHAPTER

1

2

Visa issues in 2013 (1)
The European Chamber Tianjin Chapter, in collaboration with Exit-Entry Administration of Tianjin Municipal Public Security Bureau (Tianjin PSB), hosted a meeting to give a briefing on the current exit and entry visa regulations and policies by Chinese immigration officials on 21st March.

Strategic Growth Partners Workshop (2)
Co-organised with Invision, the European Chamber Tianjin Chapter hosted two interactive workshops aimed at HR Managers and Directors and Line Managers on 27th March and 17th April.

NANJING CHAPTER

1

Europe Day
On 11th May, 150 people in Nanjing took time to gather around the European flag and celebrate Europe Day.

PRD CHAPTER

1

EUROpean Chamber Cup Football Tournament 2013
On 4th May 2013, the EUROpean Chamber Cup Football Tournament 2013 was held at the Shekou Sports Centre with great support from China Merchants Shekou Industrial Zone Co Ltd. The tournament was won by TUV SUD, representing Germany.






CHAMBER ELECTION RESULTS

From late March to early April 2013, the European Chamber successfully held elections for their executive committee and local chapter boards for 2013/2014. It is an extremely important time of year for the Chamber when members get to have their say and decide on the new leadership. Below is a summary of the results.

Executive Committee

On 24th April, European Chamber members gathered at the European Union Delegation in Beijing to cast their votes for the 2013/2014 Executive Committee.

Davide Cucino (Fata a Finmeccanica Company) was successfully re-elected and will serve as President for a third term. The Vice Presidents elected on the day were Jens Ruebbert (Deutsche Bank), Mats Harborn (Scania), and Eduardo Morcillo (InterChina). Francois Bernard (FJA & Partners) was re-elected as Treasurer.

Previously elected, through local board elections, were Vice Presidents Stefan Sack (Comau) from the Shanghai Chapter and Holger Kunz (TÜV Rheinland) from the PRD Chapter.

The States Representatives were selected by the Supervisory Board on 7th May after presentations were given by seven potential candidates. The three that were successfully elected were Maija Kurte (Latvia), who was newly elected, Patrick Horgan (UK), who was re-elected and Tom Behrens-Sorensen (Denmark), who was a Vice President of the Chamber from 2008–2009.

Nanjing

The Nanjing Board Elections 2013/2014 were held on 19th April at the Nanjing InterContinental Hotel. Carlo Diego D'Andrea (Picozzi and Morigi) was re-elected as Chair of the Nanjing board. Mr D'Andrea has been a member of the Nanjing Chapter's Board since 2009 and has coordinated the activities of the Nanjing Working Group of the Italian Chamber of Commerce in China since 2011.

During a speech Mr D'Andrea said he was very pleased to receive the full support of the Chamber's Nanjing Chapter, and that he would "continue to cooperate with the Board of European Union Chamber of Commerce in China in Nanjing as well as the Executive Committee [in] Beijing in order to further develop the Nanjing Chapter while continuing to respond to the increasing interest of European companies based in the Province, in cities like Suzhou, Wuxi, Changzhou."

Other elected members of the Nanjing Board were Fan Hui (Mennekes Industrial Electric (Nanjing) Co Ltd), Jenny Zhang (BSH Home Appliances Holding (China) Co Ltd), Michele Corso (Marposs Nanjing Automation Co Ltd) and Udo Looser (Willi Elbe Steering Systems Nanjing, China).

Pearl River Delta

On 12th April, 2013, the PRD Board Elections 2013/2014 were held at the Crowne Plaza Guangzhou Science City. The new board was elected by members in the presence of the Chamber's Secretary General, Adam Dunnett, acting as returning officer.

Holger Kunz (TÜV Rheinland Group) was re-elected as Chairman. The other members of the PRD Chapter Board are Benoit de Langalerie (Foshan Easybox Jewellery Packaging Co Ltd), Nong Keqiang (Siemens Ltd China), Dominique Perdreau (Chang'an PSA Automobiles Co Ltd), Tristan Roquette (Teamacting Group), Anne Thiesen (Anne Thiesen Limited) and Alberto Vettoretti (Dezan Shira and Associates).

Shanghai

The Chamber's Shanghai Chapter completed its 2013/2014 Board Election on 18th April, held at the Pullman Shanghai Skyway. The new Chairman of the Board is Stefan Sack (COMAU). Stefan has been deeply engaged with the European Chamber Shanghai for many years as the Chair of the Auto-Components Working Group and as a board member.

Six additional individuals were elected to serve as Shanghai Board members for the next 12 months. They are Johannes Dietsch (Bayer), Frederik Cornu (Bureau Veritas), Carlo Leopaldi (Capital Logistics), Iris Duchetsmann (Eversheds), Dan Zhu (Shanghai Rainbow Consulting) and Mick Adams (Somerley).

Shenyang

On 28th March, 2013, the Chamber's Shenyang Chapter held their board meeting with Adam Dunnett, local board members, and outgoing General Manager Sierra Wang in attendance. Held at the Kempinski Shenyang, the meeting comprised four parts: the board elections, the 2012 review, the 2013 working plan and other business.

The Shenyang elections were completed returning the following results: 19 out of 24 local member companies approved of the board with the remaining five either abstaining or unavailable to vote. The confirmed Shenyang board for 2013/2014 is made up of Chairman Florian Schmied (EuroSino Invest), Guido Faust (Michelin), Wang Xiaobai (Siemens Ltd China) and Martin Winter (BMW Brilliance).

Southwest Chapter

The Southwest Chapter held its 2013 Annual General Meeting on 17th April, which included elections for the Southwest Chapter Board 2013/2014. The event was joined by Adam Dunnett who oversaw the election. The meeting was also attended by over 70 representatives from member companies and the Consul General of France in Chengdu.

Ulrich O. Birch (Consenec Ltd (ABB Group)), former Chongqing representative, was elected as the new Chairman. He expressed that efforts will be made to continue strengthening communications and cooperation between the Chamber and its members and will make contributions to promote a common progress. Adam spoke highly of the achievements of the Southwest Chapter over the last year and expressed high hopes for the long-term development.

Paul Sives (Proton Products Chengdu Ltd), Frank Stefan Gottwald (Siemens Electrical Apparatus Ltd, Suzhou - Chengdu Branch), (Steven) Fan Xiaowen (Willis Insurance Brokers Co Ltd), and Ms (Shirley) Ling Yan (KPMG Huazhen (SGP)) were elected as Southwest Chapter Board Members. Jan Urban (Crown Worldwide (China) Co Ltd Chengdu Branch) was voted as the Southwest Chapter Chongqing Representative.

Tianjin

On 15th April the final votes for the Tianjin board elections were collated. Mr Gabriele Castaldi (Globetech (Tianjin) Enterprise Consulting Management Co Ltd) was re-elected as Chair of the Tianjin Chapter Board. The other elected members of the board are Frank Redecker (Asia Power Systems (Tianjin) Ltd), Nigel Varley (Airbus (Tianjin) Delivery Centre Ltd), Marcel Gaborel (Veolia Water) and Marcelo Zuculin Junior (Novo Nordisk (China) Pharmaceuticals Co Ltd). Eb

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Fata, a Finmeccanica Company


Vice President
Mats Harborn
Scania


Vice President
Holger Kunz
TÜV Rheinland Group


Vice President
Eduardo Morcillo
InterChina


Vice President
Jens Ruebbert
Deutsche Bank


Vice President
Stefan Sack
COMAU


Treasurer
Francois Bernard
FJA & Partners


States Representative
Patrick Horgan
Rolls-Royce


States Representative
Maija Kurte
Linearis Translations


States Representative
Tom Behrens-Sorensen
Clavis (Beijing) Ltd


Secretary General
Adam Dunnett
European Chamber


Observer
Christophe Besse
EU Delegation in China

NANJING BOARD


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Carlo D'Andrea
Picozzi & Morigi


Michele Corso
Marposs Nanjing Automation Co Ltd


Fan Hui
Mennekes Industrial Electric Nanjing Co Ltd


Udo Looser
Willi Elbe Steering Systems Nanjing, China


Zhang Yuan
BSH Home Appliances China Co Ltd

PEARL RIVER DELTA BOARD


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TÜV Rheinland Group

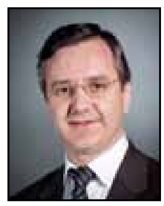

Alberto Vettoretti
Dezan Shira & Associates


Benoit de Langalerie
Foshan Easybox Jewellery Packaging Co Ltd


Anne Thiesen
Anne Thiesen Ltd


Nong Ke Qiang
Siemens Ltd China


Tristan Roquette
Teamacting Group


Dominique Pedreau
Chang'an PSA Automobiles Co Ltd

SHANGHAI BOARD


Chairman
Stefan Sack
COMAU


Frederik Cornu
Bureau Veritas


Carlo Leopaldi
Capital Logistics & Transport Co Ltd


Iris Duchetsmann
Eversheds


Mick Adams
Somerley

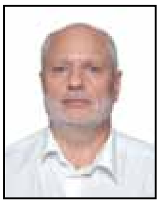

Johannes Dietsch
Bayer


Dan Zhu
Shanghai Rainbow Consulting

SHENYANG BOARD

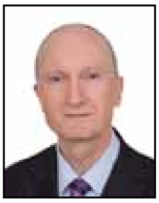

Chairman
Florian Schmied
EuroSino Invest


Xiaobai Wang
Siemens Ltd
China


Guido Faust
Michelin


Martin Peter
BMW Brilliance

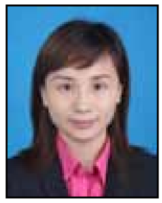
SOUTHWEST BOARD


Chairman
Ulrich O. Birch
Consenec Ltd
(ABB Group)


Paul Sives
Proton
Products


Steven Fan
Willis Insurance
Brokers Co Ltd


Frank Stefan
Gottwald
Siemens
Electrical
Apparatus Ltd


Shirley Ling
KPMG Huazhen
(SGP)


Chongqing
Representative
Jan Urban
Crown Worldwide
(China) Co Ltd

TIANJIN BOARD


Chairman
Gabriele Castaldi
Globetech (Tianjin)
Enterprise Consulting
Management Co Ltd


Frank Redecker
Asia Power
Systems


Nigel Varley
Airbus (Tianjin)


Marcel Gaborel
Veolia Water
China


Marcelo Zuculin
Novo Nordisk
(China)
Pharmaceuticals
Co Ltd

EUROPEAN CHAMBER OFFICE TEAM

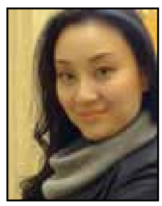

Beijing Office
General Manager
Jaspal Channa


Southwest Office
General Manager
Min Colinot


Nanjing Office
General Manager
Mirella Savegnago


Pearl River Delta Office
General Manager
Francine
Hadjisotiriou


Shanghai Office
General Manager
Ioana Kraft


Shenyang Office
General Manager
Shan Gao


Tianjin Office
General Manager
Kitty Wang


Secretary General
Adam Dunnett
European
Chamber

THE ADVISORY COUNCIL OF THE EUROPEAN CHAMBER

The 30 members of the European Chamber's Advisory Council are particularly active in representing and advising the Chamber, and make an enhanced contribution to the Chamber's funding.

ABB	AIRBUS	AkzoNobel Tomorrow's Answers Today
amadeus Your technology partner	Ansaldo STS A Finmeccanica Company	BASF The Chemical Company
Bayer	BNP PARIBAS	Deutsche Bank 德意志银行
ESI Euro Sino Invest	EVONIK INDUSTRIES	GDF SUEZ
KPMG	Linklaters	MAERSK
米其林轮胎 MICHELIN 引领进步之道	Nokia Siemens Networks	novozymes Rethink Tomorrow
PHILIPS sense and simplicity	Roland Berger Strategy Consultants	SAP
SCANIA	Schneider Electric	SIEMENS
SOCIETE GENERALE	ThyssenKrupp	TOTAL 道达尔
TÜVRheinland Precisely Right.	UPM	VEOLIA ENVIRONNEMENT

THE EXECUTIVE INTERVIEW:

Marcus Wollens

Vice President, Logistics, BMW Brilliance Automotive Ltd

Marcus Wollens has been working for BMW since 1995. He became a member of the joint venture between the BMW Group and Brilliance China Automotive Holdings Ltd in 2011 and has been in China for two years. He says **BMW Brilliance Automotive Ltd** (BBA) has experienced fantastic growth to date and is confident about the future.

What percentage of BMW's global market share does China represent?

The Chinese market represents 19 per cent of BMW's overall global share. In 2012 over 300 thousand vehicles were sold, representing an annual growth rate of 39.7 per cent. The BMW 5 Series recorded a year-on-year growth of 52.2 per cent, becoming the brand's first single model in China gaining more than 100,000 customers in one year, while the BMW X1 successfully achieved a growth rate of 148.2 per cent, becoming the brand's third highest volume contribution in China. Looking back over my career with BMW, this is the first time I have experienced a boost in the market like this.

The BMW 3 Series Long Wheelbase is locally produced in our Tiexi Plant, one of the most cutting-edge and sustainable premium production facilities worldwide. Fuelled by these successes, we are looking forward to further solidifying our presence in the Chinese auto market.

My personal perspective of BBA's development is that it has been making an increasingly bigger contribution to BMW's overall success in China. Even though the growth of the premium market here is tending to slow down to a moderate level, BBA has been building up a solid foundation to maintain a sustainable and upward development in the coming years.

How much emphasis do you place on environmental issues, in both the manufacturing process and the finished product itself (engine emissions)?

We attach great importance to environmental issues. As a matter of fact, sustainability is implemented throughout our business chain. We want to drive and shape the technological transformation to sustainable mobility. This will require all of our innovative skills: first, to develop new models and appealing mobility services; and second, to continue improving our structures and processes to further strengthen how we will work together.

The BBA Tiexi plant is one of the world's most sustainable plants with ground water, and later also wind power, being used in factory production. This new plant will be in full operation within this year, with the paint shop being the final part to be added in the second half of 2013.

Thanks to extensive use of BMW Efficient Dynamics technologies, BMW models rank top in fuel efficiency among premium car makers in China.

Can you tell us a bit about some of BMW's CSR initiatives?

BMW is the most sustainable company in the automotive industry. It has been ranked industry leader in the Dow Jones Sustainability Indexes for the last eight years. By playing the role of a responsible corporate citizen, which is the ultimate goal of its corporate social contribution, BMW seeks to perform its social commitment as part of its core competence.

In China, BMW regards sustainability as a lasting contribution towards the economic success of the company, and strives for the long-term harmonious integration of business and society in China. BMW's social commitment to China is also reflected in the China Corporate Social Contribution Serial Activities, formally launched in 2007, which sets out BMW's leadership in CSR in China.

BMW China Corporate Social Contribution Activities focus on intercultural innovation and social inclusion, educational support, and road safety education.

In addition we have the BMW China Social Engagement Platform and the BMW Warm Heart Fund, which, through our associates, dealers and customers, as well as the general public at large, allows us to gather strong social force and provide for the people in need.

What are your biggest challenges in terms of supply chain management from a logistics perspective?

Quality is the most important principle for BMW. As our BBA plant continues to expand we need to increase local purchasing in line with this growth, and in this regard quality remains our top priority.

Proximity of suppliers is another important topic. The nearer the suppliers, the more we can use state of the art logistics concepts such as JIT (just in time) and JIS (just in sequence). These concepts refer to parts arriving in the production schedule as they are needed and in the correct order respectively. Eb

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