Journal of the European Union Chamber of Commerce in China

EURObiz

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AT YOUR SERVICE

Jörg Wuttke
President of The European Union Chamber of Commerce in China

China's service sector has been afforded increased importance since the launch of the China (Shanghai) Pilot Free Trade Zone (CSPFTZ) and its *Negative List* approach and the Third Plenum Decision last year. Its status has been further reinforced by the revision of the *Negative List* on the 1st July, 2014, with the removal of 51 items—a reduction of 27 per cent. However positive this development is though, the list needs to be further reduced in scope and speedily rolled-out on a nationwide basis for the service sector to give the Chinese economy the growth impetus it needs.

The Chamber's *Business Confidence Survey 2014* revealed that the revenue performance for European services companies in China is only average, which suggests that China has not yet truly shifted from a manufacturing-based economy towards a more service-orientated one.

European companies can offer a lot of expertise in China's service industry. For the Chinese Government to leverage this it should further engage with the World Trade Organisation (WTO), for example, by acceding to the Government Procurement Agreement (GPA) with a reasonable offer or by further engaging in the currently ongoing WTO Trade in Services Agreement (TiSA) negotiations, as well as, of course, continuing with the EU-China Bilateral Investment Agreement negotiations.

In this issue of *EURObiz* we look at some of the challenges that European companies are encountering in China's service industry.

Judging from the findings of our *Business Confidence Survey*, financial services companies see SOEs not only as their most significant competitors, but also increasingly so. In one of the featured articles in this edition, we talk to one of our members, who provide professional and financial services, to garner their perspective on this and other issues.

Another featured topic is investment in the China's food and beverage (F&B) sector. As scandals in recent years have dented the public's confidence in the quality of domestic foodstuff, it is important for the Chinese authorities responsible to assure adherence to the highest quality standards in the sector, in order to maintain a high level of trust from China's increasingly demanding urban middle class.

European business is a prime interlocutor in this respect, coming from a highly regimented environment where food is judged to the most discerning standards. The recommendations for the F&B sector that will be given in our annual *Position Paper*—set to be released in early September—are intended to help improve consumer safety in China, and should be heeded by the Chinese authorities. Healthcare and Food Safety is of course one of the Chamber's lobbying priorities for the current year.

Another topic covered in this issue is the current operating environment for foreign legal services providers. Foreign law firms are still unable to practice Chinese law despite repeated calls from business, civil society and the government that increased rule of law is required. It comes as no surprise that over 90 per cent of companies in the legal services sector believe that they are being discriminated against by the Chinese Government. This is in stark contrast with the ease with which Chinese law firms can establish themselves in the EU. The Chamber will certainly continue with our lobbying efforts in this respect.

With Chinese outbound tourism growing, we also look into the increasing need for European tourist destinations to adopt e-solutions—such as developing Chinese language websites and Apps, and adapting their digital promotional activities—to attract more Chinese tourists. There is also a need for European destinations to provide better services in general, for example, tailoring tours to suit Chinese tastes and providing Chinese speaking staff. The steadily increasing numbers of Chinese tourists is a good thing for European companies and the people of Europe as a whole, as it opens up business opportunities and fosters intercultural understanding.

The service sector in China will likely become increasingly vibrant over the course of the next decade. However, this hinges on the speedy and comprehensive implementation of free market reforms. The CSPFTZ *Negative List* approach should be rolled out nationwide, while the Chinese Government should further contribute to TiSA and improve its GPA offer.

Last but not least, on the topic of services, as our members, you can always rest assured that the European Chamber is and always will be 'at your service'.

GOING GLOBAL WITH EDUCATION

INTERNATIONALISING THE CHINESE CURRICULUM AND WHAT IT MEANS FOR EUROPEAN BUSINESSES

In the several decades since China's opening and reform in the late 1970s, China's education system has evolved in an unprecedented manner. Buffeted by unstable political and economic environments, China has overcome massive challenges to produce an education system that has put hundreds of millions of children through school, raising education levels across the board and simultaneously helping to lift more than 500 million people out of poverty over the last 30 years. **Patrick Hoey**, Chief Operating Officer of **BE Education**, says that China's next challenge is producing a talent pool that can fully contribute in the new era of innovation.

China's students are excelling in classrooms at home and abroad; however, as China focuses on rebalancing its economy towards domestic consumption and innovation, the pressure for education reform is growing. China's education system must overcome structural issues that produce a large labour pool but a small talent pool. Private sector schools are increasingly providing an opportunity for experimentation and integration of Chinese and international curriculum methodologies to drive this reform.

China's rapid economic development and modernisation has been accompanied by equally impressive progress in promoting universal education and gains in literacy and numeracy. In 1949 only 4.8 per cent of school-aged children were enrolled in school; by 2009, enrolment in compulsory grades 1-9 reached 91 per cent and high school enrolment reached 79 per cent. As the population of students surged from four million in 1949 to more than 200 million in 2009, a system of high school and university *Zhongkao* and *Gaokao* entrance exams were put in place to allocate scarce places in high schools and universities to top performing students on a merit basis. However, as competition for places in high schools and universities increased, academic methodology in middle schools and high schools changed to favour test preparation. Over the years this trend has continued to grow, creating the current academic imbalance that overwhelmingly emphasises test preparation in place of critical thinking and problem solving.

The concern is that intensive test-based education churns out graduates who are good students but poor thinkers, effectively producing graduates who are unequipped to deal with the types of challenges faced in a modern economy.

This year, a record 7.3 million graduates will enter the Chinese job market, but many will be unable to fill positions that require critical thinking and problem solving skills. Over a third of Chinese firms said they struggled to find workers with employable skills last year. Such a small talent pool drives up the cost of operations for companies who must spend years investing in and training unqualified employees. A 2013 survey from the European Chamber of Commerce in China indicated the main problem in recruiting Chinese staff was unrealistically high hiring expectations versus low skill sets.

This has resulted in the gradual opening of a private education sector, providing alternatives to the state system. The majority of schools in China are public schools that admit Chinese nationals and strictly follow the China national curriculum. Three additional types of schools are growing in popularity: private schools, which enrol Chinese and expatriate students and are allowed to integrate international curriculum components into a third of their timetable; Sino-foreign, joint-venture schools, which accept Chinese and expatriate students and are permitted to fully integrate international and China curricula; and international schools, which only take foreign passport holders and typically use a full international curriculum programme.

The popularity of these alternative schools is leading to a gradual internationalisation of the Chinese curriculum, combining the rigour and structure of the Chinese system with the creativity and freedom of the Western system. The growth of non-public schools has brought in teaching methodologies which emphasise classroom interaction, critical thinking, discussion-based learning and English practice, and allows students to voice opinions, ask questions and engage in debate. A greater variety of cross-curricular and creative classes in arts and world perspectives engages students on a deeper level, while greater emphasis on sports teaches leadership and teamwork. All of these methodologies are orientated towards developing students into global citizens, building 21st century skill sets of independence and innovation and making students far more marketable to international companies.

What does this shift mean for the future? The internationalising of school curriculum programmes will result in the slow creation of a wider talent pool of workers, making domestic Chinese graduates more competitive against their international peers. The ability to invest in skilled, broad-thinking, English-speaking graduates who are comfortable in international settings saves time, energy and training resources. This is a critical advantage for Chinese and European employers as China transitions from a manufacturing to an innovation economy, with increasing numbers of international businesses searching for skilled talent.

Of course, challenges remain. There are more than 300 million children under the age of 18 in China, with a school system that enrols more students than the populations of most countries. Such a vast system creates a large amount of inertia and changes will come slowly. China's *Zhongkao* and *Gaokao* force schools to focus their teaching time on test preparation and limit their ability to develop a wider, internationalised curriculum. Families face a difficult decision in keeping their children in a school that prepares students for the *Gaokao* and entrance to a Chinese university, or placing them in an alternative school that does not provide *Gaokao* preparation. Without a successful *Gaokao* score students have a limited opportunity to attend university in China and must apply to universities abroad.

Regardless of the difficulties, non-public schools are attempting to integrate experimental programmes into their curriculum. Schools are delivering the Chinese curriculum using more international methods, such as using immersive English to teach classes like PE and art. In this way schools are able to build English and other skills throughout secondary school years while maintaining students' Chinese identity.

China's *National Plan for Medium and Long-term Education Reform and Development (2010–2020)* highlights areas for

reforming the test-based system. More freedom will be given to institutions of higher education in determining admissions criteria, with the goal of changing the habits of high schools by forcing them to prepare students for a wider range of university selection criteria beyond the *Gaokao*. Admissions criteria for two-year colleges, vocational schools and approval authority for Sino-foreign joint venture schools and international schools are being delegated to provincial-level Education Bureaus by the Ministry of Education in order to create a more open environment for experimentation.

As greater numbers of Chinese, European and international businesses in China demand workers with 21st century skills that emphasise critical thinking, problem solving and creativity, pressure to reform the test-based education system will grow. The growth of internationalised curricula and alternative curriculum schools will help transition the education system from producing a large labour pool to a large talent pool, helping to drive China's next round of economic development and strengthening the ties between Chinese and European businesses in the process. Eb

***BE Education** is a leading professional provider of international education services in China. BE Education offers students a full range of top-quality services, including overseas education consulting, summer programmes at prestigious overseas schools, one-to-one tutoring, and international schools with partner Oxford International College, with campuses located in Chengdu, Changzhou, and Zhengzhou. The 2010–2014 winner of China's Hurun Report's Best of the Best Award for Best Education Service Provider, BE Education develops in its students the academic and life skills they need to access the world's best education and succeed beyond the classroom.*

FOOD FOR THOUGHT

China's obsession with food makes its food and beverage industry a particularly appetising prospect for potential foreign investors. However, although China has a huge consumer base—many of whom are already turned on to foreign cuisine—**Rosario Di Maggio**, Associate Director of **Vistra** says that this lucrative industry is fraught with potential pitfalls.

China's megacities now offer a huge variety of international cuisines. With every passing month new and exotic restaurants are opening in first-tier cities, with many internationally-renowned chefs launching flagship venues.

Shanghai is leading the charge with more than 58,750 restaurants spanning at least 10 regional and 11 international cuisines. Beijing, Guangzhou and Shenzhen are all following closely behind, with Chengdu, Chongqing and many other large cities looking set to catch up in the coming years. In these cities you no longer need to seek five-star hotels to savour a decent steak, and the habit among Guangdong's foreign residents spending weekends in Hong Kong to eat Italian or French fine-dining cuisine is much less common compared to a few years ago.

Foreign cuisine in China is no longer about exclusive restaurants for rich expats and wealthy locals though, China's expanding middle class are increasingly demanding more diverse dining options. As the Chinese saying goes, "food is the first necessity of the people", and this surge in demand has prompted a mushrooming of a variety of new restaurants at all price ranges, including Irish and English pubs, German and Belgian breweries, Italian, French and Spanish fine dining venues, and Vietnamese, Thai and Japanese restaurants.

Numerous market research studies show that attitudes of Chinese consumers have changed dramatically over the past decade, leading to new generations of young consumers who are increasingly familiar with foreign food products. Continued, increased consumption of a wide variety of foods in China has developed a growing acceptance among Chinese consumers towards foreign cuisines. China's expanding middle class—estimated to make up 40 per cent of the population by 2020—with larger disposable incomes will see this trend continue, and rising public awareness of food safety issues means that Chinese consumers are becoming more willing to pay for quality food products too.

Over the last 15 years, the food and beverage (F&B) sector has seen huge growth, offering tremendous opportunities for local and foreign investors alike. International heavyweights, such as food conglomerate YUM! (which owns brands Taco Bell, KFC and Pizza Hut), Starbucks, McDonalds and Häagen-Dazs, are invading every corner of every central business district in major

Chinese cities.

It is amazing to see how foreign small businesses and entrepreneurs have capitalised on the opportunities that this has presented and reaped varying degrees of success in the F&B industry, a sector that is often considered relatively easy to enter.

Many of these investments actually come from individuals or companies outside of the F&B industry who have accumulated funds in trading and manufacturing or professional services. History has proven some of them to be right, with a handful expanding their businesses with small chain outlets, sometimes even beyond their city of origin, which is extremely challenging in a market as fragmented as China's. We have witnessed the success of Element Fresh and Wagas expanding first in Shanghai and later in Beijing and Guangzhou, and FG Fine Foods in Guangzhou.

According to Neil Wickers, Managing Director of Pizza Express International, the key to success when expanding outside of your established market is "a deep understanding of the cultural nuances and local consumer tastes and preferences." However, adapting areas of the brand proposition whilst remaining true to the global brand, presents the biggest challenge. "It's important to take your time to set up each restaurant successfully before rolling out the concept," he says.

Pizza Express established 22 restaurants in Shanghai and Hong Kong before entering Beijing (its 500th restaurant globally). "We had the benefit of experience of operating in these two cities, whilst simultaneously undertaking consumer research to understand Beijing as a market in its own right," says Wickers.

But for every success story how many have gone bust?

No matter if the investor is a venture capitalist looking to launch a brand new chain of restaurants or a small, private investor with no experience in the F&B industry, whether the location is Xintiandi in Shanghai, Houhai in Beijing, Futian in Shenzhen or Zhujiangxinchen in Guangzhou, the challenges are numerous. They are not limited to a strong set of local competitors as in the West, here they include issues such as a lack of supply transparency and a complex regulatory environment. The possibility that regulations will be applied or enforced inconsistently has plagued business owners and has often resulted in their failure. While some of these issues are difficult to foresee and deal with, others just need the right amount attention to be mitigated.

A common mistake by both large and small investors trying to open their chain of restaurants or coffee shops, is to use the restaurant premises as their registered office. In addition to requiring the investor to pay for very expensive premises for several months before they are able to actually fully utilise them (the registration process might take up to nine months, assuming that everything goes smoothly) it also ties any future risk of that particular location to the whole group. Imagine the scenario where the first restaurant location happens to be a failure or, for whatever reason, there is a need to relocate it. If the premises are also the main location for the whole company, the process of relocation could end up being extremely long and painful.

An alternative would be to register what is usually referred to as a Catering Management Company in regular office premises. This would allow the investor to obtain the full set of licenses without having to pay for large, centrally-located and expensive retail premises while this process takes place. In the meantime, the process of finding the right location for the actual restaurant can be undertaken, and the pre-incorporation approval stage can be entered into, saving the investor precious time and money. This practice will also accelerate the process of being able to issue invoices, hire staff and open bank accounts.

Another major challenge for foreign-invested F&B companies is related to hiring local employees and being able to retain them with the right wages and compensation packages. In a highly competitive labour market, where the required industry skills are relatively low, employees often leave without giving much notice. This places management under the continuous stress of having to constantly find new hires. Training costs are high, and this cost is wasted when good employees who have received foreign business training decide to leave for higher paying jobs. However, this is an aspect that can be mitigated by ensuring that the right contracts, staff handbooks, packages and bonus structures are in place.

Finally, as many with some experience in the industry are aware, investors should make sure that lease agreements are well drafted. At the same time they should be prepared to expect the worst from the landlord. In too many cases, successful businesses have been handed a hike in rent of up to 40 per cent without sufficient explanation or have been pushed to move out, only to discover a few weeks later that the landlord was trying to run a similar business at the same premises. Some particularly naive foreign investors didn't even make it to their opening before their landlord threw them out and kept their design and business model.

As with all business ventures in China, investors looking to break into the F&B industry should take professional advice, proceed with realistic expectations and keep their eyes and ears open. Eb

Vistra *is a global, independent provider of trust, fiduciary, corporate and fund services, with 30 offices in 22 jurisdictions. In China, Vistra has offices in Shanghai, Beijing, Guangzhou and Shenzhen specialising in company formations, ongoing administration and support services such as bookkeeping, accounting, tax-filing, HR administration, payroll processing and other corporate services for our international portfolio of clients*

IT'S ALL ABOUT THE PEOPLE

When KPMG started doing business in China over 22 years ago, the market for professional and financial services was completely different to today. Launched in Beijing with a staff of just two people, KPMG China now employs around 9,000 people. **Carl Hayward** met with **Edwin Fung**, Senior Partner, Beijing, and Senior Partner, Northern Region, **KPMG China**, to discuss the challenges that they face and how they have had to evolve to remain competitive in this rapidly changing market.

Fung began his career with KPMG in his native Hong Kong in 1986 when he was a fresh graduate. He spent two years with KPMG in New York from 1993–1995, gaining international experience, before moving back to Hong Kong. At this point China's rapidly changing markets were beginning to draw serious global attention, and Fung himself was becoming increasingly engaged with the Mainland through his work. He finally decided to move to Beijing in 2006 in order to understand the market more clearly.

Twenty years ago, Fung says, foreign players offering professional services in China dealt mainly with multinational companies (MNCs). For companies like KPMG, if you had a brand and good services you had little competition in the market, but times have changed a lot. Today, while large state-owned enterprises (SOEs) dominate certain sectors, the emergence of privately-owned enterprises (POEs) is reshaping the market landscape and this has led professional service providers to constantly adjust their service portfolio in order to remain competitive.

KPMG's main local competitors have emerged from the private sector. Although these firms have their own set of challenges, Fung says, they could become genuine market contenders. They first need to expand their service capabilities and acquire more international experience, but many are accomplishing this by merging with firms that already have the requisite services and global footprint.

The advantage that KPMG holds is an established network that has been built up over the past 100 years, as well as the acquired knowledge and experience. This, says Fung, is how KPMG creates its uniqueness in the market.

One of the major challenges KPMG faces is how to adapt its services to the rapidly-evolving market, and how to adjust its strategy depending on which area of China and which sector they are operating in, as well as what type of customer they are dealing with.

"I would say in Beijing up to 65 per cent of our customers are SOEs, while in Shanghai around 60 per cent are MNCs. There is also a significant variation of the maturity of the companies across China. When your customer profile is different you need to have different market strategies and you need to tailor your service offering."

In such a vast and varied market, Fung says that value can be created by positioning yourself smartly and not by taking the one-solution-fits-all approach.

"I always tell my staff that we are not McDonald's. If you set yourselves up that way, customers come in and they know what they want and they know the price, and more importantly they ask for *taocan*, the set menu. That is not what we want," he explains.

Instead, KPMG set themselves up as a five-star restaurant. "When our customers come in they don't necessarily know exactly what they want, so our job is to have a conversation with them to see how they're doing and how they're feeling. We will then tailor a menu that fits best their needs."

This leads Fung to the next challenge—finding and retaining talent capable of providing a five-star service.

Holding on to talent

In the talent war there is more at stake than simply finding fresh recruits, in fact this is just one of many challenges that KPMG face. Another is finding and recruiting experienced hires—people who have particular expertise in certain sectors, in certain products or services. The market has grown so quickly, but, says Fung, the talent pool has not caught up.

The next real challenge is retaining talent. Fung says that younger generations, particularly the new wave of post-90s graduates, do not view careers in the same way that their predecessors did. Of the 1,300 annual recruits from universities, and other experienced hires of around 200 per year, Fung says they experience turnover of between 30 to 50 per cent.

The periodic counselling discussions, and also exit interviews, are showing that many young people are simply looking for more variety. They are not only thinking about a career, they are also thinking about having different, richer life experiences.

"We need to make sure we engage with these people and make them understand that it is not 'just a job'. We need to look at how, as a firm, we can help them to grow and develop. We need to make them see that after graduation they should look to stay for five to ten years. If they want to become a professional this is what they need to commit to," says Fung.

Fung believes that KPMG's biggest achievement in China has been the creation of their talent pool. Over 80 per cent of their China audit partners are local and started their careers with KPMG, meaning they have grown up with the firm. How the partners engage with the market is crucial to KPMG's success.

Reforms and influence

Of the reform programme announced following the Third Plenum, SOE reform would have the biggest impact on KPMG's business in China, although Fung is unsure of how quickly this could feasibly happen.

"It is the right thing to do, but it is not easy. I do think that it is a set of very good principles from the top though," he says.

Auditing is one of the services that KPMG provides to their SOE clients, but as the process of reform

and opening up continues SOEs may need more tax and advisory services, which may create additional opportunities.

Another factor that will influence the market is the continued emergence of POEs. Mega-companies like Baidu, Alibaba and Tencent (BAT as they're collectively known) are having a huge impact on the internet, on the logistics industry, in cultural media, in banking, finance and insurance. If SOEs reform over the next five to ten years, this will certainly have a big impact, but by that time these POEs will have also had another five to ten years continued development. If more 'BAT companies' emerge the structure of the market will be significantly transformed.

A bright future

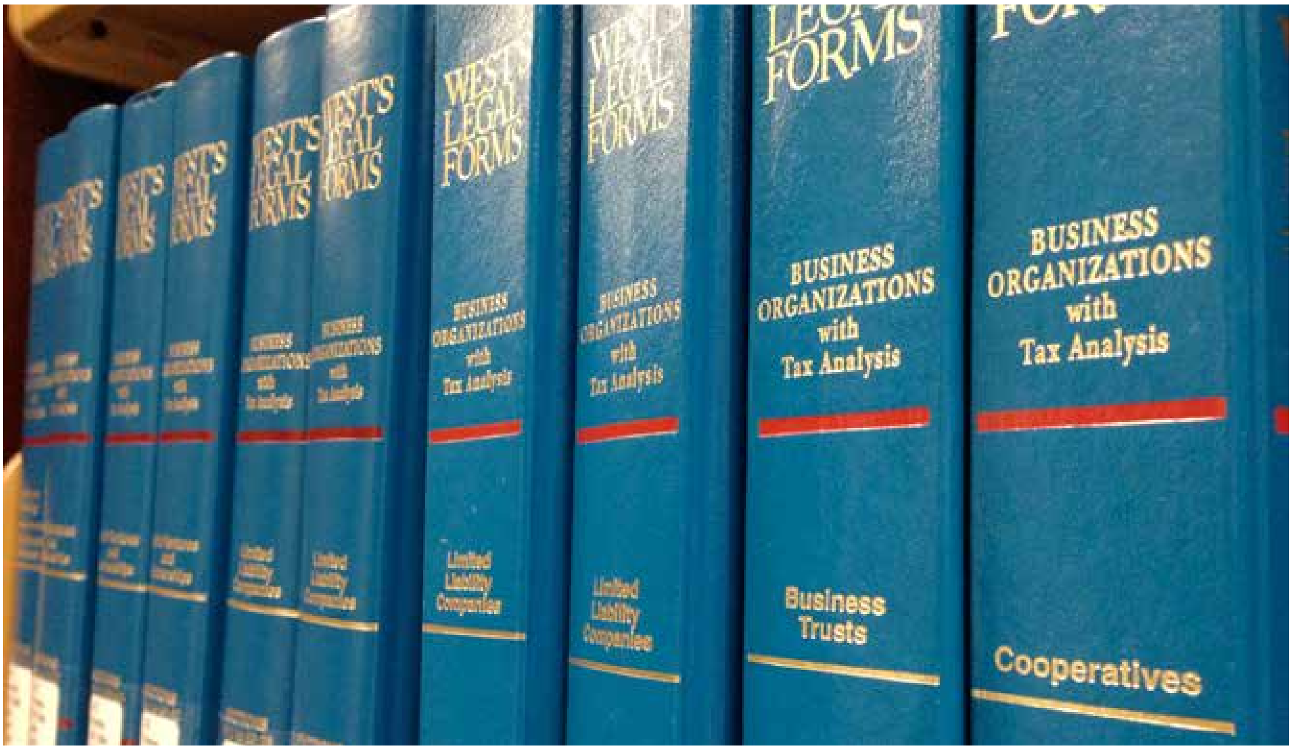
Fung feels very positively about the China market, particularly the service industry, as the tone has been set from the top that China will not continue to be a cheap-labour manufacturing base. His ambition is for KPMG to be "the best, not the biggest", and he feels the market is large enough to accommodate all players, so KPMG needs to concentrate on the areas that it is best at.

It is appropriate that Fung concludes by bringing the conversation back to people: "I want our partners to be 'family doctors' who care about our clients and go and see them regularly to understand how they are doing and to gain their trust. This is exactly what we need to do in the service industry, and I am confident because this is exactly how we are developing our talent." Eb

***KPMG** is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have more than 155,000 people working in member firms around the world. KPMG China has 16 offices, including KPMG Advisory (China) Limited, in Beijing, Chengdu, Chongqing, Foshan, Fuzhou, Guangzhou, Hangzhou, Nanjing, Qingdao, Shanghai, Shenyang, Shenzhen, Tianjin, Xiamen, Hong Kong and Macau, with around 9,000 professionals.*

A LEGAL EVOLUTION

Following Deng Xiaoping's reforms China became a land of opportunities for many foreigners wishing to establish businesses and challenge themselves in a new country. Among those pioneers were lawyers whose role was assisting foreign entrepreneurs entering a completely different economic, political and legal system. In this article **Carlo D'Andrea**, Founding Partner of **D'Andrea & Partners**, and Chair of the Chamber's **Legal and Competition Working Group** in Shanghai, reviews the current operating environment of China's legal services industry and strongly advocates the changes necessary to make it more accessible to foreign law firms.



Despite China's rapid development foreign businesses here continue to face new challenges, such as the regulatory environment, restricted market access or even issues relating to the environment or general living conditions. Foreign lawyers in China face a particularly significant obstacle—the freedom to actually practice law.

Over the years, the European Chamber's Legal and Competition Working Group has stressed these issues in its *Position Paper* and continues to register the dissatisfaction of the European legal community in China.

How Chinese law has changed

The post-Mao era

The legal profession in modern China is barely 30 years old. The law faculties reopened in 1980, and the first qualification exam was held in 1986. At that time, lawyers were considered as workers of the State, representing and protecting State interests. They lacked experience in managing international legal issues and also were unable to speak foreign languages, including English, which is essential for learning and comprehending international law.

As soon as western companies began to establish branches in China, legal experts came from abroad to help their clients deal with local authorities. Gradually more foreign law firms established on the Mainland and took the lead in commercial and corporate affairs, as well as the foreign investments sector.

An unequal footing

In the European Chamber's *Business Confidence Survey 2014*, it was revealed that 90 per cent of European law firms operating in China feel they are treated unfairly by the government compared to domestic Chinese companies.

Historically, the main problems have been that they can't be admitted to the bar or provide legal advice on Chinese laws and regulations, as they are not Chinese citizens.

In the event of disputes foreign law firms have to find a Chinese lawyer to represent their clients' interests before the court. This situation forces cooperation between foreign and Chinese lawyers. While undoubtedly fruitful for both parties, it is more so for the Chinese lawyers, who are able to learn more about international law.

The Lawyers Law (律师法), issued in 1996 by the Ministry of Justice and most recently reviewed on 26th October, 2012, did little to advance things. It states that foreign law firms can hire qualified Chinese lawyers, but can only practice foreign or international law. It further stipulated that if a qualified Chinese lawyer is hired by a foreign firm, his/her license shall be suspended, and they cannot practice as an attorney at law in China while working for that office.

In Europe, Chinese lawyers have equal opportunities. In fact any foreigner aspiring to practice law in any European country will be admitted to the bar. There are no limitations based on nationality.

Chinese firms to conquer the West?

Over the past decade many Chinese companies have taken advantage of the economic downturn to 'go global' and the number of Chinese companies investing abroad is increasing each year. This has had an effect on the activities of foreign law firms who are increasingly employed by Chinese entrepreneurs to give advice on outbound investments to Europe, the USA or Australia.

It is now a common occurrence to read that a Chinese company has acquired an important foreign brand in the automotive industry or in the IT sector, but this wave of acquisitions raises concerns for European lawyers as the trend also includes the expansion of Chinese law firms in Europe.

These mergers allow for an easier approach to new markets by avoiding challenges related to relocation or language. However, in many cases a merger can hide an acquisition set up by a stronger Chinese law firm to help another suffering from economic problems. In this situation the 'acquired' firm can lose its independence and personality.

In the last few years many mergers between Chinese law firms and those from Europe has led to the creation of new 'super' firms with more than 3,000 lawyers. This creates extremely tough competition for the small- and medium-sized firms that form the backbone of the legal society on the Old Continent.

Glimmers of hope

Recently some things have slowly started to change. During the last few years the Shanghai Bar Association has invited some European Chamber members to join as 'special members'. Although this initiative is welcomed by the Legal and Competition Working Group, and the legal community in general, it is still not enough. At the moment, the status of 'special member' only allows foreign lawyers to attend training courses, meeting and seminars on Chinese law, and exchange experience and knowledge with Chinese 'colleagues'.

In 1995, the Ministry of Foreign Trade and Economic Cooperation promulgated the first law on the *Approval and Control of Resident Representative Offices of Foreign Enterprises*, which was subsequently reviewed in 2012 by the State Council of the People's Republic of China (PRC). It stated that foreign law firms can establish representative offices in China if they obtain the relevant business license from the Ministry of Justice. However, since the regulation is not clear enough, many foreign offices opted to set up consultancy companies instead.

On 29th August, 2013, Mainland China and Hong Kong signed *Supplement X* to the *Closer Economic Partnership Arrangement* (CEPA). It allows representative offices set up by Hong Kong law firms in Guangdong Province to hire qualified Chinese lawyers as consultants to advise on issues relating to Chinese law. Although Hong Kong lawyers in these offices are not allowed to practice PRC law, the representative offices can handle it and this will encourage businesses in Mainland China.

According to a new pilot work plan, which will only be in force in the China (Shanghai) Pilot Free Trade Zone (CSPFTZ) for the time being, Chinese and foreign law firms can establish cooperation on a contractual basis. They will remain financially independent and separate entities but they can work together to provide better legal advice to their clients. Furthermore, representative offices of foreign firms can sign agreements with Chinese firms in order to second lawyers to each other's offices. Still only PRC lawyers can provide legal advice on Chinese law, but this cooperation allows both sides to offer more value-added professional services.

These recent changes are certainly encouraging. They could indicate a willingness on the part of Chinese authorities to lift the current market restrictions placed on foreign law firms and allow them equal opportunities to practice law all over Mainland China.

Advocating change

The Legal and Competition Working Group, has consistently made important key recommendations to the Chinese authorities regarding the current restrictions placed on foreign legal services:

- Extend the *CEPA* between Hong Kong and Mainland China to foreign law firms and permit the creation of Joint Law Ventures between foreign and Chinese law firms.
- Allow foreign law firms to practice PRC law through the employment of individuals who are qualified in PRC law and allow passport holders from European Union countries to sit for the bar exam in the PRC as long as they meet all required qualifications.
- Allow lawyers in foreign law firms to represent their clients before Chinese government authorities.

These requests are not coming from just the legal community *per se*, they are also echoed by individuals and organisations across the entire foreign business community in China who are seeking more freedom and efficiency to conduct international business. As legal professionals it is our hope that the Chinese legislators will take these recommendations on board and push for the necessary reforms. In the meantime the legal community should continue to seek meaningful dialogue with Chinese authorities. Eb

With offices in China in Shanghai, Nanjing and Zhuhai and a network of professionals around the world, ***D'Andrea & Partners*** *assists European companies in China as well as Chinese companies wishing to enter the global market through the establishment of foreign-invested enterprises (FIEs) or by M&A. The team is composed of both Chinese and European professionals, many of whom have experience of legal practice outside their home country.*

DIGITAL TOURISM

With China's outbound tourism ready to shake global tourism trends, European nations need to reinvent strategies to reach out to young Chinese consumers, adapt their promotional activities and gain new recognition from this fast-growing market.

In this article **Andrea Fenn** of **Fireworks** and **Gianluca Fracasso** of **MaxMedia** look at the evolving situation that National Tourism Organisations (NTOs) and European countries need to address. They reference the emerging opportunities presented by the digital, social and mobile world in China, and highlight the primary need to embrace digital platforms that can easily reach and connect with China's vast number of 'luxury tourists'.

'European tours' go digital

In an increasingly dynamic marketplace, battles to secure the attention of Chinese tourists are now being fought on digital and post-digital grounds. These include promotional activities across a range of social media platforms, user generated content and mobile applications. Digital and new media channels play a crucial role in influencing the decision-making process of Chinese boutique travellers. Many competing European destinations now acknowledge the urgency for a more localised strategy to attract this elite group.

The importance of understanding China's new travellers cannot be underestimated: according to Euromonitor's industry reports, 26.8 million Chinese tourists are expected to travel abroad in 2016—up 343 per cent from 2006 data—and many of these tourists choose Europe as their top holiday destination.

Chinese travellers spend handsomely abroad and rank as top tourism spenders worldwide. The European Travel Commission calculated that the average expenditure of Chinese tourists in Europe has steadily grown over the years, reaching an average of EUR 659.71 per trip—excluding transportation—with about one third of their travel budget devoted to shopping for luxury brands. Apart from the traditional activity of 'museums and monuments', shopping is by far the biggest attraction for Chinese tourists travelling to Europe: it accounts for as much as 51 per cent in Chinese tourists' decision making, ahead of going to the beach (37 per cent), and visiting museums (22 per cent).

As a reflection of these consumer trends, it should be stressed that a significant amount of luxury product purchases by Chinese nationals are already made outside of China. The phenomenon of *daigou*—collecting orders for purchases when going abroad—is now extremely common. To leverage this consumption hunger, tourism agencies now often include stops in outlet centres or shopping malls on their organised tours.

The internet is the key channel for Chinese tourists picking a European destination, in the form of travel websites (50 per cent), online review sites (47 per cent) and social media (27 per cent). The impact of the internet and social media, on shopping tourism specifically, is significant in China, where the average luxury consumer is much younger than in the West and therefore more connected. Over 73 per cent of luxury consumers' rely on the internet as their main source of information.

Europerformance

When it comes to using digital means to promote tourism in China, the US has done consistently better than Europe. Hundreds of American tourist destinations and tourism boards have a presence on Chinese social media networks like Sina Weibo and WeChat.

European tourism authorities have been much slower to acknowledge the digital opportunities, as well as the particularities, of the Chinese web; often their most pioneering activities are an official website translated into Chinese. As a result, a common complaint by tourism agencies in Shanghai is that it is hard to find online information about European destinations.

Until now very few European tourism boards have attempted to adapt their successful, more complex, Western-focussed online campaigns for the Chinese digital media landscape. However, there are some notable examples:

- Visit England's international 'GREAT' campaign, which found its way onto China's social media, was a successful follow-up to the Olympic Games in 2012. Traditionally England is not the most powerful player in the 'Eurotour' competition, but its aggressive digital presence has converted many Chinese.

- Switzerland & Swissair's online promotion: despite its small size, Switzerland has long been at the forefront of digital tourism campaigns in China, thanks to the joint efforts of its national air carrier.

Rapid digitalisation

An emerging trend driving the use of digital platforms within the tourism industry is the promotion of specific shopping destinations, particularly on organised group tours. Ctrip, China's top online tourism website, is already offering Wi-Fi connection to outbound groups for the purpose of keeping tourists more connected to (mostly shopping-related) information.

Other exclusive shopping destinations, especially large malls in European capital cities, have started developing a Chinese web presence to attract tourists. The frontrunners are top department stores like Galeries Lafayette in France and Harrods in London, who have experimented with partnerships with tourist websites like Ctrip, providing special discounts to users.

Losing opportunities?

European NTOs, as well as regional destinations, need to be aware of Mandarin-friendly digital platforms, both B2B and B2C, to connect with their Chinese clientele. These would include the online spaces provided by platforms such as Ctrip and Qunar, and social networks like Sina Weibo, WeChat and Douban.

It has become mandatory to join the 'digital conversation' and ensure tourism destinations are accessible to Chinese end consumers. Possible approaches could include:

- Creating engaging multimedia content that is informative and relevant to the audience. Promoting the opportunity to achieve the perfect tan is not going to attract a culture that venerates a pale complexion;

- Activating on-site visits with post-digital experiences that can provide more information or entertainment to tourists, and making them available both on and offline. Mobile applications like WeChat and online-to-offline integrations like QR codes can be particularly effective in this respect;

- Using digital channels to provide incentives to Chinese tourists in the form of special discounts to shopping sites at the destination or partnerships with tourism websites; and

- Creating a digital customer service channel to track and monitor travellers' feedback, and incorporate loyalty programmes. Nine out of ten Chinese choose consuming abroad because of perceived superior customer service; digital can help to convince the remaining one out of ten to do the same.

The European destinations that will ultimately be successful in drawing in greater numbers of tourists from the Middle Kingdom will be those that effectively integrate Chinese digital media into their communications and inspire greater awareness among boutique travellers from China. Eb

Andrea Fenn *is the principal of digital consulting agency* ***Fireworks****, specialised in providing digital strategies to companies and organisations doing business in and with China.* ***Gianluca Fracasso*** *is Project and Account Manager at* ***MaxMedia****, an independent agency specialised in communication and PR campaigns, with a particular focus on serving international tourism boards and airlines in the Chinese market.*

ARE YOU BEING SERVED?

China's serviced office market is the largest in Asia. It currently has a network of more than 150 quality serviced offices across 12 cities. **Gigi Liu**, Corporate Director, Marketing and Communications, at **The Executive Centre** says that due to the development of China's tertiary industry—stimulated by favourable government policies—the demand for premium serviced office space in first-tier cities is expected to remain robust in the second half of 2014.

Economic overview

Although there are clear indications of recovery the global economy still remains fragile. According to International Monetary Fund's (IMF's) *World Economic Outlook Report*, released in April 2014, global activity has broadly strengthened and is expected to improve further over the next two years, with much of the impetus for growth coming from advanced economies. During this period, the growth in advanced economies is expected to increase to about 2.25 per cent, an improvement of about one percentage point compared to 2013. Yet despite these improved prospects challenges remain: lower-than-expected inflation poses risks for advanced economies; there is also increased financial volatility in emerging market economies, and increases in the cost of capital will likely dampen investment and weigh on growth.

In terms of China's economy, the IMF report reveals that growth is projected to remain at about 7.5 per cent in 2014, as the authorities seek to rein in credit and advance reforms while ensuring a gradual transition to a more balanced and sustainable growth path. According to the latest data released by the Chinese Government, foreign direct investment (FDI) into China increased 5.5 per cent in the first quarter of 2014 with FDI (excluding investment in financial sectors) totalling USD 32 billion. Gross domestic product (GDP) grew by 7.4 per cent in the first quarter of 2014, slowing from 7.7 per cent recorded from October to December of 2013 and marking the slowest expansion in 18 months.

"With the potential risks to the global recovery and economic slowdown in China, companies remain cautious when they come to the decision of investment and business expansion. Therefore, an effective office space solution which allows them to flexibly allocate their capital is what they are looking for," says Jane Ding, The Executive Centre's Regional Director for China.

Stable office space demand

With market sentiment looking favourably on China, the price of prime office space in the central business districts (CBDs) of China's first-tier cities has been rising in the past 12 months, and is expected to remain stable, due to limited supply and prevailing dynamic business conditions.

According to the latest data released by CBRE, a global leader in real estate services and investment, nationwide measures of new office supply showed a 33.9 per cent quarter-on-quarter decrease to 1,265,000 square metres in the first quarter of 2014. A 4.4 per cent quarter-on-quarter increase in net absorption was tracked, mainly from domestic companies, as multinational corporations (MNCs) remained cautious about expansion. First-tier cities should see resilient demand and steady-to-mild rental growth in 2014.

As a result of high rental prices for offices in CBD locations in China, there have been an increasing number of MNCs adopting a more cautious approach to office expansion. Many have adopted the strategy of renting serviced offices in order to meet the challenges of the changing economic conditions.

Whereas traditional offices offer empty spaces on long-term leases, serviced offices provide flexible workplace solutions that are fully furnished and include meeting facilities and complete business administrative services, supported by the state-of-the-art technology infrastructure. These solutions can benefit companies for a number of reasons.

Setting up new offices can be extremely time consuming, normally from four to six months with the possibility of additional delays, whereas serviced offices can take as little as one week to be operational. Flexible lease terms and the option to customise office spaces are also advantages, and existing infrastructure means that start-up overheads can be kept relatively low, which is appealing in times of economic uncertainty. Some serviced offices even offer virtual office products meaning that businesses can be established with no need to have a physical presence.

First-tier city boom

A favourable market environment and an intense prime office building market are driving the demand for serviced offices in China. Over the past 10 years, China's serviced office sector has experienced a boom, making it the largest market in the Asia Pacific region.

"The fast-growth of the serviced office market is propelled by continued investment from overseas economies and development of domestic Chinese companies. It is also driven by the fast-growing tertiary industry in China stimulated by favourable government policies," says Ding.

Despite the slow-down of national GDP growth in China, the tertiary industry is growing at 0.6 per cent ahead of primary industry and accounts for 45.5 per cent of the overall GDP. This can be attributed in part to several favourable government policies, such as the replacement of business tax with value-added tax, and the *Regulation on Commercial Registration* which stated that commercial registration authorities no longer collect registration fees. The tertiary industry, acknowledged as the major customer base for the serviced office industry, is creating tremendous opportunities.

In the past, international companies were considered as the major customer base in China's serviced office sector, as the concept of serviced offices is more commonly accepted abroad. However, the trend has seen gradual change, as domestic Chinese companies are beginning to show a strong demand for serviced offices. We are witnessing a growing number of local small- and medium-sized enterprises (SMEs) in the IT, consulting and logistics sectors adopting serviced offices, as the flexibility and cost-effectiveness they offer are a key factor to the success of these businesses.

The challenge of second-tier cities

Serviced office providers experienced challenges last year in second- and third-tier cities, partially due to the global economic downturn. Though the overall climate is improving, investors are still in wait-and-see mode before moving into these cities. In second-tier cities in particular, such as Chengdu and Tianjin, the serviced office market is facing more fierce market conditions, as customers have more bargaining power.

2014 forecast

In 2014, the serviced office market is expected to continue balanced growth propped up by both moderate economic growth and continued demand. The first-tier cities continue to dominate this growth, due to tight supply.

It is anticipated that the Chinese economy will remain healthy and the socio-political environment will remain stable in the medium to long term. On that basis, more companies, both foreign and domestic, are expected to look at expanding their business in China's key cities, which should provide solid ground for further development in the serviced office market, especially in CBD areas. With a steady global growth rate of 73 per cent since 2005, and limited vacant office space in China, the serviced office sector in China will continue its growth momentum over the coming year. Eb

***The Executive Centre** is the leading premium serviced office provider in Asia Pacific with 64 offices in 20 cities. Founded in 1994, it operates in Hong Kong, Beijing, Chengdu, Guangzhou, Shanghai, Shenzhen, Tianjin, Macau, Bangalore, Chennai, Gurgaon, Mumbai, Jakarta, Tokyo, Seoul, Singapore, Taipei, Brisbane, Perth and Sydney. The Executive Centre provides serviced offices, virtual office representation services, meeting and conference facilities, and business concierge services to multinational corporations, small- and medium-sized enterprises, and start-ups locally, regionally and internationally. Please visit our web site at www.executivecentre.com.cn*

LONG-SERVING CHAMBER STAFF

From L-R: Former President of the Chamber, Davide Cucino, Shanghai GM Ioana Kraft, Shanghai Chairman and Executive Committee member Stefan Sack and Shanghai Office Manager Joanna Zhu

As our members know, the European Chamber is a people-based organisation whose operational success depends on the hard work and dedication of it staff. In particular the Chamber is proud to honour those staff who are celebrating milestones in service to the Chamber. In this edition we recognise and thank:

Ioana Kraft, Shanghai General Manager
10 Years of Service

Joanna Zhu, Shanghai Office Manager
10 Years of Service

YOUR POTENTIAL PARTNER IN CHINA

THE TEDA CELEBRATES ITS 30th ANNIVERSARY

Established on 6th December, 1984, the Tianjin Economic-Technological Development Area (TEDA) was one of the first national development zones established in China, following approval from the State Council. The TEDA is comprised of 10 separate areas: East Zone; West Zone; Middle Zone; Nangang Industrial Zone; TEDA Modern Industrial Park (Hangu); Yat-sen Scientific and Industrial Park; Microelectronics Industrial Park; TEDA WIT Valley; South Emerging Industrial Zone; and Beitang Corporate Headquarters Park.

Today, this mature industrial zone is more than just a place of work—it is widely acclaimed as a harmonious dwelling place with green surroundings, colourful cultural activities and world-class community services. Developed over a 30-year period, the TEDA has formed nine leading industries: electronics and information technology (IT); automotive; biopharmaceutical; food and beverage; machinery manufacturing; aerospace and aviation; new energy and new materials; petrochemicals; and modern service sectors.

Keeping pace with the progress of advanced manufacturing, modern services are also developing rapidly. Key fields for TEDA's modern service industry are focussed on financial services, shared service centres and headquarter economy, research and development (R&D) and design, and service outsourcing. The TEDA has launched public R&D platforms for targeted R&D programmes which are backed up by abundant human resources from universities and colleges all over China.

The 2014 Multinational Corporations Development & Cooperation Roundtable was held in TEDA on 26th June, 2014, under the theme *Producer Service*. Mr Ren Xuefeng, Vice Mayor of Tianjin, participated in this important event, with the heads of government departments in Tianjin and the TEDA, and 78 delegates from 49 companies from home and abroad also present. Attendees discussed some of the challenges facing multinational headquarters operating in Tianjin. Vice Mayor Ren, together with relevant departments, helped to provide solutions to the operational issues that companies registered in Tianjin have encountered.

The TEDA is committed to the development philosophy 'investors are kings' and believes that they should be provided with the most workable and convenient solutions possible. In order to facilitate investors, the TEDA operates a 'one-stop' service from investment policy and procedure consulting to projects approval. The TEDA Administrative Commission also simplifies various administrative formalities to ensure transparent, efficient and fair government services for investors.

For more information about the TEDA, please go to http://www.teda.gov.cn.

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Meeting with Commissioner Algirdas Šemeta

Commissioner Algirdas Šemeta (centre), President Jörg Wuttke (fourth from right) and Carmen Cano, Chargé d'Affaires of the EU Delegation to China and Mongolia (third from right)

On 16th May, a European Chamber delegation, led by President Jörg Wuttke, met with Commissioner Algirdas Šemeta, DG TAXUD, in order to discuss EU-China customs cooperation and the main issues that the Logistics, Aviation and IPR Working Groups face in relation to customs in China. Commissioner Šemeta debriefed the delegation on the three important documents that were signed during his visit to China with the General Administration of Customs: the new *Strategic Framework for Customs Cooperation*; the *EU-China Action Plan on Intellectual Property Rights*; and the *Mutual Recognition of Authorised Economic Operators* (AEO). President Wuttke presented the *Position Paper 2013/2014*.

Meeting with Commissioner Neven Mimica

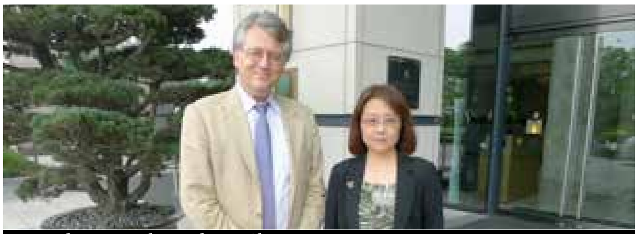
Vice President Mats Harborn (left) with Commissioner Mimica

On 24th June, European Chamber Vice President Mats Harborn led a delegation of the European Chamber's Cosmetics and Healthcare Equipment Working Groups to meet with Commissioner Neven Mimica, DG SANCO, and presented both the *Position Paper 2013/2014* and the *Business Confidence Survey 2014*. Both sides discussed the recent regulatory reforms regarding these sectors and the continued market access issues that the working groups face. They furthermore discussed the trend of the China Food & Drug Administration (CFDA) strengthening its post-market supervision, and concluded that the EU and China can cooperate more in this area.

Meeting with DG Climate Action

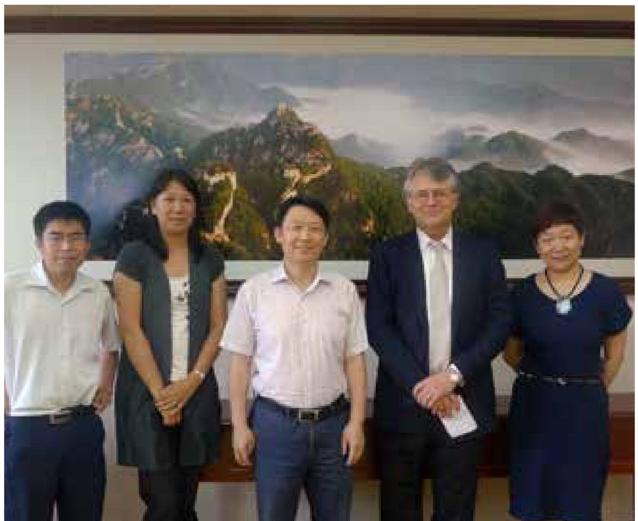
On 21st May, European Chamber Vice President Mats Harborn met with Jos Delbeke, Director General, DG Climate Action, of the European Commission, and presented the *Position Paper 2013/2014*. Mr Delbeke briefed the delegation on developments in EU climate policy, concomitant developments in China and the prospects for emissions reduction in Chinese industries. The meeting, chaired by Vice President Mats Harborn, was very much a two-way discussion with Mr Delbeke also learning about the perspectives of the European Chamber's members. Both parties agreed to continue with this kind of dialogue going forward.

Meeting with SCOFCOM


President Wuttke with Ms Shang Yuying

On 17th June, Chamber President Jörg Wuttke was hosted at an exclusive lunch in Shanghai by Ms Shang Yuying, Director General of the Shanghai Municipal Commission of Commerce (SCOFCOM). During the lunch, President Wuttke and DG Shang discussed several topics covering China's current economic climate; the valuation system of multinational companies towards the different investment environments in China; advanced environmental protection practices of European Chemical Companies in Europe; and the issue of high logistical costs in China. Both parties agreed to enhance cooperation to help make Shanghai, as well as China, a more attractive destination for European companies to invest and reside.

Meeting with Dr Long Guoqiang, Member of the Party Committee, DRC


Dr Long (centre) with President Wuttke (second from right) and Maggie Xie (right), General Manager of the European Chamber Beijing

On 11th June, European Chamber President Jörg Wuttke had a fruitful exchange with Dr Long Guoqiang, Party Committee Member of the State Council's Development Research Centre (DRC). President Wuttke briefed Dr Long on the major findings of the Chamber's *Business Confidence Survey 2014*, stressing that China has entered the age of "normal" development, and that European businesses are ready to re-inject large-scale investments provided that reforms were well implemented. Dr Long stated that China has moved away from the traditional comparative advantage of cheap labour, and that upgraded demand from consumers' calls for advanced technologies and products could generate huge potential for European firms.

Other Lobby Activities:

Meeting with EU Investment Agreement Negotiation Team
On 16th June, representatives of the European Chamber, led by **Vice President Sara Marchetta**, met with the **EU Investment Agreement Negotiation Team** at the Delegation of the European Union to China, in order to provide the input of European business to the ongoing EU-China Bilateral Investment Agreement negotiations.

Local Outreach and Business Confidence Survey
In order to further foster the Chamber's engagement with local government institutions, European Chamber President **Jörg Wuttke** met with **Mr Teng Yong, Member of the Jiangsu Provincial People's Congress**, and **Chair of Foreign Affairs Bureau of the Standing Committee**. Referencing the results of the Chamber's *Business Confidence Survey 2014*, President Wuttke spoke about how China is entering a slower growth phase and articulated the necessity of cleaner air, water and the general environment.

THE UPS AND UPS OF MARKETING IN CHINA

China's bewilderingly large and constantly evolving consumer market presents enormous challenges to European SMEs. Writing for the **EU SME Centre, Bénédicte Franchel** says that companies need to study the market closely and be willing to frequently adapt and update their marketing strategies if they are to maximise their opportunities.

Foreign brands need to adapt their traditional marketing strategies to keep them fresh and relevant to the Chinese market.

Advertising in China is pervasive, and Chinese consumers have an enormous appetite for it. China's inexorable rise to becoming the world's second largest economy by 2016 has gone hand in hand with the growth of its consumer classes, which has led to an influx of global brands all eager to capture their share of the market. With the consumption revolution showing no signs of abating, China promises a bright future for companies willing to adapt and innovate. "To be successful means to know the market, and our experts in business development, market access, business law and human resources can show ways in which SMEs are able to get to that point", says Chris Cheung, Director of the EU SME Centre.

Diversity, divergence and change

Chinese consumer's behavioural patterns have evolved considerably over the past few decades. While in the late eighties bikes, fridges and watches were on the wish list of the typical consumer, today demand is increasing for a wider range of products, ranging from the latest fashion items to cars, health products and a dizzying array of services. However, diversity and divergences within the Chinese consumer landscape are strong.

The sheer size of China is a source of significant disparities. It is not viable for a brand to build a single marketing plan for China without taking account of regional differences. Tastes can vary widely from province to province. European companies need to do their homework and spend time identifying and segmenting their market to lead successful marketing campaigns.

By the end of 2012, the average, annual disposable income of China's urban households reached a value of RMB 24,564 (about EUR 2,972) according to the National Bureau of Statistics of China. This represents a four-fold increase since the early 2000s and consumers are only expected to grow richer and more demanding in the future, fuelling domestic consumption over the coming decades.

"China and Chinese consumers are at a turning point", explains Marie Duval, Managing Director at June Marketing Asia. "Chinese consumers are pro-active, more eager, more critical, more demanding and more wealthy. They travel abroad, spend an important amount of time on the internet, look at what celebrities do and wear and, while they want to be different and be seen as individuals, they pay attention to their friends' and colleagues' suggestions," she adds.

A vital need to adapt

Although Chinese consumers are developing habits similar to their western counterparts, their perception of European products and accompanying brand messages can be dissimilar. The values that underpin Chinese society are very different from those in the West. Colours, symbols and words may convey a particular meaning or represent certain values that can lead to misconceptions about a certain product or brand.

German SME Borowski, famous for its engraved glass sculptures, realised the importance of packaging high-end products in China, particularly if they are to be given as gifts. As a consequence, the company adapted its packaging to meet the requirements and expectations of their Chinese customers.

Localisation is also a critical factor in the success or failure of foreign companies in China. Yum Brands Inc., a large fast food restaurant company, has thrived in China by adding soymilk and fried shrimp, among other Chinese ingredients, to its KFC outlets and fresh seafood bacon pizza and Thai-style fried rice to its Pizza Huts. Starbucks has learned that kiosk-sized stores work well in the US, where workers grab coffees on their way to work, but Chinese consumers value the space itself and couches on which to relax in the afternoons.

European companies that are successfully marketing their products in China are constantly adapting their marketing strategies to suit changing patterns of Chinese consumers and keep them engaged. Marketers need to proactively present 'new news' to its users to keep them interested, but this carries the inherent risk of losing product consistency along the way.

"In Europe, in the field of consumer goods, a brand refreshes its packaging every two years on average. In China, this cycle is only eight months", says Duval. "An offer, a product, a message becomes rapidly obsolete."

Brands showing they know and can adapt to the needs, the desires and the expectations of the Chinese consumers, which are not necessarily identical to those of a Parisian, a Milanese or a Londoner, will make the greatest impact on consumers.

Advertising channels: choose wisely

China offers a multitude of promotional supports and a variety of channels, but costs and accessibility vary greatly. Partnering with Chinese distributors to deliver informative events is often an effective first step for a company introducing its products to targeted customers. While broadcast advertising is extremely costly and competitive, videos in taxis, buses, trains and elevators present viable options for brands with more modest marketing budgets.

According to a survey by McKinsey, as many as 45 per cent of Chinese consumers make their purchasing decisions in real time inside shops, compared to just 24 per cent in the US, so in-store displays and point of sale advertising can play a significant role as well, though these need to be accompanied by online advertising to gain the buyers' interest.

China has over 560 million internet users, widely spread throughout the country, and the average user spends more hours per week online than they do on TV, print and radio combined. Therefore, as discussed in one of the EU SME Centre's recent webinars on developing a robust digital marketing strategy in China, European companies need to spend time and resources on direct interaction with their customers online and on social media.

Despite (or perhaps because) of a long-running trademark dispute, Jiaduobao and Wanglaoji remain two of the most popular soft drinks in China. Herbal ingredients and the choice of colours for the packaging appeal to Chinese consumers.

Adoption of western digital and social media platforms has been limited in China. For example, many Google services are blocked for regular users, and Facebook is blocked altogether. This means that European companies need to get familiar with China-specific sites such as Kaixin, Douban, WeChat and Sina Weibo, where consumers promote their favourite brands and discover new ones through their networks.

E-commerce is extremely important here, much more so than in other countries across the world. For instance, in China, 40 per cent of luxury shoes are sold via the internet; 20 per cent is the norm in developed countries. The biggest day in the history of US e-commerce was Cyber Monday in 2012, with an estimated record-breaking EUR 1.1 billion in sales across online retailers in a single day. Last year, Taobao doubled that on Singles Day (11th November), seeing EUR 2.2 billion in sales. Over the past ten years, e-commerce platforms such as Taobao and Jindong have rapidly developed and are now one of the preferred points of sale for numerous brands.

Many European SMEs are succeeding in this rapidly changing market defined by strong cultural differences, and there is no reason why many more cannot do the same. After all, Europeans are no strangers to diversity and therefore meet one of the main requirements for success in China. In addition, an extensive network of chambers of commerce, trade promotion agencies and other organisations is in place to help companies get ready. "China is a complex market that requires companies to do research beforehand and adapt constantly while remaining truthful to its brand and products. The EU SME Centre and other public and private support organisations are able to assist them every step of the way," says Cheung. Eb

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

CAN YOU KEEP A SECRET?

PROTECTING TRADE SECRETS: PART I

Nearly all businesses possess trade secrets. However, these forms of intellectual property are often undervalued and overlooked by their owners. This is not least the case in the service sector where the relative value of trade secrets as intangible assets can be extremely high. For example, a logistics firm may not hold any patents, and own just a few trademarks and substantial copyrights, but the value of its operations could heavily derive from information contained within client lists and standard procedures.

China, like most other countries, provides a legal framework for the protection of trade secrets, and the law provides for remedies in the event that your trade secrets are unlawfully disclosed. Part one of this article by the **China IPR SME Centre** describes what constitutes a trade secret and outlines the measures you can take to protect them.

Trade secrets have an advantage over other forms of IP rights, such as patents and copyrights which have a finite term—an invention patent typically expires after 20 years. Theoretically trade secrets enjoy an infinite term of protection so long as they remain just that—a secret. The main difference between patents and trade secrets is that technical information is publicly disclosed in patents, whereas it is kept away from the public eye in trade secrets.

The disadvantage of trade secrets is that once the information they contain becomes public, it no longer enjoys any legal protection. Therefore, prevention is the golden rule when it comes to protecting your trade secrets. Once your secret is out there is usually very little that you can do about it.

Know your secrets

You can only protect trade secrets when you know you have them. But what exactly constitutes a trade secret? In China a trade secret is defined as "any non-public information with actual or potential commercial value and that is guarded by confidentiality measures". Thus, in order for the information to be a trade secret, it must:

- be non-public: it must not be known by the general public or by your competitors;
- have actual or potential commercial value: it must give the owner a competitive advantage or be capable of generating economic benefit; and
- be guarded by confidentiality measures: the owner must take reasonable measures to protect the confidentiality of the information.

All three elements are essential pieces of the puzzle.

If you are still unsure whether you have trade secrets, a good rule of thumb is to consider whether the information is something your competitors would want to know or would give them a commercial advantage. Your trade secrets may include:

- expressions of ideas that give your business a competitive advantage, e.g. a new type of service, an innovative business model, or a new online concept;
- the status of products or services under development, expected product release dates and details of how they function and their technical features, e.g. new design features or how a new software program works;
- valuable business information, such as customer lists, cost and price information, suppliers and contractors, contract terms, marketing strategy and plans; and
- any other information with potential commercial value, such as your rankings of quality of suppliers or creditworthiness of customers.

If you have not already done so, it is important to catalogue what trade secrets you may have, rank them in terms of importance and value and remember to periodically update your catalogue as your business grows.

Keep it secret, keep it safe

Once trade secrets become public, they can no longer be protected. They can be disclosed via: publication; disclosure of information during seminars or conferences; negotiations and other business dealings with third parties without a non-disclosure agreement; misdirected emails or other correspondence; and casual conversations.

As it is not always possible to keep trade secrets locked away (they may be the knowledge of one or more employees), keeping them safe involves using a combination of physical, technical, and contractual barriers, and implementing a trade secrets protection policy.

Physical barriers may include simply marking documents 'CONFIDENTIAL', keeping sensitive documents in a safe, undisclosed location, and locking files away after business hours. In addition, access to areas where sensitive business documents are stored should be restricted to certain employees. Limit access and copying rights to the personnel who actually need it. All visitors should be logged, required to sign a non-disclosure agreement before being granted access to sensitive areas of your premises and should not be left unattended.

Technical barriers require the use of information technology (IT) to protect trade secrets stored in electronic files on your computers or servers. The basic rule in IT security is that the more valuable the information, the more expensive and more difficult it is to protect. Consulting an IT security specialist can help you to design a cost-effective IT security system. However, even simple, inexpensive means of IT security measures can be used, such as employing the proper use of passwords, commercially available encryption, and logging features.

In addition, it is important to have a written technology policy in place and to ensure that your employees abide by it. For example, as it is extremely easy for your employees to email sensitive documents to third parties or to transfer files using recordable media, you might want to consider restricting the ability of your employees to use these tools. Your employees in China should be given a copy of your technology policy, written in both English and Chinese (possibly as an appendix to their employment contract), and be required to sign an agreement stating they received and understand the policy.

Contractual barriers normally involve the use of non-disclosure or confidentiality agreements, and are generally considered as one of the best ways to protect your trade secrets. Every existing employee and all new employees should be required to sign an employment contract with non-disclosure or confidentiality provisions. For employees in China, the contract should be in both English and Chinese to ensure obligations are clearly understood by the employee. Such agreements should also be entered into with suppliers, subcontractors and business partners who are given any level of access to your trade secrets.

Be sure to document the trade secrets protection measures you take and ensure your trade secrets protection policy is written down. It is also essential to maintain sufficient records of the flow of information in and out of your company, including keeping records of meetings, discussions, emails, written correspondence and the transfer of electronic files so that you can conduct an investigation and assemble evidence if you suspect your trade secrets have been misappropriated.

Finally, be vigilant when implementing your trade secrets protection policy. Trade secrets are a two-way street—your staff must be told not only to protect your trade secrets, but also not to obtain or utilise the trade secrets of others. Designating a person to be in charge of ensuring compliance with your trade secrets protection policy may be a useful option to consider.

Take-away Messages

- *Prevention is the key to protection*: More often than not, once a trade secret is disclosed it is very difficult to recover its value, even if you succeed in litigation.
- *Establish an internal management system for trade secrets*: Training and clear written guidelines are essential. It is important to educate your employees on what can or cannot be disclosed. Adopt appropriate measures to mark and store confidential documents whether they are in hard or soft format.
- *Require all employees to sign an employment agreement with strict confidentiality provisions*: To win a theft of trade secrets claim in China, you must show that the information stolen: (1) is not publicly known; (2) has commercial value; and (3) had concrete measures taken to keep it secret.

In the second part of this article we will address managing employees' access to intellectual property, dealing with third parties and what to do when your secret is out. 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.*

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HAIKOU: AN EMERGING INDUSTRIAL CITY

Often referred to as the 'coconut city', Haikou is a prefecture-level city situated on the northern coast of Hainan known for its crystal waters and coconut trees. Haikou literally means 'sea mouth'—the place where rivers and streams meet before joining the sea—and was viewed by its ancient inhabitants as being blessed by Heaven.[1] **Rainy Yao** from **Dezan Shira & Associates** takes a look at this 'paradise' that is fast becoming the economic and industrial centre of Hainan Island.

Economic Overview

Since the Song Dynasty, Haikou has been a trading port and main courier station to the countries to the southeast of China. Following the establishment of the Hainan Special Economic Zone in 1988, Haikou began vigorously promoting itself as China's Outstanding Tourism City, with an advanced service sector. In 2005, the city established Haikou Industrial Day and rolled out various preferential policies to support the development of industry.

In 2013, Haikou's gross domestic product (GDP) exceeded RMB 90.46 billion and grew at an annual rate of 9.9 per cent. The city's primary industry contributed RMB 5.85 billion (6.3 per cent growth) and its secondary, RMB 21.7 billion (8.9 per cent growth). The remaining RMB 62.9 billion came from the service sector, which grew at an annual rate of 10.5 per cent.[2]

Tourism, the pillar industry of Haikou's service sector, brought in close to RMB 12.02 billion in 2013, with 10.44 million foreign and domestic tourists visiting the city last year.

The city's three other pillar industries, namely, pharmaceuticals, tobacco and the electromechanical industry, brought in RMB 7.1 billion in 2013, accounting for 53 per cent of growth in large-scale industries.

Last year, growth in foreign investment was boosted by 37 newly-established, foreign-invested enterprises (FIEs), an increase of 94 per cent from the year previous.

Development Zones

Haikou's main development zones include:

Haikou Integrated Free Trade Zone

The Haikou Integrated Free Trade Zone was approved by the State Council in 2008 and has four pillar industries: bio-pharmaceuticals, digital information, automobiles and the electromechanical industry. The zone's major functions include foreign trade, logistics and deliveries, international transfers, goods processing and exhibitions.[3]

Haikou National New Hi-Tech Industrial Development Zone

This is the only national-level, new hi-tech industrial development zone in Hainan approved by the State Council. The zone consists of six parks, namely, Medicine Valley Industrial Park, Hippocampus Industrial Park, Shiziling Industrial Garden, Yunlong Industrial Park, International Creative Port and Mei'an Science & Technology Park. Hi-tech industry clusters have been established in the zone for biological pharmacy, automobile manufacturing, new energy and new materials.[4]

Haikou Guilingyang Economic Development Zone

Approved in 1991, the Guiling Economic Development Zone (EDZ) covers an area of 41.3 square kilometres and features industry clusters in biological pharmacy, agricultural and aquatic product processing, yacht manufacturing and logistics.[5]

Investment Opportunities

The municipal government has implemented various preferential policies to promote industrial development in Haikou including tax incentives, financial support and subsidies.

According to *Several Provisions on Promoting Industrial Development*, released by the municipal government in 2011, the city will make efforts to develop a 'headquarters economy'—conditions suitable for on-site hosting of corporate headquarters—and encourage the establishment of research and development (R&D) centres.[6]

Moreover, the municipal government grants financial support to foreign investment projects in the following fields:

- Modern agriculture
- 'New' industry (a catch-all for high-tech, low-waste industries)
- Modern services
- Marine industry

Tax Incentives and Land Policies

Enterprises established within the Haikou Integrated Free Trade Zone shall be exempt from value-added tax (VAT). Machinery, equipment and other construction materials used in the construction of infrastructure shall be exempt from import tariffs and import VAT. Goods traded within the zone shall be exempt from VAT.[7]

Newly established factories, employee cafeterias, and R&D centres shall be exempt from urban infrastructure construction fees.[8]

Financial Support

The Haikou government has established a special fund of RMB 38 million for eligible hi-tech enterprises in biopharmaceuticals, automobile manufacturing and other industries.[9] Manufacturing enterprises' purchase of machinery and equipment costing RMB 5 million or more shall receive a subsidy of three per cent of the total price. 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. Since its establishment in 1992, the firm has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam as well as liaison offices in Italy and the United States.*

For further details or to contact the firm, please email china@dezshira.com or visit www.dezshira.com.

[1] *http://www.haikou.gov.cn/haikou/gyhk/201311/t20131106_603381.html*

[2] *http://www.haikou.gov.cn/xxgk/szfbjxxgk/tjxx/tjgb/201402/t20140224_648395.html*

[3] *http://www.hkftz.gov.cn/shownews.php?sysmenuID=4&ID=241*

[4] *http://www.gxq.gov.cn/?action-viewnews-itemid-14311*

[5] *http://gly.haikou.gov.cn/yqjs/yqjj/201312/t20131211_615880.html*

[6] *http://www.xinhuanet.com/chinanews/2011-09/28/content_23799167_1.htm*

[7] *http://www.hkftz.gov.cn/shownews.php?sysmenuID=17&ID=246*

[8] *http://www.haikou.gov.cn/xxgk/szfbjxxgk/zfgb/2011zfgb/2011nd10q/201111/t20111129_443049.html*

[9] *http://www.zgswcn.com/2014/0611/415307.shtml*

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER

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Anti-Corruption & Compliance Conference (1)

On 13th May, 2014, the Anti-Corruption & Compliance Conference was held at the Westin Hotel. Experts on anti-corruption and compliance in China, together with compliance heads from Bayer and Daimler shared their insights with over 70 participants.

Book Presentation: Will China Dominate the 21st Century? (2)

On 15th May, 2014, Jonathan Fenby, presented his new book *Will China Dominate the 21st Century?* to Chamber members at the Kempinski Hotel. Jamil Anderlini, Bejing Bureau Chief, *Financial Times* moderated.

Exclusive Dialogue with MOFCOM (3)

On 30th May, the European Chamber held an Exclusive Dialogue with MOFCOM at the Hilton Beijing Wangfujing. This event was sponsored by Sino-German Metal Eco City.

Sino-German Tax Treaty (4)

On 25th June, the European Chamber held a seminar on the Sino-German Double Taxation Agreement. It was sponsored by Foshan New City.

Urbanisation Series (5)

On 10th June, the European Chamber held the first urbanisation series event of 2014 in Beijing, presenting the key findings, recommendations and statistics of the urbanisation report published by the World Bank on 25th March, 2014.

PRD CHAPTER

The PRD Chapter hosted the EUROpean Chamber Cup, which was kicked off in spectacular style by English foot-balling legend Michael Owen. The tournament, held at Soc-cerworld in Shenzhen on 7th June, was fiercely competed, with Chang 'An PSA Automobiles Co Ltd running out the eventual winners. More than 1,100 people attended.

SHANGHAI CHAPTER


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Urbanisation Series: Impact of China's Environmental Regulations on Foreign Business (1)

Supported by DUSA, the Swedish Chamber of Commerce in China and AustCham Shanghai, the European Chamber held a half-day conference on environmental law. Francois Jenny, Chair, Environment Working Group, European Chamber, moderated the event, which was sponsored by Hogan Lovells.

Food Safety: How EU-China cooperation is improving food safety (2)

The European Chamber and the Consulate General of Belgium in Shanghai invited speakers from the government, academia and industry to discuss EU-China cooperation in the field of food safety on 26th May, at the HULT Business School in Shanghai.

Insight China Session (3)

The first Insight China session of 2014: *Is the 'golden age' over?* with Dr Edward Tse, CEO, Gao Feng Advisory Company, and Vincent Perrin, former OECD Senior Policy Adviser for China, and moderated by Vice President and Chairman of the Board, Stefan Sack.

M&A Conference (4)

More than 100 people attended the European Chamber's annual M&A Conference at the Marriott Hotel City Centre, Shanghai on 16th July. Chair of the PE-M&A working Group, Mick Adams, moderated the event, themed *Marry in Haste, Repent at Leisure*. The event was sponsored by Control Risks.

SOUTHWEST CHAPTER


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2

Yuxinou VIP Cocktail (1)

The Yuxinou VIP Cocktail on 8th April attracted European and local professionals from different industries. Mr Zhou, General Manager of Youxinou Logistics, gave a presentation on the current and future operations and design of the International Railway to expand all over Europe.

Europe Day, Chengdu (2)

On 28th May, the Europe Day Celebration Cocktail was held at the Kempinski Hotel Chengdu. Dr Gerold Amelung, German Consul General , Hajba Tamas, Hungarian Consul General, and over 100 participants from local European companies gathered together to celebrate.

TIANJIN CHAPTER


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2014 EU Family Day (1)

The EU Family Day took place on 10th May, 2014.

InterChamber Breakfast Briefing (2)

On 27th May, Joachim Wendt, Executive Director of both the Schneider + Schumacher Frankfurt and Tianjin offices, gave a presentation on Corporate Architecture and Brand Design.

Technical Leadership Incubator (3)

On 28th May, Ramil Cueto, Principal Consultant & Director at C2C Consulting & Training Pvt. Ltd. (China) held a technical leadership incubator workshop.

GM Briefing: Launch of BCS 2014 & Review of the Two Sessions 2014 (4)

On 29th May, Chamber President Jörg Wuttke, and Maggie Xie, General Manager of the Chamber's Beijing Chapter, presented the Chamber's *Business Confidence Survey 2014*.

Obtaining your R&D Incentives in China (5)

On 5th June, Roger Di, Partner, KPMG Beijing, held a discussion on obtaining R&D incentives in China.

InterChamber

Workshop: Trade Credit Management in China 2014 (6)

Stan Woo, Commercial Manager, Coface China, held a workshop on trade credit management in China on 12th June.

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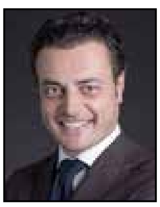

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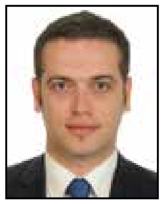
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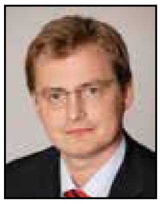
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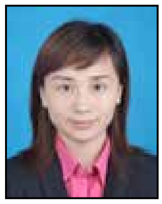
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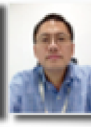
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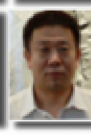
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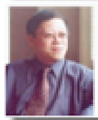
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Jean-Marc Guyot

Chairman and CEO, GDF SUEZ China

Starting in Hong Kong and Macau, **GDF SUEZ Group** has been involved in environmental projects in China for more than 20 years. **Jean-Marc Guyot** has been in Beijing for just three months, but has been travelling regularly to China and conducting business in the energy sector for more than two years. He talks about the challenges that GDF SUEZ face in China, and outlines their ambition to rapidly increase their footprint in China's energy sector over the coming years.

What is your current involvement in China's energy sector?

We currently have very few activities in Mainland China. We are dealing with Liquefied Natural Gas (LNG) supply, LNG terminals, gas distribution, small-scale liquefaction, underground gas storage and Coal Bed Methane (a method of getting gas from coal), and also in energy services with heating/cooling networks, energy efficiency and smart cities.

What are some of the challenges GDF SUEZ face on a daily basis in China?

We have expressed a brand new ambition. GDF SUEZ is a world leader in Energy, but in China we are very small—we want to quickly become a significant player in this major market. The group decided six months ago to increase our activities in China. We are ready to invest and develop projects and we intend to do this through partnerships with big Chinese players from the energy sector.

GDF SUEZ has long been a reliable partner of China, as with CIC (China Investment Corporation), since 2011. We want to develop these partnerships in China first and, as a second step, outside of China as well. As you know, most of the big Chinese companies are looking for outbound opportunities, and our expertise as a very well known international player is a key advantage for us.

Who will your Chinese partners be?

At this moment there are two types of Chinese partners. The public ones, such as the local distribution companies (LDCs) in Beijing, Shanghai and Chongqing, and the three big SOEs—PetroChina, Sinopec and CNOOC. There are also some private companies in the gas business and in power production.

What do you see as the main differences between the European and Chinese markets?

First, China is a very big market still in development. Growth is slowing down but it is still large growth, depending on the different parts of the market. Another main difference, the rules of the game in the energy sector are currently changing a lot according to new governmental policies. This of course creates a lot of opportunities for foreign investors.

Which of the government's planned reforms following the Third Plenum would have the biggest impact on your business?

All these reforms are very good news for us, for example, all the laws related to the environment. In Beijing the pollution is a major concern for the government, and gas is the main solution for replacing coal. Being in the gas business with a wealth of experience, this is an opportunity for us. The Chinese President has also recently brought focus to energy efficiency for reducing the energy wastage in China. Energy efficiency is part of our competencies, so this offers possibilities to develop projects too.

Nobody knows the speed at which these reforms will be implemented, in China it will take time. However, we are encouraged by the recent developments.

How do you manage the challenge of finding and retaining people with the right skills and experience in China?

We know this is a big challenge that we have discussed with other large Chinese or foreign companies operating here. We intend to recruit Chinese talent in China, and prepare them to benefit from thrilling career prospects within the GDF SUEZ group. That could be a way to keep hold of Chinese talent, by training them and integrating them into other business lines inside or outside of China. Eb

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