Journal of the European Union Chamber of Commerce in China

EURObiz

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July/August 2012

A Titanic Shift: China Goes to Sea

URBANISATION
Supersized Cities

TIGER HEAD, SNAKE TAILS
Jonathan Fenby Discusses His Latest Book

AUTOMOTIVE
How China Plans to Dominate the Global Industry

GREENTECH
The China Greentech Report 2012

THE EXECUTIVE INTERVIEW
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FINMECCANICA

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

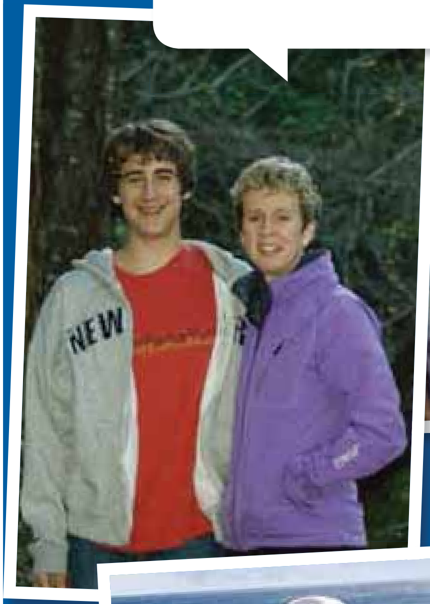
当被问及为什么选择在和睦家生宝宝后又到和睦家工作，我的回答是：我对和睦家充满信任，到今天依然未减。

Jenifer Sullivan

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

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

Stephannie Tebow



WHERE ARE YOU NOW ?

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

感谢富容平医生和娜仁花医生，在我最艰难的时刻给予我无以回报的帮助!

Jim Fidler

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

整脊治疗对我的帮助难以想象，感谢罗杰医生为我消除困扰已久的身体疼痛!

Maria Vemdal

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

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

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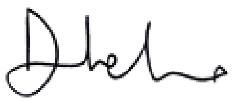
Continuity In Leadership

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



Although we are moving into the summer holidays, it is still a time for serious business for the European Chamber.

At a time when foreign direct investment (FDI) in China continues to decline, the need for it and its importance are being called into question. However, as the global economic crisis is far from over, this is a time when if anything, FDI should continue and increase, not the other way around.

Chinese investment to Europe tripled in 2011. This not only demonstrates the increasing importance of the European market to Chinese firms but also shows the potential massive benefits that the increasing ability of Chinese firms to go global could bring for Europe.

The European Chamber, as a proponent of freer trade and investment, welcomes and encourages China's increased investment into Europe -- so long as similar access is granted in China.

The European Chamber has listed the acceleration of the discussion and signature of a China-EU Bilateral Investment Treaty as a top priority recommendation to the policy makers of both parties. This remains, we believe, a precondition for a better sharing of interests for European and Chinese companies and lines of industry, enabling Europe to attract more capital and investments that are needed in this specific difficult phase, and giving China more access to technologies it needs to further climb up the value chain and gain positions in new markets.

This process will bring the economies of the EU and China closer.

A number of activities have been promoted by the Chamber recently in support of this, from a forum on best practices in public procurement in Europe as model for a development of the same sector in China, to an overseas direct investment (ODI) and mergers and acquisitions conference that has attracted the interest of both European and Chinese stakeholders, with the scope of offering a platform of information necessary to reassure Chinese companies while investing in Europe.

The Chamber is also working on new studies and reports on various topics of interest for both European and Chinese industries. An in-depth analysis on intellectual property rights will be soon available online, while before the end of the year a study on ODI will enable us to understand whether China and Europe business environment are aligned, or improvements are needed.

Both parties need to maintain an eye on the long term. If both sides can solve and make progress on the issues that affect the EU-China relationship in the short-term and foster the conditions for a step up in the agreement on a comprehensive Bilateral Investment Treaty, as this will bring huge benefits in the future.

Mutual open access to markets between the EU and China would promote competition and would lead to increased efficiency, effective innovation and greater economic development, ultimately to the benefit of both the EU and the Chinese consumers. The new *Position Paper*, due to be published immediately after summer holidays, will represent another important occasion of building a dialogue with Chinese officials and help European business to operate on a level playing field.

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Meeting with Beijing Vice Mayor, Chen Gang

European Chamber President Davide Cucino meets with Beijing Vice-Mayor Chen Gang, 27th June.

Prior to their keynote speeches at the European Chamber-organised 'China Goes Urban' conference on 27th June, European Chamber President Davide Cucino and Beijing Vice-Mayor Chen Gang met to discuss the current state of urbanisation in China and the challenges that managing the process of urbanisation will bring. The two discussed the opportunities that China's rapid urbanisation process should bring for business, with President Cucino highlighting the sustainable management solutions and expertise that European industry can bring, as well as Europe's vast urbanisation experience.

Dinner Meeting with European Commission Vice President Maroš Šefčovič

On 14th May, a delegation of senior representatives of the European Chamber ICT Working Group, led by European Chamber Vice President Bruno Gensburger, met with European Commission Vice President Maroš Šefčovič and Director General Francisco Garcia Moran of the Directorate-General for Informatics (DIGIT), at a dinner hosted by EU Ambassador to China Markus Ederer. The meeting was organised in the context of helping to inform the European Commission on ICT market trends in China as they embark on an IT modernisation agenda for all European Commission services. Topics discussed included recent trends in the ICT industry in both China and Europe, the status of European investment in China's ICT sector, and potential mutual benefits for EU-China collaboration in the sector going forward

Dinner Meeting with the European Union Commissioner for Agriculture and Rural Development Dacian Cioloş

European Chamber President Davide Cucino was invited to a dinner hosted by EU Ambassador H.E. Mr. Markus Ederer with the European Union Commissioner for Agriculture and Rural Development, Dacian Cioloş. The dinner was held three days prior to a meeting between the Deputy Head of Commissioner Cioloş' cabinet, Gwilym Jones and members of the European Chamber's Agriculture, Food and Beverages Working Group and European Chamber Secretary General Dirk Moens. At the meeting, both parties discussed the general business environment in China, as well as recent developments in China's agriculture sector and rural development.

Dinner Meeting with the European Commission Director-General for Competition, Alexander Italianer

A dinner meeting between the European Commission Directorate General for Competition, led by the Director General, Alexander Italianer, and European Chamber member company representatives was held on 26th June. The meeting was held to discuss issues relating to the competitiveness of European business in China, in particular versus Chinese domestic state-owned and private companies. During the meeting, both sides discussed issues including the implementation of China's Anti-Monopoly Law, as well as the rationale and system for China's industrial policies. In addition to assisting the bilateral EU-China dialogue on competition, Director General Italianer also stated that he would feed back European Chamber input to his Commissioner, European Commission Vice President Almunia, who leads the EU-China High-Level Economic and Trade Dialogue.

Other Lobby Highlights

On 11th May, European Chamber Vice President Jens Ruebbert (right) met with Chongqing Mayor Huang Qifan (center) and EU Ambassador Dr. Markus Ederer (left) in Chongqing.

On 11th May, a European Chamber delegation, led by European Chamber Vice President Jens Ruebbert, met with Chongqing Party Secretary Mr. Zhang Dejiang, Chongqing Mayor Huang Qifan, and Mr. Xu Ming, Standing Member of Chongqing Municipal Committee and Director General, Administrative Committee of Chongqing Liangjiang New Area during the celebration of the 2012 Liangjiang Forum, which was held in tandem with the 2012 Annual Conference of CEC/CEDA. Vice President Ruebbert gave a presentation on EU-China Business Relations and the importance of Western regions of China for European companies, before moderating a section on Challenges and opportunities for Sino-European Trade Expansion with Chinese and European industry representatives.

On 29th May, the European Chamber released its second most important annual publication, the *Business Confidence Survey 2012*. The publication, which was downloaded over 100,000 times within the first week of its release, gives an overview of the sentiments of European industry invested in China. Following the release of major publications, the European Chamber presents the major findings to relevant stakeholders. Among other meetings, the *Business Confidence Survey 2012* was presented to a meeting of all the European Union Member States Trade Counsellors, as well as to a Division Director of the Ministry of Commerce Department of European Affairs on 15th June.

Numerous meetings with bureaus of the Ministry of Commerce and other trade-related agencies were also held at the provincial and municipal levels during April. In Sichuan on 18th April alone, two meetings were held between the European Chamber and the Sichuan Bureau of Commerce and another meeting held with the Sichuan Investment and Promotion Bureau. Led by European Chamber Secretary General, Dirk Moens, the meetings discussed opportunities for cooperation, including assisting the visit of Sichuan Governor, Mr. Jiang Jufeng's upcoming visit to Europe and cooperation on the Western Fair 2012, an annual match-making event between European companies and Sichuan companies. Mr. Moens and the newly-elected Chairman of the Nanjing Board, Helmut Güsten, also met with the Director of the Nanjing Municipal Investment Promotion Commission to discuss cooperation over lunch on 19th April. A similar meeting was also held with the Department of Foreign Trade and Economic Cooperation of Guangdong Province (DOFTEC), led again by Mr. Moens together with PRD Chapter Board Member Nong Keqiang. The Chairman of the Tianjin Board Gabriele Castaldi and Mr. Moens rounded up these meetings with a meeting with the Vice Director of the Commerce Commission of Tianjin Binhai New Area.

Also in Tianjin in April, great steps were taken to establish a dedicated desk within the European Chamber premises to cater to the needs of companies from the Turku region in Finland with business interests in China. This is the first establishment of such a partner desk by the Tianjin Chapter and represents a strong step forwards in terms of boosting capacity.

In other meetings at the local level, Mr. Moens met with Mayor of Siping City Shi Guoxiang in Jilin province, to discuss cooperation in particular relating to special vehicles and the auto parts industry, while in the Pearl River Delta Chapter meetings were held with the Guangdong Intellectual Property Office to discuss intellectual property protection procedures during the Canton Fair and issues of patent infringement disputes and with the Zhuhai Bureau of Human Resources and Social Security to discuss issues

relating to the registration of foreigners in the social security system.
At the central level another meeting was held with the Ministry of Commerce, this time with the Department of Market Supervision. Led by the Chair of the Consumer Finance Working Group, Miroslav Kolesar, the meeting discussed how Consumer Finance companies could assist China's role aim to boost domestic consumption spending. Two meetings were also organised at the central level with the General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ). Both meetings were held at the Deputy Director General level. The first discussed the work plan of AQSIQ's Department of Supervision on Food Production and the Cosmetics Manufacturing Licence Management Rules which are under revision. The second meeting, with the Import and Export Food Safety Bureau, discussed implementation guidelines for Cosmetics Import/Export Inspection and Supervision Rules.

Two meetings were also held with Deputy Director Generals of the General Administration of Customs (GAC) and Chairs of European Chamber Working Groups. In June, the Chair of the Logistics Working Group Yong Hu met with the GAC Department of Customs Control and Inspection to discuss multi-bonded transfer of shipments and to seek clarification on some rules enforced by GAC. In May, the Chair of the Aerospace Working Group Raymond Lim led a delegation of European Chamber delegates to meet with the GAC Department of Processing Trade and Bonded Warehouse Operation to discuss customs regulations for the repair and storage of aviation components in a follow up meeting to the *Position Paper* presentation meeting in January with GAC Vice Commissioner, Sun Yibiao. Raymond Lim also led a meeting alongside the Chair of the Aviation Working Group, Martina Groenegres, in a joint Working Group meeting with the Deputy Chief Engineer of the Civil Aviation Administration of China's (CAAC) Air Traffic Management Bureau to discuss China's mid and long-term plans for airspace management.

In early June, the European Chamber hosted a special workshop in collaboration with the China Electronics Standardization Association, the Ministry of Industry and Information Technology, and Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ), to introduce new guidelines being developed to promote enhanced Corporate Social Responsibility in China's ICT industry. While in May the European Chamber's Agriculture, Food and Beverage Working Group and the Paediatric Nutrition Desk met with the Registration Department of the Certification and Accreditation Administration of China (CNCA) to discuss the 'Regulations on the Registration of Manufacturers of Imported Food Outside China'.

The Paediatric Nutrition Desk held quite a number of meetings in recent months, including attendance at the meeting of Agricultural Counsellors of EU Member State Embassies and separate bilateral meetings with relevant representatives of the Italian, Spanish, French and Danish Embassies. The Paediatric Nutrition Desk also provided assistance to the EU-China Trade Project to help arrange site visits in member company factories as part of a Ministry of Health study visit delegation to Europe.

European Chamber President Davide Cucino also visited Europe to speak at the high-profile and influential European Economic Congress in Poland where he gave a speech and took part in a roundtable discussion on Chinese investment conditions as part of the plenary session. European Chamber Construction Working Group Chair Massimo Bagnasco also traveled to Europe to represent the European Chamber. Mr. Bagnasco visited Brussels to meet officials of the Directorate Generals for Environment and Research and Development of the European Commission to discuss the EU-China Sustainable Urbanisation Partnership and introduce the Sustainable Urbanisation Park in Shenyang, which is supported by the European Chamber.

The European Chamber has also held a number of meetings with European Commission officials in China, including a meeting with the Director of International Transport Affairs of DG MOVE Matthew Baldwin. The meeting was again jointly led at the European Chamber side by Aerospace Working Group Chair Raymond Lim, this time with the Chair of the Rail Working Group Luciano Libanori and other European Chamber representatives of the Aerospace and Aviation Working Groups.

As part of a visit to China to boost cooperation with Chinese authorities on transportation issues, the European Chamber representatives gave input for Director Baldwin's meetings with CAAC, the Ministry of Railways and the National Development and Reform Commission. Other European meetings included a discussion and presentation of the *Business Confidence Survey 2012* with the Head of Unit of the Defence, Aeronautic and Maritime Industries of DG ENTR, a meeting to discuss cooperation on the Low Carbon Economy Platform with the EU-China Trade Project and the EC2 project, and a meeting with the Chairman of the European Banking Authority Andre Enria. Representatives of the European Chamber's Banking & Securities Working Group, including Chamber Vice President Jens Ruebbert, briefed Mr. Enria on the situation of European banks in China before his meetings with Chinese financial regulators in May.

A year following the release of the *Public Procurement in China* study, the European Chamber organised a workshop on public procurement policy and practices in China and the EU that was attended by Mr. Pierre Delsaux, the Deputy Director-General for Internal Market and Services of the European Commission and other European representatives. Also in recent months, the European Chamber has also organised a number of high profile and high level cross-sectoral conferences. These include highly successful large-scale conferences on Human Resources; Urbanisation; and on Outbound Chinese Mergers and Acquisitions into Europe. The European Chamber would like to thank all of our members who contributed substantial amounts of time to help make these conferences a success. Eb

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A Titanic Shift:
China Goes to Sea

On 11th July, China marked its annual Maritime Day celebration. The date recalls the departure of Ming Dynasty explorer Zheng He on his first large-scale voyage. Looking at today's maritime industry, even Zheng could not help but be impressed. That China is asserting itself on the waves in every way is undeniable, both commercially and militarily, in the construction of ships and of ports and maritime facilities. In this industry focus, EURObiz's **Steven Schwankert** examines China's rising seaborne presence and whether it will mean rough seas or smooth sailing for European Union businesses.

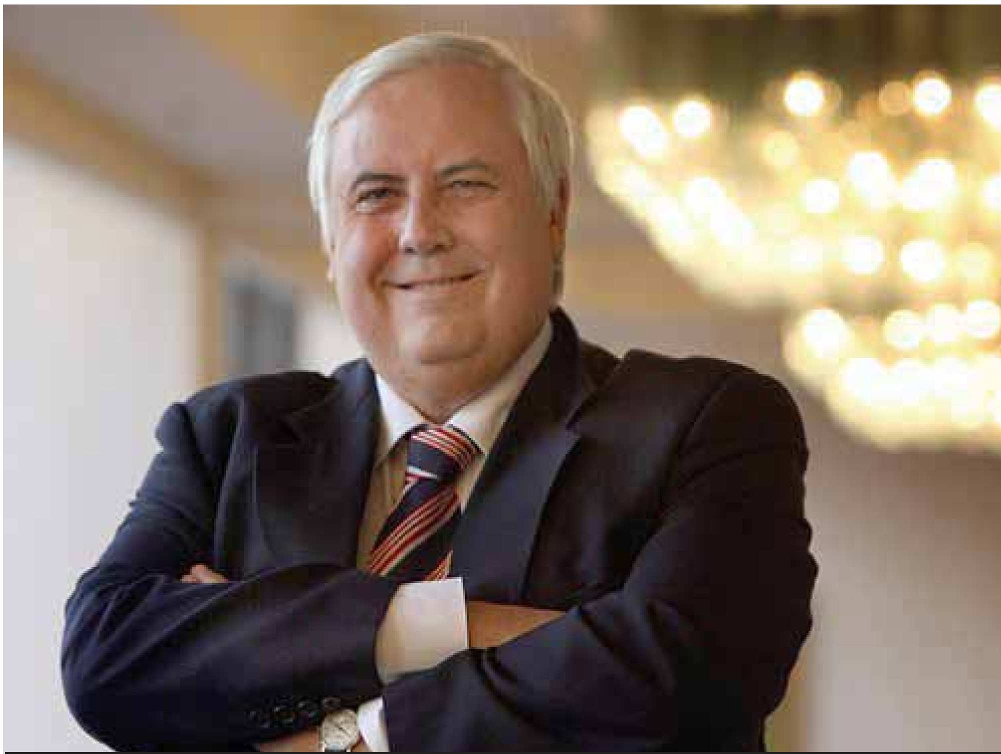
In early May, not long after the 100th anniversary of the sinking of *RMS Titanic*, Australian billionaire Clive Palmer announced that he would build *Titanic II*. His statement was met with a mix of adulation and derision, from those who wanted to re-live a glorious but bygone era of sea travel, and those who thought the idea simply the hollow ravings of a publicity seeker.

Regardless of the reaction, what was most momentous about what Palmer said was the paradigm shift that the announcement highlighted. For Palmer said that he would be building the new ship not at Harland and Wolff shipyards in Belfast, Northern Ireland, as the White Star Line vessel was, but at the CSC-Jinling shipyard in Nanjing, China, and that the People's Liberation Army Navy (PLA Navy) would escort the ship on its maiden voyage from Shanghai to London, planned for 2016.

Although that yard has yet to put even one rivet in place on the supposed ship, 100 years later, it is clear that where once Europe was the heart of global shipbuilding, Europe is now China's single-largest customer for its ships. It is now Asia that leads the world in this market, with China turning out more ocean-going vessels per year than any other country, edging out South Korea, its nearest rival.

The EU and China currently operate under the EU-China Maritime Transport Agreement, which was concluded in 2002 and took effect in 2008. The agreement calls for, among other things:

* To strengthen and consolidate the relations, on the basis of equality and mutual benefit, in the field of international maritime transport;
* To recognise the importance of maritime transport services and wishing to promote even further multimodal transport involving a sea leg in order to increase efficiencies in the transport chain;
* To recognise the importance of further developing a flexible and market-oriented approach and the benefits to economic operators of both Parties of controlling and operating their own international cargo transport services in the context of an efficient international maritime transport system.



Australian billionaire Clive Palmer's (above) plans to build *Titanic II* may be a flight of fancy, but choosing a Chinese shipyard demonstrates an industrial paradigm shift.

The sheer size of the EU-China trade relationship – China's largest – means that maritime trade and cooperation between the EU and China will be conducted on a large scale. This article looks at just a few of the areas of greatest concern and interest to European maritime transport and service providers.

Building Boats

Officially, the Chinese government has classified shipbuilding as a "strategic" industry, and therefore has limited foreign participation to 49% ownership of Chinese shipyards, along with marine diesel firms and crankshaft factories, although the Yantai Raffles Shipyard in Shandong province is majority foreign-owned, the only such yard of its kind. There are other exceptions, including the Nantong-COSCO KHI Ship Engineering Co., a 50-50 Japanese joint venture, and Shanghai Edward Shipbuilding, a joint venture with Germany's Hansa Shipbuilding.

While these restrictions can be seen as a barrier to the participation of European companies in the sector, it does show China's commitment to shipbuilding as an industry long-term.

On the Chinese side, two large state-owned corporations are the country's largest shipbuilders: the China State Shipbuilding Corporation (CSSC), and the China Shipbuilding Industry Corporation (CSIC), the latter formed but the spin-off of assets of the former in July 1999. Both report to the State Council via the State Owned Assets Supervision and Administration Commission (SASAC). The companies are based in Shanghai and Beijing, respectively. Together they account for about 75% of all Chinese ship production annually. Large shipyards include CSSC's Guangzhou Longxue, Haixiwan in Qingdao, and Changxing Island near Shanghai. However, shipyards can be found all along the Chinese coast, including in, Fujian, Liaoning and also Zhejiang. Some of these are mixed-use, producing both commercial and military vessels, and some confined only to military construction.

Aside from handling providing ships to handle its continuously growing flow of goods and for export, shipbuilding serves a purpose in the Chinese economy similar to other such large-scale,

heavy manufacturing: it not only warms the hearts of older government officials who remember China's earliest reconstruction efforts using such methodology, but building big ships, and a lot of them, provides thousands of workers with jobs. One estimate places that workforce at about 275,000, a large number but still small given the size of China's population. As such, a slowdown in the sector would be viewed with significant concern. Shipbuilding, like its railroads, remains one of China's more traditional industries in terms of management and operation.

In the U.S. Naval War College report *A Comprehensive Survey of China's Dynamic Shipbuilding Industry*, authors Gabriel Collins and Lt. Cdr. Michael C. Grubb wrote that "China's remarkable shipbuilding growth has been partially fueled by an overall boom in the global shipping market…any downturn in global economic conditions could result in significant shipbuilding overcapacity worldwide. China's current wave of shipyard expansion would only add to this excess capacity condition. Generous state financing of domestic shipbuilding contracts could artificially buoy PRC shipbuilders to some degree during a global shipping recession, but with over three-quarters of current Chinese commercial tonnage going to export, government contracts may not be able to offset completely a sizable drop in international commercial orders". This is exactly what has happened (see 'Who Will Bail Out China's Shipyards?' for further analysis). Still, China contracted 40 new vessels for construction in May, although the total value of ships to be produced in South Korea was higher, at $1.048 billion.

While China is now the largest producer of ships in terms of commercial gross tonnage, the highest-end ships are still primarily manufactured in Japan and South Korea, such as Very Large Crude Carriers (VLCC) and Very Large Gas Carriers (VLGC), massive ships used to transport huge quantities of energy products. Until the mid-1990s, China did not have any slipways large enough to build such ships, but now exceeds its Asian rivals' capacity to do so, even if they do not yet have the orders to justify them. With Japan and South Korea having reached leading positions in the industry in the last decades of the 20th century, at this point Chinese shipbuilding's growth is much more at the expense of its Asian neighbours than at that of European firms.

While the shipbuilding business could appear to have 'gone east', a 2009 report commissioned by the Directorate-General Enterprise & Industry, *Study on Competitiveness of the European Shipbuilding Industry*, concluded that there was still room for European shipbuilders in the global market:

"Europe is strong in innovation, renowned for its high quality deliveries and efficient cooperation between marine equipment manufacturers and shipyards. This basis can be used to realise opportunities in the field of new markets that are explored on the basis of Europe's current lead position in complex segments. One can think of 'green and safe vessels' as a new market for the future, as well as themes like deep sea applications, ocean and energy."

Hard to Port

It's not just shipbuilders that are attracted to China, but also logistics and port and terminal service providers. The superlatives extend to China here, too: the Port of Shanghai was the world's largest port last year in terms of volume, with Ningbo-Zhoushan at number two and Tianjin coming in at number five. Rotterdam makes Europe's only appearance in the top 10. Out of the next five, only South Korea's Busan is not in China.

Once, Chinese ports were geared almost entirely for the export of goods; now, with trade imbalances shifting, a greater amount of European and other foreign products are arriving on Chinese shores, and European knowledge and technology can lead the way to reduce transit times and more efficiently deliver goods to markets throughout the country.

Although the Port of Shanghai, at least part of which is in Hangzhou Bay, is now the world's busiest, despite Shanghai's long-standing as a port of call, its harbour was not naturally well-suited to increased trade. The constant outpouring of the Yangtse River, along with the tons of silt that it deposits in and around the river mouth each year, do not lend themselves to container ships and tankers that continue to grow in size, along with deeper drafts. To address this problem, deepwater ports on islands in the Zhoushan Archipelago, such as the Yangshan Deep-water Port, China's largest, can address the problem. In what can almost be considered Chinese traditional mega-project fashion, after reclaiming land on Yangshan Island to build the port, the island was then connected to the mainland – 32 kilometres away – by the world's longest sea bridge.

China's terminal business has also seen participation from major European players. For example, in June, Maersk Group's APM Terminals invested $500 million for a 25% stake in the expansion of Ningbo's Meishan Container Terminal, the fastest-growing deepwater container port in the world, the company said.

While growth at China's ports remains high, continued sluggishness for exports is becoming a drag. Earlier in July, the Port of Shenzhen reported a 2.4% drop in year-on-year growth for June 2012, with growth at nearby Hong Kong a mere 2%. Although volume is still extremely high compared to just about any other port in the world, these are low numbers for harbours now accustomed to far higher through-put.

As stated above, six of the world's busiest 10 ports are now in China, including Hong Kong. But while Hong Kong remains a top choice for shipping and trans-shipping, issues plague international logistics providers wishing to use Chinese mainland ports for the same purpose. At present, international cargo arriving at a Chinese port that has its final destination at another Chinese port can only be trans-shipped by Chinese-flagged ships, operated by wholly-owned Chinese companies. The additional costs and delays can be imagined, not to mention the added hassle for companies with existing contracts with European carriers elsewhere in the world, only to find that a third-party in China will now be taking their goods to their final destination.

Projecting Power: China and the South China Sea

China has spent as much time in the headlines this year for its strong assertion of sovereignty of most of the South China Sea as for any other reason. China claims much of that body of water, along with numerous atolls, islands and potential energy resources that lie within it and that are similarly claimed by Malaysia, the Philippines, and Vietnam.

This assertion has been expressed in a number of ways, including PLA Navy vessels squaring off with forces from the Philippines, diplomatic posturing, increased oil exploration, and the announcement of incentives for Chinese citizens interested in relocating to the islands.

As noted by China maritime observer Andrew Erickson in a June blog post for *The Wall Street Journal*, the Chairman of the China National Offshore Oil Corp. (CNOOC), Wang Yilin referred to a new deepwater oil platform the company was erecting in the South China Sea as "mobile sovereign territory", likely the first time such a claim has been made by an energy company of every nation. China also tested a new deep-diving submarine, stating that the Jiaolong, produced domestically, had reached 7000 metres – and more importantly, giving the country the capability to explore and reach every part of the Sea's floor. Even China's latest efforts in underwater archaeology appear targeted at finding Tang, Song and Ming Dynasty shipwrecks throughout the region to demonstrate the seeming continuity and ubiquity of Chinese trade in those waters, and to press the claim using even soft means.

While international organisations and diplomacy will most likely decide the Sea's ultimate fate and ownership, China's desire for its ships to move about the region unfettered dates back to the days when it was European seaborne commerce that dominated global shipping.

As China reaches farther beyond its borders for purposes of energy security and to acquire raw materials and even foodstuffs, it will want to know that barring natural forces, those supply ships will move securely.

The renowned American naval strategist Alfred Thayer Mahan, himself a favourite of some of China's top maritime strategists, believed that the nation that controls seaborne commerce ultimately influences the world. Whether Mahan's theory will prove true for China in the same way it did for first the United Kingdom and then the United States will take decades to be demonstrated. However, it is clear that if during the 20th century China was afraid to go back in the water, it most certainly is no longer.

Clive Palmer may or may not know that despite his fascination with *Titanic* and building her contemporary reincarnation, two Chinese maritime disasters in 1948, which occurred in consecutive months, eclipse that tragedy utterly. In November 1948, the Kuomintang troop transport *Xuan Huai* was sunk while trying to escape from the Liaoning port of Yingkou, claiming the lives of as many as 6,000 soldiers. The following month, *SS Jiangya*, departing from Shanghai for first Ningbo and then Taiwan, sank under mysterious circumstances in the Yangtse River mouth, almost due north from today's Pudong International Airport, killing between 2,200 and 3,000. Even in disaster, China's maritime industry is superlative. Eb

Maritime Transport Working Group Key Recommendations

The European Chamber's Maritime Transport Working Group, based in Shanghai, represents European maritime transport enterprises operating in China. In the *European Business in China Position Paper 2011/2012*, it made the following key recommendations:

1. Allow transport of international cargo between Chinese ports (international relay)
2. Uniformly implement customs regulations
3. Strengthen enforcement of laws relating to dangerous cargo
4. Improve navigational safety
5. Cooperate on reducing the carbon footprint of international shipping
6. Strengthen the supervision of Chinese ports to maintain the harmony of the market and avoid anti-competitive behaviour.

For more information on the Maritime Transport Working Group, please contact Bettina Buck at bbuck@europeanchamber.com.cn.

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Marine Products: on the Cutting Edge of Shipbuilding in China

Technology from European firms continues to make inroads in and influence numerous industries in China. Following the Yangtze River inland, past Shanghai, one reaches first the Jiangsu provincial capital of Nanjing, and then the river town of Zhenjiang. EURObiz's **Steven Schwankert** heads upriver to talk with a maker of the things that make ships go.

Tamara de Gruyter was born to make propellers.

"When I was a child I loved sailing, so I had a link with boats. The company I worked for in Holland, which became Wärtsilä, was near my hometown. I used to cycle past there and see the big beautiful propellers sitting outside. Studied shipbuilding engineering, and when I went looking for a job, it was an obvious choice", said de Gruyter, general manager of Wärtsilä CME Zhenjiang Propeller Co. Ltd..

A Finnish company, Wärtsilä's move into China was driven by the same superlative that leads many European firms here: China is the world's largest shipping building country since last year. There is another obvious reason: "The primary cost of a propeller is raw materials, but the other major cost is labour", de Gruyter said.

Although not usually the first destination for European business in China, Zhejiang was an easy choice for Wärtsilä.

"Establishing our operations here was very practical. The joint venture (JV) was established in 2004. Wärtsilä was already looking to start up manufacturing in China, and the joint venture partner we selected was already operating a small propeller factory in Zhenjiang. This factory has been the starting point and was expanded over the last eight years to a 20,000m2 facilty nowadays", de Gruyter said.

"In total Wärtsilä has four JVs in China and one wholly foreign-owned enterprise (WFOE) that produce thrusters (in Wuxi), auxiliary engines (in Shanghai), automation services (in Nantong), two-stroke engines (in Qingdao). Wärtsilä's head office is in Shanghai, where there is also a services workshop", she said.

De Gruyter added that in Wärtsilä

CME's case, a joint venture offers a lot of benefits."The good thing about being in a JV is that you get a lot of support from the Chinese partner, especially for government relations and regulations. What did surprise me though was that we want to comply with all the laws and regulations, and you see that many of the laws are quite strict, even more so than in Holland in some cases, but the enforcement is very low", she said.

The main shipbuilding centers in China are in Dalian, Jiangsu and Shanghai, and Guangzhou. There are even still some big shipyards in Nanjing, and you can even build big, ocean-going vessels there, de Gruyter said.

Away from more traditional centers for European business like Shanghai and Beijing, Wärtsilä-CME Zhenjiang Propeller Co. Ltd. is accustomed to management like de Gruyter, both male and female.

"Having foreign managers here is quite normal. The JV nominates the GM, so I'm the one that's been longest here, arriving after they were established for five years. For the team here, it was ok, in Holland we also made the same product, so I brought a lot of knowledge and experience for them, they knew me from earlier visits, and they were very happy".

"The biggest change was in the composition of our management team. In Holland I was in charge of 150 people, I was the only woman. But here, most of our managers are women, it is much more normal here", she said.

Being off the beaten path can be both a blessing and a curse.

"One of the benefits of Zhenjiang is that labour costs are lower. What's also an advantage is that the labour force is more stable, I have extremely low turnover. For most of our people it's their hometown. It's easy to keep your workforce stable, salaries are lower, but finding competent people is not always easy, and no one speaks English. Out of 450 staff, 15 speak English. As for managerial skills, we are beginning to see some people coming back from larger cities because of the cost, but people with higher qualifications will still go to Shanghai or Nanjing", de Gruyter said.

Despite its European origins, Wärtsilä's target in China is the domestic market.

"About 90 percent of our production is for Chinese shipyards, as there is not so much of a market for fixed-pitch propellers outside of Asia", she said. "We also make cruise ship propellers for an Italian shipyard, and some for Korea".

Fixed-pitch propellers (propellers where the blades cannot be angled) are more for simple, single-use operating propellers, like for cargo.

Wärtsilä continues to expand its product line in China as shipbuilders, like companies in many other sectors, move up the value chain.

"We have opened a new factory to make a different product. A Controllable pitch propeller (CPP) rotates the blades around the hull, for maneuvering and other functions. We're going to start manufacturing those in China, as we expect more CPP ships to be built here in the future. This production line was moved here from Europe, and so far, we've delivered seven of them", she said.

De Gruyter also heard that *Titanic II* would be built in Nanjing, but that so far it is more myth than manufacturing.

"My friend works at the shipyard named, and he knows nothing about it! If it's really built, I am sure we will be recommended, that shipyard is a good customer for us", she said.

But if the order comes, de Gruyter and her team will be ready.

"We offer the first cruise ship propellers ever made by a Chinese company, so we have the experience to make this kind of propeller". Eb

Who Will Bail Out China's Shipyards?

As recently as the late 1980s, Chinese shipbuilding was mired in somewhere in the late 1930s. The industry was a hodgepodge of small, government-owned shipyards building hulls with techniques and technologies that were outdated since the Second World War. As late as 1990, China built only 2.5% of the ships ordered worldwide that year, despite having 20% of the world's population and an economy increasingly dependent on exports – and the ships that carried them. The game has changed, but China's shipbuilders are under pressure. **David Wolf** looks at possible solutions.

Over the past 20 years, Chinese shipbuilding has grown its global market share eight-fold, filling over 20% of the world's orders for oceangoing commercial vessels. It has accomplished this through consolidation, expansion, research and development, and the importation of advanced foreign shipbuilding technology.

The 10th Five-Year Plan (2001-5) made shipbuilding a "strategic industry", and opened the door to much-needed consolidation and upgrades. Small shipyards merged into larger companies, and those firms expanded their yards to accommodate more and larger vessels. In the words of one U.S. executive, there are now single shipyards in China with more capacity than the entire U.S. shipbuilding industry.

The Chinese industry also invested in new technologies, with many acquiring the advanced TRIBON CAD/CAM ship design system, switching to modular construction, and offering advanced propulsion, steering, and electronics. By 2008 China was poised to extend its shipbuilding prowess into advanced hull designs, placing it at technological parity with leading yards in Europe, Japan, and Korea.

But the global financial crisis, following on the heels of a boom in shipbuilding spurred in part by lower prices from Chinese yards, has put such dreams on hold. After two decades of consolidation, expansion, and investment, China's shipyards are unable even to sell new bottoms to domestic shipping companies. As a result, they're cutting prices to keep busy, and if the industry follows the accepted Chinese patterns, the result will be a beggar-thy-brother price war. Shipyards yards will continue to produce ships, even at a loss.

The yards themselves have little choice, but neither does the government. Given the strategic nature of the industry, allowing the yards to fail would be politically problematic, especially as the yards in turn support a large piece of China's steel industry. And China's leaders are not without a sense of history: they remember that Poland's Solidarity movement, the labour protest that caused the Warsaw Pact to implode, began in a Gdansk shipyard. Unemployed shipwrights are a proven political force.

Thus the central government will thus likely step in to support the shipyards in the short term, working through one or more of the major "policy banks": the Bank of China, Industrial and Commercial Bank of China, China Construction Bank, and the Agricultural Bank of China.

Longer-term, writing the shipyards blank checks is unsustainable, even for Beijing. What is needed is a more permanent solution to the shipbuilding crisis, one that will be framed by two interesting issues:

First is the matter of how long the downturn will last. If this is a blip and orders start pouring in within two to three years, the near-term solution will suffice. If experience is any indication, however, it is probable that the industry faces a longer adjustment that will take years to work out excess capacity.

Even more ominous is the uncertainty around the price of oil. At what point does bunker oil become so expensive that manufacturers begin to shift production to a point closer to the customer rather than relying on supply chains that bring finished goods across oceans? For the people building or buying ships, this is more than idle speculation: it is the issue that will decide the future.

Second is at what point the Chinese Navy (PLAN) will decide that the shipyard slump offers a precious opportunity to expand the fleet at prices it may never see again. Retooling civilian shipyards to produce warships is no easy task, but the PLAN will need auxiliaries and support ships for operations far from shore, and civilian yards can produce those with relative ease.

The two of these issues come together with a relatively straightforward solution: rather than simply pour money into shipyards and pay them not to produce ships, the government could have those same yards start turning out oilers, transports, and tenders to form the logistical tail of a truly blue-water navy. Eb

David Wolf is CEO of award-winning boutique consultancy Wolf Group Asia and author of *Making The Connection*. Read his blog Silicon Hutong at www.wolfgroupasia.com.

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Succeeding in the Chinese Healthcare Market: Opportunities and Challenges for EU SMEs

China's ageing population, increasing urban demand and a series of government reforms to build a more widespread healthcare system throughout the country, especially in second and third-tier cities, pave the way for greater opportunities in the Chinese market and a promising future for European SMEs. The **EU SME Centre** looks at the prospects for this expanding market.

In 2009, China's market in medical devices, pharmaceuticals and healthcare services was worth EUR 10.8 billion, EUR 30 billion, and EUR 163 billion, respectively. In 2012 expenditure in pharmaceuticals increased 20.4% from the previous year, 10.5% in healthcare and 13.3% in medical devices.

While the healthcare market is expected to grow enormously over the next few years, SMEs are likely to have some uncertainties over how to best approach the market and to find the keys to succeed.

Growth drivers

Healthcare spending

China spent an equivalent of about 4.5% of GDP on healthcare services in 2010 (per capita annual spending of about EUR 120.30). In comparison, the U.K. spent around 8.5% of GDP on healthcare services the same year, Germany spent 10.5% and France around 11%. Therefore, businesses can expect to see even greater spending in the market in years to come, offering further opportunities for development.

Increasing disposable income and demand

Along with China's continued economic growth, the general public's living standards and purchasing power have improved dramatically. Chinese people are paying more attention to health issues and demanding more healthcare products and services. The general public has also become more knowledgeable and receptive to foreign products.

High-end products

The growing prestige of foreign products among the general population offers great opportunities for foreign investors. Demand for medical equipment, services and medicine for major diseases is rising sharply and the rapidly growing demand for imported high-end medical devices portrays a profitable picture for the European SMEs who can find the right niche and partners in the market.

Ageing population

Facing an ageing population, the Chinese government has been encouraging private investment in the nursing home market which is still in its infancy. In 2010, the total number of beds in existing nursing homes was only equal to 1.6% of the total number of seniors, which is lower than that in developed countries (5 to 7%). The poor reputation of nursing homes opens the doors for potential foreign players.

Medical devices

Since 2005, China has been the third-largest medical device market in the world, following the United States and Japan. In 2009, China's medical device market reached a total sales value of EUR10.8 billion) .

Lack of advanced technologies implies that China has been reliant on imports of medical equipment and this is where European SMEs can help supply demand. In 2010, China imported medical devices worth around EUR 6 billion from 116 countries.

Among the different devices imported, the top three categories were x-ray equipment for medical care, surgical or veterinary purposes (EUR 450 million), colour ultrasound diagnostics equipment (EUR 430 million) and medical equipment or apparel for physiological defects or implanted instruments (EUR 410 million).

Unhealthy lifestyles, pollution and stress have made Chinese people more vulnerable to disease. Thus, medical devices that can help them improve and monitor their health, such as body fat meters, pedometers, and massage tools will find a favourable market. Care and rehabilitation equipment in general has also a huge market potential due to the growing ageing population.

Challenges

Registration requirements

Medical devices are generally categorized into three different groups:

- Class I: Medical devices for which safety can be ensured through routine administration.

- Class II: Medical devices for which further control is required to ensure their safety of use.

Class III: Medical devices that are implanted into the human body, or used for life support, or pose potential risk to the human body and thus require strict safety surveillance.

A barrier that could delay the entry of medical devices into China is the Chinese government requirement for medical devices that belong to Categories 2 and 3 to obtain market approval in the country of origin. This requirement may not only prolong the registration process, but also pose another problem as some medical devices are manufactured specifically for the Chinese market and might not fulfil the requirements for approval in their home country. In order for SMEs to overcome this barrier, it is suggested they apply for both market registrations in parallel.

Approval for use and reimbursement

In China, although a medical device has registered and obtained a licence, Chinese hospitals still need to obtain approval for using thedevice. Even after approval is obtained, the hospital needs to apply for the reimbursement approval as well.

Pharmaceuticals and medical research

The pharmaceutical industry in China has been growing steadily in recent years. Total pharmaceutical sales grew at a compound annual rate of 20.5% between 2005 and 2009, reaching more than EUR 30 billion in 2009. That is EUR 22.70 per capita compared to EUR 337.00 per capita in Europe. It is forecast that the growth rate will be around 16.9% between 2010 and 2014. This rapid growth will contribute to China becoming the world's second-largest pharmaceutical market by 2015, after the U.S.

Sales revenue of China's pharmaceutical market

As far as pharmaceuticals are concerned, there is a market for generic drugs as original branded drugs' patents expire, pharmaceutical companies can produce generic drugs identical to these branded drugs. A significant opportunity is in the development of drugs designed specifically for the Chinese/Asian market. In the last few years, pharmaceutical multinationals have shifted their focus in China from sales and marketing, to clinical and even pre-clinical R&D.

Biopharmaceutical industry

Meanwhile, the biopharmaceutical industry in China is emerging and has been growing rapidly in recent years. It is considered by the Chinese government as an important high growth sector, as set forth in the 12th Five-Year Plan highlighting the strategy to invest about EUR 4.7billion in the biopharmaceutical market. This sector is expected to grow at 20-25% and reach over EUR 26.5 billion by 2015. The current value of biologic drugs is EUR 6.1 billion, accounting for approximately 20% of China's total drug market. This figure is going up as China moves away from a reliance on the manufacturing of generics.

Professional training

Since May 2010, with the launch of the 'Talent Development Programme' by the Chinese government, European SMEs can work with training providers to deliver joint-training programmes allowing them to have a say in healthcare policy.

Challenges

Pricing issues

The National Drug Reimbursement List (NDRL) has made the pricing of medicine quite challenging. The NDRL controls the selling price by having a public bidding process. Although high demand is expected for drugs on the NDRL, profits may come only in the long run. Furthermore, the bidding process may prevent some European drugs from being made available to the general public. However, the rising purchasing power of the general public has opened up the market for high-end drugs, as these do not feature on the NDRL list and thus, patients are fully responsible for the costs. One challenge for European SMEs is to identify which segment of consumers is prepared to pay for the high-end drugs available for them to purchase.

Duration of clinical trials

In China, it is time-consuming and administratively burdensome to conduct clinical trials regarding the use of approved drugs for a new treatment, usually requiring six months to one year. One solution to overcome this difficulty could be the hiring of Contract Research Organisations (CROs). Chinese CROs have the necessary talent and equipment in making these trials, as well as connections with the Chinese government that might help accelerate the process.

Healthcare services

In rural areas the Chinese government has ambitious plans to make access to healthcare easier by constructing or upgrading 3,700 community hospitals and clinics, and 11,000 village clinics.

Personalised medicine

In particular, personalised medicine (PM) is beginning to emerge in China. Currently, it is rather research-oriented but it will soon be seen in the commercial sector.

Challenges

Should SMEs plan to open private health clinics in China, Chinese state-owned enterprises (SOEs) will be their biggest competitors. The playing field is not level: SOEs are said to be given preferential access to financing and capital in addition to lower interest rates.

As the number of hospitals increases, there will be a challenge in maintaining the number of doctors and nurses to keep up with the pace. SMEs may have difficulty in finding the right human resources to operate in China.

Furthermore, it is not uncommon to have Intellectual Property Rights (IPR) concerns in China. The medical industry is no exception. The situation is especially severe in the drugs market where counterfeiting is common. When working with Chinese partners, SMEs need to make efforts to protect their IP. Eb

The EU SME Centre has recently published a report on China's healthcare sector including information on market size, key growth drivers, market structure, distribution channels, opportunities and challenges. The report, as well as supplementary guidelines on medical device registration and pharmaceutical products and industry-related case studies, is freely downloadable from the Centre's website at www.eusmecentre.org.cn

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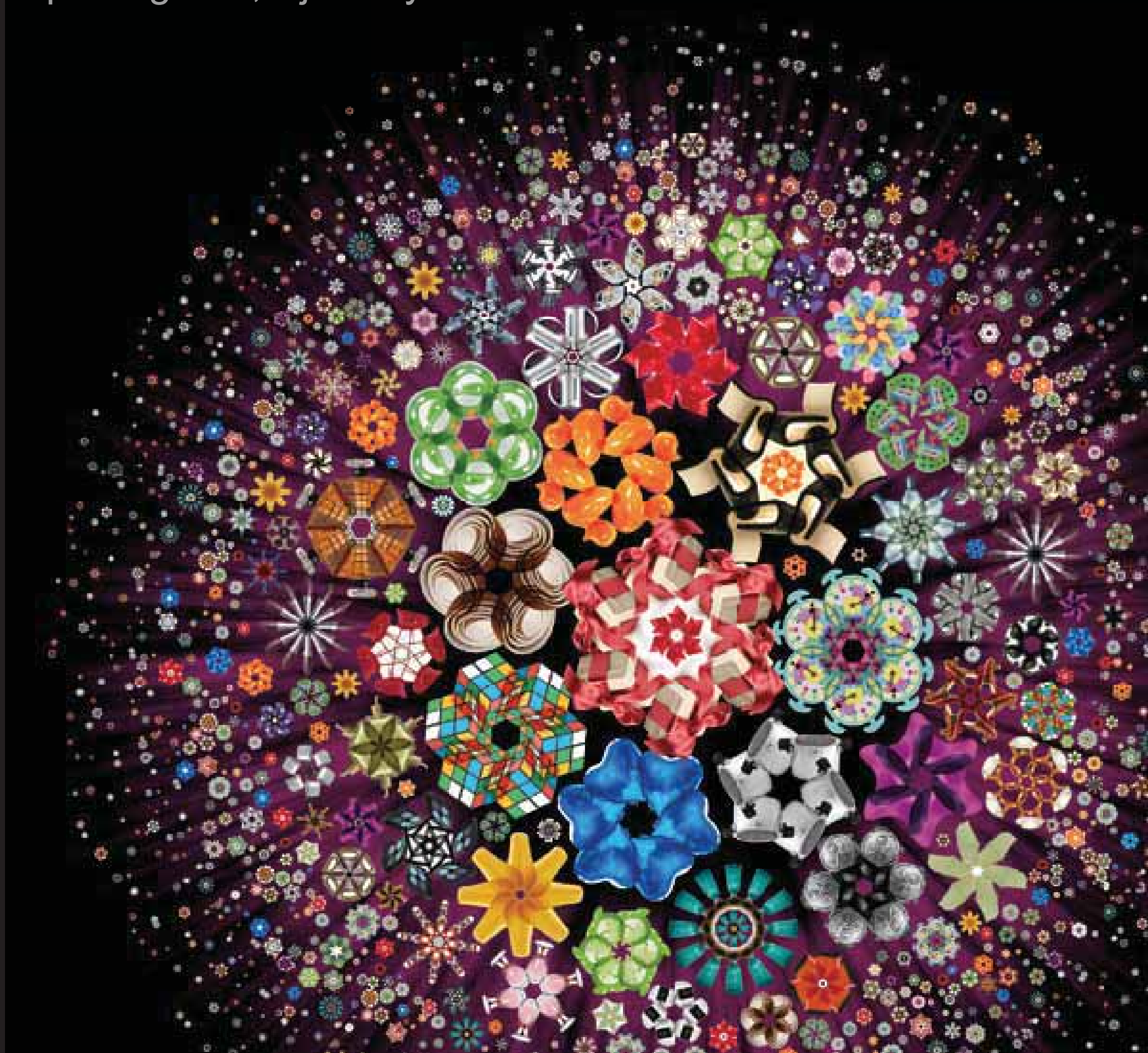

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Supersized cities: China's 13 megalopolises

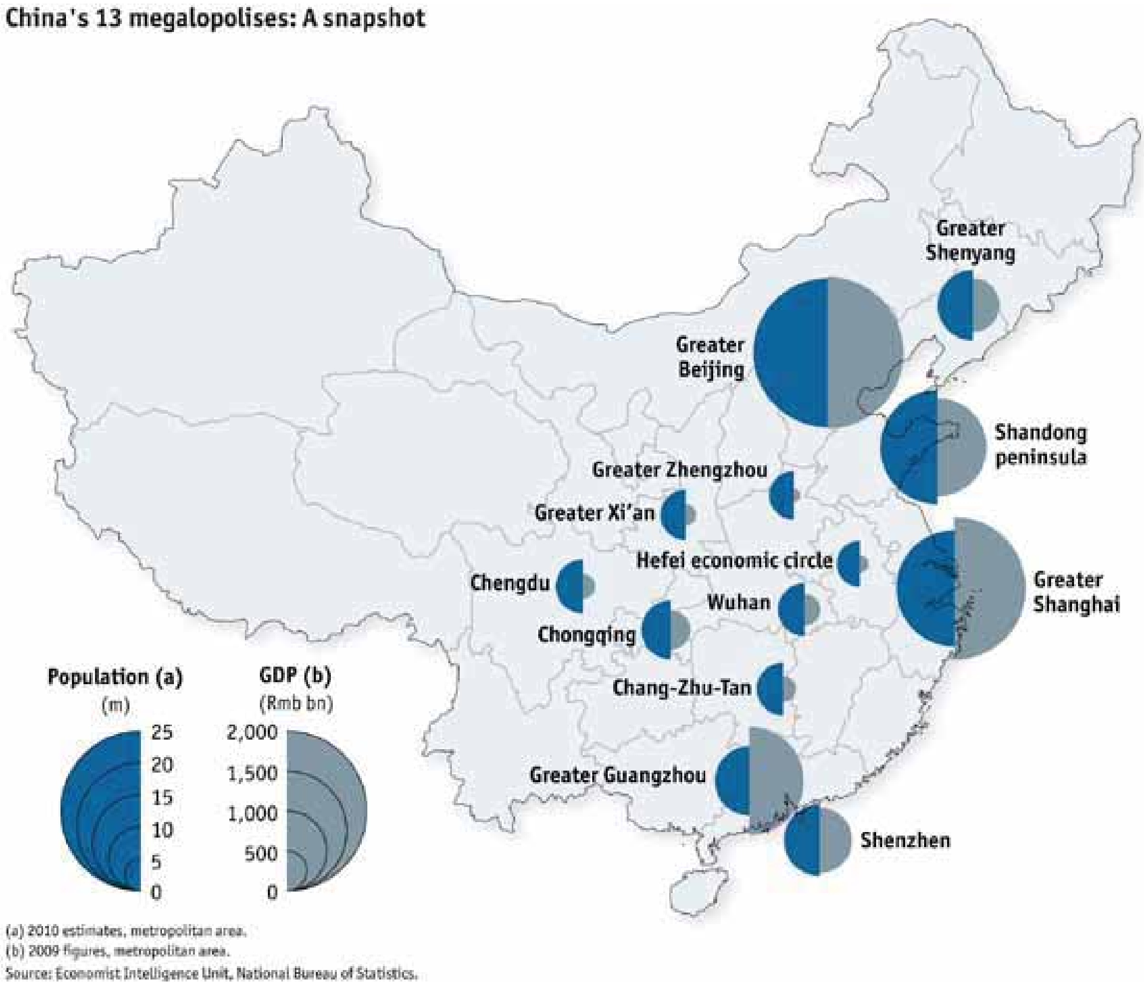
The rise and decline of great cities past was largely based on their ability to draw the ambitious and the restless from other places. China's cities are on the rise. Their growth has been fuelled both by the large-scale internal migration of those seeking better lives and by government initiatives encouraging the expansion of urban areas. The government hopes that the swelling urban populace will spend more in a more highly concentrated retail environment, thereby helping to rebalance the Chinese economy towards private consumption. In this excerpt from their new report, *Supersized cities: China's 13 megalopolises*, **Access China** and the **Economist Intelligence Unit** analyse the varying stages of demographic development and the implications the expansion of China's largest urban areas will have for several core sectors.

The relationship between the Chinese government and its massive populace is an uneasy one. A controversial birth-planning policy has been in place since 1978 to make sure that the country's population does not balloon out of control. The national system of household registration (or hukou) acts to regulate internal migration, especially from rural to urban areas. Standing in contrast to these policies aimed at managing urban growth have been the aspirations of provincial governments, many of which want cities large enough to offer attractive consumer markets and to provide sufficient labour pools for prospective investors. Size is associated with prestige, and urbanisation has become increasingly encouraged in development plans, despite the fact that the hukou system remains in place (albeit with considerable fraying). The more ambitious planners want to go even further, with an eye towards moulding their cities into global metropolises like Hong Kong or, in Tianjin's case, New York City.

This more determined push behind urbanisation is a fairly recent phenomenon, as China under the ruling Chinese Communist Party has had an ambivalent relationship with its cities. Government policy for a long time had a pro-rural emphasis, reflecting priorities of agricultural development and the achievement of grain self-sufficiency, and urbanisation was not explicitly addressed in the national Five-Year Plan until 1991. By then the mechanisation of agriculture had reduced manpower needs in the countryside and created a labour surplus to be absorbed through urbanisation and industrialisation.

In the 1990s, policy therefore took on more of an urban orientation, with official guidelines stating that the goal was to "strictly control the growth of the big cities, reasonably develop the medium-sized cities and encourage the growth of the small cities/towns". This still tentative posture indicated the government's fears that a flood of migrant labourers pouring into the manufacturing centres on the eastern seaboard would result in the proliferation of urban slums—a common sight in other parts of the developing world.

In 2001 the government continued to promote urbanisation at the small city/town level, and ramped up efforts by encouraging town-based industrialisation. To further this, policies were put in place to allow farmers moving to towns within their counties to convert their hukou from agricultural to non-agricultural status, then allowing them to sell their land-use rights to other farmers, facilitating the conversion of agricultural land to town land for industrial use. The endeavour failed to achieve the development of small towns, however, as investment continued to pour instead into larger urban centres, and migrants followed opportunities for manufacturing and



construction jobs. In an admission that it could not control the market forces that were driving the growth of China's largest conurbations, central government policy shifted in 2006 to promoting the "balanced development" of cities, with a heavier weight on fostering wider metropolitan regions. By then, however, local-level initiatives promoting the development of larger-scale urban conurbations were already in place. Provincial development plans included the promotion of city "economic circles" and clusters, with the aim of using a relatively prosperous city to pull upwards poorer neighbouring cities. The city cluster of Changsha, Zhuzhou and Xiangtan ("Chang-Zhu-Tan") in central China's Hunan province serves as a prime example. In 2005 the provincial government promulgated a regional plan to build a so-called city cluster. It came to include plans to build stronger transport and communication links, such as changing the area telephone codes to a common number. Along with city clusters, the integration of neighbouring cities was also promoted at the local level. For example, in recent years efforts have been made to tie more closely together Xi'an and Xianyang, in Shaanxi province, through the construction of two new urban districts. The neighbouring Pearl River Delta cities of Guangzhou and Foshan have also been slated for closer ties; the first phase of the new metro running between the two cities opened in late 2010. The Beijing-Tianjin high-speed railway started operations in 2008, to encourage stronger business and leisure travel between the two cities. Inter-city co-operation has been encouraged as a more efficient mode of urban development, as officials worry that local-level competition between nearby cities encourages waste and overbuild in infrastructure and capacity. Even so, the development of cross-provincial megacities remains challenging, owing to locality-centric thinking among many local officials. At the same time as shifts in official policy, growth in areas outside the eastern seaboard has also helped to accelerate urbanisation. Aware of the need to diversify sources of economic growth and address gaps in regional development, over the past decade China's leadership has launched a massive drive to kick-start growth in western and north-eastern provinces. This effort has begun to bear fruit in recent years: in 2007 growth in the west surpassed that of the east for the first time in decades. Western provinces far outperformed the rest of the country in 2011 as aggregate GDP growth reached 14.1%, compared with the average on the eastern seaboard of 10.5%. Eb

Download the full report from the Economist Intelligence Unit at www.eiu.com/megalopolis

Making Progress, but Rough Sailing

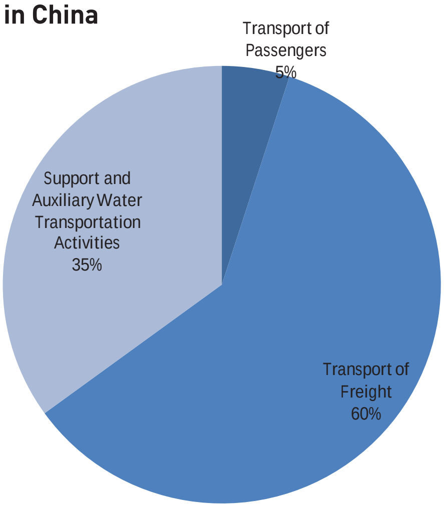
Recent Developments in China's Maritime Transport Industry

By Ben Xie, Industry Analysis Department, ACMR

From 2008 to 2012, with the unstable development of the world economy, the maritime transport industry was affected in both global and domestic markets. The financial crisis that started in late 2008 deepened in 2009, and along with the international trade, maritime transport stagnated to large degree. The major domestic shipping companies reported clear revenue decreases that year. With some economy recovery in 2010, China's international trade resumed its growth, and the maritime transport presented a strong momentum of growth. In 2011, despite the general deteriorating environment of maritime transport (capacity surplus, low freight price), the domestic maritime transport market kept expanding on the whole, and the trend is expected to continue in 2012.

In 2008, China's maritime transport industry totaled $72 billion, with the transport of freight accounting of about 60% of it. From 2008 to 2011, despite fluctuations of global economy, China's economy developed relatively steadily, with its total value of international trade increasing to $3642 billion in 2011. Driven by development of China's economy and its international trade, market size of China's water transport was estimated to expand on the whole. Both freight and passenger volume of maritime transport kept increasing despite some fluctuations.

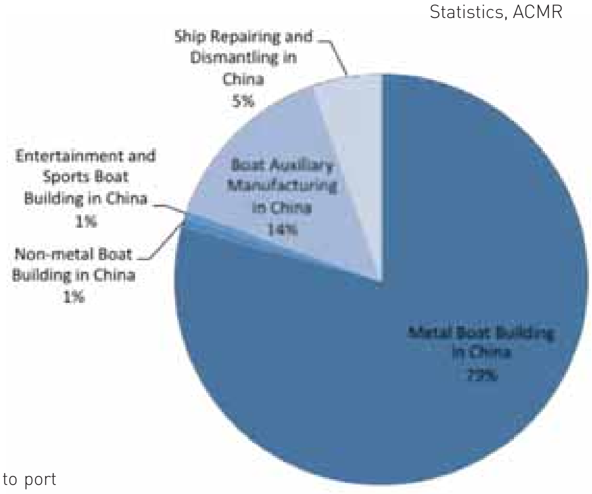
Segmentation of Maritime Transport in China



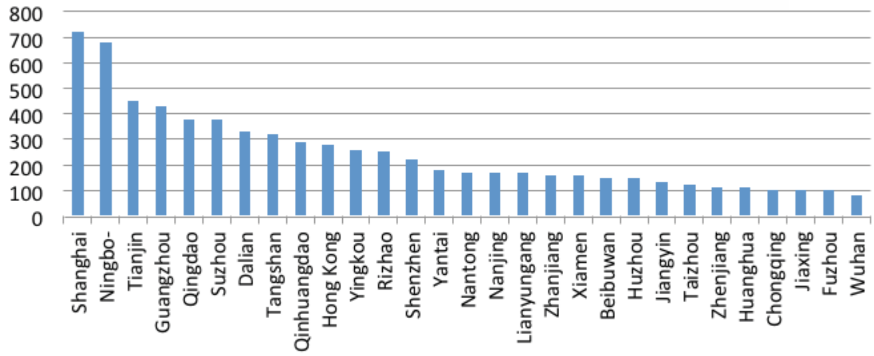
Source: National Bureau of Statistics, ACMR
Note: Support and Auxiliary M Transportation Activities mainly refers to port activities

Segmentation of Shipbuilding and Relevant Devices Manufacturing in China

Source: National Bureau of Statistics, ACMR



Major Ports in China by Freight Throughput, 2011 (Million tons)

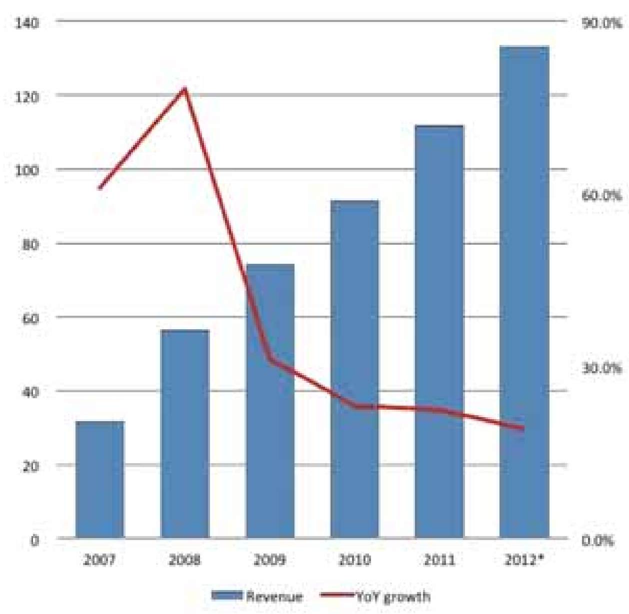


Freight and Passenger Throughput of Ports, 2007-2012

Year	Freight Throughput (Million tons)	Passenger Throughput (Million units)
2007	4801	74.7
2008	5413	72.6
2009	6334	95.1
2010	7348	82.1
2011	8325	85.6
2012*	9250	89.2

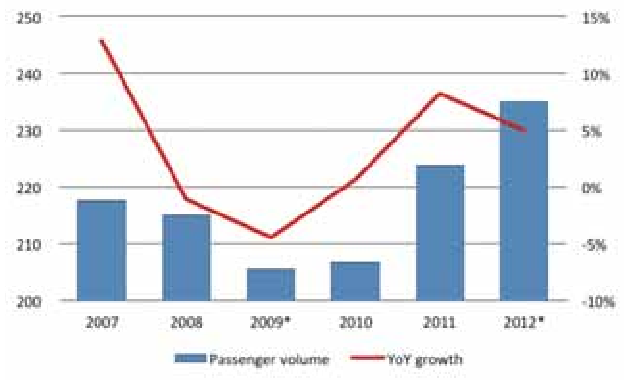
Source: Ministry of Transport, ACMR
Note: All data are cumulative data in the first 11 months of the year; 2012 data are ACMR estimates

Revenue of the Shipbuilding Industry in China, 2007-2012 (USD Billion)



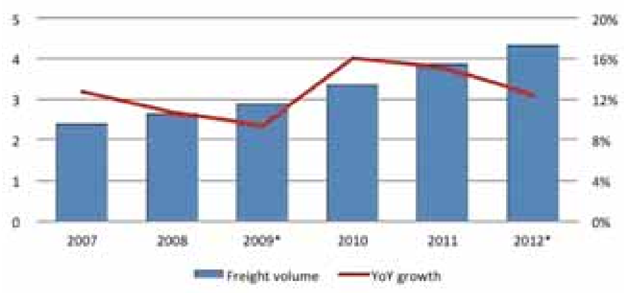
Source: National Bureau of Statistics, ACMR
Note: 2012 data are ACMR estimates

Passenger Volume of Maritime Transport, 2007-2012 (Million units)



Source: Ministry of Transport, ACMR
Note: All data are cumulative data in the first 11 months of the year; 2009 and 2012 data are ACMR estimates

Freight Volume of Maritime Transport in China, 2007-2012 (Billion tons)



Source: Ministry of Transport, ACMR
Note: All data are cumulative data in the first 11 months of the year; 2009 and 2012 data are ACMR estimates

Stimulated by development of global trade and China's increasing water transport market, China's shipbuilding industry has developed rapidly in recent years. According to statistics from China Association of National Shipbuilding Industry (CANSI), shipbuilding output in China in 2011 was 76.7 million DWT (dead weight tons), up 16.9% from 2010 and maintaining as the largest shipbuilding country in the world. The volume of new orders received was 36.2 million DWT, and the volume of handling orders was 149.9 million DWT, respectively, in 2011.

However, the constantly increasing capacity of maritime transport also intensified competition, leading to a drop in freight price. The whole environment of maritime transport was affected to some degree. Eb

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Rare Earth Elements in China:

Lots of Demand and Not Much Supply

With a WTO case pending against China for unfair export restrictions, and a new Chinese government white paper addressing their availability, Rare Earth Elements (REE) have become one of the summer's hottest topics. Author of *Managing The Dragon* **Jack Perkowski** looks at current issues facing the uncertain supply and growing demand for rare earth elements.

In early July the Information Office of the State Council, China's cabinet, published the country's first white paper on China's rare earth industry. Uncertainty about the level of Rare Earth Element (REE) exports from China and the future global supply of these critical raw materials was heightened by the white paper, which said that China has just 23% of the world's rare-earth minerals, not the 36% that the U.S. has estimated.

China currently accounts for approximately 95% of the global supply of rare earths. In an effort to curtail environmental pollution and to preserve its rare earth resources for domestic consumption, however, China has imposed quotas on exports. In March, European Union (EU), the United States, Japan and Canada lodged a complaint with the World Trade Organization (WTO), claiming that Beijing is unfairly choking off exports of these commodities to benefit its domestic industries.

In the 21st century, natural resource battles will be fought not only over oil and water, but over 17 elements with names like dysprosium, yttrium and neodymium. While they are called "rare," rare earth minerals are found in almost all massive rock formations. However, their concentrations range from 10 to a few hundred parts per million by weight, making them difficult to mine economically. Rare earth metals are important because they are used in a wide range of consumer products such as cell phones, flat screen TVs and computers. They are also a strategic resource because they are a crucial component in wind turbines and other new energy technologies, automobiles and a wide range of military and defence applications.

Rare earth deposits were first discovered in China in 1927 in Bayan Obo in Inner Mongolia. After a detailed geological study, the Bayan Obo mine was built in the 1950s. Deng Xiaoping recognised the importance of rare earths to China's future when he famously said in 1992 that "The Middle East has oil. China has rare earths". In 1986, six years before, Deng had approved the National High Technology Research and Development Program, which according to China's Ministry of Science and Technology, was established to help the country "to achieve breakthroughs in key technical fields that concern the national economic lifeline and national security; and to achieve leapfrog development in key high-tech fields in which China enjoys relative advantages".

Between 1978 and 1989, China increased its production of rare earth minerals by an average of 40% annually, making it one of the world's largest producers. Throughout the 1990s, China's exports of rare earth elements grew, causing prices worldwide to plunge. This undercut business for other producers, and eventually either drove them out of business or significantly reduced production efforts. As a result, China ended up in its current position of providing nearly the entire global supply of rare earths, an unstable supply situation in such critical raw materials that led to the WTO complaint.

While most of the attention has been focused on the fact that China accounts for 95% of the global supply of REE, market forces are already at work that will correct the current supply imbalance. Molycorp Inc., owner of the Mountain Pass rare earth mine in California, is in the process of completing the first phase of a two-phase, $781 million-modernisation and expansion project that its CEO said will meet or exceed most of the United States' supply requirements by the end of this year.

For other metals, such as the case of molybdenum, a key ingredient in many types of steel alloys, China is the world's largest producer, but is only the world's fourth largest exporter. Of the 250,000 tons of molybdenum produced in 2011, China accounted for 94,000, the U.S. 64,000, Chile 38,000, Peru 18,000 and Mexico 12,000. Moreover, global reserves are relatively evenly balanced between East and West. The estimated 10 million tons of global reserves of molybdenum are concentrated in China with 4.3 million, the US with 2.7 million and Chile with 1.2 million.

Tungsten, however, is a completely different story. First of all, tungsten is a particularly important metal. It is the hardest metal on earth, with a wear resistance about 100 times that of steel, and has the highest melting point. These two properties make it critical to the manufacture of many key industrial and military products. These include tungsten carbide drills, cutting tools for the mining and oil industries, super alloys for turbine blades, heavy metal alloys for bullets, armour, and missile rocket nozzles and a wide range of products used in the aerospace and electronics industries.

Secondly, China dominates the global supply, as well as the global reserves, of tungsten in a way that it doesn't with REE and molybdenum. Currently, China accounts for 85% of global production of tungsten, with other producers being Russia, Canada, Bolivia, Austria and Portugal. However, the gap between China and the other suppliers is enormous. China produces approximately 50,000 tons of tungsten each year, compared to Russia's annual production of about 2,500 tons and annual production in the other producing countries of 1,000 tons or less. Production of tungsten by the United States, whose industrial and military requirements for tungsten far exceed those of any other country, are "withheld" for strategic reasons. Some say that the U.S. production and reserves are withheld because they are miniscule in amount, and disclosing them would expose a key vulnerability.

Moreover, China's global tungsten monopoly won't end anytime soon. Earlier this month, China's Ministry of Land and Resources announced the discovery of the world's largest tungsten mine in the country's east province of Jiangxi. At current prices, the annual production of tungsten is a $3 billion business. Reserves at the Jiangxi mine are estimated to have an economic value of 300 billion yuan ($47.13 billion).

China's tight grip on the supply of tungsten is resulting in a global scramble for tungsten reserves outside of China. On June 19, Vancouver-based Woulfe Mining Corp. announced an investment agreement with a unit of Warren Buffett's Berkshire Hathaway Inc. that will enable it to start up the Sangdong tungsten mine in South Korea in July. Under the agreement, the IMC Group of Companies (IMC) will contribute $35 million in cash for a 25% interest in the mine and an additional $35 million to build a refinery. IMC will be entitled to the off-take at a discount to market price in order to supply its operating units, many of which are large users of tungsten. IMC is 80 percent owned by Berkshire Hathaway.

China's strategy with respect to key raw materials such as REE, tungsten and molybdenum has clearly changed over the years. Early in the country's economic reform program, the export of natural resources was the quickest and easiest way to secure the hard currency needed to pay for imported equipment and technology, no matter the selling price and the cost to the environment. The large supply of natural resources that began to come out of China caused global prices to fall, which in turn made the mining and processing of these materials economically unfeasible in other countries with stricter environmental standards. The combination of China's increasing production and the shutting down of capacity elsewhere resulted in China's large market shares today.

Now that China is one of the world's largest manufacturers, its dependence on having an adequate supply of scarce raw materials will only increase in the years ahead. Moreover, China is implementing stricter environmental standards in all industries, including mining, and these tighter standards are also putting strains on prices and future supply. How the rest of the world reconciles its needs for REE, tungsten and molybdenum with China's new strategic direction will be an interesting story to watch. Eb

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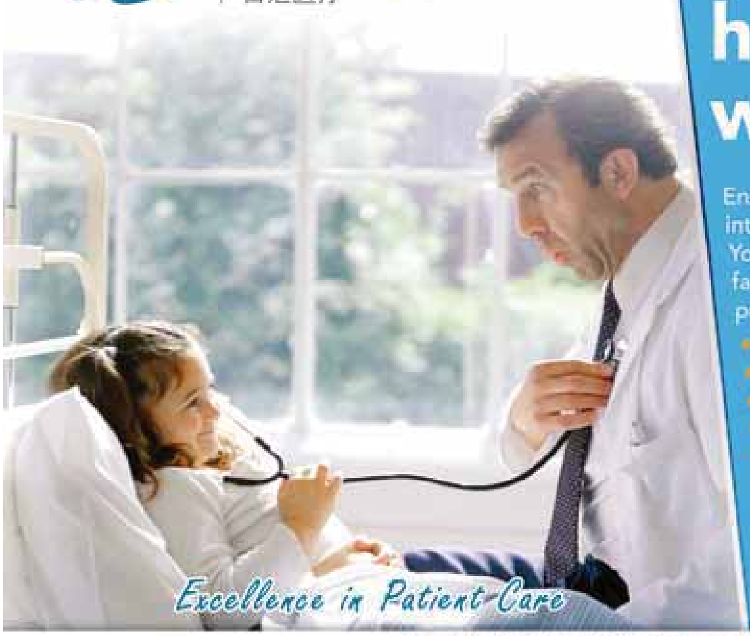

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The Changing Face of Leadership in China

As China transforms into a maturing economy, characterised by a more complex, ambiguous and volatile business environment, having the right leaders with the right capabilities has become far more important. **Elisa Mallis**, chair of the Human Resources Working Group in Beijing discusses, what qualities leaders need for the future – and how to find them.

Over the last two decades, double-digit growth primarily fueled by the manufacturing sector enabled China to enjoy success even with moderate levels of leadership capability. However, the shift to a knowledge-based economy is changing the face of leadership in China and significantly raising the bar for managers and leaders to achieve success. What leadership style will enable success and what it will take to equip future leaders in China to be successful in a higher stakes environment are two very important questions for businesses to consider.

What leadership style will enable success?

As foreign businesses in China continue to expand their operations and Chinese outbound investment grows the focus for continued growth in China has shifted to innovation. According to a recent Conference Board Study, surveying over 770 CEOs across the top two critical challenges they face are innovation and human capital. The Chinese sample of the survey, over 150 CEOs, also saw these as their top two challenges – however for the first time human capital ranked as the number one challenge for Chinese CEOs, and innovation as number two.

The recent *European Business in China Business Confidence Survey* results show that despite the human capital challenges such as rising labor costs and high turnover, European companies still overwhelmingly perceive China as a driver of their global business, with 97% of respondents in this year's survey saying that China is more important or equally as important as it was last year. So we can expect to see the percentage of Asian and Chinese leaders on top leadership teams increase dramatically in the next few years. Many multinationals like Nestle and Accenture realise that Chinese leaders are under-represented among their top management team and are now getting serious about fast-tracking them to fill key global roles. The same is happening on corporate boards, where the majority of current placements are of Asians onto Western multinational boards, as these companies realise that with such fast growth in Asia that they must have the right amount of representation of Asian leaders to advise and guide their business.

Chinese multinationals are also facing their own leadership challenges as their levels of outward direct investment increase significantly. Recent large acquisitions, such as the 50 million-Euro acquisition of Germany's Putzmeister by China's Sany Heavy Industry, illustrate how fostering trust at the leadership level is one of the most important factors determining the success of these types of acquisitions.

As both foreign and Chinese businesses expand, China is just about to cross the very important threshold of moving into a $4,500 to $5,000 GDP per capita. Historically crossing this threshold comes with societal demand for more. More material processions as well as more freedom, human rights and information. And recent research confirms that generation Y workers in China, who now make up over 60% of the workforce, do have different and more diverse expectations and needs compared to the previous generation.

Within the context of these changing business and societal dynamics, traditional leadership styles are setting China up for failure. A recent study by Directions Consulting suggests that only 6% of employees in China are highly engaged and that an enterprising culture is more effective in raising engagement levels – while a hierarchical culture is the least effective.

Korn Ferry's recent Asia 2.0 study describes the majority of current leaders in China as "Executor" or "Controller," with a single-minded focus on plan, execution and task. Whereas, it is clear that what will be needed in the future are "Energiser" and "Integrator" leadership profiles, which leadership success is defined by the ability to handle multiplicity, diversity and cultural difference. Overall this requires a shift for leaders to rely more on the elements of soft power, including vision, charisma, openness and adaptability, rather than traditional forms of hard power. A new generation of workers in China will more than ever before require leaders who can inspire, rather than push them to take action.

In order to enable a shift to 'Energiser' and 'Integrator' leadership profiles in China and strengthen the use of soft power, it will be important to move away from unconsciously imposing typical Western leadership styles on Chinese managers and executives. As more and more global leadership teams will consider what it really takes to succeed, it will no doubt be necessary to truly embrace the unique strengths and gifts of both Western and Eastern leadership styles and do a much better job of bring them together. Accenture's recent research highlights three key attributes that top teams must have if they are to successfully guide their business on a global scale: clarity of focus, agility and a foot in the future. There are obvious strengths from both Eastern and Western leadership styles that support these attributes.

What will it take to equip leaders in China to be successful in a higher stakes environment?

While companies and top teams invest a significant amount of money and time to develop and re-fresh their business strategy, especially in China only a fraction of that amount is invested in developing and re-freshing a human capital or leadership strategy. Developing leaders must be taken very seriously and must start from the top. "I spend a third to half my time developing leaders, nothing I do will have a more enduring impact on P&Gs success than helping to develop other leaders", said A.G. Lafley, CEO of Procter and Gamble. Top leadership must be intimately involved in defining and executing the strategy to attract, select and develop the right future leaders.

Today's challenges require more leaders with a global mindset. More and more business decisions both small and large have some type of global repercussions, however few leaders have a truly global mindset. At the Asia Global Dialogue meeting in June in Hong Kong, bringing together many CEOs – the focus was on how the last 100 years have been an industrial revolution and the next 100 years will be a resource revolution. The UN has estimated that if current consumption trends continue, by the 2030s we will need two Earths to support us, not one. Resource issues already impact almost every type of business. Leaders must come together to tackle issues that no longer can be addressed by one nation. All of this requires leaders that can re-imagine the concept of success at a personal and professional level and re-focus on universal values. In order for more leaders to develop a global mindset, companies in China must make a serious investment in programmes that focus on developing the related capabilities including – intercultural empathy, diplomacy, interpersonal impact, passion for diversity, thirst for adventure, self-assurance, cognitive complexity, global business savvy and a cosmopolitan outlook (Thunderbird University: Global Mindset Inventory Research). These programmes should include blended learning, coaching, mentoring, workplace assignments and international exposure, which do not necessarily need to translate into long-term expatriate or international assignments.

A shift to more purpose driven leadership will support China in shifting to a model of sustainable growth. The goals and objectives in China's 12th Five-Year Plan are very ambitious and will require business leaders who are willing to look beyond self-interest and focus more on collective interest. To do this, leaders in China will need to strengthen their ability to take a bigger picture view, while maintaining the existing strength in operationally managing execution and tasks. For example, many multinationals in China currently have bottlenecks, requiring leaders back in European headquarters to make decisions – which can often add a one or two month lead-time on decision that really need to be taken within a week. Developing "bigger picture thinking" for leaders in China will require increased confidence and empowerment from their global counterparts. Developing their global mindset and the ability to take a bigger view will also foster higher levels of innovation and creativity for leaders and throughout the organisation.

While there is much businesses in China can be doing to equip leaders to be successful, especially when it comes to innovation, developing creativity and "out of the box" thinking must begin much earlier and be part of the overall education system in China. As businesses in China consider ways to foster innovation, finding ways to support the government in introducing creativity and 'out of the box' thinking from early childhood onward will be key. Multinational businesses expanding their presence in China and Chinese businesses on their way to becoming multinational will all need to take the challenge of finding and developing the right future leaders more seriously if they aspire to have great leaders who can be successful in the higher stakes environment and ultimately help their businesses and the world thrive in the coming decades. Eb

Shanghai: The Pearl of the Orient Shines as China's Richest City

The 30km train journey from Pudong airport to Shanghai takes just over six minutes. For those passengers who have never travelled on a magnetic levitation (Maglev) train before, there is always a tangible thrill, not just at its sheer speed (over 400km/hr), but also at the prospect of arriving in one of China's most dynamic cities. **Tony Brooks** looks at China's top business destination.

Shanghai is China's largest municipality with an estimated population of 23 million people, and to house them the metropolis boasts 2,000 buildings over 30 stories in high. The tallest of them all is the Shanghai World Financial Centre, which is almost half-a-kilometre (492m) tall.

Such is the star attraction of Shanghai, that over the past 10 years it has been growing at a rate of over 630,000 people per year. Put differently, this equates to a net inflow of around 1,700 new residents (about 35 busloads of people!) per day. Such a figure might seem impossibly high, until you take a trip to Shanghai's main railway terminus, with its enormous station concourse covered with seething hopeful hordes of new arrivals.

The Economy

As befits China's leading centre of commerce, Shanghai's economy has weathered the global economic downturn extremely well. In 2011, the municipality posted GDP and wage growth rates of 8.2% and 13.8%, respectively, rates that many EU Member States would be envious of. Although primary industry GDP contracted slightly (by 0.7%) in

2011, tertiary industry GDP grew by 9.2% in the same year. Shanghai's continued robust GDP growth has meant that the overall size of its economy has overtaken that of many European countries. For example, according to The Economist newspaper, in 2010 the GDP of Shanghai and Finland were roughly on a par (US$250 million and US$239 million, respectively). Yet pure size of the economy does not seem to satisfy the city government, which wants to see Shanghai become a global shipping and financial centre by the year 2020.

Asia Pacific Headquarters Study 2011

The recent Asia Pacific Headquarters (APHQ) study conducted jointly by the European Union Chamber of Commerce in China (European Chamber) and Roland Berger Strategy Consultants examined how Shanghai compares to its competitors in the region. The city (along with Hong Kong and Singapore) came top in the survey's list of preferred locations for an APHQ. Shanghai is China's wealthiest municipality and largest business hub, and it is ideally located for accessing the densely populated and industrialised Eastern seaboard. Additionally, according to the study the city has optimal sourcing, manufacturing and market opportunities too. Moreover, in a survey carried out for the study, many respondents replied that it was important for them to be located close to consumers, especially in a market where there is fierce competition from local brands.

The Shanghai 2020 plan

In March 2009 the State Council released a call for comments entitled "taking the lead in turning Shanghai into a service economy, by accelerating moves to transform the city into an international shipping and financial centre [by 2020]." Following the call, over the past few years different agencies within the Shanghai bureaucracy have issued their own blueprints for realising the State Council's "2020 vision." Starting with shipping, on May 24, 2012 the Shanghai municipal authorities released their own "12th Five-Year Plan", full of detailed instructions on how the city will soon become an international maritime centre. It could be argued that the port already is one, in that in 2010 it overtook Singapore as the largest global port (shifting 29 million twenty-foot units (TEUs) that year). However, as the APHQ study noted above points out, domestic shipping was largely excluded from China's WTO entry negotiations, meaning that it remains well-shielded from competition from abroad. As a result, unlike other big international ports, Shanghai's strategic focus is on domestic rather than foreign shipping, in that domestic ships are given priority berthing, trans-shipment to other Chinese ports can only be undertaken by Chinese ships.

In order for Shanghai to become a truly international port, the changes that need to be made are mainly regulatory, as the May 2012 Shanghai government report acknowledges. In fact, buried towards the end of the report is a plea requesting that Shanghai be allowed to conduct its own pilot schemes. If this happens, the municipality can then go ahead and enact legislation which would bring it on a par with its competitors in Hong Kong and Singapore.

Shanghai as a global financial centre

As part of the overall 2020 plan to turn Shanghai into a global financial centre, a first step is to make the city one of the world's leading centres for innovation, trading, pricing and settlement of Chinese currency RMB products. Rather like the city's shipping industry, at first glance it is hard to understand why Shanghai should be pushing to become a larger financial hub, when it already boasts the world's sixth-largest bourse by market capitalisation, the Shanghai Stock Exchange (SSE). Moreover, the city's financial services industry additionally benefits from close proximity to markets, clients and businesses.

Yet some industry insiders think this push is needed because they doubt whether Shanghai can match its rivals (e.g. Hong Kong) as a truly global financial centre by 2020. Current problems include the fact that the RMB is not fully convertible, taxes are high and caps on foreign ownership of banks and financial institutions remain. China's financial regulators are primarily based in Beijing, with the result that some western banks have set up their headquarters in the capital instead. Actually, during the past few years Shanghai officials have only made cosmetic changes to the regulatory framework (needed to turn the city into a global financial hub), but this could be because the real decisions are being taken in Beijing.

Shanghai as a Place to Live

What is it really like to live in a city that has a population of 23 million people? The most densely populated city in the United States is New York, with a maximum population density of 27,000 people per square kilometre in its most crowded district, Manhattan. Yet parts of Shanghai (such as Huangpu District) have a population density of double this, with upwards of 50,000 people per sq. km, which puts huge pressure on everything from public transport to office rents and living space. Secondly, life is incredibly fast-paced in Shanghai and the office politics can be brutal, with the result that every year thousands leave simply because they cannot cope with the stress of working here.

Like many other large urban areas, pollution is an issue in Shanghai. Over the next decade, the number of cars in Shanghai is projected to more than double, so that air pollution is likely to get worse. Finally, Shanghai is not a cheap place to live, partly because of massive pent-up demand for housing, and partly because of property speculation, both of which drive up rental costs.

Still Shanghai remains a magnet for domestic companies, foreign firms and investors too. As this article has argued, the city has many advantages that make it one of the top places in the Asia-Pacific region to do business. The municipal government knows the challenges it faces if Shanghai is to become a global shipping and financial centre by 2020. Eb

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Trademark Protection in China: Knowledge as Power

Since China has a centralised registration system, the assessment and registration process is relatively straightforward. The IPR SME Helpdesk's **Philippe Healey** looks at what companies need to know about protecting their intellectual property rights (IPR).

The use of a trademark is defined as 'use on the goods, packages or containers, or on trading documents, in advertising, an exhibition or any other business activities' to avoid a request for non-use.

Trademarks

What is a trademark?

A trademark is a sign that serves the specific and primary purpose of identifying the goods or services of a producer, thus allowing the consumers to distinguish goods or services of one producer from those of another.

What can be registered as a trademark?

The sign may be composed of words, devices, letters, numerals, three-dimensional signs (shapes), combinations of colours or any combinations of the above.

Trademarks in Chinese

If one does not exist, Chinese consumers are likely to find a Chinese name for foreign trademarks either by way of translation or by transliteration. It is therefore advisable to register a Chinese version of a foreign trademark to at least prevent an undesirable name or meaning from being assigned to your brand. In addition, the registration of a trademark in roman characters does not automatically protect the trademark against the use or registration of the same or similar trademark written in Chinese.

REGISTRATION PROCEDURE

A trademark can be registered either through the 'national system' implying a direct application to the China Trademark Office (CTMO) or through the 'international system', meaning an application to the World Intellectual Property Organisation (WIPO).

National System

To begin, select a trademark agent from the official list. The involvement of a trademark agent for the filing of the trademarks at the TMO is advisable for all companies, particularly new entrants to the Chinese marketplace, and mandatory for foreigners without residence or place of business in China. National applications can only be made in Chinese.

For trademarks applied for directly in China, a separate application must be filed for each class. National registrations are protected for 10 years (renewable).

International System

Upon receipt of the application for extension of protection, the WIPO issues a certificate, publishes the trademark in the International Trademark Gazette and notifies the trademark authority in the state concerned. An international application can be made in English or French.

The international application may cover more than one country at the same time and at the same cost, and the basic fee covers up to three classes of goods and/or services.

International registration is usually processed faster than national registration. International trademarks are protected for a (renewable) period of 20 years.

Since the duration of protection provided for internationally is 10 years, fees must be paid in two instalments.

Comparisons: National vs. International Registration System

- The national Chinese trademark registration and the international trademark registration are, in practice, both valid for 10 years.
- If using the international system, applications can be made in English, French or Spanish, however, China's naitonal system only allows applications to be made in Chinese. As a foreign company, you will have to use a Chinese trademark attorney, and have a Chinese company name and address.
- The basic fee for the international system covers more than one country at the same time and up to three classes of goods or services. Under the Chinese national system a separate application must be filed per class.
- In theory there is no difference between the international and national trademark registration, however, for practical reasons you may wish to apply through the national system in China. By doing so you will also obtain a Chinese-language certificate that can be used when undertaking any enforcement action in China and will help speed up proceedings when dealing with local officials. If you use the international system you will need to request a Chinese-language certificate from the China Trademark Office to certify an international trademark, which can take up to three months.
- Both the Chinese and the European trademark registration systems use the International Classification of Goods and Services under the Nice Agreement, however Chinese classes also include sub-classes that are not widely used in Europe.
- The CTMO applies different criteria for examining specifications of goods and services for national and international applications. Broader specifications are acceptable for international applications while for national applications, the specifications need to be clear

and specific.

Trademark Certificate

It is necessary in China to request the TMO to certify an international registration, which may take up to three months, and this may affect the speed of an enforcement action. Chinese trademark agents usually provide a watch service for their clients. It is highly recommended that this service, as well as the assessment and advice regarding the possibility to oppose, be entrusted to Chinese-speaking professionals and conducted in Chinese, as some infringing trademarks that should be opposed may be in Chinese.

Lodging a complaint: Administration for Industry and Commerce (AIC)

A complaint can be lodged with the local trademark bureau of the Administration for Industry and Commerce (AIC), above the county level, where the infringement iscommitted (manufacture, sale, storage, etc.), specifying the trademark rights of the owner (a copy of the trademark registration certificate) and providing anyevidence of the infringement (sample of the infringing product).

• In theory, the court may act as fact finder and orderinspection, but usually, evidence is produced by theparties themselves.

• At the end of the hearing, the court asks the partiesif they wish to settle the dispute.

• The judgment is delivered within a few months,depending on the complexity of the case.

Remedies as a result of civil procedure

The court may apply the following measures:

• Order to cease the infringements (injunction);

• Confiscate infringing goods, materials as well as thetools and equipment used in the production of theinfringing goods;

• Order the payment of damages. Damage for infringing a trademark right is calculated according to:

• The losses suffered by the IP owner;

• The profits gained by the infringer out of theinfringement;

• An amount of damages not exceeding RMB 500,000where difficulties arise to determine the illicit profitthat the infringer has earned or the loss suffered bythe injured party.

Administration of Quality Supervision Inspection and Quarantine (AQSIQ)

AQSIQ is in charge of managing the quality of products:setting out national standards, certifying the quality ofproducts and taking anti-fake and poor quality goodsactions. Since the main issue is a quality issue, andnot the protection of an intellectual property right, anyperson may go to AQSIQ and complain without having tojustify a personal interest.

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

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

AQSIQ has the same powers as AIC during a raid. The finefor fake and poor quality goods is, in most cases, betweentwo and five times the value of the goods.

Civil procedure

Protection of trademark

The civil procedure is operated according to the followingsteps:

• A complaint needs to be filed with the civil divisionof the People's Courts.

• The court decides on a date for a pretrial hearing,during which evidence is examined and discussedby the parties before the court.

Criminal procedure

The activities constituting a trademark crime are:

• Manufacturing or knowingly selling counterfeits

• Forging or selling unauthorised representations of a trademark.

Public prosecution

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

The AIC may also impose fines. The amount of the fine depends on the size of the illegal business, and cannot exceed three times this amount. However, the calculation of the 'illegal business' is not an easy matter since in most cases the infringer does not produce any accounting material, and reference to the price of authentic goods is still not as a rule accepted by the Chinese officials. If the fine cannot be easily calculated, a fixed amount may be decided by AIC, with a maximum of RMB 100,000. The AIC cannot grant compensation, it can only act as a mediator. 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.

Navigating the PRC State Secrets regime: Considerations for European companies

Accusations that foreign companies or employees have stolen, illegally obtained or conspired to obtain state secrets regularly appear in the Chinese and foreign media. At the same time, foreign investors often express concern that the state secrets regime is insufficiently detailed or precise to provide comfort to their business and employees. The European Chamber's Legal Working Group Chair **Ronan Diot** looks at the complexity of state secrets in China and how companies can avoid becoming entangled in it.

Rightly or wrongly, the Stern Hu case remains associated with the fear that Chinese officials could use the excuse of state secrets to interfere with foreign enterprises' business in China.

The traditional concept of PRC state secrets has since its inception covered a very wide range of issues. The previous regime has now been significantly overhauled with the passing of several pieces of regulation in the period 2010-2012. Overall, the updated regulations are unlikely to bring more comfort to foreign investors, as they are essentially technical modifications to bring the rules up to date with modern communications means. Foreign investors shall be aware that the state secrets regime is becoming increasingly technical and should put procedures in place to ensure their full compliance with the new regime, especially when dealing with information of state-owned enterprises (SOEs).

The historical State Secrets regime

A legacy from the Soviet influence in the early days of the People's Republic, PRC state secrets have continuously been part of the history of the PRC. The first regulation dealing with state secrets was published in 1951, a mere two years after the founding of the PRC. The National Administration for the Protection of State Secrets, directly controlled by the State Council, is the main custodian responsible for the protection and administration of state secrets in China.

While every country has rules and prohibitions on confidential information affecting defence or national security matters, the scope of PRC state secrets has traditionally included matters related to economic, social, or scientific issues that are considered less sensitive in most countries .

However, since the start of the opening and reform policy, the traditional, all-encompassing concept of state secrets has been increasingly challenged by the need to balance the tradition of secrecy associated with a state-led economy and the appetite for information of a market economy.

Since 2010, PRC officials have undertaken a significant overhaul of the existing regime, which essentially consisted of the 1988 PRC Law on Protection of State Secrets (the 1988 Law) and its 1990 implementing regulations (the 1990 Implementing Rules). The 1990 Implementing Rules provided that:

"Shall be considered State Secrets the matters whose divulgation can result in any of the following consequences:

- jeopardising the stability and defence capability of the State
- affecting national and ethnic unity and social stability
- damaging the state's political and economic interests in international activities
- affecting the safety of state leaders and important foreign officials
- jeopardising significant safety-related targets and security of the state
- reducing or invalidating the reliability of measures taken to ensure the protection of state Secrets
- undermining the economic, scientific and technological strength of the state
- diminishing the power of State agencies in their lawful exercise of authority."

It is easy to see how some these categories could become a Pandora's Box and that a wide range of commercial activities could be classified as a state secret. This has led foreign investors to be very wary of the state secrets regulations, especially since the divulgation of state secrets can lead to very significant criminal punishments, thus directly affecting their China staff and business.

The new State Secrets regime

A revision process of the previous state secrets regime was initiated in 2010, with the passing of the revised Law on the Protection of State Secrets (the 2010 Law), and continued in 2012 with the issuance of the 2010 Law's Implementing Rules in draft version for comments by the general public (the Draft 2012 Implementing Rules).

Compared to the 1989 Law, the 2010 Law brought a number of changes:

- it is heavily focused on the source of leaks of state secrets, and suggests technical solutions to prevent such leaks (use of non-Internet-connected computers, use of firewalls, guidance for interaction with foreigners and clearance of secrets-related personnel)

• it provides that Internet Service Providers and other communication services providers shall cooperate with investigations on the divulgation of state secrets.

In other words, the 2010 Law is eminently tech-savvy, and acknowledges that modern technology has brought new challenges to the protection of state secrets. However, as far as the definition of the scope of state secrets is concerned, the 2010 Law and the Draft 2012 Implementing Rules have remained essentially conservative, with a list of topics strikingly similar to the 1989 Law:

"Shall be considered State Secrets the matters whose divulgation can result in any of the following consequences:

• endangering national security and sovereignty, and jeopardising territorial integrity, stability of government and defence capabilities
• affecting national unification and ethnic unity and social stability
• exerting negative impact on diplomatic and foreign affairs activities of the state;
• undermining the economic, scientific and technological strength of the state
• jeopardising significant safety-related targets and security of the state
• obstructing the effective implementation of the means and measures undertaken by the state on anti-terrorism activities
• impairing the protection of the sources of the state's intelligence and intelligence activities
• obstructing the lawful investigations of activities that jeopardise state security and other major criminal activities
• reducing or invalidating the reliability of measures taken to ensure the protection of state secrets"

The new rules therefore did not bring the increased transparency and legal certainty that a number of commentators were expecting. Most of the focus of the 2012 Draft Implementing Rules remains on the technical aspects of the administration of state secrets, and thus they deal extensively with:

• the confidentiality review procedure for companies and organizations to be granted access to state secrets, including certain nationality, length of establishment, appropriate security systems requirements
• the selection and clearance of state secrets-related personnel, including certain nationality, competence, and loyalty requirements
• the management of state secrets-related IT systems ("carriers of state secrets")
• the physical marking of state secrets documents and the decision processes leading to the qualification as state secret

Prudential rules

From a foreign investor's perspective, there is little comfort to be found in the new rules. The scope of the state secrets has remained essentially the same with all its uncertainties, and the "technical upgrade" of the rules has brought very little of guidance in respect of their daily dealing with China-related information.

Therefore the cautious approach prevailing before the new rules remain valid and foreign investors shall make sure that they respect the following prudency rules when dealing with potentially sensitive information:

• identify (i) whether the information received is confidential (e.g. when the information is not publicly available, when the documents are clearly marked "confidential", "classified" or "top secret", when they have been sent in a encrypted form, when a confidentiality agreement has been signed) and (ii) whether the person disclosing the information has the authority to do so (e.g. whether the confidentiality organ of the disclosing entity approved the disclosure). If necessary, confirmation should be sought directly with the disclosing party and evidence of the disclosing party's authorization to disclose should be obtained;

• apply security measures (e.g. restricting and controlling access to the information through IT systems and other technical solutions) when the information received has been identified as confidential;
• inform, train and control employees on issues of commercial secrets and state secrets (including strict confidentiality provisions in employment contracts, with obligations going beyond the date of termination of the contract).
• establish reporting rules to inform the company's management and legal department of any dealings with confidential information.

Dealing with secrets of State-Owned Enterprises

In addition to the general regime of state secrets, foreign investors should be aware that specific rules apply to information of certain SOEs.

In 2010, an internal regulation jointly issued by the State-owned Assets Supervision and Administration Commission (SASAC) and the State Council further raised the alert levels of foreign investors. The Interim Provisions on the Protection of Central-level SOEs Trade Secrets (the SASAC Regulations) are directly addressed to "Central-Level State-owned Enterprises" i.e. State-owned enterprises under the control and supervision of SASAC (Central-Level SOEs). The SASAC Regulations are effectively a "commercial secrets roadmap" for central-level SOEs, providing them with instructions as to what they should consider commercial secrets, how such secrets should be protected, which security measures should be adopted, etc.

Unfortunately the definition of commercial secrets under the SASAC Regulations is also extremely wide, and they establish a clear link between commercial secrets of Central-Level SOEs and PRC state secrets. The type of information that may be a considered commercial secret of a central-level SOE includes:

• Commercial information: strategic planning; managerial expertise; business model; restructuring and listing projects; mergers and acquisitions projects; property transactions; financial information; investment and financing decisions; production strategy; procurement and sales strategy; resources reservation; client information; bidding and tendering information; and other commercial information.
• Technical information: design; procedures; products formula; production technology; production methods; technical know-how; and other technical information.

As can be seen from the list above, almost any type of technical or commercial information relating to central-level SOEs that is not publicly available might potentially be considered a commercial secret. Additionally, both lists contain a catch-all provision (underlined above) which effectively enables central-level SOEs to consider any type of information as a commercial secret.

The SASAC Regulations explicitly establish a link between commercial secrets of central-level SOEs and PRC state secrets. Articles 3 and 11 of the SASAC Regulations provides that "if any commercial secret of a central-level SOE has been identified as a state secret, such commercial secret shall be re-categorised as state secret through legal procedures" and "protected as a state secret under the relevant legislation".

The explicit link between commercial secrets and state secrets under the SASAC Regulations illustrates a tendency to consider that information held by central-level SOEs might be related to "state security" and "national interests". Increased prudence should be the rule when dealing with SOEs to ensure that no illegal divulgation of state secrets occurs. Eb

The China Greentech Report 2012: Transitioning Towards a Cleaner Economy

China's move towards cleaner energy sources and an economy driven more by domestic consumption and services than exports are at the heart of the 12th Five-Year Plan. In this excerpt from the executive summary of The China Greentech Report by **China Greentech Initiative**, the challenges and progress made by the country in these efforts become apparent

The China Greentech Report 2012 is the culmination of an open source, commercial collaboration of over 100 of the world's leading technology companies, entrepreneurs, investors, NGOs and policy advisors who participated in the China Greentech Initiative's 2011 Partner Program. These organizations commit their expertise, time and funding to address the many ongoing opportunities and challenges in China's complex, rapidly-changing greentech markets.

EXECUTIVE SUMMARY

This report builds upon the 2009 and 2011 editions of the China Greentech Report. Since China Greentech Initiative (CGTI) launched the 2009 edition at the World Economic Forum in Dalian, China, the China Greentech Report has been established as the primer on China's greentech markets. This edition provides an updated view on those markets, focusing on the following themes:

Macroeconomic challenges facing China's greentech markets in 2011 and 2012

China's strengthened greentech policies
Growing public engagement on

environmental issues.

China's outbound investment trends Greentech market opportunities

Following these themes, the Report summarises proprietary analysis provided to CGTI's Partner companies and organizations that participated in the 2011 Partner Program. This Report should be viewed as a complement to the 2009 and 2011 editions. Whereas the 2009 edition focused on defining the China greentech landscape and solutions, the 2011 and 2012 Reports provide deeper analysis on some of the most important greentech opportunities in China today.

Greentech refers to technologies, products and services that deliver benefits to users of equal or greater value than those of conventional alternatives, while limiting the impact on the natural environment as well as maximizing the efficient and sustainable use of energy, water and other resources. In this Report, the China Greentech Initiative focuses on six greentech sectors: Cleaner Conventional Energy, Renewable Energy, Electric Power Infrastructure, Green Building, Cleaner Transportation, and Clean Water.

China's Evolving Greentech Markets
China has emerged as a global greentech leader within a period of just a few years, as predicted in the China Greentech Report 2009. In this year's Report, CGTI discusses how China is coping with broad economic challenges facing its greentech markets, even as policy and public awareness are driving greentech markets ever forward. In addition, the Report discusses China outbound investment trends and implications for policymakers and commercial players in foreign countries.

Economic Forces Challenged China's Greentech Sector in 2011

2011 was another year of growth and expansion for China's greentech markets, as the government continued to adopt and implement policies to meet urgent energy and environmental needs. But as a result of external macroeconomic factors, more observers began predicting an economic hard-landing in China. Though these fears have largely proved untrue, real worries remain about short- and long-term risks to economic growth, including many that affect the greentech sector. Slowing exports have particularly hurt manufacturers, such as wind and solar manufacturers. Tight monetary policy has hurt financing for renewable energy, cleaner conventional energy, rail, green buildings and overall greentech-related research and innovation. A gradual decline in investment and infrastructure spending growth has led to long-range concerns—likely misplaced— about investing in greentech. Demographic shifts are increasing labour costs across the greentech sector, which will lead to greater innovation and automation in renewable energy manufacturing and consolidation in other energy fields. A focus on state-led growth in the energy sector may reduce innovation and efficiency in greentech industries, especially those dominated by smaller private companies like solar or energy services. Overall, while the greentech sector faces macroeconomic challenges, China's overwhelming need for energy and environmental technology will continue to propel rapid growth in greentech markets.

China's Strengthened Greentech Policies

China's ambitious energy and environmental policies will not only help overcome the challenging financing situation for infrastructure investment, but ensure China continues to lead the world in greentech. Based on targets in the 12th Five-Year Plan, China's energy mix will slowly shift from coal to other fuels. In the China Greentech Report 2011, CGTI outlined the 12th Five-Year Plan's greentech-related areas in detail. In the months since the Plan's release, targets for solar and wind have been raised and funding improved. China has also lifted targets for energy efficiency and embarked on new policies in the area of energy taxes and carbon trading. In other areas, such as biofuels, nuclear and rail, progress has faced setbacks or been uneven. Yet taken together, China is accelerating its pursuit of clean energy and environmental protection, and policy measures now underway will keep the nation at the forefront of energy and environmental business and investment for years to come.

Public Awareness of Urgent Environmental Problems Is Growing

One of the reasons China has moved so quickly on energy and environmental policy is that China's needs in both areas are urgent. In energy, China must now import over half of its oil, and the country is overly reliant on coal, which produces high emissions of carbon and other air and water pollutants. On the environment, feeding China's enormous population requires improved water and soil quality, while guaranteeing the health and safety of the rapidly growing urban population requires new efforts to clean the air. Another major impetus for policy is public awareness. The past year has witnessed a number of major pollution incidents, and on micro-blogging sites the public is more engaged on environmental issues than ever.

To Secure Its Energy Future, China Is Expanding Abroad

Given the scale and rapid growth of China's energy needs, China's leaders recognised early on that the stability, security and sustainability of energy supply would depend on active policies to support the domestic energy industry. Now that China has achieved impressive results in greentech areas, such as renewable energy and high-speed rail, the government and companies are gradually expanding abroad to capitalise on the country's successes while continuing to secure resources and technologies. 2011 saw the continuation of an earlier trend where the energy sector dominated outbound investments, with companies going abroad for energy deals in the areas of oil and renewable energy. The deals in 2011 also highlighted a new push for investing in basic infrastructure, such as European water and power grid utilities, to achieve asset diversification and financial returns. As the developed world copes with economic challenges, China will continue to deploy its capital, labour and technology abroad, deepening international collaboration and cooperation while also occasionally capturing unflattering press attention.

Cleaner Conventional Energy

The size of conventional energy in China's energy mix, combined with a strong government commitment to cleaner and low-carbon practices, make conventional energy a top priority.

Ambitious emission and energy intensity targets set by the central government will promote cleaner and more diversified energy production and use. On the energy production side, China's nuclear and gas sectors will experience strong growth while the government continues to restructure the coal mining industry, implementing efficiencies and cleaner processes. Stricter emission standards will affect coal plants, and the government will introduce carbon trading pilot programs. Gas power, especially distributed gas energy, should experience rapid growth with strong government policy support. China will also continue energy pricing reforms, especially for natural gas. CGTI developed three in-depth Opportunity Assessments for the Cleaner Conventional Energy sector in 2011, covered below.

Unconventional Gas

Unconventional gas could become a major contributor to China's energy mix, given the large potential supply and environmental benefits. Although natural gas is an economically-viable and practical bridge to a low-carbon economy, China's domestic conventional gas production is stretched to the limit. Fortunately, China has vast undeveloped unconventional gas resources, primarily coal-bed methane (CBM) and shale gas. If the industry can overcome major pricing, regulatory, distribution and water challenges, China could increasingly rely on unconventional gas production to meet its booming domestic demand, likely leading to greater international cooperation in this area.

Gas Power Generation

Natural gas is often referred to as a bridge fuel towards an economy fully powered by clean renewable energies. China is developing its gas power generation to meet environmental protection targets while growing its renewable energy sector. Unresolved challenges remain, such as supply shortages, insufficient infrastructure and unattractive gas price economics. China is working to develop the country's natural gas sector to achieve pressing goals, including carbon intensity targets, reductions in other air pollutants, and improved energy security through a more diverse fuel mix. Despite large investments in the sector, China's domestic gas production has not kept up with consumption, increasing reliance on imports.

Distribution infrastructure, on the other hand, is still underdeveloped even with large investments in this area. China has prioritised residential consumption for cooking and heating over gas power generation, inhibiting its growth. Government targets for the next five years call for only a 6 GW increase in utility-scale gas power capacity (representing an annual growth rate of 2.9%), and smaller-scale distributed gas power could rapidly expand if challenges can be resolved.

Coal Conversion

The government's promotion of coal conversion means opportunity for coal producers and equipment suppliers, especially for coal-to-chemicals and water treatment technologies. For years China's central government has promoted coal conversion technologies for energy security given the country's abundance of coal resources. Yet given concerns about water use, carbon emissions, and the economic attractiveness of certain coal conversion technologies, a disconnect has emerged between central government caution on coal conversion versus local government efforts to promote the technology to expand jobs and tax revenues. Because water represents the major impediment to coal conversion, CGTI's research suggests that water efficiency, wastewater treatment and water recycling technologies would represent a major market if government enforcement improves and issues related to intellectual property (IP) are resolved. Eb

Download the full report for free at http://www.china-greentech.com.

Tiger Head, Snake Tails: *Writer Jonathan Fenby Discusses His Latest Book*

It would be easy for writer Jonathan Fenby to adopt a "been there, done that" attitude. After serving as the editor for the Hong Kong newspaper South China Morning Post during 1995-2000, including the critical handover period, and with a distinguished career that has also included five years as the chief correspondent for The Economist for France and Germany, Fenby could be considered a witness to history. However, his attention has now turned to China, serving as a founding partner and Managing Director of the China team at London-based research and consulting firm Trusted Sources, and still managing to find the time to continue writing books. EURObiz's **Steven Schwankert** talked with Fenby after a European Chamber event in Beijing about his latest, **Tiger Head, Snake Tails: China Today, How it Got There, and Where It Is Heading**.

UROBiz (Eb): Please tell us about Tiger Head, Snake Tails. What was your motivation for writing this book?

Jonathan Fenby (JF): There are many excellent books on specific aspects of China – the economy, politics, environment, migrant workers – but realised that there was no single book which drew everything together. That is what I set out to write, to provide a one-stop account of the People's Republic as it is today – and to use that as the basis for a look into the future.

Eb: You seem to write a few different kinds of books, especially China books, and WWII history, like The Sinking of the Lancastria. Why the variety?

JF: I write on quite a few subjects. As well as the two WWII books, I have done a couple on France – an account of contemporary France (which needs updating) rather similar to the latest one on China and a biography of Charles de Gaulle (The General). So I guess I am split three ways. China remains my principal interest but I do not want to limit myself. My next book will be on another Frenchman, Ferdinand de Lesseps, who built the Suez Canal and tried, disastrously, to do the same at Panama.

Eb: You were editor of the South China Morning Post during the critical period of 1995-2000. How do you see Hong Kong now? What is its place in Greater China?

JF: Hong Kong has preserved most of its essential strengths since the handover in 1997 but clearly there are now questions about how it moves forward and how changes notably in the political system, interact with the mainland. It still has an important role to play in Great China because of its openness, its position, its institutions, its financial skills – and, vitally, the rule of law – as I argue in the section on Hong Kong in my new book.

Eb: Wearing your Trusted Sources cap, there is a fair amount of pessimism surrounding China's economy for the second half of this year. What is your take on the current situation?

JF: There will be bad numbers over the summer but growth should resume later in the year as fresh spending kicks in. The overall aim of the policy-makers is to achieve a more stable growth pattern after the volatility of recent years, and to move to a more advanced, less labour-intensive model. But growth remains key given the way it has underpinned the political system since Deng Xiaoping's day.

Eb: What do you think is the biggest mistake the China observers are making today? What are they seeing that's not there or what are they missing?

They take too much of a black-and-white view of China. They feel a need to proclaim triumph or collapse. Neither will happen. They also tend to miss the essentially political nature of the economy that we follow very closely at our research service Trusted Sources.

Eb: We're seeing a flare-up of anti-foreign sentiment at the moment? Will this go away or is it a symptom of something more?

JF: China has an understandable pride in its progress. That can spill over into anti-foreign sentiment. Also China feels it has less need of foreign help than in the 1980s. So this is a natural development which foreign companies will have to take into account increasingly as the years go by.

Eb: In the next six to 12 months, how do you see the troubles the European Union is experiencing affecting the EU-China relationship?

JF: China will be on the look-out for investments in EU companies that need finance or are ready to sell stakes and that have technologies or market positions that the PRC regards as useful to it. This extends from, say, medical equipment manufacturers to utilities that offer better margins than those available in China. If a Euro bond does emerge Beijing would be ready to buy into it to balance its U.S. dollar holdings but it will want to be sure that the bonds are absolutely reliable.

Eb: As a historian, are there lessons from 20th century Chinese history we may draw on to apply today?

JF: The danger of instability that marked the period from the end of empire in 1912 to the Communist victory of 1949 is, I think, still something of which the leadership is very much aware though it interprets this to its own purposes. History has a political importance in China and so the way it is portrayed and used always needs to be taken into account, as I show in my book. Eb

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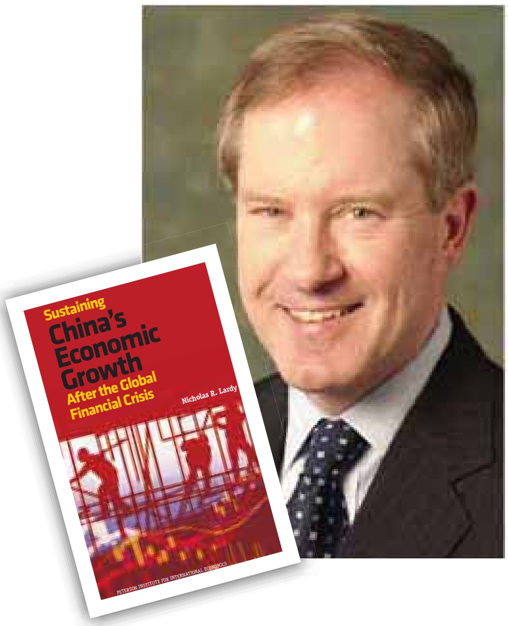

Sustaining China's Economic Growth After the Global Financial Crisis

In his new book, **Sustaining China's Economic Growth After the Global Financial Crisis**, Dr. Nicholas R. Lardy, the Anthony M. Solomon Senior Fellow at the Peterson Institute for International Economics, address China's economic actions since the beginning of the crisis, and discusses where it is going – and where it should be. He talked about his work with EURObiz's **Steven Schwankert**.

During the early stages of the global economic crisis, many looked to China and its continued strong growth to lead the world towards recovery. Through a huge stimulus package, China maintained its own growth, but as it attempts to rebalance its economy and prevent a hard landing during an economic slowdown, it must review many of its economic policies. Dr. Nicholas Lardy tells us more.

EURObiz (Eb): Please tell us about your latest book. Why did you choose this particular topic?

Nicholas Lardy (NL): To explain to a broad audience what Wen Jiabao meant when he said in 2007 when he said it was "unstable, unbalanced, uncoordinated and ultimately unsustainable", I thought that was a remarkable statement.

Eb: During your talk to the European Chamber, you indicated that one reason for property speculation is the lack of alternative investment opportunities. What can the government do to develop those opportunities?

NL: The number one priority for the government in this regard should be market-oriented interest rate liberalisation, to raise deposit rates and offer savers real, positive returns instead of negative returns. Xiao Gang, the chairman of the Bank of China would raise interest rates quite substantially. That is most important. The government could also increase oversight of the stock markets to reduce the rampant insider trading and manipulation that is taking place. Eventually, that could make securities a viable investment for household investments. Further, gradual liberalisation of outbound portfolio investments would be a third option.

Eb: You seem disinclined to believe that there would be a hard landing in China. Is that correct? If so, what will offset the difficulties facing the economy cooling off?

NL: I avoid that terminology because to me a hard landing implies there would be a fast rebound. The biggest danger in China is a prolonged slowdown. A weakening of the property market could initiate that kind of slowdown, even down to 5-6% annual growth is a risk. Some people would say that's a hard landing but you could be down at 5-6% of growth for several years. An adjustment to overinvestment in housing could cause a slow recovery, like what we're seeing in the U.S. right now.

Eb: What role does local government debt play as a factor in all of this? How can China address this differently than, say, the way the sovereign debt crisis is being handled in Europe?

NL: I don't think local government debt is going to be a game changer. The government is going to have to put some money into repaying these loans, local governments will also have to do so. These kinds of projects will not generate sufficient revenue to repay the initial outlay. Every water project in China loses money because water is underpriced, so the payments can't be made from cashflow.

The same thing is true for metro systems, many were being built in 2009 and 2010, fares are subsidised like everywhere else in the world, and lose money, if financed with short-term bank loans. But putting in modern transport has a positive long-term payoff. Governments are eventually going to have to contribute to those repayments. The central government has already indicated they're going to help with that. These should have been financed by long-term bonds. The payback period for high-speed rail should be 20-30 years, rather than a 2.5 year loan. There should also be pricing that reflects the full cost of the projects, or some explicit mechanism for subsidising them. In the U.S. we have municipal bonds with tax-free benefits. China needs to reconsider its approach on this.

Eb: There is a lot of discussion of China rebalancing its economy. In what kind of timeframe does this need to take place?

NL: If China adopted the kinds of policies that I cited above then the rebalancing could start to happen in one to two years and then move along. The cost of borrowing will go up, there will be some decline in investment and an increase in consumption. It will take a long time to get back to 50% of GDP, it could take five to 10 years. But the important point is to get started on all that. To do so too rapidly would be too high a cost. If you want this massive steel industry, you'd have huge excess capacity, it would have to be absorbed. China can grow services more rapidly, with some branches, like heavy industry growing very little over the same period.

Eb: Both Europe and the U.S. are looking to China to provide bail-outs or currency support. Does either side have an advantage in this regard?

NL: Much greater assistance is needed to support the EU situation and before too long we will see that China is going to make a substantial contribution to the IMF's new US$70-80 billion fund, that's where the greatest need is.

Eb: What do most observers still not understand correctly about the economic situation in China? Are people being too bearish or too bullish?

NL: I guess the main comment is that I think the bears are assuming that China will not adopt appropriate policies, but they are not specifying that. It's not inevitable. They are saying, "this is already baked into the cake and get ready". I'm saying if the government is smart about its economic policies, if they take offsetting actions, then you can avoid the hard landing scenario. They don't recognise sufficiently, in my view, the policy options of the government. They don't have the same kind of stimulus pitons they had in 2008 and 2009.

The bulls are mostly Chinese. I can't tell you how many Chinese economists have a view of the property market as the same as Mr. [Alan] Greenspan did in 2006. Urbanisation will continue, the demand is there, eventually all the surplus housing will be absorbed, is the bulls' feeling.

I respond, maybe it will, but it will take 10 years and low construction levels, to get there. I think that the macro risk is in housing oversupply.

As for the issue of China's currency, the International Monetary Fund's new study argues that cyclical factors are more important in reducing China's external surplus than currency. China is paying more for oil and is importing more oil. Investment has ramped up even higher than it was a couple of years ago. Savings minus investment imbalance has been reduced rather than increased.

I don't think there's any doubt that now that external surplus is under 3% that it's going to be tougher to make a case against China's currency now. Eb

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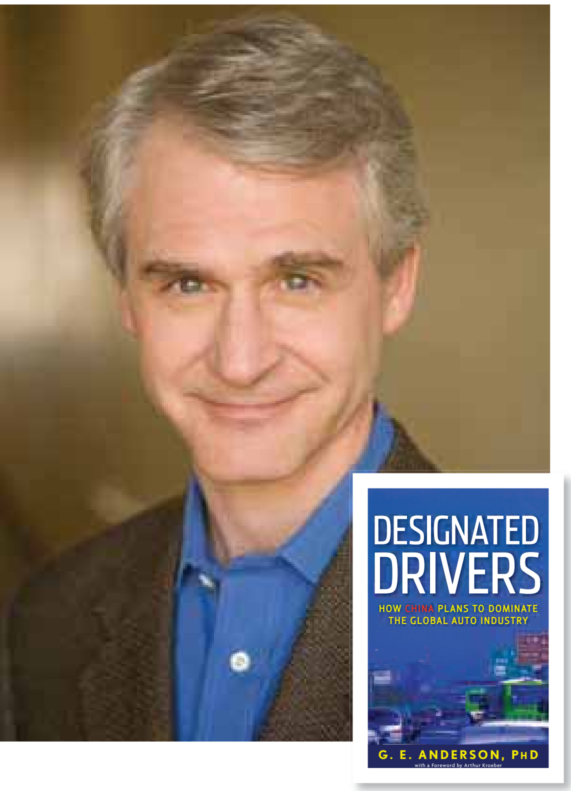

DESIGNATED DRIVERS:

How China Plans to Dominate the Global Auto Industry

In his new book, G.E. Anderson drives into the Chinese automobile industry to shed some much-needed light on the nature of ownership, business-government relations, central-local relations, innovative capacity, and the perceived role of foreign players in China. Along the way, he offers an insightful analysis of the Chinese automotive industry and, in the process, reveals the overall political principles that drive economic decision-making at the top of the Chinese system. He talked cars with EURObiz's **Steven Schwankert.**

EURObiz (Eb): What's wrong with the auto industry in China at the moment?

G.E. Anderson (GEA): I think that depends on who you are. If you're a local government official, it's clogging your streets and polluting your air (but also adding to local GDP). If you run an auto manufacturer, growth is being slowed by restrictions on sales, licence plates and when/where people are allowed to drive. If you run a private Chinese automaker, you're forced to compete on a non-level playing field with big State-Owned Enterprises (SOEs) that are favoured with cheap funding and other government support. If you run a foreign automaker, you're constantly having your arm twisted to hand over technology every time you need government approval for anything (and you need it for pretty much everything). If you're just somebody who owns a car, you can't find a place to park.

Eb: The follow-up, then, is: other than sales, what's going right? What are foreign, especially European car makers, doing well?

GEA: Actually, sales aren't going that well, especially for the Chinese brands. Sales took off in 2009 due to government stimulus that was intended to offset the global financial crisis. It was of tremendous benefit to the Chinese brands that dominated the small car segment on which tax breaks and consumer subsidies were focused. Unit sales grew 48% and 32% in 2009 and 2010, respectively. Once the stimulus ended in early 2011, sales growth fell back to earth at only 5%. Through the first half of 2012, sales have only grown 3% on an annual basis.

Chinese passenger vehicles, which benefited most from the stimulus, were really hurt once the stimulus was withdrawn. The Chinese brands lost nearly 2% of market share to the foreign brands in 2011, and have lost another 3% so far in 2012.

As for what is going right, the European and other foreign automakers are simply doing what they've always done, which is to build quality cars and protect their brands in the China market. China's economic growth over the past several decades has created a large upper income segment that is willing to pay higher prices for foreign-branded cars, and these people are going through cars the way many ordinary Chinese go through mobile phones: they need to have the latest. It's a matter of status and of setting oneself apart from the crowd.

Also, China's government is investing heavily in infrastructure -- roads, expressways, parking facilities -- which is essential to serving an increasing number of vehicles. China also has a rapidly-growing used car market. I noticed a stand-alone pavilion at this year's Beijing Auto Show where Audi was promoting second-hand cars. There will be a tremendous market for certified, used luxury vehicles in China's second and third-tier cities in coming years.

Eb: The car market here is somewhat unique, especially in terms of some of the restrictions, such as limits on new purchases in major cities, limits on foreign brands in government procurement. Is there any sign this is going to normalise in the near future?

GEA: If by "normalise" you mean "return to the way things were", I don't see it happening soon, if at all. The two restrictions you mention are driven by different phenomena. First, restrictions in major cities are driven by congestion and pollution. While pollution can eventually be dealt with (Los Angeles is a good example of that) congestion really cannot -- at least not without a considerable downsizing of the average automobile footprint. Chinese cities are among some of the most densely populated in the world, and they are surrounded by farmland that is forbidden by the State Council from being converted into either residential or industrial use. In other words, because of China's extreme shortage of arable land, Chinese cities will not be able to develop suburbs the way most North American cities have. And a city does not have to be a "major" city to enact vehicle restrictions. Guiyang, capital city of China's poorest province, is one of the cities that that now restricts auto purchases.

The second issue, limits on foreign

brands in government procurement, is an attempt to recapture market share lost to foreign brands. This has been a major goal of China's auto industry for at least a couple of decades, and it is one that they continue having difficulty achieving. I think we can expect to see even more measures that will encourage Chinese consumers to choose Chinese over foreign brands. Also, from a purely nationalistic point-of-view, it makes sense that Chinese officials should be driving Chinese-branded cars. I can't imagine the U.S. president being driven around in a Mercedes limousine, much less a Red Flag limousine from China.

Eb: How is the automobile changing China? What about the environmental impact and the cultural impact of China being a driving nation?

GEA: The automobile is most definitely changing China. If nothing else, it provides a new aspirational consumer product that many Chinese now believe they need although most Chinese cities have well-developed public transportation systems. The idea of having one's own private space, even if that space is jammed among thousands of others, even if using that space lengthens one's commute time, has thus far proven to be irresistible to Chinese consumers. Also, in recent years, the auto industry has accounted for, depending on whose statistics you believe, as much as two percentage points of China's GDP growth. Despite the problems that the auto industry has brought to China, local governments find auto factories to be irresistible sources of local GDP growth, tax generation and employment.

Furthermore, even though China's major cities cannot physically expand much further without decreasing China's ability to feed itself, consumers are changing their behaviour by considering living further from city centres.

The environmental impact is not as drastic as many might think. Yes, Beijing's air is practically toxic on some days, but only about 25% of pollution is driven by vehicles. (If China really wants to make a significant reduction in pollution, it will have to stop burning so much coal.) Vehicle pollution will gradually come down as China increases its emission standards, but it will not happen quickly. China's economic planner, the National Development and Reform Commission (NDRC) maintains control over fuel prices at the pump. China's major state-owned oil companies, which are so powerful that they function almost as their own separate ministry, are resistant to refining the higher-quality gasoline necessary for lower emissions engines because it requires a more expensive process. Because the NDRC controls fuel prices, it will not allow the oil companies pass higher refining costs on to consumers.

It is difficult to say how, or whether, the automobile is changing China culturally. China will, of necessity, have to go through a difficult adjustment period as people learn just how dangerous a speeding, two-ton chunk of metal can be. For now, China is like a nation full of teenage drivers, which also gives it some of the world's most deadly roads. In 2011 China had nearly 30 deaths per 100,000 vehicles compared to less than half that rate in the U.S.

Eb: The subtitle of your book is "how China plans to dominate the global auto industry". So, how do they plan to do that, and how's it going? It sounds slightly strange considering if you wanted to buy a Chinese car in the EU or U.S. right now, it would be very difficult.

GEA: The emphasis of my title is on the word "plans." When I began the research for this book, my larger questions were around how China plans its overall economy. Why, I wondered, did China continue to enjoy such apparently tremendous economic success despite the fact that its most important industrial firms remain state-owned? I chose the auto industry because I wanted to find one industry that I could study from top to bottom so I could understand how business-government relationships work, and at the same time, I wanted to be able to identify general principles of state economic planning that would apply equally to other industries.

Without going too far in-depth, the result of my research was to sketch out a system including all of the players -- central government, local governments, SOEs, private firms and foreign firms -- and then set it into motion based on what I learned about each of the players' objectives and the tools at their disposal for getting what they want. The upshot is that, if China's current model of heavy state ownership, while having generated tremendous growth over the past three decades, is not reformed, then China's plans are destined to fail. Not only will China not dominate the global auto industry, but it will not even dominate its domestic auto industry. Eb

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Position Paper 2012/2013 Launch
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Nanjing

European Chamber's 5th Annual HR Mixer
1st September

Pearl River Delta

FMF seminar in Shenzhen
19th July

Siemens Transformer (Guangzhou) Co., Ltd Factory Tour
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Interchamber Networking in Shenzhen
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Insight China: China's Consumption Challenge: Rebalancing China's Growth - Shanghai Session
30th August

8th European Chamber HR Conference - HR Innovation: Efficiency and Productivity Optimisation
30th November

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING

1

4

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1-4: On 8th June, the Human Resources Working Group in Beijing organised its first annual Human Capital Conference at the Kerry Centre Hotel. With the theme "Leadership and Transformation: Maximising Opportunities and Overcoming Challenges in China", this full-day event brought together CEOs and Human Capital practionters from some of China's top-performing companies to share their experiences, insights and ideas in answering this year's big question: "What will it take for current and future leadership to successfully maximise opportunites and overcome challenges in China and globally"?

The European Chamber would like to direct a special thanks to Elisa Mallis, the Chair of the HR Forum in Beijing for her significant contributions to the first Human Capital Conference. Elisa's commitment and expertise were crucial for making the conference a great success. A warm thank you also goes out to the two Vice Chairs, Mark Baldwin and Karen He for their hard work in the past months.

NANJING

1. On 29th May, a delegation of the European Chamber Nanjing led by Carlo D'Andrea, Chairman of the Nanjing Board, met with Ms. Zhou Zongyi, Head of Foreign Affairs Office of Jiangsu Department of Commerce

2. 12 teams played for the title of the European Chamber Nanjing Badminton Champion 2012 during two days in the spirit of a friendly competition. Congratulations to BASF-YPC (1st place), Nanjing International School (2nd place) and Saint-Gobain PAM China (3rd place).

PEARL RIVER DELTA

1&2: The **European Chamber's Business Confidence Survey 2012** was launched in the PRD on 5th and 6th June, (in Guangzhou and Shenzhen, respectively).

3. EU Day celebration in Guangzhou: the European Chamber's PRD Chapter celebrated EU Day on 18th May in Guangzhou. This successful event gathered around 150 participants among which were members of European Chamber, representatives of Chinese and European governments and Chinese companies. In the celebration, as the honored guests, participated Mrs. Marianne Gumealius, Minister Counsellor from EU Delegation to Beijing and Mr. Wu Jun, Deputy Director General from Department of Foreign Trade and Economic Cooperation.

4. The European Chamber Cup Football Tournament 2012 held at Shekou Sports Center on Saturday, 26th May. Organised by the European Union Chamber of Commerce in China, 16 football teams, including the Consulates of EU Member States and European/Chinese enterprises, attended the event in Shenzhen.

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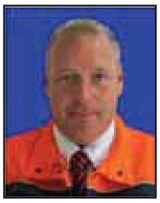
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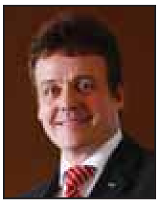
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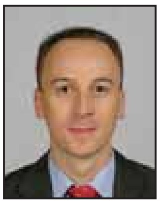
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THE EXECUTIVE INTERVIEW: HOLGER KUNZ

Holger Kunz Vice President, TÜV Rheinland Greater China
Chairman, European Chamber Pearl River Delta Chapter Board of Directors

TÜV Rheinland Greater China's Vice President and Chairman of the European Chamber's PRD Chapter Board of Directors spoke with EURObiz's Steven Schwankert about his extensive experience in Asia and southern China.

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

Holger Kunz (HK): I have been 20 years in Asia. I initially worked for four years for a different company in Sri Lanka. In 1996, I started working for TÜV Rheinland in Taiwan as a product testing engineer, and in 2002 I moved to Shenzhen where I have worked since, in different functions. In the beginning, I held the position of Managing Director for Southern China, overseeing our Shenzhen and Guangzhou offices' operation and management. In 2008, we expanded the regional organizations to better serve clients and I was appointed head of the Southern China region. At that point, I was handed the responsibility of Hong Kong. Two years later, after integrating the company into the TÜV Rheinland Greater China entity, I was named Vice President. In this function, I now oversee all of our activities for product testing, mainly focusing on consumer product business, medical testing, and photovoltaics.

Eb: Tell us a bit about TUV Rheinland's operations in China. Are there any barriers to European companies providing these kinds of services to clients in China?

HK: TÜV Rheinland was established 140 years ago with a head office in Germany. We came to Asia in the late 1970s, the major reason being because our customers here said we were not close enough to them. Our primary service is to support export manufacturers getting products tested and approved for target markets, primarily in Europe, and especially Germany. Now we have become more globalised, and serve the global export market from China, but of course China is also an import market, and we want to serve that market as well. We have customers from Europe and the United States who want to sell in China, but we are not authorised to offer testing and certification for imports for the China market.

This is still regulated by the Chinese government for the mandatory system, Chinese Compulsory Certification Scheme. We experienced similar "follow the supplier" start in Taiwan, but the difference there was that we were recognised early on as a testing lab, allowing us to carry out testing for certification. Nevertheless, as Chinese consumers are increasingly aware of food safety, product safety and performance issues, we also provide voluntary certification services for the local market. Moreover, there are increasing demands from enterprises who want to gain more trust. For example, in the retail industry, some retailers have locations in and outside of China. These clients cooperate with international certification bodies and pursue globally higher safety standards to ensure better brand reputation.

Eb: How are the primary issues that Pearl River Delta (PRD) businesses face different from those that confront companies operating in other parts of China?

HK: Labour costs in the PRD are increasing rapidly, the industry is not as diversified here as it is in other regions, so head-hunters are very active, and the employee turnover ratio is also very high. Less developed areas send their head-hunters to entice PRD qualified R&D and manufacturing staff. If you look at the Consumer Price Index (CPI) in the PRD, living costs are getting higher, and in the larger cities in the PRD, you'll see that the price of housing is relatively high. As a result all of these trends have a significant impact on costs and drives up salary expectations. Companies in the PRD are considering either relocation or innovation, if they move to another province, regulations are a still of concern. I believe that is why many have moved elsewhere in Asia.

Eb: How does the chapter there operate differently than our other chapters?

HK: The environment for this chapter is quite different from that for other chapters. In the PRD there are so many large-cities with more than 10 million people which cluster in a relatively small area. This gives us the advantage to cater both on local city-level, with activities in cities like Foshan and Dongguan, as well as leverage a bigger pool of members with pan-PRD actions. The BCS was very well received here. We position ourselves as representing the entire PRD, not as the chapter for one city or another. Eb

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