Journal of the European Union Chamber of Commerce in China

EURObiz

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September/October 2013

URBANISATION

BY THE PEOPLE FOR THE PEOPLE
The effect of urbanisation on China's population

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Is your organisation toeing the line?

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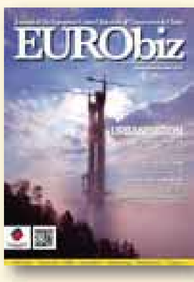
The photo shows one of the pillar supports for the Zhongjian River Bridge on the Shi'en-Laifeng Expressway in Hubei Province. Positioned between mountains, this pillar is 245 metres high.



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Chief Editor
Carl Hayward

Art Director
Vincent Ding

For European Chamber Membership and Advertising in EURObiz:

National Membership Manager
Remei Lluch Pont
Tel: +86 (21) 6385 2023 ext 106
rlluch@europeanchamber.com.cn

National Events Manager and Senior Membership Manager
Fernando Cutanda
Tel: +86 (10) 6462 2066 ext 31
fcutanda@europeanchamber.com.cn

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

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European Chamber Chapters:

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

Nanjing
Zhujiang Building 1
30/F, E1
1 Zhujiang Road
Nanjing, 210008, PR China
南京市珠江路1号
珠江1号大厦30楼E1座
Tel: +86 (25) 8362 7330 / 8362 7331
Fax: +86 (25) 8362 7332
nanjing@europeanchamber.com.cn

Pearl River Delta (PRD) – Guangzhou
Unit 2817, 28/F, Tower A, China Shine Plaza
9 Linhe Xi Road
Tianhe District
Guangzhou, 510613
PR China
广州市天河区林和西路9号
耀中广场A座2817室
Tel: +86 (20) 3801 0269
Fax: +86 (20) 3801 0275
prd@europeanchamber.com.cn

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

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

Shenyang
Room 1606, Office Tower C, Shenyang land centre international Plaza,
No.2-3 Wuai Road,
Shenhe District,
Shenyang 110016,
P.R. China
辽宁省沈阳市沈河区五爱街2-3号，地王国际C座，1606室。邮编110016
Tel: +86 (24) 2334 2428
Fax: +86 (24) 2334 2428
shenyang@europeanchamber.com.cn

Southwest – Chengdu
04-A, F16, Tower
1 Central Plaza
8 Shuncheng Avenue
Jinjiang District, Chengdu
成都市锦江区顺城大街8号
中环广场1座16楼04-A
Tel: +86 (28) 6155 7184
Fax: +86 (28) 6155 7194
chengdu@europeanchamber.com.cn

Southwest – Chongqing
U-12A, 6F, Office Tower
JW Marriott Hotel
77 Qingnian Road
Yuzhong District
Chongqing 400010
PR China
重庆市渝中区青年路77号万豪酒店写字楼6楼U-12A
Tel: +86 (23) 6370 7122
chongqing@europeanchamber.com.cn

Tianjin
Magnetic Plaza, Building 17, Room 2415
Junction of Binshui West & Shuishang East Road
Nankai district, Tianjin
300381, PR China
天津市南开区宾水西道（宾水西道与水上东路交口）
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Simon Wan, Chief Executive
Cornerstone International Group - China Team
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email: simon-wan@cornerstone-group.com

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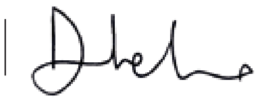
URBAN GENERATION

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



It is predicted that 1 billion people — about one-eighth of the estimated global population — will be living in Chinese cities by 2030. This means that the population of China's cities will swell by 350 million people in just over a decade and a half.

In this issue of *EURObiz* we focus on this urbanisation and examine some of the challenges and opportunities that it will bring.

Most of our industries are affected by urbanisation and can play a role in making it sustainable. As migration to cities occurs, the new urbanites will need places to live, roads to drive on, telecommunications to interconnect, clean water to drink and energy to survive, in addition to all of the other things on which we have come to rely.

Each new connection risks adding to a city's resource demands. Energy efficient, water-saving and other sustainable technologies must be employed in order to improve supply and lessen some of this demand. European business has long-standing expertise and experience in constructing, managing and implementing the systems necessary for sustainability in cities. This know-how has driven the adjustment of technologies and their application to suit diverse climate zones across our different member states. Although there are many differences between China and Europe, the European experience in sustainably managing a high urban population is the closest model that can be adapted to China's current situation.

The similarities between China and the EU have driven political dialogue on the topic of urbanisation. As the independent voice of European business in China, the European Chamber has engaged as a stakeholder towards these political initiatives, such as the EU-China Urbanisation Partnership and the joint Mayor's Forum, and we have shared European experience on sustainable urbanisation throughout the business community. As examples, we recently concluded the SWITCH-Asia 'Train the Trainers' project that built Chinese capacity on energy efficiency in buildings and we support the EU-China Sustainable Urbanisation Park in Shenyang. We hope to soon start other projects on sustainable urbanisation and we are supporting the Urbanisation Development Exposition and the workshops under the Urbanisation Forum that will take place in parallel with this year's upcoming EU-China Business Summit.

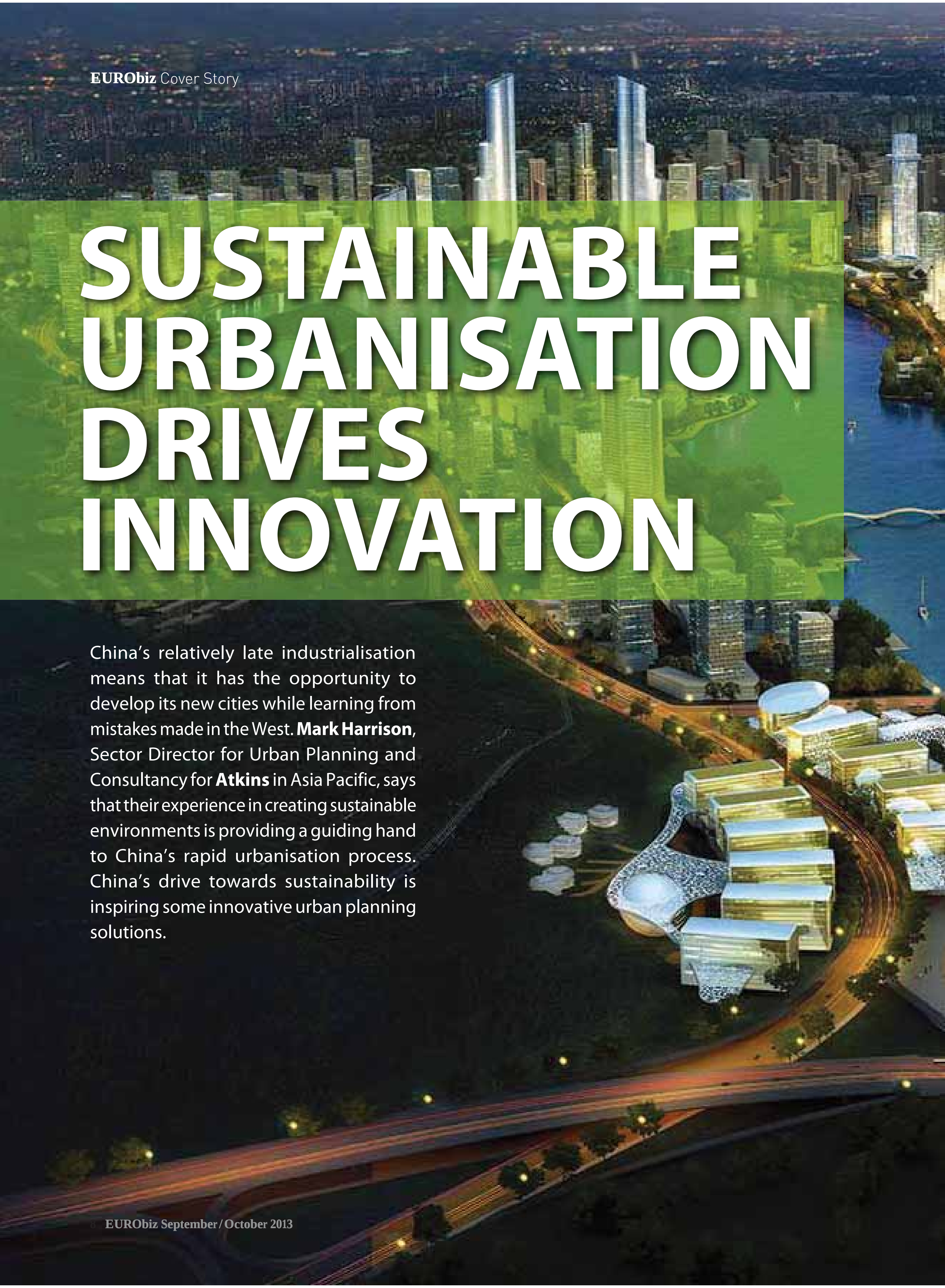
In addition to reinforcing EU–China industry cooperation, we also hope that these activities will serve to create equal business opportunities because European industry could still make much greater contributions towards China's sustainable urbanisation course if barriers that many of our industries face in bringing leading technologies to China could be removed.

Since the last issue of *EURObiz*, the Chinese Government has launched a number of antitrust-related investigations. Several Chamber member companies are being investigated and there has been much press coverage both inside and outside China on these drives. This led to a perception from a number of our companies that the investigations were being disproportionately applied to foreign companies.

The European Chamber has long stated that we believe stronger implementation of antimonopoly legislation would be beneficial for developing a healthy market economy and reducing corruption in China. Since the recent investigations were opened we have organised an event, together with the China Business Leaders Forum, on compliance issues in the healthcare industry and have met with the National Development and Reform Commission (NDRC), the State Administration of Industry and Commerce and the State Council Development Research Centre. We have stated to these authorities that we continue to welcome increased enforcement of antitrust legislation so long as it is carried out fairly, equally and transparently. The European Chamber will continue to monitor the investigations and to engage the government and we are currently in the process of developing a joint seminar with the NDRC on antimonopoly law compliance.

A delegation of approximately 30 senior European Chamber industry representatives and I recently returned from Europe where we presented the *Position Paper 2013/2014* in a number of member state capitals. A complete overview of this European Tour will be included in the next edition of *EURObiz*. Highlights from Brussels included meetings with President Barroso, four European Commission Vice Presidents and another six Commissioners. It was a highly worthwhile and useful three days in Brussels and now we come back to China ready to start presenting the *Position Paper* to various Chinese ministerial authorities and stakeholders.

I — and many senior European Commission officials — would like to extend our gratitude to the chairpersons, vice chairpersons and pen leads of the working groups who have helped make this year's *Position Paper* so relevant and important.



SUSTAINABLE URBANISATION DRIVES INNOVATION

China's relatively late industrialisation means that it has the opportunity to develop its new cities while learning from mistakes made in the West. **Mark Harrison**, Sector Director for Urban Planning and Consultancy for **Atkins** in Asia Pacific, says that their experience in creating sustainable environments is providing a guiding hand to China's rapid urbanisation process. China's drive towards sustainability is inspiring some innovative urban planning solutions.

China's rapidly growing built environment is inspiring urban planners to develop new ways of thinking, as it is increasingly recognised that a crucial underpinning for economic development in China is ensuring that continued rapid urbanisation is sustainable.

Environmental and sustainability considerations are now beginning to be incorporated into new city or town planning from the earliest stages, as opposed to introducing measures to reduce environmental damage after construction, which was the case in many European cities.

This was because Europe industrialised early, when the environmental impact of the built environment was sometimes not properly considered. This means that China's developing cities have the advantage of learning from Europe's mistakes. As climate change becomes more of a problem, it is increasingly important to consider factors like traffic, energy use, water use and how to deal with waste in new cities right from the beginning.

Atkins has recently won an important new commission to develop guidance for eco-low carbon (ELC) urban planning in China. Funded by the UK's Foreign and Commonwealth Office Prosperity Fund, and led by Atkins' sustainable planning team in Beijing, the project involves working closely with both national government agencies and city governments. It is aimed at providing a key, high-profile reference point for ELC urban planning in China. The Prosperity Fund brings together Chinese and British experts to develop low carbon policies, practices and regulations, with a growing focus on sustainable urbanisation.

China's emerging ELC urbanisation initiative forms a key component of the government's 12th Five-Year Plan, which places a strong emphasis on energy and resource efficiency, reducing green house gas (GHG) emissions and environmental protection.

To date the emphasis has been more on developing demonstration areas, ELC technologies and, more recently, establishing sustainable planning evaluation frameworks. With the vast scale and scope of urbanisation in China, there is a once-in-a-generation opportunity to build knowledge and experience of ELC urban planning approaches and methodologies. The project will work closely in partnership with local government in China to help achieve these aims.

Mark Hewlett, Atkins' project manager, explains, "The project, which is closely aligned with Atkins' Future Proofing

Cities initiative, will provide a clear, practical methodology for ELC urban planning which sets out approaches, methods, tools and techniques tailored for Chinese local government planning based on international best practice."

The project is designed to help support the gradual 'mainstreaming' of ELC urban planning in China as a vital foundation for sustainable urbanisation.

Supported by China's Ministry of Housing and Urban-Rural Development, which has responsibility for green building and urban planning administration, the project team will work closely with two selected city governments to develop, test and apply the ELC guidance. The guidance will be designed to be closely integrated with China's statutory urban planning requirements, and cross-referenced to current ELC urban planning indicator systems. The project outputs will be strongly focused on hands-on use as an everyday working tool in a practical, on-the-ground urban planning setting.

Whereas in the West where urban design is often concerned with the public realm and detailed design solutions, in China the focus is much more on overarching land use patterns, road networks and development densities. To create great places and spaces for people, and make development more environmentally friendly and sustainable, urban designers in China are applying fresh thinking and innovative solutions to meet some unique challenges.

While building densities and plot ratios are often very high by Western standards, traditional urban design involving large block sizes, road widths and set-backs, separation of residential and employment areas, and large areas of under-used open space have tended to encourage inefficient development and environmental deterioration as well as reduce liveability.

Attention is now increasingly turning to more compact, mixed-use and transit-oriented development approaches which emphasise 'human scale' design, community-oriented facilities and harmony with the natural environment, while ensuring the solutions are closely adapted to China's highly distinct and diverse local context.

Apart from new construction projects, Atkins is heavily involved in many regeneration projects to help cities cope with a growing urban population and give them a new look. We recently provided guidelines on the regeneration work for Chengdu, capital of Sichuan Province, a city known for its relaxed lifestyle but which has been transformed in recent years as a result of its fast-growing, high-tech industries.

Features of the regeneration included increasing greenery and building more low-speed roads in the city centre; adding central islands to pedestrian crossings to ensure safety; adding more leisure facilities such as shops and restaurants around big community parks; and increasing the use of green materials for important public-sector buildings.

The key is to identify the real character of the area. Chengdu has many lively areas, especially its markets. It also has many natural landscape features, like river courses. It is important to make sure they are retained and not destroyed. Thus regeneration is about identifying and building on the character of a city to make it more liveable.

One clear advantage Atkins has in the field of regeneration is its engineering expertise in brownfield development. As the official engineering design services provider to the London Olympics last year, we demonstrated our brownfield site regeneration expertise by turning an old industrial site into a vibrant, safe sports venue. This expertise is extremely relevant and necessary in China, because many of the areas China is regenerating may previously have been used by factories that created pollutants.

Key to our innovative, sustainable urban planning approach is effectively linking land use planning, building and infrastructure design in the early stages of a project, with smart technology rapidly emerging as an important integration enabler. This approach increasingly informs all our work in China.

Future Proofing Cities Report

Atkins partnered with the UK Department for International Development (DFID) and University College London (UCL) to publish a report called *Future Proofing Cities*, which assesses the risks to 129 cities — from mega cities like Bangkok to smaller cities such as Zaria in Africa. It looks at their risk profile from climate hazards, resource scarcities, and damage to ecosystems and urges action now to future proof against these risks.

This report provides a fresh approach to the urgent issues arising from rapid urbanisation. It assesses the environmental risks facing cities in an integrated way and identifies more than 100 practical policy options that are most relevant and will be of most benefit to the different types of cities. http://www.atkinsglobal.com/sectors-and-services/sectors/urban-development/fpc. Eb

Atkins *(www.atkinsglobal.com) is one of the world's leading design, engineering and project management consultancies*, employing some 17,700 people across the UK, North America, Middle East, Asia Pacific and Europe. Over 75 years, from post-war regeneration and the advent of nuclear engineering to high speed rail and the integrated sustainable cities of the future, our people's breadth and depth of expertise and drive to ask why has allowed us to plan, design and enable some of the world's most complex projects.*

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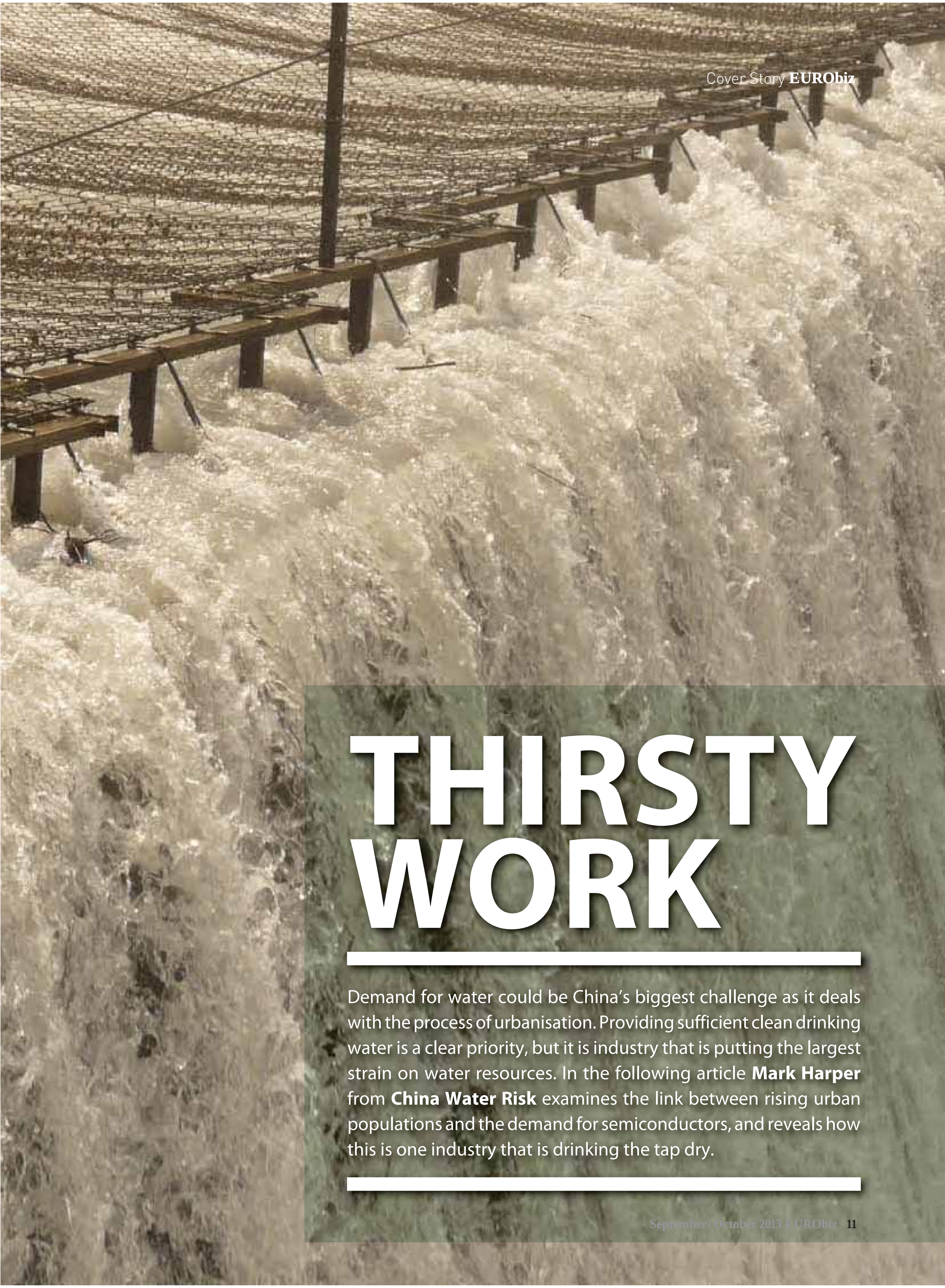


THIRSTY WORK

Demand for water could be China's biggest challenge as it deals with the process of urbanisation. Providing sufficient clean drinking water is a clear priority, but it is industry that is putting the largest strain on water resources. In the following article **Mark Harper** from **China Water Risk** examines the link between rising urban populations and the demand for semiconductors, and reveals how this is one industry that is drinking the tap dry.

The world is urbanising at an unprecedented rate. This is particularly true in Asia, which, according to UN forecasts, will host 63 per cent of the world's urban population by 2030.[1]

Clearly, with an increasing population, there will be a corresponding increase in municipal water demand. The 2030 Water Resources Group expects China's municipal water consumption to rise significantly, from 77 billion cubic metres in 2010 to 133 billion cubic metres in 2030[2] — an increase of 72 per cent. But what about non-municipal uses? Urban growth is accompanied by rising affluence. Urbanites use more electricity, eat more meat and make more extravagant consumer choices, all of which lead to increased industrial and agricultural water use.

Consumer spending in electronics goes hand-in-hand with rising affluence and urbanisation. Higher urbanisation rates will likely lead to more televisions, computers, hifi's, mobile phones, microwaves and so on. In 2011, both China's semiconductor consumption market and semiconductor industrial growth rates were more than ten times greater than the global industry growth rate.[3]

Given limited resources, can China cope with urbanisation's direct and indirect impacts on water? Can China's semiconductor industry continue to grow to support the rise in demand for electronics? Below are five facts you should know about water and semiconductors.

A large semi conductor fabrication plant (commonly known as a fab) uses up to 4.8 million gallons per day

A semiconductor is a miniaturised electronic circuit containing a multitude of transistors. Water is fundamental to their manufacture. Over a series of steps, semiconductors are built in layers on silicon wafers into integrated circuits (also called microchips). After each one of several dozen layers of semiconductors are added to the silicon wafer, it must be rinsed, requiring massive amounts of water.

Creating an integrated circuit on a 30cm wafer can require approximately 2,200 gallons of water[4] meaning a large fab that processes 40,000 wafers per month can use upwards of

4.8 million gallons of water per day. This equates to the annual water consumption of a city of 60,000 people.[5] Clearly, the manufacture of semiconductors is highly water intensive.

Yet despite these substantial levels of water consumption, when the Chinese Ministry of Industry and Information Technology (MIIT) and the Ministry of Water published a notice to further promote water conservation in industry, the semiconductor sector was not included as a priority industry. Industries like iron and steel, textiles, paper, oil refining, and chemicals were on the priority list instead.

The industry is set to face further challenges

The environmental footprint of the semiconductor industry is extremely large as it is very energy intensive. Fabs can use up to 30-50 megawatts of peak electrical capacity, enough to power a small city.[5]

Enter the water and energy nexus. In China, 97 per cent of power generation is reliant on water, and the government plans to add a further 1.2 terrawatts (10^{12} watts) of water-reliant power by 2030[2]: equivalent to adding the combined total capacity of Australia, the United Kingdom and the United States (US). This aggressive power capacity build-out will add further stress to water resources, and could leave the semiconductor industry exposed to a potential double whammy of power and water shortages.

Eleven of the top 14 semiconductor fabs are located in Asia Pacific

Despite this water-intensive manufacturing process, a large number of fabs are located in arid or semi-arid regions of the world. Currently 11 of the top 14 semiconductor fabs in the world are located in the Asia Pacific region, accounting for over 75 per cent of total industry sales.[6] This inevitably adds further stress to water resources already under pressure from rapid population and economic growth as well as climate change.

Nowhere is this more true than in China, where of the 160 semiconductor wafer facilities in operation at the end of 2011, 79 were located in the East China or Yangtze River Delta region (Shanghai and Jiangsu are both running a water deficit with water use exceeding their renewable water resource and Zhejiang is also water stressed). The Bohai Ring or North China region — mainly consisting of Beijing, Tianjin, Hebei, Shandong and Liaoning, which are all water scarce (in other words as dry as the Middle East) — account for a further 31 fab's.[3]

Can China sustain this pace? Already, outside Beijing a large semiconductor facility trucks in water several weeks a year and a back-up reservoir is maintained in addition to the municipality's own reserves.[6]

Over 10,000 recorded environmental violations in China

Despite the millions spent on trying to clean up its act, the semiconductor industry in China is suspected of being involved in a large number of environmental violations. The production of semiconductors also utilises a number of chemicals. Because of this, wastewater from fabs has been found to contain a range of harmful contaminants including arsenic, antimony, hydrogen peroxide, and hydrofluoric acid.

A search of the Institute of Public and Environmental Affairs (IPE) water pollution database reveals over 10,000 environmental violations for key semiconductor companies over the period 2004–2013. The IPE database draws on government data.

Historically, semiconductor companies in the US have been subject to litigation linked to groundwater. With the current levels of groundwater pollution in China and ongoing investigations by the Ministry of Environmental Protection (MEP), how long will it be before semiconductor companies start finding themselves named and shamed on the MEP's blacklist?

Industry spends approximately USD 1 billion on water and wastewater systems and services

Each semiconductor fab can cost up to USD 2.5 billion, with a large proportion of this capital expenditure going on water-related systems. An ultra-pure water (UPW) system can cost 1–1.5 per cent of total capital costs at around USD 25–40 million.[4] The semiconductor industry spends approximately USD 1 billion on water and wastewater systems and services every year. Through reduction, reuse and recycling water at semiconductor plants, the industry could save over USD 100 million per year.[7] Effective recycling systems offer a great return on investment: a recent study showed a return on capital investment of five to seven months.[8] Eb

China Water Risk *is a non-profit initiative designed to help investors, business and individuals understand and mitigate risk around water as well as to foster efficient and responsible use of China's water resources. China Water Risk, through its free access information site (www.chinawaterrisk.org), offers a snapshot of the scope and complexity of China's water crisis and what this impending liquidity crunch means for business and investors. Contact them at info@chinawaterrisk.org*

1 World Economic and Social Survey. UN, 2013

2 http://chinawaterrisk.org/big-picture/

3 China's impact on the semiconductor industry: 2012 update, PWC, 2012

4 Pure water, semiconductors and the recession. Global Water Intelligence, Vol 10, Issue 10 (October 2009)

5 Topical Reports Energy and Water Efficiency for Semiconductor Manufacturing, 2000

6 Murky Waters: Corporate Reporting on Water Risk, Ceres, 2010

7 IEEE 2010 International Symposium: Performing a Water Footprint Assessment for a Semiconductor Industry

8 Texas Agricultural Experiment Station at Texas A&M University, 2002; Efficient Water Use for Texas: Policies, Tools, and Management Strategies

CHINA'S URBANISATION: OPPORTUNITIES AND CHALLENGES FOR THE WORLD

The process of China's urbanisation has resulted in many column inches from social and political commentators wondering what will happen to the rural population that is moving into the cities. Will it bring about reform to China's *hukou* system? It has also attracted global attention from companies looking to take advantage of the potential opportunities it presents. But what are these opportunities, and is it right to assume that European business will have a part to play?

Li Tie, Director General of the China Centre for Urban Development (CCUD) says that this exciting part of China's history will indeed lead to a fairer system for migrant workers, who will eventually be entitled to receive the same social benefits and quality of life as their urban cousins. He believes this will bolster China's transition to a consumption-based economy.

Cooperation between the European Union (EU) and China in the field of urbanisation through such mechanisms as the EU-China Urbanisation Partnership High Level Conference should, Li says, lead to significant future collaboration in urbanisation projects.

Many people around the world have mixed feelings about urbanisation in China — curiosity, concern as well as a sense of opportunity. The following statistics will help to provide some insight into this issue.

China currently has an urban population of 710 million, but its urbanisation rate is only 52.6 per cent. In the decade before 2012, China's urbanisation rate grew by an average of 1.4 per cent annually, which means 20 million people were moving from rural to urban areas for jobs every year. While China's economic growth has slowed due to the Global Financial Crisis, and GDP growth has fallen to only seven to eight per cent, urbanisation rates can be maintained at 0.8 to one per cent growth, which means that at least 200 million people in China will move to cities over the next 20 years.

China is expected to have an urban population of 900 million by 2030, 400 million of which will be new arrivals from rural areas. Recent reforms implemented by the Chinese Government will ensure that these people will be able to settle into urban areas and gradually enjoy the same public services as urban residents. This means that consumer habits among this group will also become more urban, driving consumer demand and with it the demand for investment.

These individuals need to rent or buy homes in cities and purchase goods. They must also have access to public services such as education and health care. Cities of varying sizes where these individuals live must invest in basic infrastructure to improve living conditions. Transportation must also be improved to facilitate movement between these cities. This demand is real and must serve a massive population.

Today, China has over 20,000 cities and towns of various sizes: five of which have populations over 10 million; 18 with a population of over four million; 127 with a population of over one million; 1,500 with a population of over 50,000; and 20,000 with an average population of around 10,000. These cities and towns will attract hundreds of millions of people in the coming decades and must solve infrastructural problems, improve public services and adjust industrial structures while at the same time guaranteeing low-carbon, green, and ecologically sustainable development.

These cities and towns are faced a number of dilemmas in choosing a developmental path. How can they lower the cost of urban development? How can they provide public services for new migrant populations? How can they secure funds to invest in infrastructural improvements? How can they attract more investment? How can they reduce energy and resource consumption?

China must learn from the experiences of cities around the world in the course of its urbanisation efforts to ensure good public services while at the same time driving rapid urbanisation and sustainable development.

It is important that we make the huge market potential and opportunities available to encourage exchange and cooperation that will allow advanced technologies in and produce win-win results for everyone. The Joint Declaration on EU-China Partnership on Urbanisation signed by EU President José Manuel Barroso and then Chinese Vice Premier Li Keqiang in Brussels on 3rd May, 2012, identified fourteen areas for collaboration in urbanisation between the EU and China.

The EU-China Urbanisation Partnership High Level Conference and the EU-China Exhibition on Urban Development will be held in Beijing in late-2013. Running from the 20th–23rd November at the Beijing Exhibition Hall, the EU-China Exhibition on Urban Development, in particular, aims to turn conceptual consensus reached through the EU-China Urbanisation Partnership into practical operation, providing opportunities to promote EU-China collaboration, investment and market expansion between cities and enterprises.

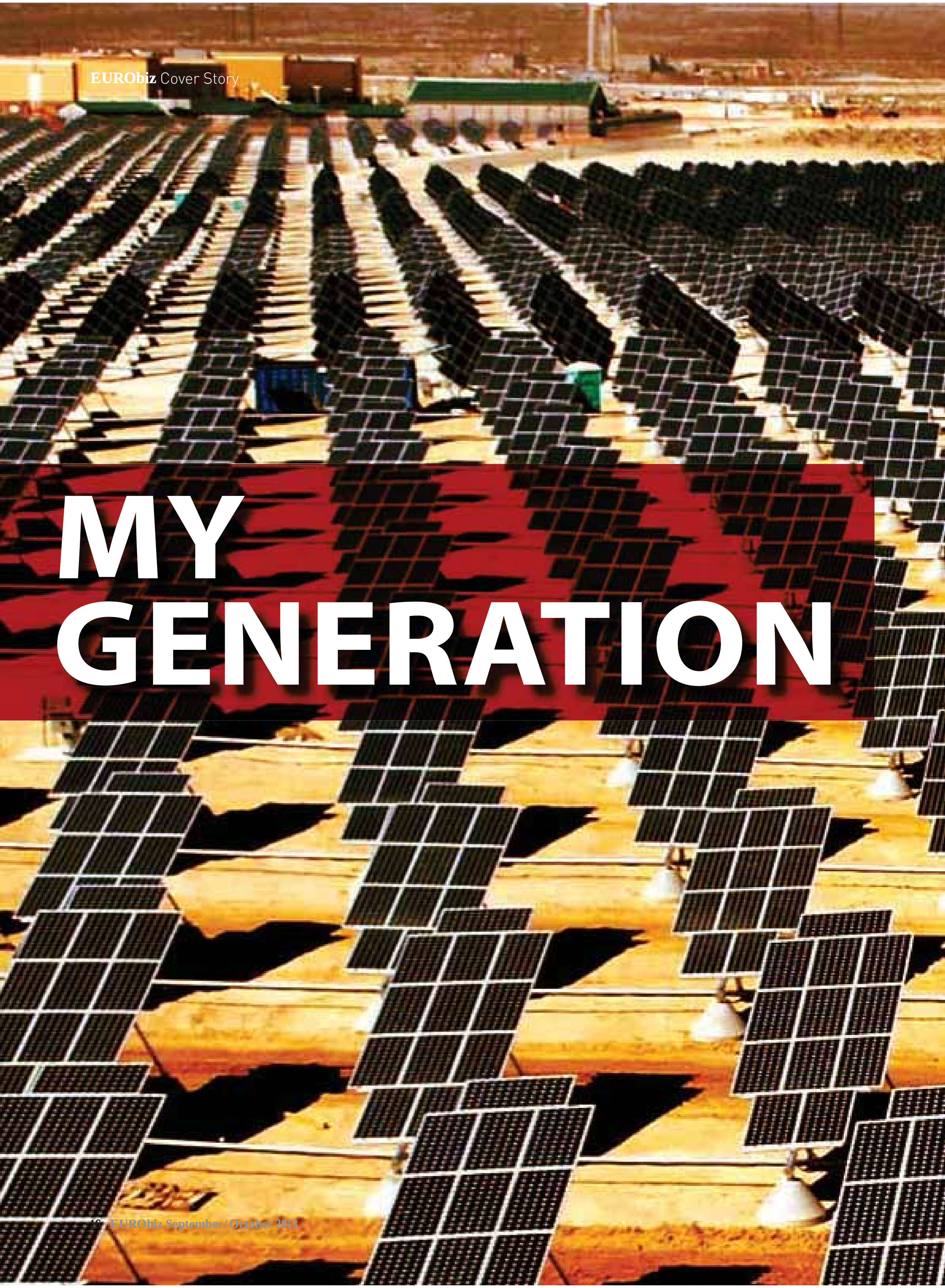
The Exhibition will bring together tens of thousands of Chinese government officials, entrepreneurs and people in a variety of industries, providing a space and platform to exchange and learn about experiences in urban development in both China and the EU as well as market potential, demand, technology and specific projects. We believe that significant collaboration in urban development will result from these numerous exchanges and activities, providing mutually beneficial opportunities for all involved. Eb

*The **CCUD** specialises in policy research on urbanisation and urban development. Entrusted by the National Development and Reform Council (NDRC), it is responsible for providing guidance for 711 pilot cities under the National Development and Reform Pilot Programme. Major functions of the CCUD include providing policy consultancy on urbanisation and urban development; assisting cities in formulating various development plans; and organising international conferences.*

***Li Tie** is currently leading several major research projects, such as China's Urbanisation Strategy for the Twelfth Five-Year Plan, Capacity Building of Governments in Promoting Social Inclusion for Migrant Workers and their Family Members, Urban Planning to Promote Healthy Development, Governance Structure of Governments and Farmers' Employment in the Process of Urbanisation, Movement of Population in the Process of Urbanisation, and Strategies for and Management of Urbanisation in Rural Areas.*

He receives the State Council Special Expert Allowance, a prestigious status for top experts. He is also a senior research fellow at the Tsinghua University and a doctoral advisor at the China Agricultural University. He received his bachelor's degree in geography from China Northeastern Normal University in 1982 and a master's degree in history in 1987 from the same university.

MY GENERATION



The process of urbanisation in China is engendering an inevitable transition away from the prevailing system of coal-burning power stations to focus on energy generation that is more flexible and more sustainable in the long term. **Kevin Popper** from **Azure International** discusses the alternatives in the article below and says that change has to occur for the sake of the environment.

The transformation of China's coal-based energy generation infrastructure to meet the demands of urbanisation and sustainability will incur large economic and institutional costs. However, reform is essential in order to resolve urgent public health and ecological concerns.

Though China is the world's largest consumer of energy, and accounts for roughly half the coal burned worldwide, on a per-capita basis China only possesses half the world average coal and hydropower resources. China's water resources are even scarcer at only a quarter of the world average, while oil and gas resources are just a fifth of the world average. Conserving these resources is essential.

In the long term, shifting more of China's population to urban centres has a number of environmental benefits including lower electricity consumption per capita. In developed countries, urban electricity consumption per capita is typically well below rural averages. City residents live in smaller spaces and need less lighting, heating and cooling. This contributes to long-term energy and resource efficiency.

In the short term, however, urbanisation will lead to an increase in demand for commercial and residential electricity. This is due to the gap in income and quality of life between urban and rural residents. According to the China Academy of Social Sciences (CASS), in 2011 the average per capita income of urban residents was 143 per cent higher than rural migrant workers. So it is not urbanisation *per se* that is driving urban electricity consumption, rather it is due to increases in income and improvements to quality of life.

There should be sufficient generation capacity to meet this new demand; lower than expected industrial power demand during the first six months of 2013 has made room for commercial and residential load growth. Nonetheless, meeting urban electricity demand growth will challenge China's current generation assets.

In China coal is king, making up over two thirds of the total installed power capacity in 2012. Large coal-fired power plants are well suited to providing cheap, reliable power to match industrial demand. Industrial power demand is relatively flat throughout the day, allowing coal plants to operate at near constant outputs. However, these power plants are not suitable for providing commercial and residential loads, with their daytime peaks and night-time lows.

Moreover, urbanisation is driving industrial plants further from the city, leading to a high concentration of peaky commercial and residential loads in city centres. A review of recent ancillary service settlements in Tianjin and Beijing reveals that urban power consumption has already led to coal plants being cycled on and off on a daily basis. This significantly lowers plant lifetimes and efficiencies. In addition, large coal plants are due an excess of CNY 500 thousand each time this occurs.

Unlike coal, natural gas-fired power plants can handle large swings in electricity demand and be cycled on a daily basis without significant cost. A switch towards cleaner and more flexible natural gas generation is already underway in Beijing, Shanghai and Chongqing. Since 1998, Beijing has built no new coal-fired power plants; by the end of 2015, the city hopes to replace all coal-fired boilers within the fourth ring road.

Large combined-cycle, gas-fired power plants with combined heat and power (CHP) capability are taking their place. Also known as cogeneration, CHP is the simultaneous production of electricity and heat from a single fuel source. Shanghai and Chongqing have similar plans.

Adoption of natural gas-fired generation in other cities has failed to gain momentum however. Cost, availability and power company opposition are all significant barriers.

The cost of natural gas generation is 20-30 per cent higher than coal-fired generation and the additional cost burden is currently shouldered by the local government. Beijing's Deputy Mayor, Huang Wei, estimates that if natural gas prices reach CNY 3 per cubic meter, the city would need to find an additional CNY 27 billion (USD 4.4 billion).

Several recent investments in liquefied natural gas (LNG) import infrastructure signal that significant price increases are likely over the next five years. In addition, China National Offshore Oil Corporation (CNOOC) has indicated that commercial shale gas operation will take longer than originally speculated, so cheap, abundant gas is not on the near horizon.

Besides cost challenges it is important to point out that few cities have sufficient infrastructure to handle a shift to natural gas generation. National oil and gas companies will hesitate to invest in more infrastructures unless price reforms allow them to realise positive returns on investment. Generation plants will also compete to gain priority over residential and transportation natural gas consumption, given limited supply.

In addition political pressures from power companies worried about high costs have also stymied natural gas-fired generation development plans. Power companies are worried that shutting down recently built coal-fired power plants will cause significant losses.

New energy resources, like wind and solar, are also contributing to the need for flexibility in urban power generation.

Currently, China State Grid plans to build huge transmission lines to transport large amounts of wind and solar power from China's Northern and Western regions into Eastern load centres. As such, generation located within these urban centres will need to not only meet growing peak and off-peak electricity demand but also counteract the variability of wind and solar power. Natural gas-fired generation, energy storage and demand side management will all have a role to play in providing this necessary balancing capability. There is also a strong recent push to build more distributed photovoltaic (PV) systems, which will increase the variability of power supply in areas with high penetrations.

Generation changes should help China's citizens breathe easier. Whether electricity comes from clean solar and wind resources or relatively cleaner natural gas generation, it should help greatly reduce the amounts of harmful particulates in the air. According to Environmental Protection Agency (EPA) estimates, natural gas-fired generation produces less than half the carbon dioxide, less than a third of the nitrogen oxides and around one per cent of the sulphur oxide emissions when compared with coal-fired generation. Wind and solar emissions are virtually non-existent.

The extent to which China's industrialisation and urbanisation can coexist will be tested during this generation transformation. Higher generation prices will eventually require higher retail electricity tariffs, forcing energy-intensive industries to reconsider their locations. One solution often discussed is tariff reform aimed at eliminating cross-subsidisation between load types. Hence, the cost and the burden of meeting urban electricity demand would shift from industrial power consumers towards residential customers who have historically underpaid for electricity.

China's continuing urbanisation will involve considerable cost and encounter significant growing pains. However, when water, coal and oil scarcity becomes a topic of daily conversation, China and its citizens will be glad they live in resource-efficient urban centres. For European companies, China's unprecedented urbanisation trend represents an opportunity to apply the lessons of post-industrial economies to facilitate a cleaner and more rational transition. Eb

Azure International *is a leading investment and advisory company focused on China's cleantech energy sector. Founded in 2003, Azure has a team of local and international professionals based in China with backgrounds in engineering, marketing, manufacturing, consulting, policy, government relations and finance. In addition to deep advisory capabilities, Azure has proven capability to invest in and accelerate the development of clean energy companies. Our portfolio and partner companies have achieved both significant commercial success and returns to investors. Azure provides the necessary expertise and execution capabilities in China to lead relationship development with government and strategic partners, project execution, sourcing, sales and technology development — all with deep understanding of Chinese and international requirements.*

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Urbanisation in China's new era

Much of the interest created by China's rapid urban expansion is centred on tangibles such as construction, sanitation and water supplies. In the following article **Qian Liu** from the **Economist Intelligence Unit** shifts the focus back to the key element of urbanisation: the people.

Urbanisation is now one of the most heavily discussed topics in China, especially after being put at the top of the agenda by the new Chinese premier, Li Keqiang. The process was in fact already well under way before it was championed by Li. In 2011, China's urbanisation rate surpassed the 50 per cent threshold for the first time, a dramatic rise from just 36 per cent in 2000.

Urbanisation is the growth of urban population due to migration and/or physical expansion of urban areas. Fundamentally it builds an increased economy of scale, and improves the country's economic efficiency. According to our latest forecasts at the Economist Intelligence Unit, the urbanisation rate will reach 61.1 per cent by 2020. It will continue to rise until around 2050, when it will peak at 72.9 per cent, a rate comparable with many developed Western countries.

As the discussion surrounding urbanisation intensifies, certain aspects of the concept may become confusing. It is important to keep two themes in mind when discussing urbanisation:

Social welfare

China's urbanisation is widely perceived to be a big package of various investment projects, and indeed this is, practically speaking, the easiest route for the government. It has already shown that it is willing to throw money at infrastructure, social housing, and other fixed assets investment.

However, the key concept of urbanisation is not investment, but migrants. In other words, it is not about money, but people. If migrants lack proper access to public services and do not enjoy a decent level of social welfare, the incentive to stay long in urban areas is short lived, as they will become concerned about sending their children to local schools, reimbursement for hospital visits or care for ageing parents.

At the core of China's social welfare system is the issue of *hukou* reform. One of the greatest arguments for reforming the *hukou* system — apart from the fact it would create social parity — is that to do so would release a new wave of migrants from rural to urban areas. This in turn would help to solve the problem of labour shortages that has been exacerbated by a rapidly rising wage structure. Wages started to rise significantly from around 2003 and have been rising an average of 15 per cent per year over the past ten years. Indeed, there has been much debate over whether or not the Chinese labour market has reached the inflection point where wages will keep rising and that the era of China's cheap labour is over — the so-called Lewis turning point.

China has certainly reached one Lewis turning point, but at the same time China is unique in that it can have more than one such inflection, with a relaxation of the *hukou* system refreshing the labour market with additional migrant workers. The good news is that there is plenty of reason to believe the government will take this seriously.

Income growth

A massive flow of people into urban areas is not sufficient to drive a rebalancing of the economy in which domestic and private consumption take the lead role in driving growth. Income growth, combined with a clustered and more densely concentrated population, is also required for the urbanisation drive to succeed.

Among China's 287 prefectures: 207 have an urban population of more than one million; 86 have a metropolitan population higher than one million; and yet only 33 had an average urban disposable income higher than CNY 30,000 (around USD 5,000) by 2012.

The significance of the USD 5,000 threshold is that USD 5,000–6,000 is the international reference point at which people start to spend significantly more of their income on consumer products. And affluent as Beijing and Shanghai may seem, they only passed through this threshold in 2011 and 2010, respectively.

Encouragingly, many cities are seeing average income levels rise quickly. We forecast that by 2020, average incomes in 283 cities will have surpassed this threshold. If one looks at a higher income band of CNY 150,000 per year (around USD 25,000), only Beijing and Shanghai have over 100,000 urban inhabitants earning over this threshold. However, by 2020, this will rise to 61 cities, including inland cities like Chengdu and Xi'an.

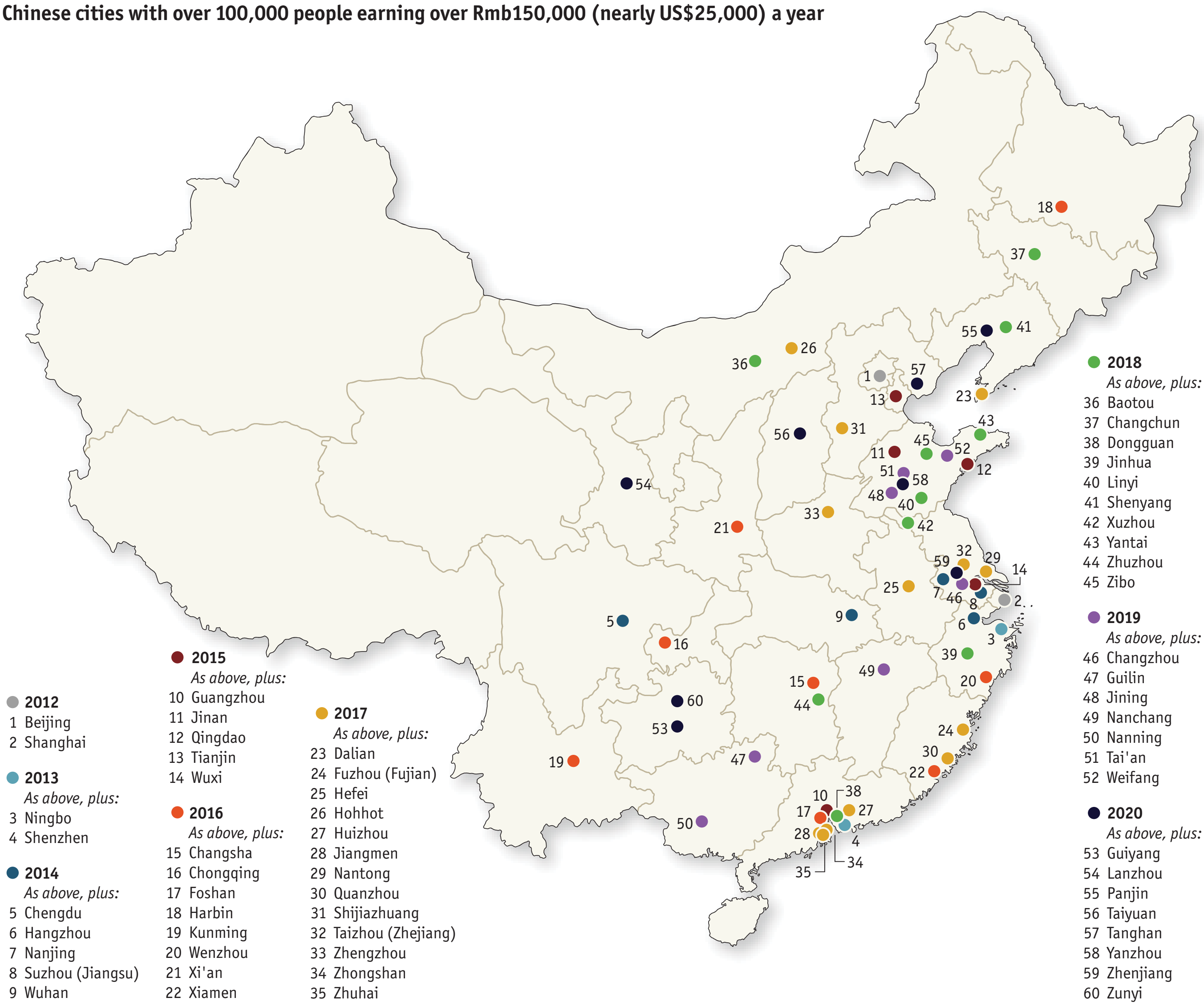
What do these two themes mean for business? Keep an eye on where one should expand in China, and when a particular local market becomes wealthy enough to enter. Watch also for signs of reform in the *hukou* system, which will have an impact on wage growth and consumer power. The upcoming third plenum in November will be a key meeting, as the new Xi and Li government will make clear its intended policy direction and set the tone for potential reforms. Urbanisation, as well as some discussion of *hukou* reform, is likely to feature high on the agenda.

China is changing, and it is critical to keep this in mind when doing business here. China's story is shifting from the old one of cheap labour to a new one of domestic consumption, and in this, urbanisation will play a vital role. Eb

***Qian Liu**, Ph.D. is Deputy Director for the **Economist Intelligence Unit's** (EIU) Access China Service. She serves as the acting head of the analysts' team based in Beijing, London, New York and Hong Kong, and is an expert on economic analysis and forecasts on China's provinces and 287 key prefectures. Before joining the EIU, Qian obtained her Ph.D. in Economics from Uppsala University, Sweden, and spent one year as a visiting researcher at the University of California, Berkeley. She has given presentations at various events and frequently speaks to media including the BBC, CNBC and NPR and briefs foreign corporations on China, its regional growth as well as long-term business strategies. Qian is currently based in Beijing.*

"Income growth, combined with a clustered and more densely concentrated population, is also required for the urbanisation drive to succeed."

Chinese cities with over 100,000 people earning over Rmb150,000 (nearly US$25,000) a year



The Economist Intelligence Unit's unique Access China service analyses China not just from a national perspective, but also from a regional angle. It is the only single source of data, analysis and forecasts for 31 provinces and 287 of China's largest cities. It provides a comprehensive understanding of China today but, more importantly, it ensures that one will understand China in ten years' time and beyond.

There are over 500 data series at the provincial or city level in the Access China database for a range of categories, including economy, consumption, industrial production and labour. It includes unique data tailored to meet the needs of decision-makers who require a clean and consistent dataset that is compliant with international standards. For example, it offers demographic forecasts by region, gender and age cohorts, as well as detailed income distribution data and forecasts. Quarterly updated reports, monthly and annual outlook reports as well up-to-date weekly articles offer an ideal overview of business and economic activities in specific locations throughout China.

SMART CITIES

The **EU-China Policy Dialogue Support Facility** (PDSF II) has established an activity to support the EU Commission and the Chinese Ministry of Industry and Information Technology (MIIT) in their efforts to promote the development of Smart City cooperation between the two regions. The Smart City cooperation has been initiated as both sides feel that this area will be of crucial importance for the development and implementation of modern Information and Communications Technology (ICT) solutions, to improve government services and protect valuable resources. In the following article **Thomas Hart** and **Jeanette Whyte** provide a brief introduction to Smart Cities and explain why they are very important in both China and the EU.

Xinjiang: one of the world's 'top 10 smartest cities'

There are many definitions of a Smart City. However, common to all definitions is that they have a strong focus on making best use of information and communications technologies and make the critical infrastructure components and services of a city — administration, education, healthcare, public safety, real estate, transportation and utilities — more interactive and efficient to enable social, cultural and urban development.

The need for the development of Smart Cities is driven by several factors. More than half of the world's population are now living in urban areas — China crossed the 50 per cent threshold just last year — and that proportion is expected to reach almost 69 per cent by 2050 on a global level placing city infrastructures under increasing pressure. Energy and water scarcity, traffic congestion, waste disposal and safety risks from ageing infrastructures are just some of the challenges that require different solutions to those established when cities were operating on a much smaller scale.

Cities consume 75 per cent of the world's energy resources and emit 80 per cent of the carbon that is harming the environment. At the same time, the economic climate is resulting in reduced public spending on the provision and management of public services, requiring new investment and business models for running and maintaining a city's infrastructure and offering high-quality services.

Whilst the adoption of ICT solutions are not the only factor defining a Smart City, intelligent use of modern technology can play a key part in many of the areas often addressed by Smart City projects, such as:

- **Transportation**: Reducing traffic congestion and encouraging the use of public transportation by making travel more efficient, secure, and safe;
- **Government Services**: Delivering new services in an efficient way;
- **People**: Improving the quality and reducing the costs of education; increasing availability, accuracy of diagnoses and reducing the cost of health care; improving public safety by using real-time information to anticipate, and respond rapidly to, emergencies and threats;
- **Businesses**: Providing e-business solutions and ICT infrastructure for firms;
- **Resources**: Smart grid and renewable energy systems to manage outages, control costs, and deliver only as much energy or water as is required while reducing waste.

The major ICT requirements for a Smart City are Internet technologies and services such as location-based services, the Internet of Things, trust and security platforms that work together across a common open platform. The two major building blocks of the ICT infrastructure are: an all-IP core network, which creates a converged infrastructure for buildings and ICT systems, and seamlessly integrates wireless and wire-line technologies; and a broadband (fixed or wireless) access network, which can support advanced services and applications, such as traffic management, building automation, lighting and energy management, and security networks.

Smart Cities are not futuristic cities. Many of the technologies critical to a Smart City, including monitoring and sensor technologies, intelligent traffic systems, and energy management systems for buildings are available today. A comprehensive Smart City approach seeks to find a common strategy for making best use of these.

There are examples of cities in both China and Europe that are already adopting a Smart City approach to the challenges of urbanisation. Some of the EU examples, such as Amsterdam, Barcelona or Issy-les-Moulineux, have years of experience in this kind permanent modernisation process, systematically updating existing infrastructure and managerial capacity for the benefit of citizens and businesses.

For most Chinese cities, these efforts have started more recently, but today all of China's first-tier cities, and more than half of its second-tier cities, have set Smart City development targets. Ninety Smart City trial sites have been nominated, with considerably more expected to be named before the end of this year. In order to coordinate these efforts, and create synergies, the National Development and Reform Commission (NDRC) and the MIIT are drafting *Guiding Views on Promoting the Healthy, Ordered Development of Chinese Smart Cities*. The Chinese domestic Smart City market is expected to reach a total value of more than CNY 700 billion during the 12th Five-Year Plan period.

The PDFS II activity on Smart Cities is dedicated to facilitating the information exchange between the participating cities. Ten cities from the EU and China will be selected respectively, their Smart City plans and actions documented and assessed according to a dedicated assessment framework. The selected cities will be given the chance of exchanging know-how and experiences, and, through personal meetings between city officials, will hopefully establish long-term relationships beyond the project lifetime.

When the selection process is finished later this year, the participating cities and project experts will address the key challenges Smart City projects are facing today, in particular:

- **Financial investment**: Smart City projects require a substantial financial investment, which is particularly difficult to raise in today's global financial crisis.

- **Business Models**: To ensure the right level of financing is available Smart Cities need to adopt an effective business model. Some projects are externally funded through regional banks and investment funds that provide funding for public sector IT. Other projects are public-private partnerships where a vendor, service provider, systems integrators or a real-estate developer invests in the project on a revenue-sharing basis.

- **Complexity of how cities are operated, regulated, and planned**: The operation of a city is comprised of multiple stakeholders such as government (e.g. federal, state, local); regulators; developers (e.g. real estate, land); owners (e.g. real estate, transportation); operators (e.g. building services, utilities, Telco's) and citizens. Smart City projects require consultation, cooperation and buy-in from all stakeholders.

- **Privacy and security**: Data collected from Smart City services such as monitoring and measuring of energy, waste and water networks means that public value can be derived from private data. However, the data must be properly managed to protect citizens' privacy.

- **Technical issues**: Smart city services are likely to involve many different and complex ICT solutions. In addition, the immaturity of Smart City services means that there are relatively few technical standards, hence there is a risk that Smart City solutions deployed today may need to be replaced to make them interoperable with future systems.

Within all of these challenges, European and international companies are competing for best practice solutions. The next steps of Smart City cooperation efforts between the EU and China will not just determine which cities can provide cutting-edge solutions to their citizens and businesses, but also which companies will be in a position to offer their solutions to the European and Chinese cities seeking to become world leaders in service quality and efficiency. Eb

The ***EU-China Policy Dialogues Support Facility*** *is a project co-funded by the European Union and China to facilitate and support current and future implementation of policy dialogues between the EU and China on a broad range of key sectors and issues, with the overall aim to strengthen strategic relations between the EU and China.*

SWITCH-Asia goes to work in Hefei, Anhui Province

SWITCHING MINDSET

On 31st July, 2013, the **SWITCH-Asia** 'Train the Trainers' Project (the Project), led by the European Union Chamber of Commerce in China since 2009, finally came to end. In the following article project manager **Silvia Sartori** looks back at the accomplishments and says that it has helped to set the stage for future EU-China cooperation in the field of urbanisation.

The European Union (EU) grant to run the project was awarded by Directorate General EuropeAid (now Development and Cooperation – EuropeAid), with the aim of promoting energy-efficient buildings (EEBs) among Chinese small- and medium-sized enterprises (SMEs) in the construction sector in Shanghai, Zhejiang, Jiangsu, Jiangxi and Anhui. Running for a total of 54 months, and jointly implemented with Tongji University, Shanghai, and the Swedish Environmental Research Institute (IVL), the Project has been active in three main areas: training, research and engagement with policy-makers.

The flagship activity of the Project has undoubtedly been the training which was based on a combination of theoretical and practical training, giving all participants the opportunity to take what they'd learned in the classroom and apply it themselves. Practical training focussed on insulation of external walls, while theoretical instruction covered a wide range of topics related to EEBs such as indoor comfort, classification and verification of buildings, renewable energy, building techniques and materials, layout and function. Specific content was tailored to each target group in order to address specific needs and match the expertise of a diverse number of participants that included architects and designers, developers, construction companies, materials suppliers, supervisors and government officials at local and national level.

Training modules, a product of collaboration between Chinese and European research partners, combined Europe's long-standing expertise in EEBs and sustainable urbanisation and placed it in the context of China's local climate and prevailing regulatory environment. This resulted in a programme that promoted best practices and case studies, integrating the latest know-how from Europe and China, while ensuring that the knowledge gained could be applied specifically to creating solutions for the greater Shanghai region.

A positive by-product of the programme was that the expertise developed through the research that went into designing the training courses, and the subsequent im-

SWITCH-Asia in Pudong, Shanghai

pact that the training had, helped to support dialogue between EU stakeholders and policy-makers at both local and national level. Authorities strongly welcomed the Project's training model as it addressed a significant need in the industry and also helped to pave the way for a more comprehensive understanding of sustainable urbanisation concepts and practices. In particular, the local construction authorities in Jiaxing (Zhejiang Province) and Jiangsu Province officially endorsed the Project training and certificate respectively.

As testament to the value of the Project, to both European and Chinese sides, its benefits reached beyond its function as a training ground for individuals working in urbanisation-related industries. Knowledge developed through the Project has been used to contribute to the drafting of the Ministry of Housing and Urban-Rural Development's (MoHURD) standards for green buildings and green building materials. Also, since the project's inception in 2009 the European Chamber's annual Position Paper has integrated the recommendations and experiences of the Project, specifically in the papers related to environment, construction and energy.

With more than 2,200 professionals trained by the Project since 2009, and increasing demand from both industry and policy-makers in the field of sustainable urbanisation, 'Train the Trainers' has drawn plenty of attention from industry media, such as *China Construction News* and *Construction Times*, and has been promoted as a reliable reference for best practices and a hub of expertise that helps support China's steps towards sustainable development.

The Project has successfully developed partnerships and created synergies with a wide range of stakeholders that are actively engaged in this field. These include: industry associations (e.g. the Green Building Professional Partnership (GBPP) and ETICS Quality Alliance); international organisations (e.g. the International Labour Organisation (ILO) and the United Nations Environment Programme (UNEP)); civil society (e.g. GreenDrinks China); international projects (e.g. the Sustainable Building Interior and Decoration Initiative in China (SUSBIRD)); and media organisations (e.g. ArChina).

The Project created ripples outside of China too. Although focussed on China, the 'Train the Trainers' programme included many features that are of relevance to other countries facing similar challenges in energy efficiency, resource management and sustainable urban development. Because of this, SWITCH-Asia was invited to contribute to international conferences and forums across Asia and beyond, where it shared information on its working mechanisms, success factors and lessons learned to support regional and international replication.

Despite its formal closure at the end of July 2013, 'Train the Trainers' lives on via the new Sino-European Energy-Efficient Building Training and Research Centre (the Centre) that has been established at Tongji University in Shanghai. Building on the achievements and reputation of the Project, this permanent Centre further carries out activities initiated by the Project with the objective of further expanding its geographical reach, the services it offers, the types of audience it addresses and the content that it delivers.

Vocational schools will benefit from training at the Centre, whose content will be expanded from a specific focus on construction to embrace the broader process of sustainable urbanisation. The Centre's faculty consists of a combination of several departments which all relate to different aspects of urbanisation. Experts in subjects such as environmental sciences, urban planning, transportation and building materials all come together to provide an overarching, holistic approach to sustainable urban development.

The SWITCH-Asia project team with Chamber Secretary General Adam Dunnett (4th from right)

While continuing to carry out training and support policy making, the Centre intends to expand its services by engaging in consultancy with industry as well as at a municipal government level.

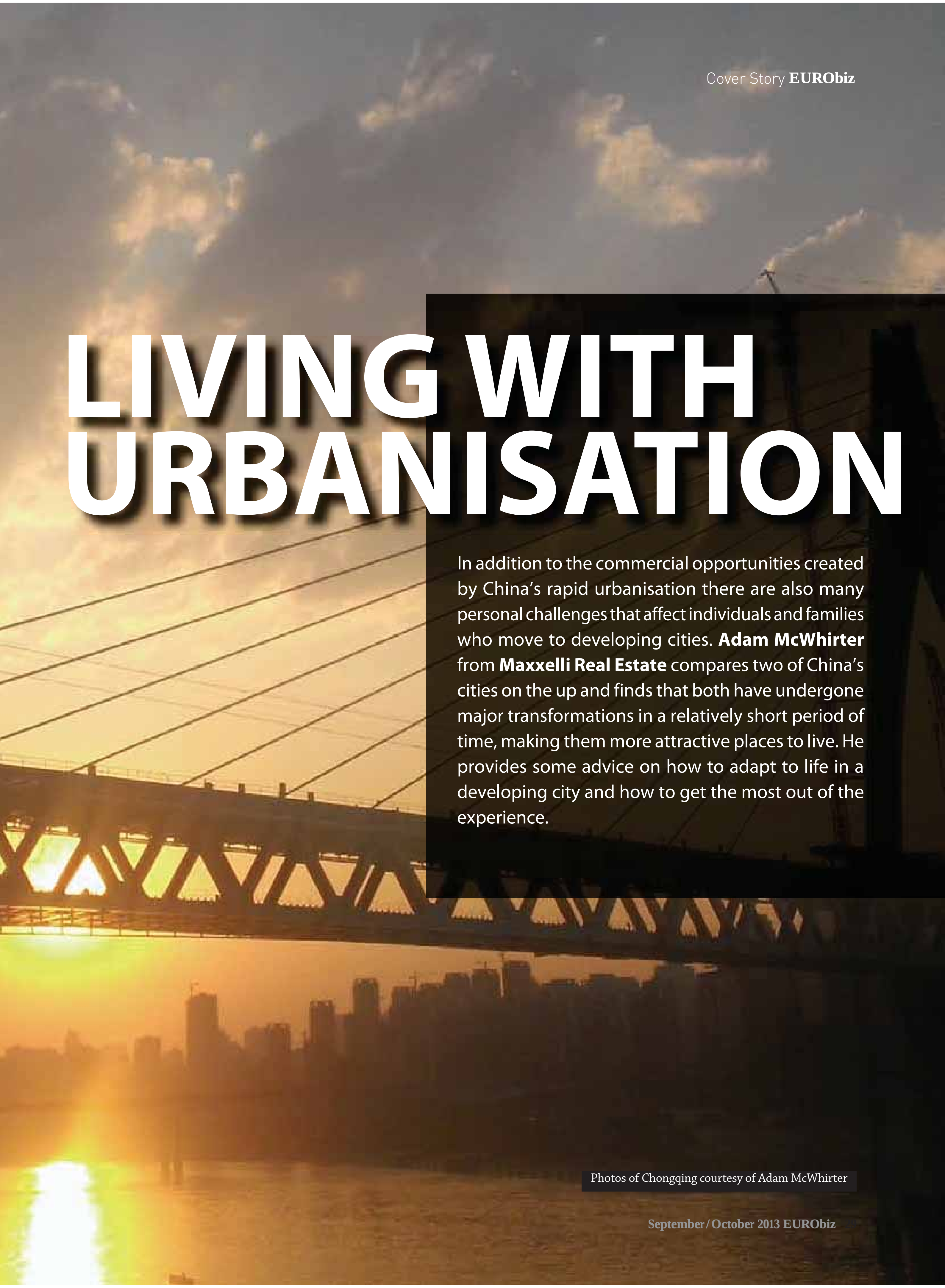
Having been granted a national licence by the Ministry of Education, the Centre is prepared to operate across China. In May 2013 a new centre was opened in Guiyang, Guizhou Province, adding to the network of provincial branches already established over the first four years of the project in Nanjing in Jiangsu, Hefei in Anhui, Jiaxing in Zhejiang and Nanchang in Jiangxi. These branches will continue to promulgate the mandate of the Project in the respective provinces beyond 2013 while the centre will continue to expand its reach to new regions throughout China.

The European Chamber remains committed to continuing its contribution to China's sustainable urban development, and demonstrated this in April 2013 by signing a memorandum of understanding (MoU) with the Centre to support its post-Project phase. The Chamber has also been facilitating the development of public-private partnerships (PPPs) between interested member companies and the Centre. These strategic partnerships ensure a strong European dimension to the development of the Centre and will help it to keep abreast of the latest developments in European expertise within the industry.

Cooperation with the Centre offers European companies a unique opportunity to reach out to one of China's most renowned universities, expand their China network and helps them to identify common solutions for sustainable urban development applicable to the country. Eb

Following the successful completion of the Project the European Chamber and Tongji University look forward to continuing their relationship of four and half years as they move into a new era of cooperation where European know-how can be further shared with China as it embarks on the biggest migration and urbanisation process in human history.

To date half a dozen European companies and projects have inked an MoU with the Centre, which remains open to engaging with further European counterparts. Interested parties can contact the Centre Director, Professor Zhang Yongming, at zym126@tongji.edu.cn



LIVING WITH URBANISATION

In addition to the commercial opportunities created by China's rapid urbanisation there are also many personal challenges that affect individuals and families who move to developing cities. **Adam McWhirter** from **Maxxelli Real Estate** compares two of China's cities on the up and finds that both have undergone major transformations in a relatively short period of time, making them more attractive places to live. He provides some advice on how to adapt to life in a developing city and how to get the most out of the experience.

Photos of Chongqing courtesy of Adam McWhirter

If you're about to move to a first-tier city in 'developing China' there are still undoubtedly challenges to face. But deciding between whether to move to Puxi or Pudong is a far cry from choosing between Changsha or not taking the new position at all because you're unsure about venturing into the unknown.

Comparing two of China's most rapidly developing cities, Chengdu and Chongqing, we can see some of the major developments over the past five years and how expats have been directly affected.

As a comparison I'm going to use the international schools as a barometer for expat development in each city. It is difficult to accurately say how many travellers are in and out of the city, but as a guideline the number of international school-aged children is a useful stat. In June 2008 Chengdu had less than 425 and Chongqing less than 75. Fast forward to September 2013 and Chengdu and Chongqing have just over 1,250 and just over 300 respectively. During this period of time both cities have undergone transformations that have clearly added to their appeal as places to live, as we can see below.

Summer 2008

Chengdu

The main north/south roadway, Renmin Nanlu, had just been completed, which marked the beginning of the southern movement in Chengdu. Up until this point the majority of expat life was just south of the 2nd ring road, but beyond that remained the unknown. A few families ventured to the deep-south, but the majority of daily life was still predominantely central.

Chongqing

The expat community was shrinking in size due to some current projects nearing completion, but also the onset of the global recession. Chongqing had yet to prosper from the economic advantages that have been put in place in recent years. Expats generally stayed in the north due to higher quality living conditions and the only available Western food was found in fast food chains and five-star hotels. The city was just on the verge of developing, but was still quite raw compared to the more international standards of Chengdu and the rest of first-tier China.

Summer 2013

Chengdu

Although Chengdu was always a relatively liveable city it is now well on its way to first-tier status. On 1st June the elevated second ring road was opened which, along with the Renmin Nanlu roadway, vastly increases the accessibility of the city.

Expat life is now forging southwards. In July 2013 the 1.5 million square metre Global Centre opened just outside the third ring road, which is world's largest commercial building containing hotels, office space and the largest shopping centre in Chengdu. The second phase of the Tianfu Community, Chengdu's most renowned villa compound created specifically for expats, was also launched in August. The draw to the south of Chengdu is strong, not only for the expat community, but for all of Chengdu's growing middle class.

With the establishment of three international schools, two metro lines and four international serviced apartments, and with new five-star hotels, foreign restaurants and international shopping centres opening monthly, Chengdu has been transformed into one of the most liveable cities in China. In just five short years there has been a large increase in the quality of life for expats residing there.

Chongqing

Over the past five years Chongqing's growth has been well documented. As a city carved with rivers and mountains a ring road transportation network was never going to be possible. Instead, to create a flowing city, Chongqing has developed a network of bridges crossing both the Jialing and Yangtze Rivers. The two newest bridges, entering the central business district (CBD), will be finished within the year.

The expat community is scattered throughout the Yuzhong Peninsula and northern Chongqing amongst the Two Rivers New Zone, a development zone which has just celebrated its second anniversary. Chongqing's development has been rapid, but change witnessed in northern Chongqing, between the two rivers, has been dramatic.

Yewchung International School is filling out the brand new campus, which is located in north Chongqing within five kilometres of the majority of the villa compounds. Also, there are now four metro lines crisscrossing the city with the third line connecting north Chongqing to the airport and Jiefangbei CBD.

Chongqing has transformed from a backwater, hardship city into a megalopolis and its expat residents have seen their options of where to live and where to eat increase exponentially.

Some rules for survival

For those that are planning to move to developing cities in China, the choices you make need to be based on the future development of the city. Besides taking language and cultural lessons, below are some tips for surviving the urbanisation of China's most rapidly developing cities:

Know the city

As the above cases illustrate urbanisation can be dramatic. You really need to do your homework before selecting a location. What might seem like a relatively quiet home in a peaceful neighbourhood today could easily see a major elevated roadway running next door by the time your lease expires. On the other hand, what seems like a distant suburb today could see the benefits of a new metro line reaching the compound within a short number of years.

The biggest lesson here is to ask questions when you are searching for new properties in a new city. It is important to look at the most popular expat communities today, but also realise where things will shift tomorrow.

Don't view China through five-star lenses

This is obviously good advice no matter where you move. It is important to remember where the city has come from. This does not require you to spend a year living on the farm, or in the less-developed communities within your new city, but it does not hurt to spend time in these areas. Grab a friend or a translator and spend some time visiting tea shops or having lunch in the older neighbourhoods. Take the time to speak with the long-term residents and learn to appreciate the changes they have witnessed.

Climb that mountain

Whereas the notion of climbing a mountain may run contrary to the aim of acclimatising to a vast urban environment, arriving in one of China's numerous cities of more than five million people can even get to hardened China expats. When homesickness sets in it is important to remember that the city sprawl does eventually come to an end. Whether you are interested in history, nature or more urbanisation, if you stay at home and do not explore your new city you may very well find yourself spending your time counting down the days until your next trip abroad. Everyone comes to China for different reasons, but the most well-adjusted families are those that take the time to explore.

Stop Comparing

If you spend your days comparing developing China to your hometown you may find you are never happy. It is all too common for a group of expats to get together and spend their time complaining about the negatives instead of focusing on the positives. Delays due to construction do make travelling around the city more difficult, but when the ring roads and metros are completed the praise of the local infrastructure is often lacking. Stop comparing to home because, viewed through this perspective, China will never win.

Whether moving to second-tier China for the short or long term the changes you witness will likely be dramatic. Not all expats 'survive' but it is possible to leave with a much deeper understanding of China's development and an appreciation of its transformation. Eb

***Maxxelli Real Estate** is a foreign owned and managed relocation firm focusing on China's most rapidly developing cities offering a range of relocation services. Having been fully operational for nearly 10 years our success and growth can be attributed to our staff, our tools and systems, along with continuous innovation. Along with Maxxelli's range of relocation services we also offer services in both commercial/industrial leasing and sales.*

www.maxxelli.net

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www.maxxelli-blog.com

info@maxxelli.net

4000 150 600

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

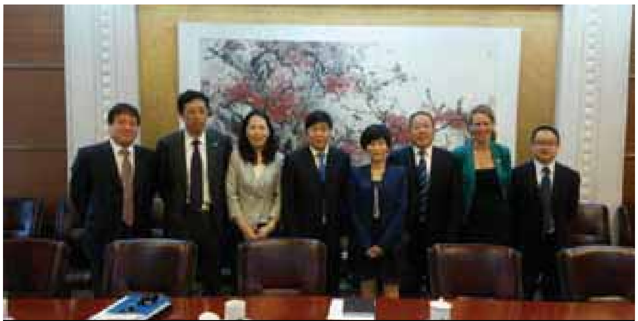
Meeting with Vehicle Emission Control Centre (VECC), MEP

Meeting with the Ministry of Environmental Protection

On 5th August, the Chambers' Auto Components Working Group met with no fewer than three Ministerial Departments — the Ministry of Environmental Protection, the Ministry of Commerce and the Ministry of Transport. While meeting with the Ministry of Environmental Protection's Vehicle Emission Control Centre (VECC) the Chamber introduced the *Position Paper 2013-2014* and outlined the Auto Component Working Group members' main concerns.

The VECC responded by expressing the importance of European technology in helping solve the pollution problem in China. Both parties concluded by agreeing to continue the dialogue on these important matters.

Meeting with Department of Road Transport, MOT



Meeting with the Ministry of Transport

At the Auto Components Working Group's final meeting with the Ministry of Transport's (MOT) Department of Road Transport topics included issues surrounding vehicle safety and the market access threshold for European auto component manufacturers. The *Position Paper 2013-2014* was also introduced.

Mr Yu, Director, Division of Vehicles, introduced the main responsibilities of the MOT, including implementation of specific directives. Other topics included fuel firing rate and the MOT's key cooperation with the Ministry of Industry and Information Technology and the Ministry of Public Security. The Ministry of Transport welcomed this working-level dialogue and called for further, more comprehensive cooperation with the Chamber.

Roundtable Meeting with Guangzhou Government


Meeting with the Guangzhou government

The Chamber co-organised a roundtable meeting with Guangzhou Government on 17th July, with the participation of Chamber member companies, and different government bureaux at provincial and municipal level. Mr Ye Jian, Deputy Director of Guangzhou Government Affairs Administration Office, pointed out that the government will focus more on SMEs. Progress made in the removal of red tape and bureaucracy in certain areas was also touched on.

The meeting concluded with a presentation of the *Position Paper 2012/2013* to Ms Qin Hong.

Meeting with Department of Foreign Investment, MOFCOM

Whilst meeting with The Ministry of Commerce's Department of Foreign Investment, the Chamber discussed the Chinese Government's 'Go West' plan, which encourages foreign capital enterprises to develop business in central and western China. In the current Chinese market there are a greater percentage of domestic sole proprietorship enterprises than foreign joint-venture enterprises.

The meeting concluded with both parties agreeing that it would benefit the European auto components industry if clearer directions were issued by the Chinese Government and dialogue between industry and the government was deepened.

Other Lobby Activities:

On 10th July, the Chamber organised their first lobbying meeting with the **Chongqing Environmental Protection Bureau**, led by **Southwest Chapter general manager Min L. Colinot**. An overview of the Chongqing Environmental Protection Bureau's latest updates was given and officials from different departments addressed and discussed business concerns of our member companies.

On 22nd July, the Chamber met with the **China Food and Drug Administration**'s (CFDA) Drug & Cosmetics Registration Department with the purpose of sharing with relevant industry associations the initial thoughts on how to establish the new regulatory framework for cosmetics.

Mr **Zhang Chunfeng**, the **Deputy Director** of the **Foreign Investment Administration Division**, paid a visit to European Chamber's Shanghai Chapter on 9th August. Mr Zhang highlighted the areas that makes Anhui a favourable investment environment and hoped the European Chamber can deepen the relationship with Anhui and be a channel to introduce more European companies seeking to invest.

On 13th August, representatives from the Chamber met with **Perez-Canado**, **Head of Trade**, **EU Delegation**, to discuss the on-going VAT reform and Circular 37 that came into effect on 1st August. Members expressed concerns regarding the impact the Circular 37 will have on foreign logistics and shipping companies' operating costs in China.

The Chamber's Nanjing Chapter met with the **Limburg Government Agency** and **Jiangsu Chamber of Commerce** on 16th August. **Nanjing's general manager, Mirella Savegnago** introduced the European Chamber to the Chamber of Commerce in Jiangsu and the Limburg Government Agency, a project aimed at attracting Chinese investment in the Limburg Province of Belgium. Mr Li Bo, Director of Jiangsu Chamber of Commerce, introduced his organisation and expressed his hope for more cooperation with the European Chamber.

Initiated jointly by the **Paediatric Nutrition Desk** and the **Agriculture, Food and Beverage**, and **Cosmetic Working Groups**, the Chamber met with **ASQIQ** on 23rd August. **Deputy Director General Lin** shared his perspectives on the current issues of safety risk communications, and answered questions from Chamber members. Both parties agreed to keep regular communications in the future. Eb

TAKE YOUR POSITIONS

On 5th September, 2013, the European Chamber published its primary annual lobbying document. **The *European Business in China Position Paper*** draws directly from the knowledge and expertise of the Chamber's 1,700 member companies following a six-month consultative process. Already in its 13th edition, this year's *Position Paper* includes 26 vertical industry working group papers, eight horizontal industry working group papers, eight local papers and more than 800 recommendations.

The Executive Position Paper *aims to capture the essence of the many issues raised in the working group papers and propose constructive recommendations that promote China's sustainable economic growth. What follows is a summary of this paper.*

There is widespread consensus that China needs to embark on a new round of structural reforms. Better use of market forces is the catalyst that will ensure that China's increasingly limited resources are directed to the most productive areas of society. This inevitably entails a fundamental reassessment of the government's role in the economy and business environment.

The government strongly controls the business environment. It not only acts as a regulator and enforcement agency but also steers industrial development, brings a top-down approach to guiding technology choices and uses many industrial policies to spur domestic industry growth and innovation.

It also carries out commercial activities through state-owned enterprises (SOEs) and directs the flow of investment and capital through control of the financial system. This has led to market-distortions, mispriced capital, over-investment and overcapacities, local and corporate debt and stifled consumer demand and innovation. Furthermore it serves to compete against market forces.

The government therefore needs to fundamentally reassess its role to bring about the necessary restructuring to attain sustainable growth.

The *Executive Position Paper* identifies three key areas where the government needs to modify its approach to — and in many cases cede control over — the business environment in order to affect the necessary restructuring.

Strike a new balance between market forces and government control

In some areas the government is too absent from the market and needs to strengthen its capacity to formulate top-level regulations while enforcing existing regulations in a transparent and fair manner. In other areas the government is too dominant and needs to step back in order to strengthen market forces, primarily through institutional reforms to the financial system, the role of SOEs and through the reduction of industrial policies and costly subsidies that are distorting markets.

A successful economic transition must be preceded by a regulatory transition in which the government finds its proper role in an increasingly modern economy. Building up a transparent regulatory and enforcement capacity is an extremely difficult task, but is something that must be done in order to foster a vibrant market economy.

It is equally important to leverage the contributions that business can make through greater structural reforms, the most important of which are:

- **Financial reform**

China's financial system and the privileged relationship between the state-owned banks, SOEs and local governments that it serves means that household savings are used to subsidise lending, much of which is directed at marginal investment projects to prop up unproductive SOEs and to finance wasteful local government projects. This results in risk being built up in bank, corporate and local government leverage.

" Reform is the biggest dividend for China." — Premier Li Keqiang[1]

- **Industrial policy reform**

The government uses a plethora of interventionist measures to attempt to develop domestic industries. Local governments have provided direct and indirect subsidies, and other favourable conditions, to local companies in a number of sectors into which the Chinese Government has encouraged significant financial investment. This is the major cause of market inefficiencies and overcapacity in many of these sectors.

- **SOE reform**

The European Chamber believes that SOEs can play an important role by providing public goods and services at affordable prices in sectors where demand is not sufficient to generate an efficient or effective market-based response from the private sector.

"State-owned enterprises and private enterprises should be treated equally." — Premier Li Keqiang[2]

Although SOEs can play a role in sectors of special strategic interest to the government, they should not be protected from competition or enjoy special privileges. China's sustainable economic development and rebalancing relies upon private enterprises being able to fully develop alongside SOEs in an environment of fair competition. In practice, this will require SOEs to steadily withdraw from many areas of the market.

Reforms and orderly privatisation could unleash a wealth of innovative potential and efficiency in key sectors currently dominated by SOEs.

Reassess the government's approach to technology and innovation

China's strong emphasis on technological and scientific development has played a key role in driving economic growth. Both international and domestically-developed innovations have greatly improved China's technological level and overall productivity, but it has reached a point where it has caught up with the leading technologies in many, but not all, sectors.

Nationalistic approach to indigenous innovation

To move further up the value chain, China will have to re-examine some of its misguided indigenous innovation policies including: national standards; government-developed catalogues; forced technology transfer measures; forced disclosure of proprietary information; preferential public procurement practices; and unequal research and development (R&D) funding systems.

China's implementation of these policies reflects a nationalistic approach that in many regards appears to serve simply as a tool to capture greater market share for domestic enterprises and to use China's large marketplace to promote domestic technologies.

While the government can and must play an important role in designing the framework and providing incentives and guidance for innovation, the European Chamber believes that, contrary to intent, some of these nationalistic, indigenous innovation policies — in addition to China's top-down approach to technology innovation — do not actually promote domestic innovation capacities.

Technology vs systems

While trying to promote future areas of growth and innovation, it is equally important to implement existing technologies efficiently. In most fields China has access to many of the best technologies available, but if these technologies are not employed correctly they may be of little use.

Rather than micro-managing technology choices through detailed regulations and standards, industry should be given greater flexibility in choosing technologies and applying these efficiently within systems.

Bring China's investment environment closer to international norms

China's re-emergence onto the world stage continues to be welcomed with both excitement and trepidation. Despite the fact that many foreign companies have benefited from doing business in China's domestic market, that global consumers are eager to buy China's exports and that governments from around the world are courting Chinese investment, many people outside the Middle Kingdom continue to regard China with scepticism and doubt its true intentions.

As the country's growth rate slows during its economic restructuring, Chinese companies will increasingly need to go global to ensure sustained growth. Greater integration into the global marketplace and a further assimilation of international systems and practices into the domestic business environment would help this process.

Improve market access conditions

China's current domestic policies have important international implications and can negatively affect the perception of Chinese companies abroad. Until China creates the same kind of access to its markets that it receives elsewhere in the world — which is particularly broad in Europe — it will not be seen as an equal and fair player by the West.

Protectionist domestic policies could therefore add additional obstacles to the internationalisation of Chinese companies due to the trade tensions they are generating with China's major trading partners and the increase of corresponding calls for reciprocal treatment against Chinese companies abroad.

China has used the vast size of its marketplace to protect domestic companies and to place restrictive market access conditions on foreign companies. Market access remains the major concern of European business in China.

The European Union (EU) does not have a term for categorising investment as foreign. If a Chinese or other non-EU company legally invests in Europe, the resultant legal entity is considered European. As such, Europe remains resiliently open and Chinese companies are increasingly entering markets in Europe that European enterprises are not allowed to access in China.[3]

The potential benefits of a fully reciprocal, bilateral trade relationship are enormous. However, systematic market access restrictions and discriminatory treatment issues continuously heap pressure on governments to tackle these problems, and are leading some to increasingly perceive China as an adversary rather than a partner.

Taking a global leadership role in harmonisation

Where domestic regulations and standards deviate from international practices Chinese companies face additional costs, as their products have to comply with different systems and Chinese mandated standards frequently do not have global interoperability. Deviation from international practices also risks isolating Chinese industry from global systems and international trends.

Rather than seeing international exchange as a one-way process in which China is adapting foreign practices, Chinese companies should be encouraged to actively engage in these processes to drive the industries forward and to develop standards for products that could benefit from global economies of scale.

Leadership in international trading systems

As China aims to expand investment globally its leadership role can and should be used to further influence the evolution and expansion of the World Trade Organization (WTO) in the Doha Development Round (DDA) to lower trade barriers around the world at a multilateral level.

China also has an enormous opportunity to use the negotiations of bilateral investment agreements with its two major trading partners, the EU and the United States — like it used the leverage of WTO membership in the 1990s — to lock in trade and investment liberalisation and to repel anti-reformers in China. Comprehensive agreements covering both pre- and post-establishment national treatment would be beneficial for both China and the world. It could pave the way for future free trade agreements or allow China to take a leadership role in expanding the DDA. Eb

To download your free copy of the complete Position Paper 2013/2014, *including all Chamber recommendations, please go to http://www.europeanchamber.com.cn/en/publications-position-paper.*

1 http://news.xinhuanet.com/english/china/2013-03/17/c_132240248.htm

2 Li Keqiang: State-owned enterprises and private enterprises should be treated equally. http://money.163.

3 Chinese ODI in the European Union. European Union Chamber of Commerce (2013). http://europeanchamber.com.cn/en/publications-chinese-outbound-investment-eu-european-union com/13/0414/17/8SEHQ03R00254TI5.html

GET YOUR HOUSE IN ORDER

Since early July 2013, Chinese authorities have been conducting a series of raids and investigations into foreign pharmaceutical companies active in China, alleging that some of them may have engaged in corrupt practices by soliciting and bribing doctors and healthcare personnel. **Ronan Diot**, Senior Associate with **Norton Rose Fulbright**, examines the current situation, and provides practical advice for European companies operating in China on how to make sure that they are fully complying with Chinese law and don't get caught out.

President Xi Jinping has vowed to unswervingly fight corruption

The current anti-corruption investigations taking place are probably the most comprehensive anti-corruption enforcement actions taken by Chinese authorities so far, with several dozens of employees (including senior management) being detained; the actual investigations have been taking place for more than six months. It is anticipated that these investigations will turn into an industry-wide crackdown and will possibly extend to other sectors. At the time of writing, the oil and gas sector also appears to be one of the targets.

These investigations should not come as a surprise to well-informed foreign investors since they are in line with the strict anti-corruption campaign advocated by the new Chinese Government since it took office in March 2013.

How can international businesses ensure and demonstrate that they are doing their best to limit bribery and corruption in the Chinese market, where anti-corruption authorities are becoming increasingly aggressive and inquisitive? What immediate actions need to be taken and what controls need to be put in place to achieve healthier business practices?

Below we provide ten points to consider for executives who want to make sure that their company's commitment to ethical business lives up to the expectations of regulators, in China and elsewhere.

1. Assess the risks

No matter how developed your China compliance organisation is, assume that it could be better and conduct a thorough assessment of the bribery risks faced by your company. Are your staff more likely to be on the giving or receiving end of bribery? Which business departments are most at risk? What horror stories have you heard about your competitors? How can you be assured that these scenarios would not happen to you? A complete risk assessment will be the first step you need to take. It may be worth considering hiring a comprehensive external advisory team to help.

2. Get the basics right

Has your company put in place the minimum compliance structure required for its operations in China? Have you established and regularly updated practical gifts and entertainment policies, procurement policies, and rules on conflicts of interest? When was the last time the actual implementation of these policies and rules was reviewed? Are you conducting training on these issues so that employees follow the policies in practice and do you assess your employee's level of understanding and commitment to business ethics? Do all your contracts have anti-bribery provisions with corresponding termination rights? Does your M&A due diligence process have a compliance element? There are easy-to-follow checklists available to make sure that you have not missed an important step. We strongly advise you to follow them.

3. Compliance in the digital age

Compliance can sometimes be counter-intuitive. While lawyers always advocate keeping hard copies of documents, paper-based compliance processes can become a liability as they are prone to tampering and may be difficult to analyse. Digitalised approval and record processes are much more difficult to tamper with and cannot be easily destroyed. They also give you better control over your general expenses and per-client spending and can help you limit the risk of fraud. Ask your IT providers to upgrade your customer relations management (CRM) and expenses systems to incorporate compliance tools.

4. Rotate people

Allowing the same employees to stay in the same role for too long can be a mistake that many employers make, often out of a legitimate feeling that the employees are the best for their job. Even though this may be the case, the lack of rotation creates 'little kingdoms' which can present severe compliance risks, especially in sales, procurement and finance. Rotate people regularly — and if they deserve it, promote them.

5. Get the 'tone from the top' right

'Tone from the top' is often hailed as the holy grail of compliance. Like many other items on this list, it is only useful if it is genuine and sincere. How often do you engage with your senior management in China on compliance and anti-bribery issues? When was the last time you had a transparent discussion with your senior China sales managers on the impact of corruption on their business? How confident are you that the message flows down at all levels? If you let your employees conclude that compliance is just lip service from headquarters, 'tone from the top' becomes an empty phrase.

6. Build up your compliance organisation

Empowered and engaged compliance officers will be your best line of defence against corruption and questionable business practices. If they are bullied or manipulated by the business, this line of defence collapses. Make sure they are regularly trained and that they have the right level of access to senior management, particularly in the headquarters. Do not forget 'face' issues in China — defend your compliance officers' role in front of their colleagues.

7. Use your network

No matter how difficult it is to follow the compliance road in China, you can be sure of one thing: your competitors are facing the same challenges. This is one of the fields where engaging with competitors and industry peers can actually pay off. Compliance officers in your organisation should endeavour to regularly meet their counterparts in the industry to share knowledge and strategies (but in doing so they should be careful not to breach PRC antitrust laws).

8. Spend the money

The main difference between a real compliance programme and one that does not work? Cost. Doing the right thing costs money. However, there are things you will be able to streamline and over the long term investment into compliance systems will pay off. But there is no doubt that integrity and business ethics come at a cost — the cost of being more selective when appointing distributors, the cost of maintaining a compliance team and the cost of training staff and hiring properly qualified third-party consultants. The implementation of good business ethics may also mean losing business opportunities. In the long run, however, those organisations which have been fined hundreds of millions by regulators would agree that this cost is well worth it.

9. Sales strategy: think again

If your sales strategy heavily relies on third parties (authorised distributors and other types of dealers), how confident are you that these third parties understand and share the ethical values and the business conduct rules set out in your Code of Conduct? Have your sales staff turned into distributor managers who cannot sell your products on their own and are dependent on sometimes obscure third parties? What exact value have these third parties provided and why does your company need them? As part of your risk assessment, revise your sales strategy to eliminate obvious areas of risk.

10. Gift-giving culture

"China is different", "China has a gift-giving culture". These phrases used to be the alpha and omega of the compliance approach to China. And yet, China can change and *is* changing. The political articulation of a more stringent approach and the increasing number of investigations by Chinese authorities is testament to this. Gifts to your tax inspector are out of the question in any country, no matter how 'different' that country is supposed to be. Naturally, successful international businesses adapt themselves to local customs. However, when the local custom runs against the local law, follow the local law.

Ronan Diot *is a Senior Associate with* ***Norton Rose Fulbright****, and has been calling Beijing home for the past six years. He regularly assists foreign companies with their investments in the PRC, especially in highly-regulated sectors such as financial institutions, technology, telecoms and agriculture. He is also a specialist in compliance and anti-bribery, having led many internal investigations, risk assessment exercises and assisted foreign companies with the development of their compliance programmes and trainings.*

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BUILDING ROME IN A WEEK (OR TWO)

With total investment reaching CNY 100 trillion (EUR 12 trillion) in 2012, China's construction sector will continue to grow quickly for the foreseeable future. The **EU SME Centre** says that although SMEs providing high-quality services in niche markets may find opportunities, there are still many obstacles preventing their full participation; domestic companies still have the lion's share of the sector overall.

Currently China is constructing more than one third of all buildings worldwide, with additional living space amounting to the equivalent of a city like Rome appearing approximately every two weeks.

A recent sector report published by the EU SME Centre identifies a number of factors indicating that the sector will continue to be one of the main drivers of China's growth. The situation might change in the mid to long term due to changes in demand and interventions by the Chinese Government, nonetheless, European SMEs offering high-quality products will find sustainable opportunities in selected niche markets.

Controlled environment — the impact of government policy

The overall development of the market will depend strongly on future regulatory interventions by the authorities.

On the one hand, the nationwide campaign for continued urbanisation will ensure the construction sector remains significant to China's overall economy in the coming years. By 2025 the government wants 70 per cent of its citizens to live in cities, which would entail a mass migration of 250 million people in the next 12 years, as well as massive efforts to provide housing and adequate infrastructure.

On the other hand, the desire to decrease the country's dependence on public investment and increase domestic consumption could dampen the sector's prospects in the long run. In addition, the government is keeping a close eye on the sector because of widespread speculation and fears of overheating and has repeatedly attempted to influence the market via macroeconomic adjustments in the past.

Government policy is also influencing the geographical distribution of construction activities to a certain extent. More than 85 per cent of revenue is still generated in the eastern metropolitan areas of the country, but because of governmental investment incentives, fast growth and large-scale infrastructure projects, western regions and second- and third-tier cities are quickly catching up. However, the largest markets for most European products remain on the eastern seaboard.

Home field advantage — domestic players own the market

As can be expected, construction is carried out almost exclusively by large Chinese companies, with private enterprises dominating the construction of buildings (81 per cent market share) and state-owned enterprises heavily involved in infrastructure projects (18 per cent market share). Foreign companies occupy a meagre one per cent of the market, a share which has actually been decreasing over the last five years.

The EU SME Centre report identifies three main factors that hinder Western companies looking for large-scale involvement in the sector:

- **Regulation**

  In many of the large subsectors within construction foreign, and even newly established Chinese companies, experience strong regulatory constraints. Licences for construction firms are especially hard to come by and new materials and methods are often prohibited due to the country's limited ability to assess the benefits of their application.

- **Common business practices**

  As in many other sectors in China, being well-connected in business and politics is often more important than product and service quality. Because business is to some extent promoted through practices not acceptable to Western companies, advantages like higher quality, innovative products and established business processes are often not sufficient to level the playing field.

- **Price competition**

  More often than not price is the main factor influencing the decision-making process of builders in China. As builders and buyers are usually not the same people, quality consciousness and total cost of ownership rarely enter the equation.

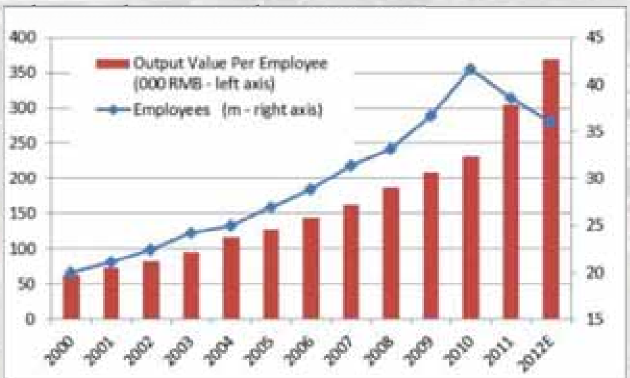
Fringe business — foreign companies in the sector

According to the report, foreign companies — including SMEs — will find opportunities mostly in upscale niche markets as Chinese consumers tend to associate European products with characteristics like reliability, modern design and innovation and are willing to pay premium prices for them.

Three trends in particular will increase demand for sophisticated European products in respective markets:

- **Labour efficiency**

  Due to increasing costs, builders are forced to pay more attention to labour efficiency. This will push demand for building systems like precast, equipment for building material production and general mechanisation, sophisticated and low maintenance building materials as well as training in corresponding processes and technologies.



Source: EU SME Centre report The Construction Sector in China

- **Energy efficiency and green building**

Energy efficiency is gradually becoming more important as well, with experts estimating that China will become the world's largest market for green buildings by 2017. The central government has set precise targets for energy saving and eco-friendly buildings. Although not yet a dominant feature in residential construction, many public buildings have to adhere to stringent energy norms and builders are implementing a large range of energy conserving or generating technologies.

This, in combination with the introduction of the Chinese Green Building Standard, is causing an annual growth rate of 60 per cent in the green building sector, compared to a general market growth of about five per cent. Opportunities for European companies include efficient lighting and heating systems, smart measuring and control systems, energy storing technology and retrofitting services.

A report specifically on the green building sector in China is available on the website of the EU SME Centre for free download after registration.

- **Design and quality**

Because of rising levels of disposable income and an increasing desire to live comfortably top-quality design products that help save space, are highly reliable and increase well-being will find improved sales prospects in the coming years.

European brand names are leading this movement, from revolving doors and 'concrete accessories' to sanitary appliances and designer furniture, European companies have been successful in building a niche and occupying a dominant market share.

While government intervention may cause the Chinese construction sector to experience fluctuations and the bulk of the market is dominated by Chinese enterprises the rapid changes in many aspects of Chinese society do create opportunities for companies that can offer high-quality products and services in specialised markets. However, despite high growth rates, entering the Chinese market remains an enormous challenge for European SMEs. It requires good planning, timing and an effective choice of business partner.

To find out more about this diverse market, download the report *The Construction Sector in China* from www.eusmecentre.org.cn, where you will also be able to find other related resources like case studies, guidelines and webinar recordings.

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

Case study:

WHITE PAVILLION – GREEN ENERGY IN BUILDINGS

Type of business: Engineering and implementation of alternative energy sources in buildings and city areas

Operation history in China: 2 years

Company size in China: 6 employees

Target market: Buildings in China, city areas, eco cities

Company Background

Founder and Managing Director Raf Vermeire owns a majority stake in three separate Belgian SMEs carrying out projects in biogas, geothermal and solar/wind. He provides 'energy concepts' by advising, engineering and implementing alternative energy strategies for customers' buildings. White Pavilion has built a team of engineers and sales people in Beijing and is now actively working on projects and looking at other opportunities in alternative energy solutions for individual buildings and whole city areas.

Market Environment

'Green buildings' are still in their infancy in China. The urgent need to fulfil volume means there is often neither time nor money for anything other than fast and economical solutions. There is also disparity between those who invest in energy saving and those who ultimately benefit. Builders pay for the technology but the savings only benefit their customers. The situation is gradually changing as the government is strongly promoting a green building agenda in its 12th Five-Year Plan. Also customers are becoming much more aware of quality and energy cost issues. Regulations and subsidies are growing and alternative energy sources are getting much more attention in building design.

Challenges and Opportunities

The key challenges highlighted by White Pavilion are:

Market education: As White Pavilion's solutions are new to the market, they need to spend a lot of time educating and convincing different parties such as contractors, universities, study bureaux and government.

Network building: Finding customers with a serious interest in alternative energy sources in a market as big as China is like finding a needle in a haystack. It requires the development of a large network of industry and government contacts that, over time, will start acting as lead generators. This network development is a long process.

A foreign technology provider: As a foreign company, White Pavilion experiences both advantages and disadvantages. There is a growing bias towards Chinese products and services in the market in general, and from government in particular; local governments prefer to buy 'Chinese', unless there is a very strong and proven reason to use foreign companies. Foreigners do have advantages and can still play an important role though.

"When solutions are complicated and Chinese experience is limited, foreign companies are the logical providers to turn to. That is what we are here for," says Vermeire.

Financing: Many projects are under consideration, but often fail to materialise, due to a lack of investment funds. Although payback terms of alternative energy investment can be very favourable, the pressure to build more, rather than better, within a given budget is still very strong. White Pavilion is therefore in the process of setting up a separate financing fund for the projects with the highest returns.

People: Attracting and retaining the right talent has been a challenge and it has taken White Pavilion almost two years to build the team it has today. They require engineers with a few years of experience in the alternative energies field. As they cannot compete with the salaries and career growth that large enterprises offer, they target employees who prefer the responsibility and the sense of achievement that comes from working in a smaller team.

Opportunities in Building

White Pavilion sees very strong market potential in greener buildings and anticipates new business models appearing and strong possibilities in this sector over the next 10-15 years.

Fields like energy consumption measurement, energy saving building materials and construction methods, as well as small-scale, waste-to-energy projects, will all need to be upgraded to a world-class level. Foreign enterprises, especially SMEs, will play a vital role in this upgrade.

Best Practice

- *Expect a long incubation time*: Introducing a new company with a new technology to the market can be a long process. Your company needs a proven business model and a working solution under Chinese circumstances before you start rolling it out to the vast Chinese market.
- *Establish a new business model*: It can take time before you establish a business model that works, especially in new markets. Copying existing business models at home is a logical place to start but in the majority of cases will not be successful in China. You will need time to experiment, and you will need a leader with the vision and local power/autonomy to implement it.
- *Collectivising effort*: Building your network within the correct circles in China is time consuming, especially for an SME, and it can make the time to market difficult to bear. Building strategic partnerships can help to share the burden.

Case study:

REALYS GROUP – DESIGNING AND MANAGING BUILDING PROJECTS IN CHINA

Type of business: Architecture, Urban Planning and Project Management/ Engineering, Procurement and Construction Management (EPCM)

Operation history in China: 8 years

Company size in China: 70 employees

Target market: Urban planning and architecture for Chinese and Western private and public companies. Construction and fit out for Western companies in China.

Company Background

Started in 2005 as a Shanghai subsidiary of French SME AOS, the company suffered from strict controls imparted by the parent company. Following a management buyout (MBO) in 2007 by two senior managers, the workforce was restructured and the focus shifted to architecture, urban planning and project management/EPCM .

In 2011, ISG plc, one of the leading UK Stock Exchange companies for fit out contracting in Europe, the Middle East and Asia, acquired 85 per cent of Realys. In July 2013, ISG confirmed its strong commitment to take over the remaining 15 per cent shares. Today, Realys Asia consists of around 100 staff, which includes 70 in China, with a turnover of approximately CNY 40 million.

Market Environment

China's export- and investment-driven economic growth model is not sustainable and is starting to show signs of weakness. Rising labour and utilities costs, as well as Europe's current economic situation, has impacted China's competitive advantage. The Chinese Government is now focussed on developing an economy based on domestic consumption. Becoming a technological nation is the key to avoiding the middle income trap and will allow them to create smart, sustainable cities to allocate the 300 million people moving from rural areas to cities in the next 13 years.

The central government will play a key role in helping to steer China through the required changes. The government's social policy will allow the development of the healthcare industry, the construction of social housing and help to engender the much needed technological revolution.

For more traditional industries, most of the penetration rates are still very low compared to more developed countries. Taking the automotive industry as an example, by estimating the growth of the middle-income population (expected to be approximately 700 million people in 2025), and looking at the past development of Japan and Korea, we can expect China's automotive industry to continue to grow strongly until 2023.

Opportunities for SMEs

Government funding (to support its social and healthcare policy), increasing rates of urban migration, an increased aged and middle-income population, liberalisation of the education and financial systems and the need for more sustainable development all create opportunities for innovative SMEs. Biotechnology, healthcare, F&B, agriculture, energy, new technologies, tourism and the automotive industries will offer them a wide range of business opportunities.

Overcoming Challenges

Cultural differences: Having to explain the Chinese market, its challenges and opportunities, to headquarters takes a long time. This affects decision making and responses to clients and the market. Having a proactive and strong local operation is vital to identifying, reacting and adapting to market changes. A good mix of both international and local resources is an advantage when managing your business in China.

Licence restrictions: China has developed a strict approval system with cumbersome licences in order to prevent inexperienced and non-conforming companies to participate in design and build opportunities. Realys does not feel these restrictions were initiated specifically to keep out Western companies, however, it is a challenge to develop in the market without the proper licensing.

Best Practice

- *Strong local autonomy*: As an SME it is necessary to have strong local management capable of creating China-based strategies and responding quickly to opportunities in the market. Complex reporting structures to headquarters reduce a local company's flexibility.
- *Niche-markets*: SME's are generally too small to compete on large projects and hence need to consider niche markets. Specialist skills may be needed in order to differentiate your service and may require a considerable time investment for the strategy to work.
- *Being adaptable and accepting cultural differences*: We are not working in Europe — ways of operating are different here. Taking the time to understand China before any major move is mandatory if you wish to build strong foundations for your business to be successful.

FEEL THE PRESSURE

THE EFFECT OF URBANISATION ON LABOUR AND SKILLS — THE LARGEST THREAT TO CHINA'S ASPIRATIONS FOR CONTINUED GROWTH

The mass influx of people into China's urban areas over the coming years raises an important question: where will they all work? **Elisa Mallis**, Head of Executive Coaching at **Management Development Services** (MDS) and Chair of the European Chamber's HR Forum from 2011–2013, takes a look at the effect the phenomenon of rapid urbanisation will have on China's workforce. While clearly a huge challenge, if dealt with correctly she says it will boost China's economy and their ability to innovate.

As the 17th Party Congress in China made clear its aim to quadruple per capita GDP by 2020, urbanisation was chosen as both the vehicle and the driver that can deliver continued economic growth, not only for China but for the entire world. The planned urbanisation in China is unprecedented: 350 million people will be added to China's urban population by 2025 — more than the entire population of the United States; and one billion people will be living in Chinese cities by the year 2030.

How will the enormous pressures of such rapid human migration play out? According to a recent report from the McKinsey Global Institute, *Preparing for China's Urban Million*, these pressures can be grouped in four categories: land and spatial development; resources and pollution; labour and skills; and funding. There are many reasons to believe that among these four the biggest threat to this process is, in fact, a human capital challenge — namely labour and skills.

This category raises three prominent challenges: an uneven spread of talent; a lack of practical skills required for higher-value jobs; and a lack of innovative potential and leadership. In 2011, human capital came up as the number one challenge for CEOs in China for the first time according to the Conference Board's CEO Study.

If urbanisation is to drive growth the government will need to significantly increase the number of higher-level jobs available. China's number of university students will triple by 2025; however, they will be unevenly spread around the country, as many will continue to gravitate to top-tier cities. This will increase the difficulty of finding the right people with the right skills that are able to fill the higher-level vacancies in second- and third-tier cities.

When we consider practical skills required for higher-value jobs in China it is important to consider that the average entry- to mid-level manager is on average 10 years younger in China than their European counterparts; the gap is not only due to lack of capability, it is due to a lack of practical experience too. Several studies show teamwork, taking responsibility and communication skills as lacking compared to global norms.

Another unique phenomenon contributing to this is a generation Y and Z consisting mainly of children who do not have siblings. As Generation Y and Z now make up over 60 per cent of the workforce, it's important to understand the limitations of a very bright and highly ambitious generation who, for the most part, had several adults to help them solve minor day-to-day problems that other generations would have to work out on their own or with the help of a sibling.

As highlighted at the European Chamber's Human Capital Conference in 2013, as China shifts from a manufacturing economy to a knowledge economy, a key leadership requirement is the ability to innovate. This year's Organisation for Economic Cooperation and Development (OECD) report for China highlights that by 2010 China's expenditure on research and development (R&D) more than doubled over the period 2005–2010 to USD 162 billion. This placed it only second to the United States and accounted for 1.8 per cent of GDP — slightly exceeding the OECD median. China's expenditure on R&D is forecast to be at 2.2 per cent of GDP by 2020.

China also has the world's largest pool of researchers, and rapid progress has been made in terms of education levels, especially among those who are 25 to 29 years old. So we should not underestimate the potential to innovate in China. However, the above metrics are all inputs to innovation and when we consider outputs we see that progress is uneven: with triadic patents quite low, industry and science relationships are underdeveloped, and innovative entrepreneurial activities remain constrained by restrictive regulations and administrative burdens.

A study from the Management Research Group, that collected data from managers and leaders across a number of companies in China and examined 22 leadership practices, found that Chinese leaders are persuasive, tactical and good at control and structuring. However, their ability to innovate is lacking. When we look at the supply of innovator talent in general in China, something that SHL's *2012 Talent Report* highlights, we see that there is certainly a gap behind mature economies and some other Asian countries.

Based on the current state of these three challenges to labour and skills it seems more likely that urbanisation will result in a saturated job market with greater unemployment, rather than the better and larger pool of job applicants that companies in China are hoping for. There are a few areas where more radical action is needed to address these challenges before it's too late.

First, strategic initiatives to more evenly spread talent must be put in place. Government and business must come together to develop more programmes that will provide significant incentives for top talent to pursue jobs in second- and third-tier cities. A strategic assessment of which skills are available where can also help businesses to use reverse mobility, moving the work and the jobs to where the people are, rather than the other way around.

Looking ahead 10 years at the various urbanisation scenarios will be important in determining where R&D centres, knowledge and innovation hubs, and other business functions should be established. With the rapid acceleration of technology, remote and flexible working can also significantly alleviate mobility issues, requiring less travel and enabling workers with key skills to work from remote locations. At the moment remote and flexible working is significantly underused in China, especially within Chinese companies.

Both the practical skills and innovation that businesses need in their workforce must be instilled much earlier on. Again, government and businesses must come together so that more practical learning to develop these skills can be included early on within the education system. Multi-national, privately-owned Chinese companies and state-owned enterprises can be doing much more to offer early training programmes to university students that will serve as an apprenticeship to prepare them for the practical skills needed in the workplace.

Specifically, programmes to boost innovator potential and a global mindset must be a requirement in school as well as in company learning and development programmes. To be effective these programmes can no longer rely on traditional training methods, but should leverage a blended learning approach, combining live and virtual training, coaching and 'live' project work.

Human resources departments also have a critical role to play in tackling these challenges. As they try to do their best to attract and retain the right people, they will need to stretch outside their comfort zone to accept and adapt to the needs of China's Generations Y and Z. Many are expecting it to be the other way around, for Generations Y and Z to eventually adapt to the mindset of their generation.

However, the HR Directors and organisations that are ahead of the curve and step into the shoes of the 20-somethings are the ones who will win the war for talent in China. To get it right will require a balancing act, providing a great deal of support and guidance, along with a great deal of flexibility and no longer 'telling people what to do'. Evidence shows that creating an innovative, enterprising and caring culture is what will raise both engagement and productivity.

Although the challenges are significant, we should not underestimate China's potential to overcome them. As Professor Bruce McKern from CEIBS states, "Western firms' preconceptions about China's slowness in radical innovation are misplaced. They must prepare for a tsunami of competition from China-based multinationals, which increasingly see the markets of the developed world as their targets. Multinationals must actively participate in innovation in China with the aim of using China as a platform for global innovations."

I believe the same is true when it comes to the upcoming pressures on labour and skills. The two important key questions for government and business to keep asking along the way are: "How can urbanisation help us to accelerate the development of the talent and skills we will need in 10 and 20 years time for continued growth?" while at the same time, "How can urbanisation lead to the improvement of people's livelihoods?" In the end, it's all about people. Eb

MDS *is a leading training and coaching organisation specialising in large-scale and customised leadership and management development programmes since 1995. MDS has an outstanding team of highly experienced local and international coaches and trainers. Combining Western experience with the rich tradition of the Asian cultures in which we operate, we enable senior and middle managers all over the Asia Pacific Region to achieve their full leadership potential.*

SHOULD I STAY OR SHOULD I GO?

On 1st July, 2013, China's new Entry/Exit Administration Law entered into effect, supplemented by the Foreigners' Entry/Exit Administration Regulations. It demonstrates the government's commitment to cracking down on people living and working illegally in the People's Republic of China (PRC). Below, **Ralph Koppitz** from **Taylor Wessing** outlines some of the key features of the revised legislation that came into effect on 1st September, 2013, which applies to all foreigners working, studying or otherwise staying in Mainland China.

Key deadlines

Foreigners in the PRC should be aware of the following important deadlines:

- As before, within 24 hours of arrival in the PRC, foreigners must register with the local police station (except if they reside in a hotel, where this will be done by hotel staff).
- A request for a visa extension needs to be filed a minimum of seven days before the visa expires.
- Within 30 days of entry into the PRC, based on a valid visa, an application for a related residence permit must be filed.
- Within 30 days of the residence permit expiring, an extension for the residence permit must be filed.
- Within 60 days of their birth, the procedures for residence permits for PRC-born foreign children need to be carried out.

To avoid unnecessary hassles, all foreigners over 16 years of age should be aware of the statutory requirement to carry their passports with them at all times during their stay in the PRC. If this is difficult in practice, one should at least carry a copy of the passport and visa/residence permit.

Increased penalties

The legal liabilities for both visiting foreigners and employers, or persons extending an invitation to visitors to the PRC, have been increased as a deterrent. For example, illegal residency can lead to:

- Fines of CNY 500 per day (up to a maximum of CNY 10,000) for the individual or;
- Police detention up to 15 days.

Illegal employment (e.g. entering on a commercial M-visa, but actually carrying out work in the PRC) may lead to:

- Fines of up to CNY 20,000 and police detention up to 15 days;
- The option of a repatriation order being issued to the individual;
- Fines of CNY 10,000 per person up to a limit of CNY 100,000, and confiscation of the employer's illegal income.

Fines and other sanctions are also stipulated in case of other violations, such as individuals or companies issuing false invitation letters. Ultimately, the foreigner may face:

- An exit order (the mildest form of exit);
- A repatriation order (where re-entry will be prohibited for one to five years);
- A deportation order (where re-entry will be prohibited for 10 years).

New visa types

The number of visa types has been increased from eight to 12. Generally, single entry visas are valid for three months, double entry visas for three to six months, and multiple entry visas for either six or 12 months after issue. Below, we only look at the most common visa types:

New M-visa for business trips

The newly created M-visa is applicable in many of the cases previously covered by the F-visa. The M-visa can be issued upon invitation for commercial and trade activities. Multiple entries are possible for six or 12 months if an M-visa was obtained more than twice in the last two years; an old F-visa granted before 1st September, 2013, also serves this purpose.

The inviting party is usually the trade partner, but could also be a trade fair, for example. Helpful details on the requirements for invitation letters, and the forms themselves, are provided on the websites of the Chinese Visa Application Service Centres.

F-visa only for non-business trips

The application scope for F-visas has been substantially reduced. It only covers non-commercial trips, upon invitation, for exchanges, visits, study tours and "other activities".

New S1- and S2-visas

The S1- and S2-visas apply to spouses, parents and children (under 18 years of age) of foreigners who have obtained a residence permit due to work, study or otherwise, as well as for stays for personal reasons. Stays of up to 180 days require only the less complicated S2-visa; longer stays require an S1-visa and a valid residence permit.

New R-visa for foreign talents

In the case where a foreigner meets the "determined criteria" for a high-level qualified talent, or possesses skills urgently needed by the PRC, he/she can apply for an R-visa. The law authorises relevant government authorities to publish a guidance catalogue detailing the needs of the PRC's economic and social development. It is expected that this catalogue (to be revised from time to time) will play an important role in determining which type of skills will allow application for an R-visa. Details remain to be seen.

New X2- student visa for foreign interns?

As with the S1- and S2-visas, the correct visa type for students depends on the intended length of stay: Stays of up to 180 days require only the less complicated X2-visa type, whereas longer stays require an X1-visa type plus a valid residence permit. An admission notice issued, for example, by a PRC university is also required. Additional regulations are expected to be issued by the Ministry of Education.

Oral information from local entry/exit administrations indicate that in the future the X2-visa may also be used for persons wishing to spend up to 180 days in the PRC as an unpaid intern. However, the wording used in relevant regulations is not clear.

At the time of writing, no written confirmation of this understanding was available. In practice, an X2-visa would make sense for newly arriving interns: the regulations have clarified that students who already study in the PRC based on a long-term X1-visa plus a related residence permit, may carry out off-campus jobs if they obtain valid written permission from the authorities where their residence permit was issued.

Z-visa for work in the PRC unchanged, but revisions for related residence permits

The rules for work-related stays remain largely unchanged. Prior to obtaining a Z-visa required for entering the PRC for work purposes, an employment license and a Z-visa notice (an invitation letter issued by the relevant PRC authority) must be obtained. It is important to note that:

- After entering the PRC on the strength of the Z-visa, a 30-day deadline applies, during which the foreigner must:

  (i) obtain a temporary residence permit;

  (ii) do his/her health check (if the residence permit is valid for more than one year);

  (iii) obtain a work permit; and

  (iv) apply for a residence permit.

- Since July 2013, the processing time for the residence permit has been increased to 15 working days, which needs to be taken into account when making international travel plans (the foreigner's passport will remain with the authority during application for residency);

- The minimum duration of a work-related residence permit has been shortened to 90 days (previously it was one year). The residence permit can be granted for a period up to five years. This means that a foreigner now can, and thus should, obtain a Z-visa (plus residence permit) for any work-related stay in the PRC of more than 90 days. In such cases an M-visa is not a legally safe alternative.

Non work-related residence permits

The minimum duration for non work-related, long-term residence permits (e.g. for study, or for visiting of relatives residing in China) is 180 days, with a maximum duration of five years. Eb

__Ralph Vigo Koppitz__ is a partner and chief representative of __Taylor Wessing__ in Shanghai. He also heads the firm's PRC employment law practice. Taylor Wessing is a full service law firm with approximately 900 lawyers in Europe, Middle East and Asia, with offices in Shanghai and Beijing. For more information please visit www.taylorwessing.com.

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BUILD YOUR PORTFOLIO

An important component of your business strategy in China should be the management of intellectual property (IP) portfolios. In the final instalment of this two-part study the **China IPR SME Helpdesk** explains how this is relevant to you even if your main business activities do not focus on research and development (R&D).

After European SMEs have agreed ownership and licensing issues with Chinese partners, the task of developing a valuable IP portfolio requires discipline and management. Budgetary constraints may make it impossible for most SMEs to apply for and register all inventions, so thought must be given to which are the 'must file' patents. It is extremely difficult to enforce your rights or prove ownership for inventions that are not patented.

Below is a check-list of essential actions to keep in mind:

- **Quality patent drafting:** The initial draft can be done in Chinese or a foreign language. You may even file an international application (PCT) from China if cost and strategy justify it. However, if the application needs to be translated, attention should be given to the quality of the translation.

- **Foreign filing licence:** If the invention is made in China, either by Chinese or European engineers, the filing of the invention for patents requires a foreign filing licence, which is issued by the State Intellectual Property Office (SIPO). Often foreign filing licences are granted quickly unless the technology relates to sensitive areas such as national security.

- **Filing entity:** If a Chinese entity — set up either by a foreign SME alone or jointly with a Chinese business partner — retains all the IPR ownership, the Chinese entity must file patent applications under its own name. The patents can later be transferred or licensed to the foreign SME. If a foreign SME manages to obtain sole ownership of all the technologies under the R&D activities, the SME may apply for the patents under its own name.

- **Transferring of patents after the filing:** The Chinese Government has imposed restrictions on (or in certain instances banned) the transfer of ownership of certain types of technologies to foreign companies or individuals. Such types of technologies mostly include unique innovations, or otherwise have significant long-term effects on China's social, economic and technological interests. For example, prohibited technologies for export could include those related to the manufacture of traditional Chinese medicine, land surveying, breeding of livestock, encryption, and computer network security.

  If foreign SMEs believe that the technologies developed under their R&D activities in China are somehow sensitive, it is advisable to check the *Catalogue of Export Restricted Technologies* and the *Catalogue of Export Prohibition Technologies*.

- **IP other than patents:** Besides patents, copyrights and trade secrets can also be of high importance. IP ownership or licensing agreements should include detailed information on both copyrights and trade secrets. Regarding copyright, registration of the copyrighted works with authorities, such as the National Copyright Administration, is not required but can be helpful as proof of these rights.

- **Recordal and registration for licences:** If IP licensing is adopted in R&D activities, registration and recordal requirements may be necessary under Chinese laws and regulations. Technology licences may need to be registered or recorded with local government authorities, such as the Chinese Ministry of Commerce (MOFCOM) and the SIPO, to comply with several legal requirements. If the licence has royalty payment clauses the recordal and registrations are necessary under the foreign exchange control rules for the payments to be remitted through local Chinese banks to an overseas bank account.

- **Employee remuneration rules:** If a European SME hires employees to conduct R&D and contribute to inventions, it is important to note Chinese employee remuneration rules. These rules are intended to ensure that inventors get fair returns and benefits from the patents they invent.

  The current rules allow the employer and employees to dictate how the employees are rewarded for their inventions. However, in the absence of an agreement between the employer and employee, default rules under the Chinese patent law will be implemented. For example, an inventor or 'creator-employee' may claim for two per cent of the business profits annually derived from the invention or utility model patents he or she invented.

  It is also important to remember that if the remuneration agreed in the contract is too low (and therefore deemed 'unreasonable' under Chinese law) the term on the remuneration in the contract may be void and the employer will end up paying a higher amount in fees. In order to understand the definition of 'reasonable' reimbursement, reference may be made to the Chinese patent law, which requires, in the absence of other agreements, the employer to give a bonus of no less than CNY 3,000 to an employee who completes an invention patent, and CNY 1,000 to an employee who completes a utility model or a design patent.

What to do?

A European SME has come up with a very unique algorithm and prototype software in the video searching field. The SME has identified a promising business partner in China with whom to conduct joint R&D. The purpose of

the joint R&D is to launch a software product suitable for Chinese search engines. The Chinese business partner has an R&D team and impressive marketing capability in China. The Chinese business partner is offering equity in its current company in exchange for the IP rights to the future R&D. How should the IPR issues be handled?

IP ownership: The market potential and strength of the Chinese business partner are likely to make it difficult for the European SME to retain the full IPR ownership. A co-ownership of IP in China and full ownership of IP outside of China may be considered.

Licensing: The European SME should think about the potential applications of its algorithm and software in sectors other than search engines. The SME may consider the option of giving an exclusive licence to the Chinese business partners for the search engine sector, but retain the right to use the technologies for other business applications, e.g. security surveillance or traffic control systems.

It is possible that an SME may want to get the licence back from their Chinese business partner in order to make additions or modifications to a previous invention with the intention of increasing its utility or value, but the Chinese partner has been declared bankrupt. It should be taken into consideration that under these circumstances the licence may be revoked without compensation according to Chinese bankruptcy law.

IP Portfolio: The European SME should enter into a contract with the business partner to dictate how the patents are going to be filed, how to manage the non-patented technologies, source codes, etc. This will be critical in order to minimise the risk of disputes in the future.

Take-Away Messages

- Investing time and resources into protecting your IP assets should be considered worthwhile even if you do not focus on R&D activities. In most cases IP rights protect your business' innovations and therefore your competitive edge; not protecting them could prove fatal.
- To build quality IP, you need to manage several important aspects: patent drafting, foreign filing license, and employee remuneration etc, on an ongoing basis.

For more information on the IP rights mentioned in this article, download Helpdesk guides from www.china-iprhelpdesk.eu

For more on developing your R&D strategy in China by structuring your IP ownership and licensing, see the first instalment of this two-part article in the previous edition of EURObiz. Eb

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CHINA IPR SME HELPDESK

CALENDAR

29th November 2013

SHANGHAI

The European Chamber is delighted to host its 9th annual HR Conference on 29th November in Shanghai. This year's conference will focus on talent strategy and practices in China in the context of the changing growth model and national HR policies.

The Chinese economy has reached a turning point. While the recruitment, training and retention of the best candidates and employees have always been important, it has now become critical for success. Following the transition from made-in-China, through designed-in-China to innovated-in-China, the market is now calling for the development of a new type of talent, which involves having a strategic view, field penetration and subject-matter expertise. Talented individuals with China market insight, combined with a global view and accumulated industry best practice are what is needed. Such talents are not just adding capacity to, but also enabling capability in, ever-changing China.

This conference will unite top business leaders — Chinese and European CEOs, HRDs, and innovation drivers — to present and share in an open dialogue their best practices and observations on talent management trends in China and China HR Innovation.

It offers unique sponsorship options. Please contact Simon Campostrini at scampostrini@europeanchamber.com.cn for further information.

WUHAN: THE KEY TO CENTRAL CHINA

In addition to being Central China's transportation hub, Wuhan in Hubei Province is recognised as the third largest technological and educational centre in China behind Beijing and Shanghai. **Shirley Zhang** from **Dezan Shira & Associates** looks at this centre of finance, commerce, logistics and culture and reveals why it is colloquially known as the 'golden key' to the enormous markets located within China's central regions.

The Yangtze River runs through Wuhan giving rise to its nickname the 'river city', and as an important transportation hub for Central China it has also been called the 'Chicago of China'. It has a Ming Dynasty-era idiom attributed to it —九省通衢 (jiu sheng tong qu) — meaning it is easily accessible by water or land from nine provinces: Sichuan, Shanxi, Henan, Hunan, Guizhou, Jiangxi, Anhui, Jiangsu and Hubei.

Economic Overview

In 2012, Wuhan's GDP exceeded CNY 800 billion and grew at an annual rate of 11.4 per cent. Of this, Wuhan's primary industry contributed CNY 30.1 billion (4.5 per cent growth) and its secondary industry CNY 387 billion (13.2 per cent growth). The remaining CNY 383.3 billion came from the service sector which grew 10 per cent year-on-year.

By the end of 2011, foreign investors from over 80 countries had made investments here, among which 5,793 foreign-invested enterprises had been established with actual foreign capital injections totalling USD 22.45 billion. A total of 84 Fortune 500 companies invested in

Wuhan including Walmart, Shell, General Electric, General Motors, HSBC, Pepsi and IBM.

The average annual disposable income is CNY 23,738.09, which is expected to grow at 14 per cent every year. It hosts 158 large- and medium-sized supermarkets in addition to a combined 4,128 convenience stores, department stores and speciality shops, marking it as an expanding consumer market with huge potential.

Administrative Divisions

With more than 3,500 years of history, Wuhan was previously broken up in to three main towns — Wuchang, Hankou and Hanyang.

Wuchang was the political, educational and cultural centre; Hankou the transportation hub and centre for commerce and trade; and Hanyang the cradle of Wuhan's modern industries. Despite some changes to administrative divisions the major functions of each remains essentially the same today.

The city is divided into two main parts — the central town and the new town — which comprise the following districts:

- Central Town: Jiang'an, Jianghan, Qiaokou, Hanyang, Wuchang, Hongshan and Qingshan
- New Town: East and West Lake, Caidian, Jiangxia, Huangpi, Xinzhou and Hannan

The Jiang'an, Jianghan, Qiaokou and East and West Lake districts were all split from the old Hankou area.

Local government statistics released in 2012 revealed that GDP growth rates of Wuhan's new town districts were higher than those in central town across the board. The municipal National Development and Reform Commission estimated that the development zones and the six districts of the new town will generate at least CNY 120 billion more in 2013 that they did in 2012, which will establish it as a major support network for industrial development in the city.

Development Zones

Wuhan currently has three state-level development zones and three functional parks:

Development zones

- East Lake High-Tech Zone: focused on optoelectronic technique, biopharmaceuticals, energy and environmental protection.
- Wuhan Economic & Technology Development Zone: focused on automotive and electronics industries.
- Wuhan Airport Proximity Economic & Technology Development Zone: focused on food import, logistics and high-tech electromechanical products.

Functional parks

- Wuhan New Port: functions as a shipping hub in the middle reaches of the Yangtze River.
- Wuhan Chemical Industry Park: functions as a base and supply centre for petrochemical products as well as a logistical base for chemical products.
- Wuhan East Lake Scenic Area: functions as an ecotourism destination.

Investment Opportunities

Wuhan offers many preferential policies to foreign investors including tax incentives, discounted loan interest rates and subsidies. These preferential policies are generally offered to enterprises in the manufacturing and service-outsourcing industries, and are offered to all companies that establish headquarters in the city.

Further, financial incentives are given to foreign-invested banks and the local government provides favourable conditions for imported talent and their families with regard to obtaining visas and other relevant permits.

The city was founded primarily on the iron and steel, petrochemical, food, automobile, optoelectronics and equipment manufacturing. In addition to these pillar industries, Wuhan has further determined to prioritise its strategic emerging industries over the coming years, which include:

- New information technology;
- Energy saving and environmental protection;
- New energy;
- Biotechnology;
- New materials;
- High-end equipment manufacturing; and
- New energy automobiles.

Wuhan Municipal Science and Technology Bureau statistics state the high-tech industries in the city have realised annual growth rates of 26.2 per cent during the 11th Five-Year Period (2006–2011).

Approximately CNY 11.37 billion has been granted to major scientific projects and 329 patents were awarded by 2012. Of the city's 400 enterprises identified as high-tech, 24 of them realised annual outputs of over CNY 1 billion. Eb

***Dezan Shira & Associates** is a specialist foreign direct investment practice, providing corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence and financial review services to multinationals investing in emerging Asia. Since its establishment in 1992, the firm has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam as well as liaison offices in Italy and the United States.*

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EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER


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M&A Conference (1)

The European Chamber held an M&A conference on 10th July providing an update on China's inbound environment. Panellists included Xiaojun Huang, Legal M&A; Nicolas Labatut, Thales finance director; Steven Hsu, Managing Director of Zhong Yin Law Firm; Paul Ma, Partner at KPMG; Annabella Fu, Partner at Linklaters; and Ken Su, Transaction services partner at PwC. The event was sponsored by KPMG and Zhong Yin Law Firm.

VAT Pilot Reform (2)

On 24th July the European Chamber invited Kenneth Leung, Indirect Tax partner of Ernst & Young and Guo Min, partner and head of Gide's China Tax practice, to share their views on the VAT pilot reform with some best practices. The event was moderated by Lars Eckerlein, Vice Chair of F&T WG.

Insight China (3)

On 29th August 2013, the 3rd edition of Insight China, the Chamber's flagship macroeconomic seminar, was held on Shadow Banking & Overcapacity at the Westin Chaoyang Beijing Hotel. Arthur R Kroeber (Dragonomics), Joerg Wuttke (BIAC/OECD) and Joe Zhang (author of *China's Shadow Banking: The Next Subprime Crisis*), made up the panel moderated by Jamil Anderlini (*Financial Times*' Beijing bureau chief). This event was attended by more than 130 people.

Arbitration Seminar (4)

On 18th July, Jie Wang and Lu Fei of CIETAC presented their views on arbitration-related topics to Chamber members.

NANJING CHAPTER


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4th European Chamber Badminton Tournament (1)

The Nanjing Chapter hosted its 4th annual badminton tournament sponsored by Atlas Copco and with organisational support from Charlie McBride, a teacher from Nanjing International School who sponsored the venue.

The Butterfly Charity provided cookies and refreshments with all proceeds going to their orphanage. Thanks to all participants: Ashland Chemicals, Atlas Copco Construction, BASF YPC, Bosch, BSH, Fette Compacting Machinery, Nanjing International School, Saint-Gobain Pipeline, Suspa, ThyssenKrupp Engine Components, Twentsche Fibre Optics.

European Chamber's 6th Annual HR Mixer (2)

On 31st August 100 people gathered to enjoy free flow of wine provided by Royal Oak and a buffet at the new Crowne Plaza Jiangning. Carlo D'Andrea, Chairman of the Nanjing Chapter's Board and Mirella Savegnago, General Manager of the European Chamber Nanjing welcomed everybody. Chamber board members Michele Corso , Udo Looser and Jenny Zhang Yuan also attended. Thanks to Silver sponsor BASF-YPC Company Ltd, bronze sponsor Landing Business Centre, Beretta for providing Italian salami from the JV in Nanjing with Yurun, and for Bellini's Restaurant for the delicious give away.

Human Resource Forum — Exit and Entry Administration Law of the PRC (3)

On 16th August Jiangsu Provincial Public Security Department and Nanjing Public Security Bureau gave an introduction to the new requirements for the Exit/Entry Administration Law to more than 70 members of European Chamber in Nanjing at the Holiday Inn.

SHANGHAI CHAPTER


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Advisory Council Luncheon with Romano Prodi (1&2)
On 22nd July, members of the European Chamber Advisory Council met with Romano Prodi, former Italian Prime Minister and former President of the European Commission. Davide Cucino, President of the European Chamber, joined the lunch hosted by Frederik Cornu, Vice Chair of the European Chamber, Shanghai Chapter.

SHENYANG CHAPTER

Piano concert (1)
A Chinese-style piano concert was held at the Beishi Theatre on 17th August, organised by European Chamber's Shenyang Chapter and Siemens.

Badminton tournament (2)
The Shenyang Chapter hosted their first badminton tournament at the Shenyang Jianli Badminton Hall on 17th August with more than 60 participants. Shenyang Chapter board member Guido Faust presented prizes to the winners.


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SOUTHWEST CHAPTER


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BCS presentation, Chengdu (1)
On 30th July, the *Business Confidence Survey 2013* was presented in Chengdu at the Millennium Hotel. Ulrich O. Birch, Chairman of European Chamber's Southwest Chapter, Stefan Gottwald and Steven Fan, both board members of the chamber, and David Ye, Partner of Government and Public Services, Roland Berger Strategy Consultants, formed the panel.

BCS Presentation, Chongqing (2)
On 7th August, the *Business Confidence Survey 2013* was presented in Chongqing to government officials, Consulates, members and friends. Ulrich O. Birch, Chairman of Southwest Chapter, presented the survey results.

TIANJIN CHAPTER

Book Presentation: The 4 Disciplines of Execution in China
On 23rd July, the Chamber's Tianjin Chapter, in cooperation with Right Management, invited one of the authors of *The 4 Disciplines of Execution* to share his insights on some of the key points written about in the book.

InterChamber Breakfast Briefing
On 9th August the Chamber's Tianjin Chapter, in cooperation with AmCham and the German Chamber, hosted an informative and practical breakfast briefing at the Astor Hotel Tianjin with Weert Jacobsen Kramer, owner and CEO of Team Think, an organisational consultancy from Germany.


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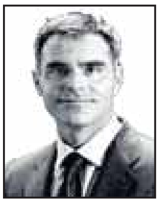
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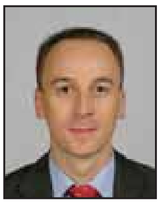
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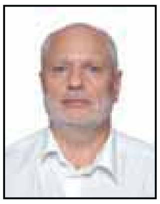
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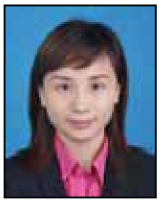
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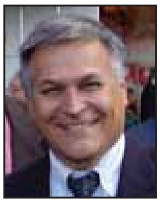
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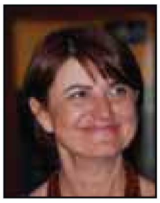
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THE EXECUTIVE INTERVIEW: Massimo Bagnasco

Partner and Managing Director, Progetto CMR

Massimo Bagnasco graduated in Architecture from the University of Genoa in 1996. He has worked for **Progetto CMR** since 2004 when he set up their offices in Beijing, Shanghai and Tianjin. In addition to being managing partner, he also functions as client leader on many projects.

Bagnasco is a frequent contributor to publications on the topic of architecture. He served as Vice Chairman of the European Chamber's Construction Working Group from 2008 until 2010 when he was elected as Chairman.

Why did Progretto decide to build offices in China?

When Massimo Roj, our global CEO, first came to China in 2002, we didn't consider establishing branch offices in China. He was part of an institutional delegation and got a chance to meet the Mayor of Tianjin, who invited us to join some master planning competitions in Tianjin. As such, I joined Progetto CMR to lead a hotel design, and I was only supposed to stay 6 months in China.

Part of Progretto's methodology is rooted in 'sustainable integrated design', can you explain a little about this?

I am firmly convinced that architecture's mission is to design a better quality of life: architecture must focus on the human scale. Cities belong to the citizens who live in them. We need a new mindset, a new concept of sustainability that takes in how mankind relates to the city, with due consideration for the local context and culture.

Integrated design is at the basis of sustainable design; it is the only design methodology capable of controlling costs, time and quality of a project. The search for innovation is the engine that drives each project.

In what key areas do you think China can learn from European models of urbanisation?

The compact and polycentric urban system of Europe is well recognised as an example of sustainable development. Preserving the identity of cities is important to create a harmonious life and ensure socio-cultural integration. China can also learn from Europe's administrative concept, legal entities and jurisdictions as well as their positive response to traffic pollution, urban decline, inequality and sprawl.

What concerns do you have about China's urbanisation process?

There needs to be a balance between urban and rural development; the future of urbanisation requires a holistic approach. New forms of governance, that are both well structured and flexible, are required to respond to the challenges. Urban-rural integration must be considered as an overall unitary system comprised of strong relationships between the individual components – the cities and the villages.

What do you see as being China's biggest challenge?

Previously China could make a choice between economic restructuring and maintaining growth. Now economic restructuring is necessary to maintain growth. How China will pass through this period of social and economic reform is the main challenge.

Are you confident that China's urbanisation process will, for the large part, result in sustainable cities that are environmentally friendly?

In order to achieve this it will be necessary to implement reforms to the present system. China has already made huge improvements recently, but due to the incomparable size of its urbanisation process it is not enough. As in Europe, there needs to be good governance, rule of law, and tax reductions and incentives that could make green technologies and equipment more affordable.

Can you tell us a little about the work that the Chamber's Construction Working Group is doing in the field of urbanisation?

The Construction Working Group has been very active in this field, since before the official signing of the EU-China partnership. In the 2012 *Position Paper* we added, as the first key recommendation: "promote sustainable urban development" in order to open up constructive cooperation with our Chinese and EU institutional counterparts and reinforce our strong belief in the importance of a deep and close dialogue on this topic.

The implementation is definitely bringing bright results, such as a training programme for Chinese officials, which is executed in cooperation with China Academy of Governance.

Another concrete example is the cooperation with departments of the NDRC, in particular the China Centre for Urban Development, that is the official and unique secretariat of the 'EU-China Partnership'. There has also been good collaboration with the EU Delegation in Beijing by taking part in several institutional missions of HE Ambassador Ederer.

Sustainable urbanisation involves many other sectors and working groups. We welcome the opportunity to strengthen the other industries involved, providing our experience and direct guidance in order to create a bigger and stronger team.


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