Journal of the European Union Chamber of Commerce in China

EURObiz

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March/April 2011

China's 12th Five-Year Plan

MONETARY POLICY:
Markets Can Listen and Understand

Construction:
Build, Buy or Budge?

SMEs:
A Guide to Technology Transfer in China

Market Access:
European Film Between a Rock and a Hard Place

The Executive Interview:
Jens Ruebbert, Deutsche Bank

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European Chamber President Jacques de Boisséson (left) meets Chinese Premier Wen Jiabao in April 2010.

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

New Year, Decade, EURObiz

Mr. Jacques de Boisséson
President of The European Union Chamber of Commerce in China

Dear Members and Friends:

2011 promises to be a good year for business in China, and a busy one for the Chamber.

As China continues to maintain robust growth in 2011, it must be mindful to control inflationary pressures. We are confident in the government's ability to do so.

You are holding in your hands the very first issue of the new EURObiz, the journal of the European Union Chamber of Commerce in China.

The magazine builds on the strength of a decade of Chamber success and growth and on the experience of eight years of EURObiz. The Chamber will take this solid base and further improve in several key areas in order to make EURObiz the reference publication for the European business community in China. By providing more comprehensive coverage, increased member visibility and a new visual identity, we intend to improve the quality of EURObiz and its effectiveness in supporting the Chamber in its core mission: representing European business in China.

We have seen a flurry of activity on the lobbying front since December last year.

First, the Chamber has played an active and constructive role in the public consultation surrounding the formulation of the12th Five-Year Plan. Our Working Groups provided over 20 pages of feedback and information and have been active in the public debate in the media. We look forward to continue working with Chinese authorities in the roll-out of the Plan in the months and years ahead.

Second, the Chamber has continued to work very closely with the EU. I would especially like to extend a warm welcome to recently appointed EU Ambassador to China His Excellency Markus Ederer. Ambassador Ederer hit the ground running when he arrived in January and has already shown a real willingness and ability to work with business by visiting the Chamber during his first month in office. This engagement underscores a great partnership with the EU, as illustrated by exclusive member access to Commissioners De Gucht, Rehn and Šemeta and their staff in the immediate lead-up to the EU-China High-level Economic Dialogue held in Beijing last December.

Finally, April will see the release of an unique publication on public procurement in China. The study, which is based on extensive member interviews and Chamber research, aims at highlighting challenges encountered by member companies when competing for public contracts in China, and proposes recommendations to improve the regulation of this significant component of China's economy.

We represent you, our members, through the Working Groups, through direct lobbying of Chinese authorities, communication with European governments and also through this publication.

Allow me to wish EURObiz and the European business community a successful Year of the Rabbit!

EUROPEAN CHAMBER LOBBYING REPORT

A summary of important meetings and events undertaken by the European Chamber's Executive Committee members and Working Groups on behalf of its members.

LOBBY MEETINGS WITH CHINESE GOVERNMENT

POSITION PAPER PRESENTATION MEETING WITH THE VICE MINISTER OF LEGISLATIVE AFFAIRS OFFICE OF STATE COUNCIL (SCLAO)

Beijing, Wednesday, 19th January, 2011

SCLAO:
Mr. Yuan Shuhong, Vice Minister, SCLAO
European Chamber:
Mr. Jacques de Boisséson, President and European Chamber staff

Issues Discussed:
A delegation of the European Chamber, led by President de Boisséson, met with senior SCLAO officials on 19th January. President de Boisséson presented Vice Minister Yuan with the 2010/2011 Position Paper and representatives of European Chamber Working Groups, including Standards and Conformity Assessment, Cosmetics and Pharmaceuticals, amongst others, presented concerns on issues including the Chinese Standardisation Law and the Cosmetics Hygienic Management Rules.

POSITION PAPER PRESENTATION MEETING WITH THE ADMINISTRATION OF QUALITY SUPERVISION, INSPECTION AND QUARANTINE (AQSIQ)

Beijing, Thursday, 20th January, 2011

AQSIQ:
Mr. Wei Chuanzhong, Vice Commissioner, AQSIQ
European Chamber:
Mr. Jacques de Boisséson, President and European Chamber staff

Issues Discussed:
On 26th January, a delegation led by President de Boisséson visited the Administration of Quality Supervision, Inspection and Quarantine (AQSIQ) to present the annual Position Paper. This is the first ministerial meeting with AQSIQ since 2007. The two sides discussed a wide variety of issues including standardisation, transparency, equal footing and implementation of rules and regulations.

POSITION PAPER AND PRIVATE EQUITY SURVEY PRESENTATION TO THE RESEARCH CENTER OF THE CHINA SECURITIES REGULATORY COMMISSION (CSRC)

Shanghai, Friday, 21st January, 2011

CSRC:
Mr. Qi Bin, Director General, Research Center, CSRC
European Chamber:
Mr. Andre Loesekrug-Pietri, Private Equity and Strategic M&A Working Group Chair and Working Group members

Issues Discussed:
On the 25th January 2011, the Private Equity and Strategic M&A Working Group organised a breakfast seminar with Mr. Qi Bin, Director General for the Research Center of CSRC. After the seminar the Chair of the Private Equity Working Group presented the Position Paper 2010/11 and the "Social and Economic Impact of Private Equity in China Survey" and explained briefly the concerns of foreign private equity funds in China.

POSITION PAPER PRESENTATION MEETING WITH THE ANTI-MONOPOLY LEGISLATIVE AFFAIRS DIVISION OF STATE ADMINISTRATION FOR INDUSTRY AND COMMERCE (SAIC)

Beijing, Wednesday, 26th January, 2011

SAIC:
Ms. Yang Jie, Director of Division, Anti-Monopoly Legislative Affairs Division, SAIC
European Chamber:
Mr. Francois Renard, Co-Chair of Competition Sub-Working Group and Working Group members

Issues Discussed:
On the 26th January, 2011, the Chairs of the European Chamber's Competition Sub-Working Group met with the Anti-Monopoly Legislative Affairs Division Director of the State Administration for Industry and Commerce (SAIC) to present the Position Paper 2010/2011. The two parties discussed about China's leniency rules, particularly the new SAIC rules on the prohibition of monopoly agreements. Further, the Division Director highly praised the European Chamber's Competition Working Group for its offer to set a meeting in which the Working Groups members could share their experiences on monopoly agreements in other jurisdictions.

POSITION PAPER PRESENTATION MEETING WITH THE ADMINISTRATION OF QUALITY SUPERVISION, INSPECTION AND QUARANTINE (AQSIQ)

Beijing, Wednesday, 26th January, 2011

AQSIQ:
Mr. Wei Chuanzhong, Vice Commissioner
European Chamber:
Mr. Jacques de Boisséson, President and European Chamber staff

Issues Discussed:
On 26th January, 2011, a delegation led by President Jacques de Boisséson visited AQSIQ to present the annual Position Paper. This is the first ministerial meeting with AQSIQ since 2007. The two sides discussed a wide variety of issues including standardisation, transparency, equal footing and implementation of rules and regulations.

MEETING WITH THE MONETARY POLICY DEPARTMENT OF THE PEOPLE'S BANK OF CHINA (PBOC)

Beijing, Friday, 27th January, 2011

MoHURD:
Mr. Yao Yudong, Director General, Monetary Policy Department. PBOC
European Chamber:
Mr. Jens Ruebbert, Vice-President and Chair of the Banking & Securities Working Group and Banking & Securities Working Group members

Issues Discussed:
On the 27th January, 2011, the Director General of Monetary Policy Department of the People's Bank met with the European Chamber's Banking & Securities Working Group. The Director General presented the recent developments RMB settlement schemes and the RMB Hong Kong off-shore market. After the presentation the Director General and the members of the Working Group engaged in a dialogue about this issue and other topics of interest of both parties.

At the end of the meeting, the Vice President of the European Chamber, Mr. Jens Ruebbert, handed a copy of the Position Paper to the Director General.

LOBBY MEETINGS WITH EUROPEAN GOVERNMENTS

MEETING WITH THE DIVISION OF INTERNATIONAL POLICY FOR INFORMATION & COMMUNICATION TECHNOLOGIES, FEDERAL MINISTRY OF ECONOMICS AND TECHNOLOGY

Beijing, Thursday, 20th January, 2011

Federal Republic of Germany:
Mr. Peter Voss, Head of Division, International Policy for Information & Communication Technologies, Federal Ministry of Economics and Technology of Germany; ITU
EU Delegation in Beijing :
Ms. Marianne Gumaelius, Head of Trade & Investment Section, EU Delegation in Beijing
European Chamber:
Dr. Roland Savoy, Vice Chair of Information and Communication Technology Working Group and Working Group members

Issues Discussed:
Topics discussed included the German government's concerns over mandatory certification procedures for Information Security products, including concerns over source codes of technologies being publicized (on inspection) and potential result of global market place being fragmented should all countries emulate China's processes. Chamber representatives also briefed Mr. Voss on the roles/responsibilities of the different Chinese authorities regulating the Information Security/ICT sector, and approaches to encourage further exchange with them.

POSITION PAPER PRESENTATION TO THE PORTUGUESE AMBASSADOR

Beijing, Friday, 11th February, 2011

Embassy of the Portuguese Republic:
HES Ambassador Jose Tadeu da Costa Soares
European Chamber:
Mr. Davide Cucino, Vice-President of the European Chamber and European Chamber staff

Issues Discussed:
On the 11th February, 2011, a Delegation of the European Chamber led by the Vice President Davide Cucino met with HES Ambassador Jose Tade da Costa Soares to present the Position Paper 2010/11 and the Business Confidence Survey. The two parties discussed about the difficulties that Portuguese SMEs find to come to China, the SME Centre and the SME IPR helpdesk. The meeting concluded with parties to continue to have communication and the Ambassador suggested that the European Chamber should visit Lisbon to present the European Chamber and the next Position Paper. The Economic Counsellor offered his help in order to arrange the meeting in Lisbon.

POSITION PAPER PRESENTATION TO THE CZECH AMBASSADOR

Beijing, Monday, 14th February, 2011

Embassy of the Czech Republic:
HES Ambassador Libor Secka
European Chamber:
Mr. Enrico Perlo, Member of the Executive Committee and European Chamber staff

Issues Discussed:
On the 14th February, 2010, the European Chamber delegation led by Mr. Enrico Perlo, Member of the European Chamber's Executive Committee met with HES Ambassador Secka to present the Position Paper 2010/11. The two parties discussed about the main concerns of European Business operating in China. Both parties put special attention to SMEs, this lead the conversation to introduce the SME Centre and the SME IPR Helpdesk.

MEETING WITH THE VICE MINISTRY OF FOREIGN AFFAIRS OF THE CZECH REPUBLIC

Beijing, Tuesday, 15th February, 2011

Ministry of Foreign Affairs of the Czech Republic:
Mr. Tomáš Dub, Vice Minister of Foreign Affairs (cover both political and economic affairs)
European Chamber:
Mr. Jacques de Boisséson, President and European Chamber staff

Issues Discussed:
The meeting was mainly to invite the European Chamber to share its observations with the Vice Minister about the business climate in general in China for European business. Discussion covered topics such as bilateral reciprocity, the EU as a single territory, development and trend of regulatory environment in general in China, attractiveness vs. fearfulness of China as the FDI destination.

VM Dub also expressed his wish for the SME associations and the Chamber of Commerce back home to get in touch with the European Chamber for further communication. President de Boisséson echoed that the European Chamber would be keen to explore cooperation with business circle of Czech Republic.

LOBBY MEETINGS WITH THE CHINESE GOVERNMENT AT THE LOCAL LEVEL

POSITION PAPER PRESENTATION MEETING WITH THE DEPUTY SECRETARY OF CHINA INTERNATIONAL ECONOMIC AND TRADE ARBITRATION COMMISSION, SOUTH CHINA SUB-COMMISSION (CIETAC)

Guangzhou, Friday, 21st January, 2011

CIETAC:
Mr. Liu Xiaochun, Deputy Secretary of CIETAC South China Sub – Commission
European Chamber:
Mr. Vivian Desmonts, Chair of Legal Working Group and Working Group members

Issues Discussed:
On 21st January, an European Chamber delegation led by Mr. Vivian Desmonts, Legal and Taxation Working Group Co-Chair, and Ms. Helen Rochery, European Chamber PRD, Chapter Deputy Manager, met with Mr. Liu Xiaochun, the Deputy Secretary of CIETAC.

Ms. Helen Rochery presented the European Chamber to CIETAC and Mr. Vivian Desmonts handed the Position Paper over to the representatives. Officials introduced CIETAC and gave a detailed presentation of the possible ways to solve disputes faced by foreign companies in China.

All attendees expressed the wish of further sustainable cooperation between CIETAC, SAEFI and European Chamber.

MEETING ON THE FREE TRADE ZONES AND THEIR FUTURE IN SHANGHAI

Shanghai, Thursday, 27th January, 2011

Shanghai Municipal Commission of Free Trade Zones:
Mr Chen Xi, Director of Trade & Economy Division, Shanghai Municipal Commission of Free Trade Zones
European Chamber:
Mr. Stefan Sack, Shanghai Board Member, and European Chamber staff

Issues Discussed:
A senior free trade zone representative gave an informative speech on various functions of Three Shanghai Free Trade Zones including Waigaoqiao, Yangshan and Pudong. He elaborated the government policy support to the development of the free trade zones and highlighted the role that the three free trade zones play in building Shanghai as an international financial and shipping center. During the Q&A session, the senior official answered questions from members regarding trade modes in the free trade zones and potential business cooperation.

MEETING WITH THE SHANGHAI SHIPPING EXCHANGE (SSE)

Shanghai, Friday, 28th January, 2011

Shanghai Shipping Exchange:
Zhang Ye, President, SSE
European Chamber:
Mr. Jens Eskelund, Chair of Maritime Working Group and Working Group members

Issues Discussed:
As the first meeting between SSE and European Chamber, both sides exchanged a brief introduction of organisation and responsibilities. Chair of Maritime and Logistics Working Group voiced the industry views and concerns over the following issues: Container Freight index, NVOCC freight filing, and LCL market. President of SSE highly welcome the recommendations from the European Chamber and commended the work of Position Paper. Both sides expressed interest in further communication on a more frequent basis.

CHINA'S 12th FIVE-YEAR PLAN: A EUROBiz SPECIAL REPORT

In this look at China's 12th Five-Year Plan, we review the goals and achievements of the 11th Five-Year Plan; examine some of the priorities set out for the 12th Plan; offer a summary of the European Chamber's comments submitted during the public consultation period; and finally, look at energy and environmental policy as a focus of the Five-Year Plan.

China's National People's Congress (NPC) meeting will focus and vote on the 12th Five-Year Plan (FYP) for 2011-2015, the central economic and ideological document that will set the government's policy and spending priorities for the next half-decade. These treatises have been the backbone of the country's central planning since the establishment of the People's Republic in 1949, and even as China has embraced market reforms and greater openness, the central government has retained the FYP model as its most important economic policy blueprint.

While the plan is developed and issued by the central government as a framework to be followed throughout the country, it is no longer the iron-clad operations manual it once was.

"The importance of the FYP as a tool for managing the economy has reduced as the economy moves closer to the market and further away from the state planning era," said Tom Orlik, a correspondent at *The Wall Street Journal* (*WSJ*) and former China economist for Stone & McCarthy Research Associates, in an interview.

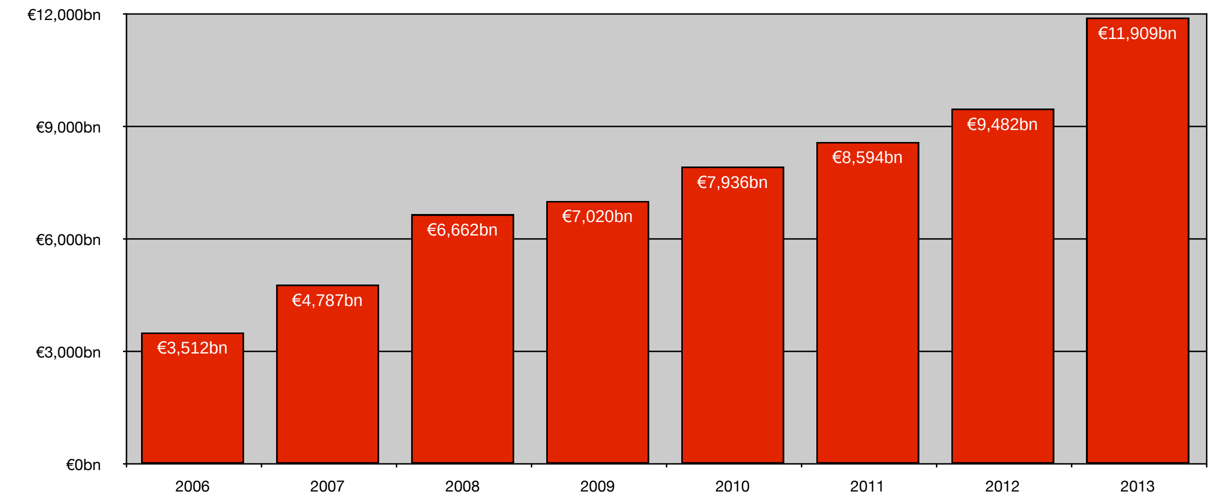
Still, the FYP model remains the single most important document for economic planning in the land, even if the government's relationship with regional and local governments has evolved over time.

"The ability of the central government to exert its will on what happens at a local level is often exaggerated. Many provinces have already developed their own FYPs that continue to focus on investment as the main driver of growth. The central government's FYP will be the start of a negotiation with the provinces over the agenda for the next five years, not the end of the story," Orlik said.

The new plan comes at a significant time for China. While the rest of the world has suffered during the economic crisis in the second half of the 11th FYP, China maintained a high level of growth, a relatively bright light in an otherwise dark global economy. In essence, China's actions during the recession elsewhere have highlighted the true Chinese meaning of the phrase *wei ji*, which combines the character for "crisis" with that of "opportunity."

One opportunity that China seized during this period was the chance to expand the Chinese economy's shift from an export-oriented economy to one focused instead on domestic consumption of goods and services. Seemingly at the right moment, China's own market had grown sufficiently strong to sustain it when demand for its products abroad dropped sharply. This trend is one that the Communist Party of China (CPC) intends to continue as it moves into its next five years of central planning.

China Nominal GDP (EURO€)



Gross domestic product (GDP) at current market prices in EURO€. (EIU)

While the 11th FYP represented overall continued success for the CPC, certain problems were not resolved, and new ones emerged. Soaring property prices in major urban areas, coupled with rising inflation, exacerbated the divide between China's growing wealth in some areas, but ongoing poverty in others. As such, continuation of the "drive west," to increase investment in inland areas, poverty alleviation and addressing inflation are key concerns of the new FYP.

Structural challenges may also hinder positive shifts within the economy

"China's rapid growth depends heavily on a series of hidden 'taxes' that transfer wealth from the household sector to subsidize investment and manufacturing. The three most important of these transfer mechanisms are: the undervalued currency; the fact that until very recently wages have grown much more slowly than worker productivity; and most importantly, severely repressed interest rates, which transfer over 5% of GDP every year from the household sector, who are net savers, to net borrowers, who are State-Owned Enterprises (SOEs), manufacturers, real estate developers, and government entities," Michael Pettis, professor of finance at Peking University and senior associate at the Carnegie Endowment, said in an interview.

"It is these transfers that have been at the root of China's very rapid growth in productive capacity, but it is also these transfers that have limited China's ability to absorb what it produces. The result is that China requires a large trade surplus and ever-increasing investment to absorb all of its excess production," he wrote.

Also prominent in the new plan are both environmental protection and energy security. Both are now deemed critical to China's onward economic growth, for their limiting potential as much as their capacity to improve living standards. Environmental degradation's impact on health and ultimately worker productivity has been recognised, along with the effects of deforestation and desertification as major issues for developing China's interior.

For the first time, the CPC solicited input on its FYP from foreign entities. China opened the consultation period in November, 2010, ending in January, 2011, to allow sufficient time for the comments to be considered properly. The European Chamber responded to this call and submitted comments to the relevant bodies.

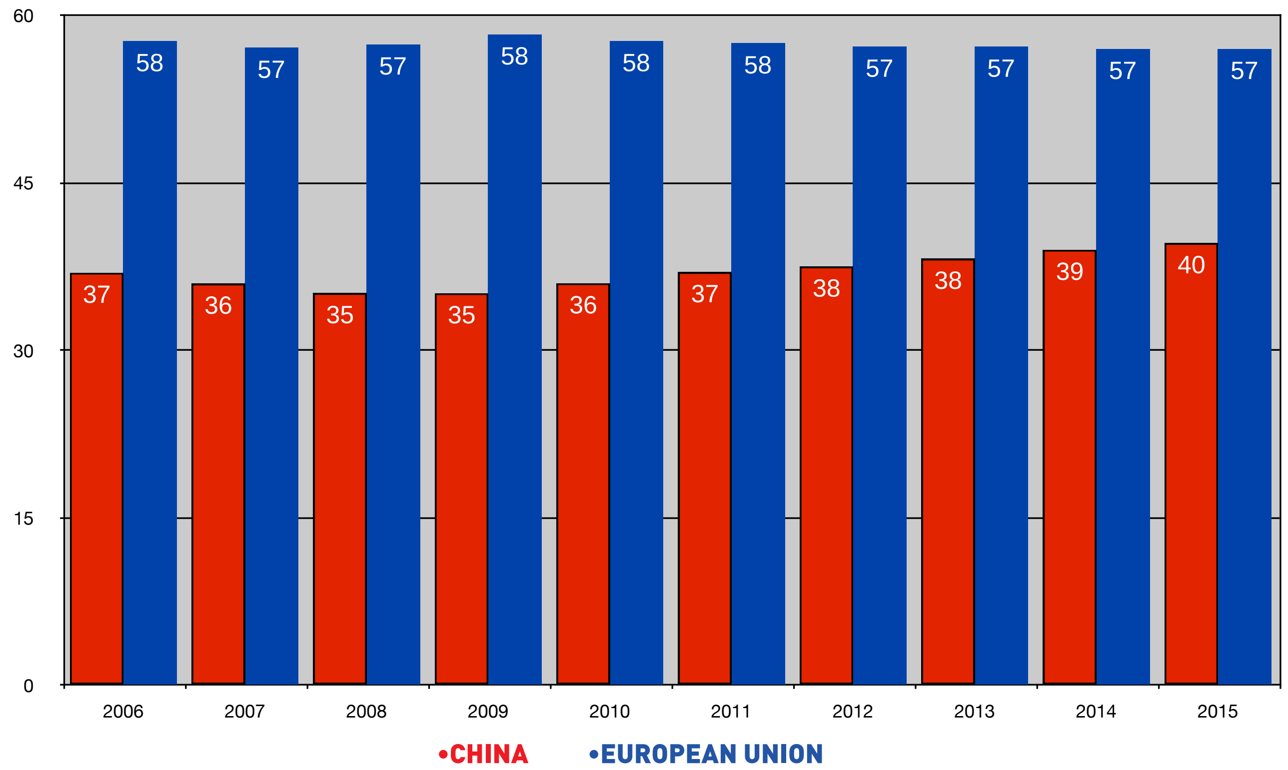
ACHIEVEMENTS OF THE 11TH FYP

During the years 2006 to 2010, China achieved remarkable economic development. Despite the global economic crisis and major natural disasters such as the Sichuan and Qinghai earthquakes, annual gross domestic product (GDP) in China enjoyed an average growth rate of 11.4%, while energy intensity dropped by nearly 20%.

The social objectives set in the 11th FYP were achieved in many areas, including improvements in social security, healthcare and education. Consolidation of SOEs was underway steadily, with the number of SOEs dropping from 169 in 2006 to the current 123. Reform in certain monopoly sectors such as telecommunication and aviation saw moderate progress.

People's living standards continued to improve during the past five years. Total population in employment increased from 764 million in 2006 to 780 million in 2009. Average annual disposable income saw a 10.2% increase from RMB 11,760 to RMB

Private consumption expenditure at current market prices, as a percentage of GDP. (EIU)



17,175. Household cars reached 45.8 million units, almost doubling the number in 2006 (23.3 million), according to official statistics.

While the Chinese economy began to move away from its heavy reliance on exports, that process was not fully completed. Also, while living standards improved overall, the gap between the wealthy and the impoverished continued to grow.

"The most economic important issues involved the rebalancing of the Chinese economy — both in the sense of reversing the growing income disparity between rich and poor and in the sense of increasing the household consumption share of GDP. Although there was some progress on the former, mainly in the sense that income growth disparities have slowed, there was no progress on the latter," Pettis said.

"In fact, household consumption has declined from what seemed an impossibly low level in 2005 to a level that is truly astonishing — from 40% to 36%," he noted.

Major legislative accomplishments include the enactment of new legal codes in the following areas: anti-monopoly; contract labour; enterprise income tax; insurance; renewable energy; social insurance.

The period of the 11th FYP also saw major events including the staging of the extremely successful Olympic Games in Beijing in 2008, the 60th anniversary of the founding of the People's Republic of China in 2009, the Shanghai Expo in Shanghai and the largest-ever Asian Games in Guangzhou in 2010.

The 11th FYP will be the only one for which Chinese President Hu Jintao can fully claim success. Although the 12th FYP will commence under his watch, Hu's second five-year term will end with the Communist Party Congress in October 2012, when Xi Jinping, currently China's vice-president, is expected to take the post. The 10th Plan began under Hu's predecessor, Jiang Zemin.

With the first two 12th FYP priorities calling for continued economic growth and development, it remains clear that the Chinese government believes this is the path by which the other priorities can be realised.

"The focus of this plan will be on rebalancing, including a shift from investment toward consumption, and from foreign demand to domestic demand. As part of that, the plan will pay attention to the importance of raising workers' wages as a share of GDP," *WSJ's* Orlik said.

The struggle against inflation, along with all of its contributing factors, both positive and negative, could end up being the centerpiece of the 12th FYP's success or failure. A more detailed read of the FYP shows that "the government stated in its 12th Five-Year Plan that household income growth should exceed that of national income. This means that over the medium-term, corporate earnings growth should not exceed nominal GDP growth, which we expect to be 11% in 2015," Deutsche Bank wrote in a research note. Such dramatic growth in household income would almost certainly continue to increase inflation.

BUSINESS BENEFICIARIES

The government has specifically identified the service sector for development during the next five years, with China's Politburo stating the government would "aggressively promote service consumption."

"In order to promote local services, the policy measures will likely include a reduction in taxes (by converting the business tax to a value-added tax) on services, permission for private and foreign investments in many service sectors, government investments in service sector infrastructure, favorable financing policies, lower rents, and subsidies for research and development," Deutsche Bank observed.

The service sector contributed an estimated 44% of GDP in 2010, according to Deutsche Bank, which commented that "although the 12th FYP has not yet unveiled the 2015 target, policy advisors have proposed that China should aim at achieving a 50% ratio for the service sector by 2015. Assuming a more realistic target of 48% for 2015, this implies that the nominal value added of the service sector will grow at a 14% 2011-15 compound annual growth rate (CAGR), vs. 10% for the manufacturing sector and 7% for the primary (mainly agriculture) sector."

Given the priorities identified by the government, likely business beneficiaries of the 12th FYP include "second- and third-tier city developers, tourism, IT services, property agencies, equipment, new energy, cement, as well as beneficiaries of Western development such as local retailers and banks," Deutsche Bank wrote.

Perhaps the greatest opportunity lies in supplying environmentally sound technology for the generation of energy, but also for the

12TH FIVE-YEAR PLAN: PRIORITIES

1.
To accelerate the transformation of economic growth modes and to make new progress in scientific development.

2.
To boost demand, maintain balanced growth. China will stick to the strategy of expanding domestic demand, consumption in particular. The country will take full advantage of the potential of domestic demand and seek a new phase of economic growth boosted by consumption, investment and export.

3.
To promote the modernization of agriculture, and to accelerate the construction of the socialist new countryside.

4.
Develop a modern industrial system and enhance of the core competitiveness of industries

5.
Coordinate regional development and promotion of urbanisation in an actively and steady fashion.

6.
Accelerate the construction of a resource-saving and environmentally-friendly society and raise environmental awareness.

7.
Implement thoroughly the strategy of rejuvenation through talent and through science and education, and accelerate the construction of an innovation-oriented nation.

8.
Strengthen social construction, establish and perfect the basic public service system.

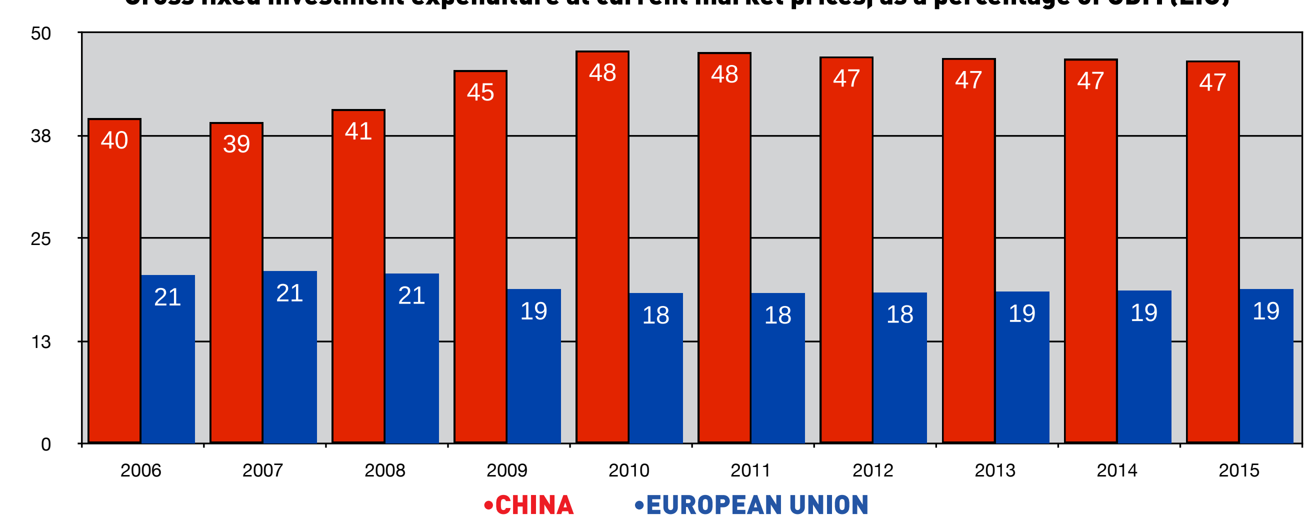
9.
Achieve cultural prosperity, improve the soft power of culture.

10.
Resolutely accelerate the pace of reform, optimize the socialist market economic system.

11.
Implement the mutually beneficial and win-win strategy of opening up, further increase the degree of opening up.

12.
Unite the whole party and people of all ethnic groups, fight for the realization of the 12th FYP.

Gross fixed investment expenditure at current market prices, as a percentage of GDP. (EIU)



processing and reduction of waste.

To achieve the planned target for energy intensity and pollution control set in the 12th FYP, Wang Jinnan, research fellow of Chinese Academy for Environmental Protection, said that China may "more than double its investment in the pollution treatment industry to RMB 3.1 trillion," noted Deutsche Bank. "Environmental investments will likely be targeted towards industries that are highly energy-intensive and cause the most pollution, including power supply, metal smelting and chemical materials."

However, the development of these green technologies, and more specifically, their purchase and deployment in China, is often limited to local companies.

As for "cultural prosperity," it is "time for China to catch up," Deutsche Bank noted that "the central government for the first time labeled culture a 'pillar industry,' reflecting its ambition to reprise the nation's past glory as a cultural superpower. A pillar industry, in our view, should at least account for 5% of GDP, and the share of the culture industry was only 2.5% in 2009. Policy support in the coming five years will play a crucial role in the culture and entertainment industry." *(see pg. 26 for more on European cultural products in China)*

EUROPEAN CHAMBER COMMENTS ON THE 12TH FYP

The European Chamber greatly appreciated the decision of the National Development and Reform Commission (NDRC) to involve more European businesses in China's future policy making. This is of interest to both European businesses operating in China.

The Chamber and its members, due to their commitment to China, respectfully responded to this call for comments and understood that the 12th FYP is a major tool that sets the economic and social development targets for the next five year time period.

The comments are presented according to the input received from the different Working Groups that structure the work of the European Chamber.

GENERAL COMMENTS

The Chamber and its Working Groups understand that strategic economic restructuring will be a major objective of the 12th FYP. Currently, China suffers from a series of imbalances that should be addressed through:

-The expansion of domestic sources of growth. In this regard, domestic consumption has risen as a major pillar for sustainable economic development, therefore allowing access to consumer finance credit that could satisfy daily consumer finance needs of mass consumers

-The growth and development of new and strategic industries, in this case the development of the service industry (e.g. travel, renewable energy) can be key in China's economic restructuring

-The development of Small and Medium Enterprises (SMEs) that are crucial for job creation.

-The increased reform of the welfare state and social security and expansion of access to basic public services would free precautionary savings and help to reduce social disparities.

-Deepening reform and accelerating a win-win strategy for opening up and reform. The main driver for China's rapid development has been reforms implemented during the past three decades. The European Chamber believes that reforms must continue in these areas.

-Legal system: The Chamber acknowledges the efforts to increase transparency, predictability and enforcement. It also supports and encourages these efforts, but considers that there is still room for improvement of these aspects of the regulatory environment. This can be achieved by involving civil society and businesses through standardized public consultation processes, refraining from retroactively applying regulations that set new obligations or sanctions and application of laws and regulations in a non-discriminatory fashion.

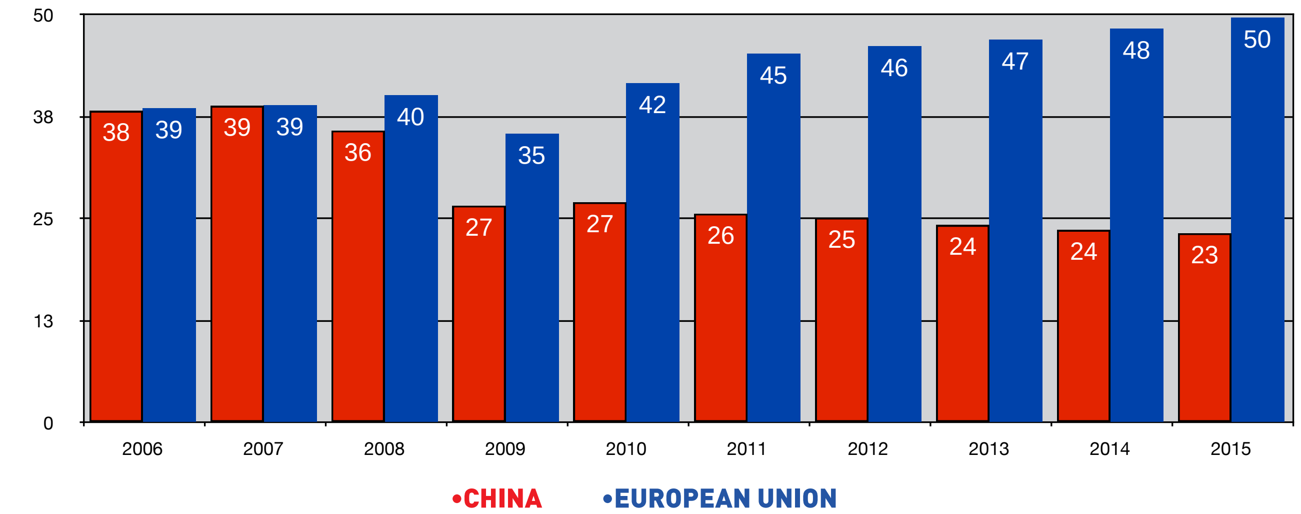
-Taxation System: The taxation system should support the economic and social goals for China's development. The European Chamber believes that this can be achieved with a simple, transparent and effective taxation system.

-Foreign investment and a level playing field: The European Chamber supports the efforts in extending and improving the use of foreign investment in China. Foreign investment encourages innovation, the transfer of knowledge, management skills and technology in order for these transfers to materialize, however, a level playing field and non-discriminatory access to the market is necessary. There is no specific clarification of in what areas and industry multinational corporations are welcome. Market access of foreign investment need to be clarified

-Green Development: Economic restructuring has to take into consideration the implementation of environmentally-friendly and resource efficiency policies.

-Innovation, Research & Development, Standards and Intellectual Property Rights (enforcement): Innovation should be one of the main pillars of the economic restructuring. Foreign investment

Exports of goods and non-factor services as a percentage of nominal GDP at market prices. (EIU)



can function as a tool to encourage innovation and intellectual property rights should be stringently enforced. Regarding standardisation, the European Chamber believes it should be transparent, harmonised with global criteria, and with fair and equal participation from companies and other relevant stakeholders.

In its comments, the Chamber also addressed horizontal issues including finance and taxation; human resources; law and competition; public procurement; and standards and conformity. In these areas also, it made a number of specific recommendations, including several that are included here.

-Finance and Taxation: Reform of the taxation system should aim for simplicity, transparency and efficiency. The system should aim to reverse the income gap between rural and urban regions and citizens on a national scale. The taxation system should encourage people to seek social and professional advancement and also encourage entrepreneurial activity.

The reform of the taxation system should aim to strengthen and support innovation and investment, particularly in research and development and actively pursue economic transformation.

-Law and Competition: During the 11th FYP, the Chamber has been able to offer contributions and comments throughout the legislative process of major regulations like the Anti-Monopoly Law. It also greatly appreciates the efforts made to improve the Rule of Law, transparency (China has the largest database of court cases and a website that allows public access to a database for defendants in civil cases who have not complied with court orders) and increased public participation in general. The working group has noticed that the solicitation of comments by regulatory and enforcing authorities has increased in the past five years.

The Chamber also appreciates China's efforts to introduce the rule of law in its governance system (and not rule by law). Rule of Law is important to foreign investors and to economic development.

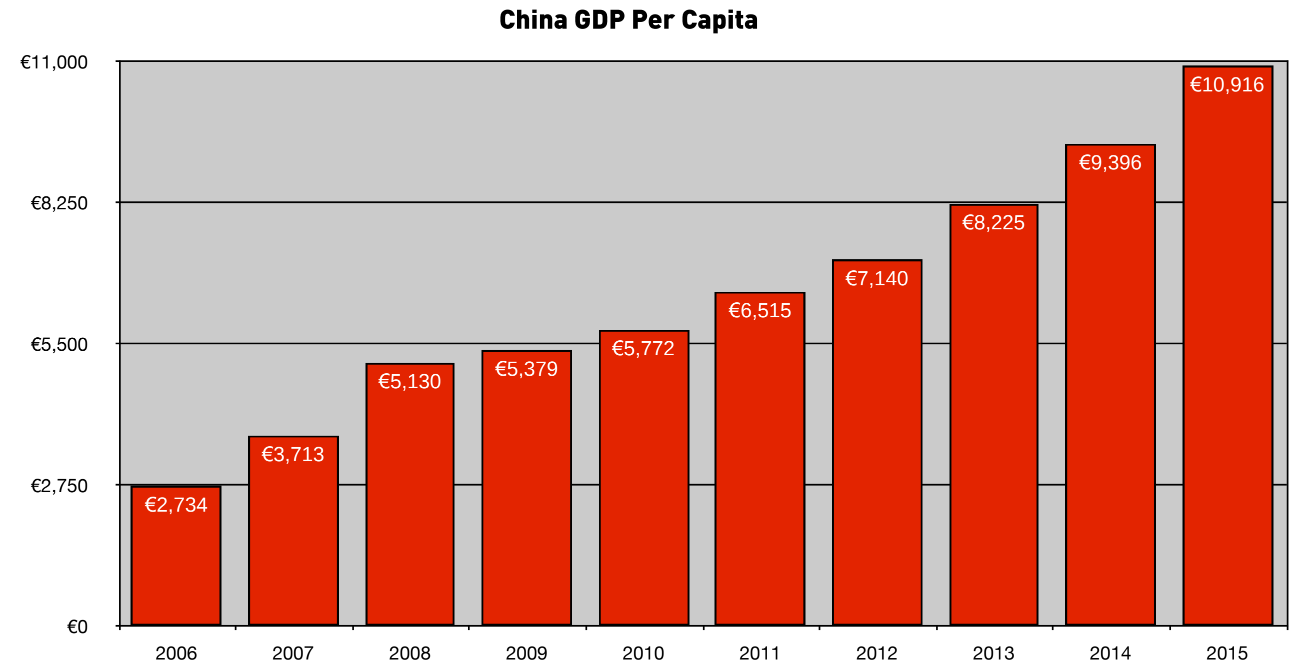
However, the Chamber's Chinese counterparts' understanding of the Rule of Law differs from its own. The Chamber believes in judicial authorities basing their decisions on the law and its fairness to the public interest. It has observed that the implementation of the law is sometimes secondary to circumstances in the eyes of the People's Courts.

-Transparency: Efforts to increase public consultation are welcome developments, and the Chamber believes that the procedure for public consultation on draft laws and regulations should be standardised and allow for at least eight weeks for the submission of comments by all interested parties. Once the comments are received by the relevant authorities, the concerned ministries and departments should acknowledge their receipt by displaying the results of public consultation on dedicated websites.

Other measures that would contribute to increased transparency and predictability of the Chinese regulatory environment would be the publication of all laws and regulations prior to their implementation and establishing an official journal in which would be recorded all laws and regulations. Providing an official English translation of the most important rules and regulations is also highly recommended.

-Public Procurement: As China moves away from an export-oriented economy it makes concerted efforts to actively support its domestic industry. This should not be a reason to discriminate against foreign invested enterprises and to favor so-called real Chinese companies only.

Fair market access for European



Nominal GDP divided by population, in EURO€. (EIU)

companies remains a key concern. The Public Procurement Working Group hopes China will open up the scope of its GPA discussions to include SOE in line with GPA guidelines. Should this not occur, the EU might erect protectionist barriers to market access for public works to Chinese companies.

INFLATION AND THE ENVIRONMENT ARE KEY TO THE 12TH FYP

While proposed items for the 12th FYP were made available to entities as early as November, 2010, the final content of the Plan will not be decided until after the NPC meets in March and has the opportunity to discuss and vote upon its main points. Therefore, to draw specific conclusions about the plan would be premature. Both the European Chamber and EURObiz will continue to follow and cover its evolution as it is approved and implemented.

However, given current economic trends in China and a consensus of opinion about those trends, some outcomes can be determined as quite likely. The government has clearly come out in favor of further development of the nation's service industries, and sees their growth as part of an overall shift away from heavy dependence on exports to greater reliance on domestic revenue drivers.

The greatest obstacle to achieving this and other growth targets is continued inflation. With the government backing significant and swift increases in household incomes over the FYP, the ability to tamp down prices for staples and property, despite measures already taken against speculation in major urban areas, seems almost counter to its other intentions. Tight monetary policy can help to control some of this rampant buying, but continued inflation could force the government to slam on the brakes on some areas of economic growth, thereby limiting the ultimate effectiveness of some of the 12th FYP's best intentions.

Perhaps the best gauge of the 12th FYP's success will be China's management of environmental problems and energy policy. With a nod towards environmental protection in the 11th FYP, for 2011-2015 that notion has become a full-fledged plank in the new Plan. China's ability to generate clean energy to power its continued economic growth could in itself become an economic driver, albeit a smaller one. Failing to do so could lead to ongoing environmental degradation, with long-term health and ultimately economic effects.

China's commitment to economic growth should continue throughout the 12th FYP. However, inflation, energy security and the environment will enhance or temper that ultimate success of the Plan.

Special thanks to the Economist Intelligence Unit for the data used in the graphs in this report.

The Economist Intelligence Unit is the business information arm of The Economist Group, publisher of The Economist. EIU's team in Beijing and Shanghai helps executives make better business decisions in China by providing timely, reliable and impartial analysis of economic trends and business strategies. www.eiu.com

GREEN GDP

China's 12th Five-Year Plan is filled with energy and environment proposals; foreign companies have a unique opportunity to contribute.

By Tim Werkhoven and Magali Van Coppenolle

Limitations on economic growth caused by shortages of energy and immense environmental degradation have led China to become more conscious of these issues, to the point that energy and environment (E&E) are now taking at the forefront of China's 12th Five-Year Plan (12th FYP) and beyond. This will have an enormous impact on China's business community due to the enacting of new regulations, but also offer many business opportunities ahead.

WHY ENERGY AND ENVIRONMENT TAKE CENTRE STAGE

In the proposed 12th FYP, several economic and social circumstances influence its focus on E&E.

China is suffering from the current state of environmental degradation; businesses are losing out on profits and citizens, along with non-governmental organisations (NGOs), are voicing their concerns.

The two main issues are pollution and deforestation. They threaten the growth of the economy and well-being of the society. The dramatic increase in incidences of asthma, contaminated food and dairy products, and natural disasters (mudslides), along with shrinking access to clean drinking water are just a few examples. In 2007, the annual number of premature deaths caused by environmental degradation in China has been estimated at 750,000. The impact on business is equally harmful: health problems decrease productivity, erosion is causing land and property losses and the depletion of resources might end up limiting economic growth more seriously. Human and capital cost as a result of environmental degradation is estimated annually at around 500 billion RMB (€55.6 billion) per year, which is between 3-8% of China's GDP.

Environmental protection is high on international agendas, and China wants to play a more important political role. In 2009, during the Climate Summit in Copenhagen, China was heavily criticized for not taking environmental discussions seriously. In November, 2010 during the Cancun Climate Summit, China displayed a greater desire for green growth. Part to increase its international reputation, China wants to be a front-runner on environment.

A focus on the environment also means new business opportunities. China wants to become the global market leader in clean-tech industries such as electric vehicles and grid technology. Already, China is the world's largest producer of solar panels worldwide. Currently, European technology is more advanced, but the gap with China is closing fast and competition in high tech sectors will increase significantly in the mid-term.

China has prioritised its energy security. It is seriously concerned about future energy shortages. Obtaining energy sources from its own soil is problematic, and most of China's fossil fuels are found in arduous geographic regions resulting in high infrastructural and transportation costs.

Importing energy sources is also difficult, costly and creates geopolitical tensions with countries such as India and the United States. China's "string of pearls" strategy and its major investments in Africa and Europe are viewed with mixed feelings by many countries.

In order to ensure sustainable economic growth, the country needs to make better use of its existing sources of energy. Efficiency in extraction, production and consumption must be improved. But China knows that efficiency has its limits and fossil fuels are running out. Other, cleaner ways to provide and use energy need to be pursued.

WHAT'S IN THE 12TH FIVE-YEAR PLAN ON ENERGY AND ENVIRONMENT?

In drafting the 12th FYP, regulators had a good idea of the E&E challenges ahead. Ongoing urbanisation on a massive scale will have an immense environmental impact (more consumption, more waste). Indeed, the Plan uses the term "inclusive growth" to envisage China shifting from an export-driven to a more domestic consumption economy. These considerations culminate into a further drive towards a green economy: economic growth based on renewable resources and considering energy conservation, pollution reduction and new technologies. This will result in sustainable growth that prevents global warming, pollution, resource depletion and energy security.

Developing clean energy sources such as wind power are a priority for China's 12th Five-Year Plan.

The 12th FYP is filled with ideas on how to get there. Three pillars stand out:

1. Developing energy-efficient technology, reducing pollution

2. Increasing environmental quality

3. Support the shift to new energies and reliable energy supplies

There is a visible conceptual shift from limiting energy use to improving it by being more efficient and modified production sources and methods.

The first pillar of the Plan is expected to develop preferential measures for developing energy-efficiency technology, as well as an expected mandatory energy consumption target of approximately 17%. Additionally, binding targets will be set for reducing carbon emissions, in line with China's earlier pledge to reduce 40-45% of carbon per unit GDP by 2020.

Government officials should pay close attention to the mandatory targets. If targets are not met, then those officials will face consequences and possibly penalties. As we have seen in the past, for example in Changzhou in Jiangsu province, governments will not hesitate to exert draconian measures such as power cuts in order to reach their targets.

Preferential measures for developing energy-efficient technology will be closely linked with financial and taxation incentives. It is strongly related to indigenous innovation and, as mentioned earlier, feeds into China becoming the market leader in green technology. A potential carbon or environmental tax is expected to be levied by 2013.

An environmental tax is levied based on the discharge of contaminating elements such as sulphur dioxide. A carbon tax relates to a levied fee per unit of carbon emitted. In contrast, a carbon cap would require companies to pay only for carbon emitted above a certain threshold. Of course there are difficulties and high investments associated with measurement, especially for carbon. Therefore, initially adopting an environmental taxation scheme is more likely, but full details remain unclear.

Following a carbon tax, implementation of a carbon emission trading market is rumoured to be in the works by 2015. Implementation also presents many difficulties, such as monitoring. In order to achieve this goal, the government may impose carbon emission caps in certain industries and cities on a trial basis so as to create the demand for carbon trading in China. Already, voluntary trading markets exist, in Beijing and Shanghai. At present, the National Development and Reform Commission (NDRC) is drafting the "Measures on Administration of Voluntary Greenhouse Gas Emission Trading" to encourage and regulate voluntary carbon trading.

The second pillar of the Plan is geared towards increasing environmental quality. The 12th FYP mentions several areas in which improvement is urgently needed: water pollution, soil pollution, deforestation, air pollution, waste management and noise pollution. Stricter standards and regulation, the assignment of responsibilities to the polluter, several financial and taxation mechanisms similar to those described above and environment "restoration" are envisaged. The Plan also highlights the importance of biodiversity, the management of natural disasters, the implementation of a recycling economy and tightening regulations concerning nuclear waste.

The third pillar will likely have far-reaching effects as it will impact and shape a range of other industrial policies in a multitude of sectors.

Limiting energy consumption will unlikely be enough, as such limits try to mitigate fossil fuel pollution. Finding new sources of sustainable energy is key for sustainable growth. In 2010, China became the country with the highest number of installed windmills. However, numerous obstacles still remain (for example, poor grid connectivity). This third pillar is a crucial step not only towards raising more awareness among industries and the public sector but also towards improving the quantity and quality of China's green efforts.

The 12th FYP also supports so-called Strategic Emerging Industries (SEIs) that will gain full financial and regulatory support. Many of these SEIs are geared towards E&E.

China's 7 Strategic Emerging Industries

1. Energy-saving and environmental protection: Advanced and eco-friendly products, cyclic utilisation, industrial equipment and services

2. Next generation information technology: Next generation communications network, cloud computing, triple play, high-performance integrated circuits, high-end software, Internet security, artificial intelligence

3. Bio-technology: Bio-medicine, bio-agriculture, bio-energy, bio-manufacturing, drugs/vaccines

4. High-end/advanced equipment manufacturing: Carbon fibre, battery industries, high-speed railway, aerospace, marine engineering and high-end smart equipment

5. New energy: Nuclear, solar, wind, biomass, geothermal and ocean energy

6. New materials: High-performance composite materials, materials with special features, nano-materials, rare earth, alloys, membranes, high-end semi-conductors

7. New energy vehicles: Plug-in hybrid vehicles and pure electric vehicles, fuel cells, hydrogen cars, solar cars

CHALLENGES AND OPPORTUNITIES

All the plans, goals and current achievements aside, the future for the E&E section of the 12th FYP is not at all. China will have major difficulties developing a "Green GDP." Total domestic energy supply needs to be in line with GDP and population growth. At the same time, shifting from fossil fuels to renewables is easier planned than executed. Solar, wind and hydro generation of power are at the other end of the country from where most is consumed. A clear east-west divide exists, with power hungry cities such as Beijing, Shanghai and Shenzhen are far away from wind-rich Gansu province, the Three Gorges Dam and solar-rich Xinjiang Automonous Region. A lot of energy is also lost in transmission and distribution. Moreover, the technology to generate electricity efficiently from renewable sources is not advanced enough yet to compete with or replace oil. It will be hard to beat oil and coal as the predominant energy sources in the near-term.

In terms of managing energy demand, major challenges also lie ahead. Again, innovation and technology are important to make energy use more efficient. Products, services, manufacturing processes need to be upgraded to squeeze more output out of every kilowatt of electricity. This is not yet the case. Better generation of power and more efficient use of power will eventually lead to a less polluted environment.

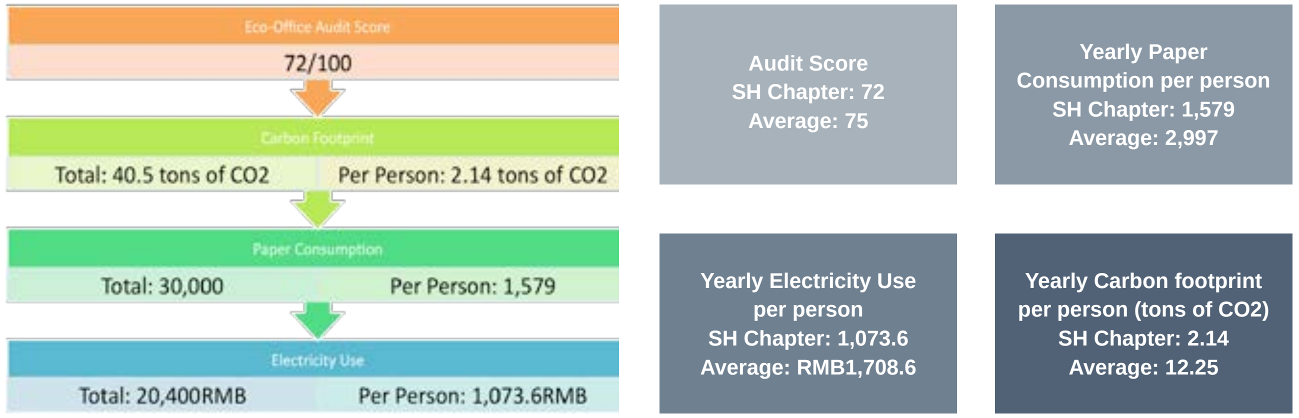
A behavioural change is needed among consumers and businesses in China in order to achieve change. Also, in the near future, many cities will want to go carbon neutral but don't know how. Already, the European Chamber has been approached by several municipalities asking for help in delivering energy-efficient technologies. European companies have technologies in-house that can contribute to China's 12th FYP goals, thereby making the Chinese market more sustainable. By showcasing real-life examples of their energy efficient technologies, alternative power generation technologies, improved services and processes that save energy, European companies have the opportunity to contribute to making China more environmentally-friendly and energy-secure.

The European Chamber will continue to assist in facilitating this. In cooperation with "Train the Trainers" and the SWITCH-Asia project on green buildings, provides a repository of examples and best practices in the area of energy efficiency. This will be compiled into a bilingual e-catalogue featuring European energy-efficient technology available in China. Including contact details of the European companies, the tool serves as a platform bridging European long-standing expertise in this field and Chinese growing interest in foreign energy-efficient solutions.

Leading by example, the European Chamber will measure its own carbon footprint in China. Already, the Shanghai chapter had NGO Roots & Shoots perform a measurement and their recommendations are being implemented.

Energy and environment dominates China's 12th FYP. We can expect many laws and regulations in the near-term, but timing and exact content is still not set. Companies in related fields and industries should follow the issues closely so that they have the chance to reap the benefits.

European Chamber, Shanghai Chapter, Environmental Performance 2010



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EUROPE'S FILM BUSINESS:

CAUGHT BETWEEN A HOLLYWOOD ROCK & A CHINESE HARD PLACE

By Steven Schwankert

Director Luc Besson (L) talks with Chinese director Sherwood Hu at the launch of *Adele Bec Sec* in Beijing. (uniFrance)

Sophie Marceau during interviews in Beijing, March 2010. (uniFrance)

Cedric Klapisch (L), Romain Duris and Juliette Binoche present *Paris* in Beijing. (uniFrance)

Among the priorities stated in the 12th Five-Year Plan, "cultural prosperity" and "soft power" appear alongside continued economic growth and a harmonious society. Nowhere is the strengh of these two more apparent than in China's booming cinema market, taking in over €1 billion last year. However, market access issues like import quotas, coupled with good old-fashioned competition, are making it difficult for European films to find audiences in China. EURObiz takes a close-up look at the tools European producers are using to get noticed in the world's largest potential film market.

A decade ago, anyone predicting a boom in the Chinese film market and a gold rush in box office revenue would have been declared insane. Antiquated cinemas – and too few of them – with uncomfortable chairs and noisy, smoking patrons made watching a DVD copy of the same film at home far more appealing. China's film industry churned out propaganda topics, with only 20 foreign films imported per year – including Hong Kong – on a revenue-sharing basis.

But over the last five years, China's cinema market has blossomed. China has averaged 20% box office growth per year since 2006, as the number of total screens increases and new technology like 3D converts young filmgoers to the cinematic experience -- not to mention higher prices, with tickets for blockbusters selling for 80-100 RMB each.

In 2010, China's total box office take grew 61%, topping €1 billion for the first time, and comfortably takings its place as the world's third-largest market for film, behind the United States and Japan.

Hollywood hit-maker James Cameron reigns atop the box office as he has since 1997, now with Avatar, which pulled in €147.8 million in China. For Chinese producers, in the last six months the title of top-grossing, domestically-produced film has already changed twice, with actor-director Jiang Wen's Eastern-Western *Let The Bullets Fly* gunning down Feng Xiaogang's earthquake epic *Aftershock*.

Between these two giants, European film is developing a third way. Faced with the same censorship, local infrastructure and market access issues as their competitors, producers in Europe are finding novel ways to get their films in front of China's burgeoning number of film fans.

LACK OF VISIBILITY

"European movies seem like the only alternative to Hollywood," said Christine Pernin, chief representative of uniFrance, Greater China. "Indian movies do not make it. Russian movies are seen as not being really European. Other Asian movies except Hong Kong do not appeal. The Korean trend is over. Africa and South America, not at all."

"EUROPEAN MOVIES SEEM LIKE THE ONLY ALTERNATIVE TO HOLLYWOOD." CHRISTINE PERNIN, CHIEF REPRESENTATIVE OF UNIFRANCE, GREATER CHINA

"European films don't generally compete head to head for the same audience that Hollywood blockbusters do globally, the same is true in China," said Anke Redl of CMM Intelligence, a Beijing-based media research and consulting company.

However, they do compete with other foreign films for space at local cineplexes and for distribution resources.

In one of the few areas of China's film industry that has not seen significant change in the last decade, there remains a 20-film per year quota for films imported on a revenue-sharing basis, regardless of country of origin. Of these 20, Hollywood films usually receive about 15 slots, for a simple reason: their visibility generates the most buzz among Chinese film fans, which translates to larger box office receipts.

"Overall, the profile of European film is too low. The problem is that the European films that do come this way tend to be art-house fare, and this is a very niche market in China," observed Clifford Coonan, an Irish journalist that covers the film and broadcast industry for U.S. trade publication *Variety*.

Sometimes European film doesn't even get credit where it is due. "The audience doesn't always realize that certain stars are not from Hollywood, like [Spanish actor] Javier Bardem," Pernin said.

MARKET ACCESS AND TRADE BARRIERS

China's film industry falls under the regulatory auspices of the Ministry of Propaganda. Directly assigned to the management of the film industry is the State Administration of Radio, Film and Television (SARFT). During recent bureaucratic consolidation in which some ministries were combined, SARFT grew in influence and strength, muscling out the Ministry of Information Industry (now part of the Ministry of Industry and Information Technology) for control over content posted online, including the growing Internet video market.

Aside from direct regulation, including censorship, SARFT also manages overall business policy for the film industry, often going so far, via state-run film distributors, as setting run dates for films – regardless of their business performance, although this has changed more recently.

Films seeking cinematic release in China must be approved as suitable for all audiences, with cuts requested of scenes deemed too sexual, violent, or related to horror, magic and superstition. Once likened to “the mass production of pornography,” as recently as August, 2010, that “practically speaking there’s no success even in the most developed markets at preventing young people from accessing inappropriate films at Internet cafes and even in cinemas,” according to SARFT vice-minister Zhao Shi. “That’s why we don’t think that now is such a time to introduce a ratings system to China’s market.”

“The benefits [of a treaty] do not necessarily exceed those of a regular co-production.”

Anke Redl, Greater China Representative, German Films, and Managing Director, CMM Intelligence

Films caught in the censorship net include the second installment of the *Pirates of the Caribbean* series, flagged for its supernatural themes. Academy Award-winning director Ang Lee’s *Lust, Caution* was released after its notorious sex scenes were cut. However, actress Tang Wei was banned from acting in China for two years as a result of the scenes. *Harry Potter and the Prisoner of Azkaban* had more than 10 minutes cut from the film, resulting in a version that many viewers found incomprehensible.

Those are the bureaucratic challenges. Logistically, despite having the world’s largest population of potential movie fans, China still has fewer cinema screens than U.S. state of California, although it added about 1,500 new screens in 2010. Like seats on a Spring Festival Beijing-Shanghai flight, demand maybe increasing, but capacity is not yet able to keep pace.

For distributors, blockbusters have an easier time than small films -- with more potential upside. “The system likes big movies. Distribution of each movie takes about the same amount of effort, therefore bigger movies are easy to sell,” Pernin said.

Filmmakers may also need to just accept the current reality of Chinese film tastes. “Perhaps European producers need to look at more commercial movies to get into the Chinese market, and learn more about the Chinese market. Look at the movies that make it big in China – they are generally action movies, with lots of martial arts and big themes from Chinese history,” Coonan said.

ANOTHER WAY AROUND

The reception for European filmmakers in China hasn’t been commensurate with the success of Chinese directors in Europe. Chen Kaige won the Cannes Film Festival’s Palme D’or – its highest honor – for *Farewell My Concubine*, and actor Ge You won the Best Actor award there for his role in Zhang Yimou’s *To Live*. Zhang has won the Venice Film Festival’s Golden Lion twice, the Berlin Film Festival’s Golden Bear once, and also won a Grand Jury Prize at Cannes. Wang Quan’an won Berlin’s Golden Bear for 2007’s *Tuya’s Wedding*.

While U.S. studios view the import quota as a protectionist barrier, European films have found opportunities in arranging flat-fee sales.

“Actually the 20-film quota refers only to the films allowed in under the revenue share agreement with China. In fact, many more European films are brought in on a flat-fee basis,” said Redl.

Although the fees paid for such films do not approach €1 million, being able to distribute films outside of the quota allows for more movies to be imported.

Another possibility for China market entry is via co-productions. Similar to joint ventures, co-productions generally set a maximum level of investment from either the foreign or Chinese entity, and have other requirements relating to the number of Chinese or foreign crew who work on the film, and may also specify locations to be used. In exchange for meeting these requirements, the co-production would be classified as local for the purposes of distribution and revenue-sharing.

Although treaties are not necessary for film co-productions, China has concluded co-production treaties with several nations. Italy and France are the only European countries to have signed co-production treaties with China so far, with the French treaty concluded in April 2010 during French President Nicolas Sarkozy’s visit. The other agreements are with Australia, New Zealand and Singapore. A treaty with the United Kingdom has been in the works since 2006.

“Co-production treaties are of course important but often take a long time to negotiate, and benefits do not necessarily exceed those of a regular co-production. Germany has engaged in a number of co-productions with China and those films are also considered domestic in both countries – they are not part of the quota system -- and can apply for funding in their home countries. *Little Big Panda*, *John Rabe*, *Laura’s Star and the Dragon Nian* were all Chinese-German co-productions - and there are many more to come in 2011,” Redl said.

Chinese films like *Let The Bullets Fly* (left) are increasingly taking aim at foreign imports, such as Jean Reno’s (right) *Empire of the Wolves* in 2006, shown here with Chinese director Zhang Yimou. (uniFrance)

Producers could also consider the small screen as a way of taking advantage of China’s massive market. “There are many more TV co-productions happening than before. Chinese themed TV movies, talk shows, TV formats and documentaries are being produced. We have really seen a surge over the last months. This shows that Europe is increasingly interested in China and Chinese topics are starting to also shape debate and mainstream pop culture in the West.” Redl said.

“There is a growing sophistication among the Chinese film-going public, which is good news for European movies,” Coonan said. “The great strengths of European cinema are often based on not being obsessed with a film’s commercial aspects, and this augurs well long-term for European movies’ prospects in China.”

THE EUROPEAN UNION FILM FESTIVAL IN CHINA

One initiative to bring European film to Chinese audiences is the European Film Festival in China. Founded in 2008, the Delegation of the European Union to China began the festival as a cultural event that could involve all 27 member countries, and one that would allow Chinese audiences to “know about wider Europe,” according to William Fingleton, head of press and information for the EU Delegation.

“Film can show people what life is like [in other places] without leaving your own country,” he said. “Nothing can beat the magic of film.”

In its third installment last year, the festival offered two screenings each of the 26 participating films, attended by over 14,000 film fans in Beijing, Chengdu and Xi’an. Because it utilizes commercial cinemas outside of Beijing, the festival received SARFT approval for 12 films – equal to the number of European films approved for commercial release last year. Screenings held at European cultural institutes in Beijing are free, while participating commercial cinemas collect only a minimal RMB 20 fee for festival showings.

Now held in its fourth year and held in November in at least three Chinese cities including Beijing, the festival adheres to very specific criteria: only one film from each member country will be shown, and each member should, if possible, submit their country’s most popular recent film. Each film is subtitled in Chinese, and, as the festival expanded to two cities Mongolia for the first time in 2010, also into Mongolian Cyrillic.

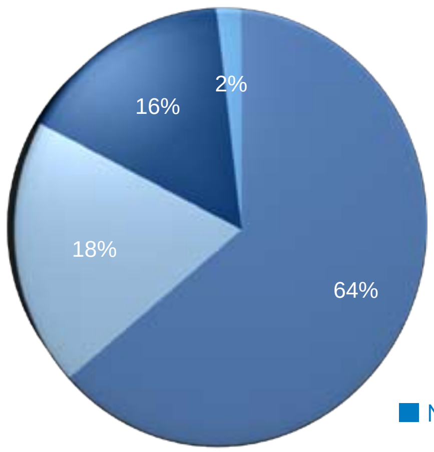
Because 2011 has been designated as the “Year of the Youth” in China, Fingleton expects that the festival will also take that as a theme, perhaps focusing on films by young directors. He also plans to institute a prize for participating films, where audience members vote for their favorite film.

“A European can see as many Chinese films as they like, provided there’s a demand for it,” Fingleton said. “We would like to see a more level playing field like that in China.”

THE RAPID DEVELOPMENT OF POWER GENERATION IN CHINA

By Tracy Li , Energy Sector Analyst, ACMR

Segmentation of New Installed Capacity of Power Generation in China in 2010

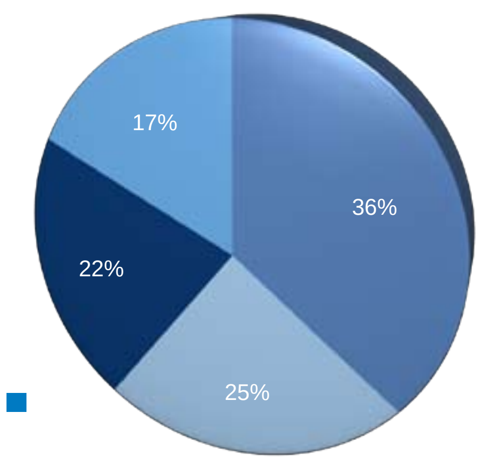


During the 12th Five-Year Plan, China's central government will prioritise the development of hydroelectric power generation, optimise the restructuring of the thermal power generation industry, and strive to develop nuclear electric power generation. At the same time, China will actively promote the development of alternative power generation – composed primarily of electricity generated using wind power, geothermal energy, solar energy, tidal energy and biomass energy, and other electricity generation activities that are excluded from thermal, hydraulic and nuclear electricity genration.

Source: China Electricity Council, ACMR analysis

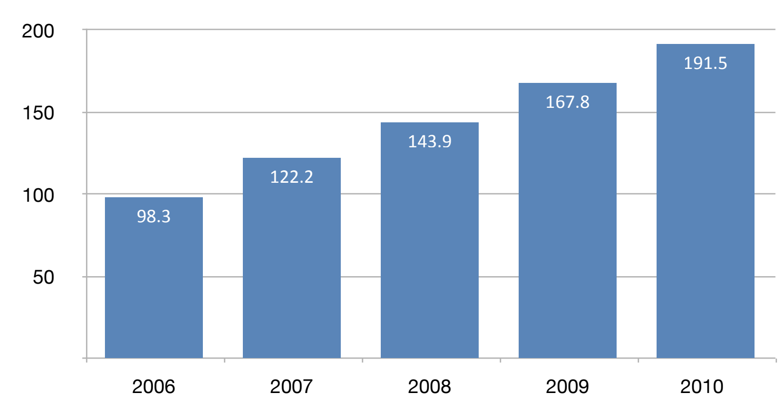
Investment in Power Generation Industries in China in 2010

Power generation in China has experienced a dramatic increase in 2010, with RMB 362.2 billion total investment and 91,270 megawatts (MW) of newly-added installed capacity. By the end of 2010, the total accumulated installed capacity of power generation in China increased to 962,190 MW. One MW of electricity powers approximately 1000 homes for one year.



Source: China Electricity Council, ACMR analysis

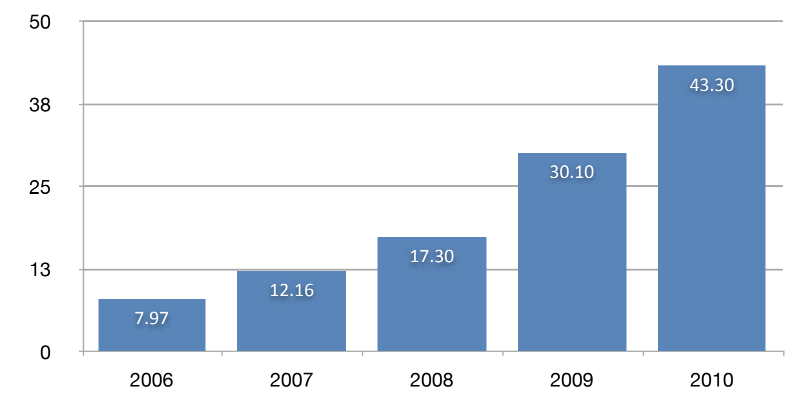
Total Revenue of Power Generation Industries in China, 2006-2010 (Per Annum, in Billion RMB)



From 2006 to 2010, the outputs of power generation industries in China have increased at an annual growth rate of 10.7%. During the same period, China deregulated the sector by splitting the state-owned State Power Company into five state-owned independent power generation companies and two regional grid companies.

Source: National Bureau of Statistics of China, ACMR analysis

Revenue of Alternative Power Generation in China, 2006-2010 (Per Annum, in Billion RMB)



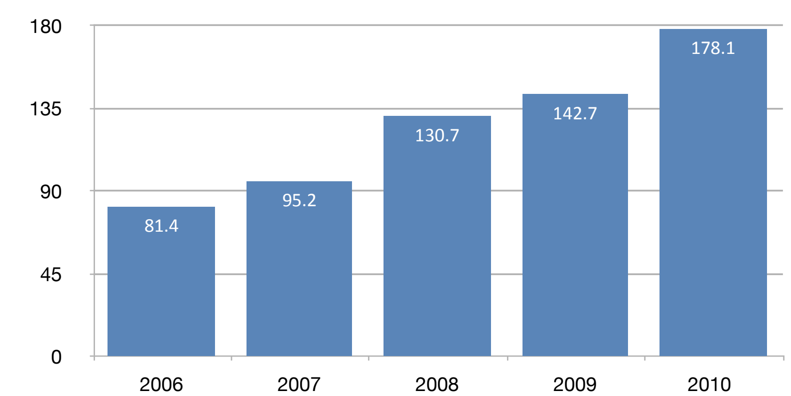
Source: National Bureau of Statistics of China, ACMR analysis

Industry revenue was expected to increase at an annual rate of 59.1% in the five years through 2010, with strong government support and increased awareness among households and businesses of alternative energy options.

In 2010, China's accumulated installed wind power capacity surpassed that of Germany, and was the second highest in the world.

Most of China's photovoltaic (solar) power generation capacity is in the Xizang Autonomous Region (Tibet) to supply remote residential districts with energy. By 2020, total installed capacity is expected to reach 20,000 to 30,000 MW.

Revenue of Hydroelectric Power Generation in China, 2006-2010 (Per Annum, in Billion RMB)

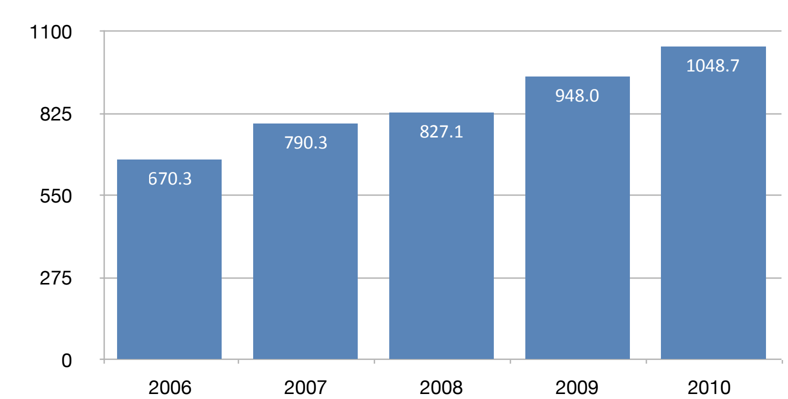


Source: National Bureau of Statistics of China, ACMR analysis

Hydroelectricity generation accounted for about 16.0% of total power output and 22% of total installed capacity in 2010.

Over the last five years through 2010, China's government has continued to prioritise rural electrification plans, with a particular emphasis on small hydropower plants in rural areas. China has abundant water resources, which are appropriate for small-scale hydropower generation in over 1,600 counties spread over all of its provinces, autonomous regions and municipalities.

Revenue of Thermal Power Generation in China, 2006-2010 (Per Annum, in Billion RMB)



Source: National Bureau of Statistics of China, ACMR analysis

Thermal power accounts for the largest share of China's power generation capacity. In the past five years to 2010, and despite government efforts to diversify China's power generation options, industry revenue thermal power industry revenue has significantly increased at a rate of 16.5% per annum.

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

EURObiz Events

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

March

Tue	1ST	Cocktails with New European Union Delegation Ambassador Markus Ederer, Hilton Hotel, Beijing.
		Expatriate Employment: Dealing with Labor Issues – Half-Day Training, Shanghai.
Wed	2ND	HR Networking Event – (with BritCham, BenCham, CCBC and SwissCham), Beijing.
Thu	3RD	Top Executive Breakfast Circle – –Breakfast Seminar, Nanjing. VIP – Dinner in Chongqing: –Visa Applications, Chengdu.
Fri	8TH	IT Trends and Related IP Issues Breakfast with Stephan Cadisch, Software ONE, and Michael Chen, Kaseya. 8:00-10:30, Hilton Hotel, Beijing.
Wed	9TH	Opportunities and Challenges in the Waste Industry in China – –Full-Day Conference, Shanghai.
Thu	10TH	HR Challenges in the Automotive Industry – –Lunch Forum, Shanghai.
		Lobby Nanjing, Investment Promotion Commission, Nanjing.
Fri	11TH	Introduction to Shenzhen Housing Fund –HR Legal and Tax Implications – Forum, PRD – Guangzhou.
Thu	15TH	China's Management Revolution – –Breakfast Seminar, Shanghai.
		Global Leadership Conference Local talents for your Global Success –12:00 - 20:00, Marriott Northeast Hotel, Beijing.
Wed	16TH	Inter-Chamber Mixer – –Evening Social, Shanghai.
		Total Remuneration Survey (TRS) pre-survey meeting – –Building Sustainable Growth in 2011 – Seminar, PRD- Shenzhen.
Fri	18TH	The Next China with Dr. Stephen Roach – 16:00-19:00, Grand Hyatt Hotel, Beijing.
		Total Remuneration Survey (TRS) pre-survey meeting – Building Sustainable Growth in 2011, Seminar, PRD – Guangzhou.
Tue	22ND	Lunch Seminar with Joseph Stiglitz – 11:00 – 13:00, Westin Financial Street, Beijing.
Fri	25TH	SME Tailored Workshops - The China –Commercial Contract - Session A – Seminar, PRD – Guangzhou.

April

Fri	1ST	Cocktail Event in Chongqing – Dinner, Chengdu.
Sun	3RD	Qing Ming/Tomb-Sweeping Festival (China)
Mon	4TH	Qing Ming/Tomb-Sweeping Festival (China)
Tue	5TH	Qing Ming/Tomb-Sweeping Festival (China)
Tue	12TH	2nd European International Financial Forum: Internationalisation of the RMB –Full-Day Conference, Shanghai.
Wed	20TH	VIP Dinner in Chengdu, Chengdu.
Thu	21ST	Quarterly Joint Chamber HR Mixer – –Social Event, Shanghai.
Fri	22ND	SME Forum –Half-day Event, Beijing
Mon	25TH	European Chamber Annual General Meeting - Delegation of the European Union, Beijing
Wed	27TH	VIP Dinner/International Mixer in Chongqing, Chengdu. SME Tailored Workshops - The China Commercial Contract - Session B, PRD – Guangzhou.

ALIGNING HR WITH CORE BUSINESS

By Gabor Holch

In spite of their tremendous importance, human resource (HR) management departments continue to receive significantly less attention in innovation and strategic planning than the healthy growth of most companies would require.

In firms of all sizes, good HR is the key to everything from sales results through innovation to healthy succession planning. It is a well-known fact, for instance, that if you have to micromanage, you made a hiring mistake. Yet, too many leaders insist on pushing HR into the back seat when it comes to allocating total company resources, and dealing with the resulting problems when they have already impacted the core business.

Outsourcing key HR decisions, poorly defined HR-related performance indicators and ignoring the importance of retention and motivation are some of the typical weaknesses. Most of them could be avoided by aligning HR with core business strategy more efficiently. It is not as difficult (and certainly not so expensive) as one might think.

Creating job descriptions, hiring, succession planning and retention are ways of managing key company resources. To approach them strategically is similar to doing so in the case of finance, raw materials and supply chain management.

Able corporate leaders can save the company (and themselves) a lot of extra cost and headache by considering three basic questions in the context of managing human resources.

WHAT ARE OUR CORE VALUES AND VISION?

Most companies invest many hours of management time into developing a corporate strategy, including vision, mission, core values and goals. But there is often a gap between "core business" and HR. Some companies make innovation a core value, only to leave hiring processes the same as they were before, or they pledge sustainability -- but not when it comes to maintaining staff, resulting in high staff turnover as a fact of life.

The remedy is to apply the same methods to HR as they do to products or sales. If we aspire to be more innovative, are we able to make our job interviews more innovative? Can we use innovation in motivation or retention? If it works in product development, it should work in HR as well. If it doesn't, perhaps we need to take a second look at our strategy.

HOW DO WE MEASURE HR RESULTS?

Many companies use several costly assessment tools. But not enough of them link assessment results with overall business efficiency. Measuring is fine, but it works best when results are compared to a well-defined objective or set of objectives. Many HR departments are not sure what they need to deliver to the organization, and find it difficult to measure objectively whether they delivered or not.

The irony is that many companies could do so on a very low budget. If more independent decision-making is required of employees, leaders could go back to years of initial assessment records, performance evaluation and 360-degree results, and see which profiles correlate best with the required performance, but this hardly ever happens. These companies also do not specify the criteria for independent decision-making, although key performance indicators in this area are relatively easy to define.

The bottom line is that the leadership of the company projects and promotes certain values and standards through HR, whether they want to or not. Actions speak louder than words, therefore the impact of HR on efficiency is stronger than what they can achieve through publicising mission statements or giving feedback twice per year.

Ultimately, HR is just another production unit of the organization, not more, not less. With a bit of additional attention, HR departments can be turned around, from a weak link to an important driving force.

Gabor Holch is the founder and General Manager of Campanile Business Consulting, a team of committed management consultants and trainers in China and the European Union. www.campanileconsulting.com

Marketing EURObiz

CONNECTING WITH THE MASSES:

MESSAGING IN THE WORLD'S LARGEST MARKET

By Steven Schwankert

Siemens China Vice President and Director of Corporate Communications Bernd Eitel has a unique position – marketing one of the largest European companies operating in China. Mr. Eitel shows EURObiz the ins and outs.

EURObiz (Eb): What is the biggest mistake marketers make in China?

Bernd Eitel (BE): It might seem like common sense, but I think understanding of the Chinese market is something that you can only obtain when you are close to your target groups, in the market, and when you have the right people on the ground here. To my experience it does not make sense for multinational corporations (MNCs) to come to China and be under the impression that corporate messages developed for a global level plainly work here. You need to process the messages in a way that they are put into context with the China topics and still represent the identity of the company. You could of course say that this goes for other countries as well, but in China it is especially true.

Eb: Do messages need to be adjusted for different regions and cities, i.e. Beijing, Shanghai and the Pearl River Delta?

BE: China is a very big country. I often try to illustrate this to visitors coming to China who are only here once in a while. With this comes a high degree of diversity in the country, If you take the population of the United States plus Canada plus Latin America, you are still below the population of China. If you have the view that for 1.3 billion people the message can be the same, you would say that the message can be the same for an Argentinean as it is for somebody in Canada.

In terms of development, the eastern shore of the country has developed much faster than the western areas, and cities faster than the countryside. This means that there is a big span of stages of development in the country where on the one hand modernization has been lagging behind, and on the other not few visitors are surprised that things are even more advanced than in Europe. Take for example infrastructure, in Shanghai, Beijing or Guangzhou, you can find the best airports or train stations in the world.

Generally speaking, your message has to be adapted to this multitude of factors. The challenge is of course to stay true to your global corporate message as well. This tells you how important it is to have creative people in the team who have a feeling for both the country and the company they are working for and who then can fulfill this transformative process.

Another example is the unique political system. We are these days anticipating negotiations of the National People's Congress on the new Five-Year Plan, to be released by the end of March. The results have to be reflected in corporate marketing, so that company messages reflect what the Chinese national government sets as the agenda for the country for the future. The Chinese government is strong and influential in the sense of agenda setting. The topics that the country is engaging in are not topics that just come out of a standard deliberative process similar to Western countries. In China it is pretty much top-down agenda setting. This normally makes things plannable. It is a fundamental difference of working in China.

Eb: How difficult is it to convince people at headquarters that what you're saying about messaging locally is accurate?

BE: Personally I work together with people who are open to my comments. As the person with the comprehensive understanding of the country, I just try to be convincing in the sense that I give the reasons for many particularities with which China often is able to surprise. Understanding then comes automatically.

For example, we are now in the creative process of designing a new wave of our Siemens corporate campaign. We are developing our messages, motifs and media buying with our global agency here in China. This campaign will be customized for China and will try to reflect those particularities I mentioned earlier.

Eb: What's the biggest challenge for marketing a well-established brand with such a long history in China as Siemens?

BE: Local competitors are getting more literate in communications, and have increasing firepower. The landscape for communications in this regard is changing fast. For example, in the past on big outdoor media you had mainly Western brands. This has changed, as a lot of local brands are getting into the arena and show their presence.

You have to understand your target group. If you are creative in developing something together with your team and your agency, then you are in very good shape to be successful here in China.

You have to work with those agencies and constantly educate them on what your brand represents. You need a careful understanding of the differentiators between you and competitors. You want to have an agency that fits for you – a one-size-fits-all solution will not be successful. You have to tell the creative people what your brand is all about, what is the differentiator. This is what communicators have to do as homework and have to understand. Brand identity is not something an agency can do for you.

Eb: What's more important now, television or Internet?

BE: Generally it is about choosing the right media for the right message for the right company. For me in China the Internet is the media of focus in the future. Keep in mind that already now worldwide Chinese is the most common language in the web. Many popular global platforms like Twitter, Yahoo, Facebook have their Chinese counterparts. The development of Internet media in China evolved in a quantum leap. We are not only talking about traditional Internet communications where you place an ad on a website as you would in print media. The next generation of communications in China is social media where you are not necessarily working with ads, but via storytelling or topics. For instance, last year we had a campaign where we used social media and encouraged chinese bloggers to talk about topics of innovation, where they were not necessarily talking about Siemens, but about topics in which we are very much involved, like sustainability, renewable energy and the like. I think communications in the Web 2.0 world does not work as one-way-street. It allows you to lead the discourse via online communications. But you also need to be able to take critical feedback out of the blogosphere.

Eb: How is marketing European companies in China different from the way brands from other areas are marketed?

BE: On a very general level you could say that European products here are perceived as being high quality but also high price. But then again, Europe is very diverse. You can buy a Mercedes-Benz as you can buy a Volkswagen Polo. German brands especially are subject to this perception in China. I think this is not a disadvantage; it's a matter of how you play it and how you meet the market demands in the future.

THE EUROPEAN CHAMBER'S PUBLIC PROCUREMENT STUDY: UNDERSTANDING A HUGE POTENTIAL MARKET

In 2009, China spent approximately RMB 700 billion (€77.8 billion) on government procurement, as part of a massive economic stimulus plan unveiled in 2008. To help European businesses better understand this market and the opportunities available within it, in April the European Chamber will publish its Public Procurement Study.

Designed to offset the drop in exports caused by the global economic crisis, the plan called for RMB 4 trillion of spending in key areas such as housing, rural infrastructure, health, education and the environment. An additional RMB 9.6 trillion was made available through monetary policies.

This surge in public procurement has created opportunities for European companies in China. However, as the system is still not fully transparent, as some areas of the legal code overlap in their jurisdiction of public purchasing, and as other government policies sometimes limit or exclude foreign companies from participating entirely, encouraging further reform and opening of this procurement process would be of benefit not only to European companies, but to the business landscape in China as a whole.

As China prepares to consider possible reforms to its government purchasing system, the European Union Chamber of Commerce in China has prepared its own study on public procurement so that its membership of over 1,600 companies may understand and therefore participate in the process, and offer suggestions on reform to the Chinese government as it moves towards a more fair and transparent public procurement system.

DEFINITION

Public procurement involves the government purchasing of goods and services that it requires for its own functions and also that are required to provide for public goods and services such as roads, railways, airports, healthcare, water and energy supplies.

Chinese regulations define public procurement more narrowly. The law designated to regulate public procurement in China, the Government Procurement Law (GPL) defines "government procurement" as procurement of goods, works and services conducted with "fiscal funds" by state organs at all levels, public institutions and social organizations. The GPL does not cover state-owned enterprises. Instead, procurement by State-Owned Enterprises (SOEs) is regulated by the Bidding Law (BL).

Many public utilities and services in China are supplied by SOEs, firms that are majority-owned or actively managed by the state, as opposed to privately-owned firms or firms with only notional state ownership but no real government involvement. Many of China's blue chip firms with a significant market share in capital-intensive industry and service sectors are SOEs, such as PetroChina, Sinopec, China Mobile, China Telecom, Baosteel, COSCO and COFCO. Large-scale public projects like the Three Gorges Dam, construction for the 2008 Olympic games, China's national highway system, metro systems, airport management and energy projects like wind farm development are all undertaken by SOEs. These projects represent a significant amount of public spending in areas usually covered by public procurement rules. However, in China these projects are not considered part of government procurement and they are excluded from the scope of the GPL. Therefore, we find it important to widen the scope of "government procurement" to include SOE tendering for public goods and utilities. China currently has two sets of laws governing public tendering: the GPL and the BL.

Broadly speaking, the GPL covers central and sub-central government purchases.

(continued on next page)

The BL regulates all SOEs tenders, in particular, large-scale projects in construction, aviation, shipping, engineering, architecture, transportation, power and water. The BL also regulates tendering by purely private organisations. The projects regulated by the BL therefore tend to be of larger commercial value and of stronger interest to companies. The GPL is administered by the Ministry of Finance (MOF), while the BL is administered by the National Development and Reform Commission (NDRC).

Whether a bid is covered by the GPL or BL will have implications on a foreign company's ability to bid.

Many industries have additional regulations for tendering that differ from the BL and GPL in some important respects. The Budget Law, the Contract Law, the Product Quality Law, the Price Law, and the Anti-Unfair Competition Law, as well as industry standards and certification procedures, all have a bearing on public procurement. In particular, the Construction Law sets out its own broad procedures for invitations to tender and has detailed rules about what qualifications suppliers will need, while the BL has very simple requirements.

TRANSPARENCY

Transparency involves the objective (neutral) and public (visible) control of the entire tendering process from the call for tender to the contract performance. An important signal is the "public advertisement," which must be timely and provide adequate information to all potential bidders. Increased transparency throughout the entire procurement cycle would promote fair and equitable treatment for potential suppliers.

Non-transparency issues can edge into the Chinese tendering process (under GPL and BL) at different stages. Increased competition encourages local companies to enhance efficiency and improve their technology, creating new products. This will make Chinese companies more efficient, improving resource allocation and increasing innovation and offering better products to the Chinese consumer, in this case, the Chinese government and the Chinese people using public services and utilities.

RECOMMENDATIONS

The initiatives China has already taken on this issue send an important signal to foreign companies in China, that public procurement is on China's reform agenda and that the Chinese authorities are actively considering ways to clarify and streamline procedures in the BL and GPL and lack of transparency at different government levels.

In order to create an efficient public procurement market, the Chinese framework may need systemic reform. Having polled and interviewed extensively and examined the procurement problems facing firms in the medical, wind power and information and communications technology (ICT) sectors, this section of the study will offer a series of practical recommendations for the Chinese government to make the public procurement system more efficient and inclusive.

Public Procurement has consequently moved up the political agenda, yet the impact of these policies on the public procurement market are rarely discussed. It is hoped that this study will move public procurement from a political discourse to an informed business discussion.

The recommendations in this section are based on the knowledge and experience of the members of the European Union Chamber of Commerce in China and other major players in key procurement industries. They represent a summary of their key concerns and hopes for reform. The Chamber's goal in providing these recommendations is to promote an open and constructive dialogue with Chinese authorities, particularly in the MOF and NDRC in order to facilitate coherent reform of the Chinese public procurement system at all levels.

European Chamber recommendations include:

-Create a procurement department in the relevant ministry to issue detailed evaluation criteria, with minimum information standards and offer standardised explanations of evaluation criteria terms, giving all competitors equal lead time.

-Publish standardised directives on the correct level at which to conduct procurement under the GPL (central/provincial/municipal).

-Issue best practice rules on general bidding procedures to be followed as a default for BL and GPL, including longer minimum periods to respond to bid announcements.

-Establish a central platform to find out about new bids. Ensure all central, sub-central and industry specific tenders under the GPL are linked to the national MOF portal website.

-Establish independent review and remediation boards to enforce procurement rules.

-Avoid connecting Indigenous Innovation to public procurement.

The Public Procurement Study will be available directly from the European Chamber of Commerce in China.

For more information,
please contact Vicky Dong, vdong@euccc.com.cn, (010) 6426 2066 ext. 37.

CHINA'S MONETARY POLICY COMMUNICATION:

MONEY MARKETS BOTH LISTEN & UNDERSTAND

By Alicia Garcia-Herrero and Eric Girardin

Central bank communication has become a hot topic as a consequence of the liberalization of financial markets and the move by central banks towards market-oriented monetary instruments. The more market-oriented the instruments, the more the central bank needs to rely on a regular transmission of its intentions through means other than imposing administrative limits, be they quantitative or price limits.

In the 1990s, central banks in many Organisation for Economic Co-operation and Development countries have tried to improve communication through different means depending on their target audience, such as financial markets or the public. Regarding the former, central banks now publish their own assessment of the economic outlook and even hints as to their future monetary policy action. Academic research has provided mounting evidence that communication is an important and powerful tool for central banks to conduct their monetary policy more predictably, and this is evident in more developed financial systems where such monetary policy is conducted. Research for the United States and the Eurozone even shows that announcement effects may be more potent at moving money-market rates than actual open-market operations. This makes central bank communication more like an instrument with which to conduct monetary policy than proof of transparency.

China has moved more slowly, especially when compared with advanced industrial countries, in introducing market-oriented monetary instruments. This is, of course, quite logical considering the country is still relatively controlled financial system. In the same way that China's economy catches up with the world's most advanced ones, its monetary policy framework is gradually getting closer to that of its counterparts. This is not only the case for the People's Bank of China's (PBoC) instruments but also for its communication. As an instrument, China has introduced short-term interest rates as operational targets instead of quantitative monetary targets.

However, credit targets still play an important guiding role. For communication, the PBoC has started publishing statements summarizing the meetings of its monetary policy committee. It has also become much more active in delivering speeches as its governing body, which are focused on monetary policy issues and the outlook of the Chinese economy.

China has moved more slowly, especially when compared with advanced industrial countries, in introducing market-oriented monetary instruments.

PBoC's statements and speeches point to a much more transparent central bank, but they are not enough to assess how effective the PBoC is communicating its messages to financial markets; in fact, a central bank can be extremely transparent but markets may not bother listening to it. It may also be that markets do listen but do not understand the message. In other words, the capacity of a central bank to communicate should rather be measured by the presence of a reaction by money and financial markets to the bank's messages in the way that financial institution intended. For example, if a central bank delivers a hawkish statement or speech, a good understanding of such communication should imply that interest rates in the money markets increase due to the expectation of future hikes in policy interest rates.

In the case of China, however, central bank communication does not provide only signals about future interest-rate changes. It also sends signals on the current and future moral suasion or window guidance being used by the monetary authorities as a full policy instrument. Most central banks currently inform the public about their interest-rate decisions or provide hints about their future actions. In the case of the PBoC, communication may simply reflect some unobserved current or future moral suasion or window guidance to achieve its targets. Accordingly, analyzing the way the PBoC communicates may well go beyond a simple measure of transparency but rather enable us to identify real monetary policy action through words and not deeds. Such communication would raise the signal-to-noise ratio, providing market participants with news on unobserved monetary policy decisions and leading to a reduction in noise by limiting guess work on the part of the public.

To know more about the PBoC's ability to communicate with the markets, we can conduct a number of empirical exercises, since it is the first stage in the transmission mechanism, in particular, the money market. We can first assess whether China's money markets listen to the PBoC's words by estimating the changes in the conditional and realized volatilities of changes in interbank rates after a speech by the PBoC's governing body.

In principle, such change should be an increase in volatility – and not a reduction – as far as news generally brings new information and, therefore, more uncertainty. However, in some cases, new information could actually calm the markets. Thus, it seems clear that any change in volatility – be it an increase or a reduction – should be an indication of news being provided by the PBoC to which money markets listen. Using daily data over sub-periods with different monetary policy stances, and controlling for formal monetary policy measures, we do find statistically significant changes in the volatility of the most liquid money market rates, which are at the short end of the maturity spectrum, after PBoC speeches are released, so as to confirm the hypothesis that money markets do listen to the PBoC.

The second and much more demanding question that can be addressed is whether money markets understand the PBoC. To that end, we look at the reaction of similar short-maturity daily interbank rates to the type of messages provided by the PBoC. We find strong evidence in favor of money-market rates increasing after a hawkish statement from senior officials of the PBoC, and a similar reduction in rates after dovish statements.

Overall, these results demonstrate strong evidence of the impact that PBoC's communication is having regarding its statements, and the reaction to them, by various money markets.

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TECHNOLOGY TRANSFER TO CHINA: A GUIDE FOR EU SMES

By Philippe Healey

Many European companies are keen to enter the China market and develop long-term partnerships here. In order to achieve this, they are often willing to transfer their latest technology to Chinese subsidiaries of European firms and joint-venture partners.

The situations mentioned here have ensnared many foreign companies, resulting at best in the loss of revenue or other resources, and at worst, their valuable intellectual property (IP).

As such, technology transfers must be carefully planned, as they can unwillingly result in the loss of competitiveness and market share in the mid- to long-term. European companies should pay particular attention to the following common situations that can threaten competitive advantages that lie in innovation, creativity, branding and experience.

COMPULSORY JOINT VENTURES FOR MARKET ACCESS

For certain sectors such as automobile and locomotive manufacturing, companies wishing to participate in the China market are required to enter into joint ventures with Chinese companies. Approval to form a joint venture or to operate may depend on the supply of specific technology, including future improvements of this technology. In some cases, foreign entities may not choose their partner, possibly resulting in a new partner being a potential competitor, or the concurrent joint venture partner of another competitor. In other cases, increasing a pre-existing investment may require setting up a local R&D centre or another form of intellectual property (IP) transfer.

PUBLIC CONTRACTS/ PROCUREMENT

To participate in public tenders, at least part of a company's production must be local. In some cases, the requirement for local production is as much as 80%, and production by foreign subsidiaries in China is often not considered local. Instead, a Chinese general contractor will be employed -- possibly involving a full technology transfer during the process.

In addition, it is also often mentioned in the bidding process that the contract will be given to the company that promises the greatest transfer of know-how, leaving potential participants with a difficult choice.

CERTIFICATION AND LICENSES FOR MARKET ACCESS

Chinese certification institutes or ministries must license or pass many products before they are allowed on the market. Some certification procedures require inspections of production plants in a company's home country. However, the Chinese inspectors are sometimes from competitor companies and may ask technical questions that are not necessarily relevant to certification.

PROTECTING THE COMPANY

Analyse the competitors and the specific Chinese market that is relevant to your business. Who is the competition? What are their strengths and specific objectives? When analysing these competitors, the list should also include potential and existing partners in China. Some state-owned enterprises may have to abide by local and state industry policies that require them to focus more on gaining know-how and investing in R&D rather than short-term profits.

Devise or review in-house IP protection measures when dealing with China. In an industries where technology transfers are required in order to gain market access, ensure that all rights are protected before entering the market. Define the limits of what can and cannot be transferred and defend that position vigorously.

OTHER PRACTICAL STEPS

The keys to protecting IP in these types of compulsory know-how sharing situations are vigilant monitoring and proactive registration of relevant rights before entering negotiations. Conduct due diligence of a potential Chinese partner, paying close attention to local industrial policies and laws, the goals of the potential partner and ownership structure of the potential partner company. Monitor for unusually frequent personnel changes.

Even if a company's key patents, trademarks and copyright are registered already, it is strongly recommended to build in contractual barriers to prevent partners from abusing that IP. For example, clearly define in writing with chosen or designated partners the extent of technology transfer requested and make absolutely clear who may use the technology transferred to the joint venture. Be sure to include non-disclosure and confidentiality agreements as a clause in the contract. In case of future creations made as part of the joint venture, the main joint venture agreement should also include a clause that defines the ownership of inventions and which party owns the invention in case the partnership comes to an end. Where possible, grant licenses to the joint venture to use the technology instead of actually transferring the rights.

Also consider building in internal physical barriers to ensure that core technologies are protected. For example, consider implementing a need-to-know basis for access to know-how, build in passwords and codes to physically restrict access, and ensure that some employees know part of the technology but not every part of it. Regularly scheduled internal training of staff members regarding IPR protection measures can also raise their awareness to the risks involved.

In the case of compulsory certification inspection, be aware that not every question relating to technical product details must be answered. Find out if the question is relevant to comply with the standard and if necessary, negotiate with the certifying body. Also, it is possible to request a European certifier who can inspect your premises on behalf of the Chinese authorities.

FUTURE SECURITY THROUGH PREPARATION

Sharing technology or IP with local partners may be required in exchange for market access. Technology transfer should be approached with caution and it is strongly recommended that as many protection measures as possible be implemented before beginning negotiations with a desired or designated Chinese partner. Be sure to conduct thorough due diligence of all competitors and potential partners to identify their specific objectives.

Take advantage of both registrable and non-registrable rights, contractual barriers and physical barriers to best protect know-how in China using a holistic IPR strategy.

The China IPR SME Helpdesk is a European Commission funded project that provides free, practical, business advice relating to China IPR to European SMEs. To learn about any aspect of intellectual property rights in China, visit our online portal at www.china-iprhelpdesk.eu.

CHINA'S CONSTRUCTION MARKETS: BUILD? BUY? or BUDGE?

By Michel Brekelmans

China's construction and building material markets are playing an increasingly important role in China's quickly-developing economy. The industry was growing at 16.3% per annum during the 2001-08 period and represented approximately RMB1.7 trillion (€190.2 billion), about 6% of the country's GDP in 2008.

Over the next couple of years the market is expected to grow even more rapidly at 10.1% per annum to reach about RMB 2.8 trillion by 2013. Urbanization will be a key focus of the 12th Five-Year Plan, including increasing the pace of construction of homes for low-income families, improving both intra-city and inter-city transportation infrastructure, and the continued construction of new industrial parks to continue economic development.

On paper, these are ideal conditions for companies looking for growth in an otherwise lackluster global construction markets. What is the right approach to take advantage of these opportunities? Build the business organically? Establish a foothold by acquiring existing local players? Or stay away from it all together, given the well known challenges of doing business in China?

SECTOR OPPORTUNITIES

The opportunities for companies and investors to participate in the growth of China's construction sector differ considerably and companies are wise to evaluate the specific opportunities posed in each market segment.

REAL ESTATE: Several trends are expected to impact China's real estate market, including continued urbanization, government market controls, and low-income housing development.

Accelerating urbanization, from 38% in 2001 to an estimated 50% in 2010, is a key catalyst in demand growth for China's real estate.

The Ministry of Housing and Urban Rural Developments confirmed that 5.8 million low-end affordable housing units will be built in 2010.

INFRASTRUCTURE: Many large cities in China view the metro or subway as a focus of city infrastructure development and have plans to increase the total number of metro lines in the near future. The government is also investing heavily in the development of the national railways.

Railway passenger and cargo capacity has already seen tremendous growth in recent years and is expected to continue as the Ministry of Rail expands the High Speed Rail network to become the largest and fastest in the world.

INDUSTRIAL: Investment in China's industrial fixed assets has seen strong sustained growth in the recent past with little sign of abating in the near future. However, a number of major heavy industries started to experience some degree of overcapacity and consolidation is under way.

For instance, the steel and cement industries will see an accelerated pace of mergers and restructuring, and state-owned enterprises will be among the leaders to drive cross-regional restructuring.

REGIONAL HOTSPOTS

Opportunities differ by sector as described above but China also witnessed substantial regional geographical differences in terms of market opportunities. Construction and building material markets in China are often quite regional in nature in terms of market characteristics, competition, and distribution channels and partners.

Construction booms in China are often highly regional and are typically seen in regions where the focus on planned economic development is high and GDP per capita is lower.

ORGANIC GROWTH VS. ACQUISITIONS

Companies looking to participate in China's booming construction and

(continued on next page)

building materials markets can pursue organic growth by carefully selecting the markets and geographies that best suit their products and services.

Mergers and acquisitions (M&A) has been a route followed by both domestic and international players. M&A activity in the construction sector peaked in 2007 and 2008, with a value of €2.065 billion and €2.803 billion, respectively.

Since the peak in 2008, deal flow activity has slowed as companies became more cautious in funding acquisitions during the global economic crisis, and also reflecting the challenges of finding attractive targets and integrating them into existing operations.

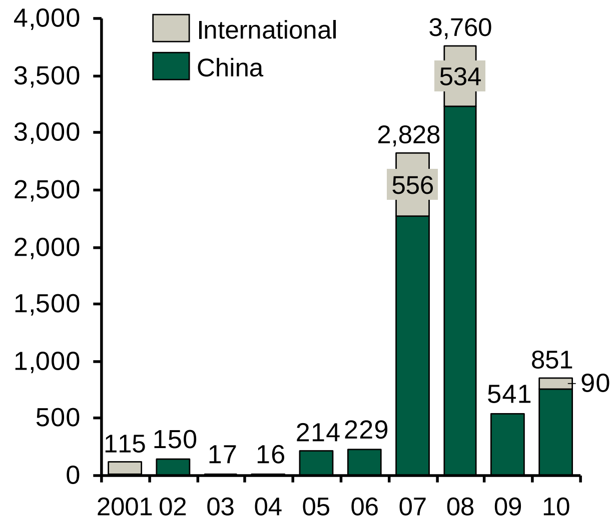
The M&A route is a well-established path for players to expand their footprint internationally. Major cross-border deals have been done by some of the global leaders in the industry. Taking cement as an example, Swiss company Holcim acquired Spanish firm Tarmac Iberia for €148 million in 2008 to expand capacity and acquire presence in the market. Holcim then went on to buy the Australian operations of its Mexican rival, Cemex SAB de CV, for about €1.5 billion in June 2009.

When we look at China, we see there are opportunities for M&A as well. A number of private equity firms have moved in to invest in the construction sector in China. International corporate, or strategic, buyers have also been active in China in terms of acquisitions of local companies. Examples include:

- French cement and building materials group Lafarge invested in Sichuan Shuangma Group in 2007. As a result, Shuangma's cement plants in Jiangyou and Yibin in Sichuan province and other production facilities became part of Lafarge's solidifying its strong foothold in southwest China.

Construction M&A deal value in China (2001-10)

Millions of US$



Source: L.E.K Consulting

- France's Schneider Electric has been acquiring local companies in China since 2005. An example is Baoguang Electrical Apparatus. Schneider has successfully built a strong position in supplying low-voltage electronics to the construction sector in China and has developed a deep national distribution network, combined with continuous innovation and supplemented through local acquisitions.

When we look at some leading domestic companies' growth strategy, we find that many are also expanding rapidly in China using a range of growth strategies, including organic growth and M&A. For instance, recently in the interior decoration and fit-out service sector, all the industry leaders were aggressively pursuing growth outside of their regional hubs.

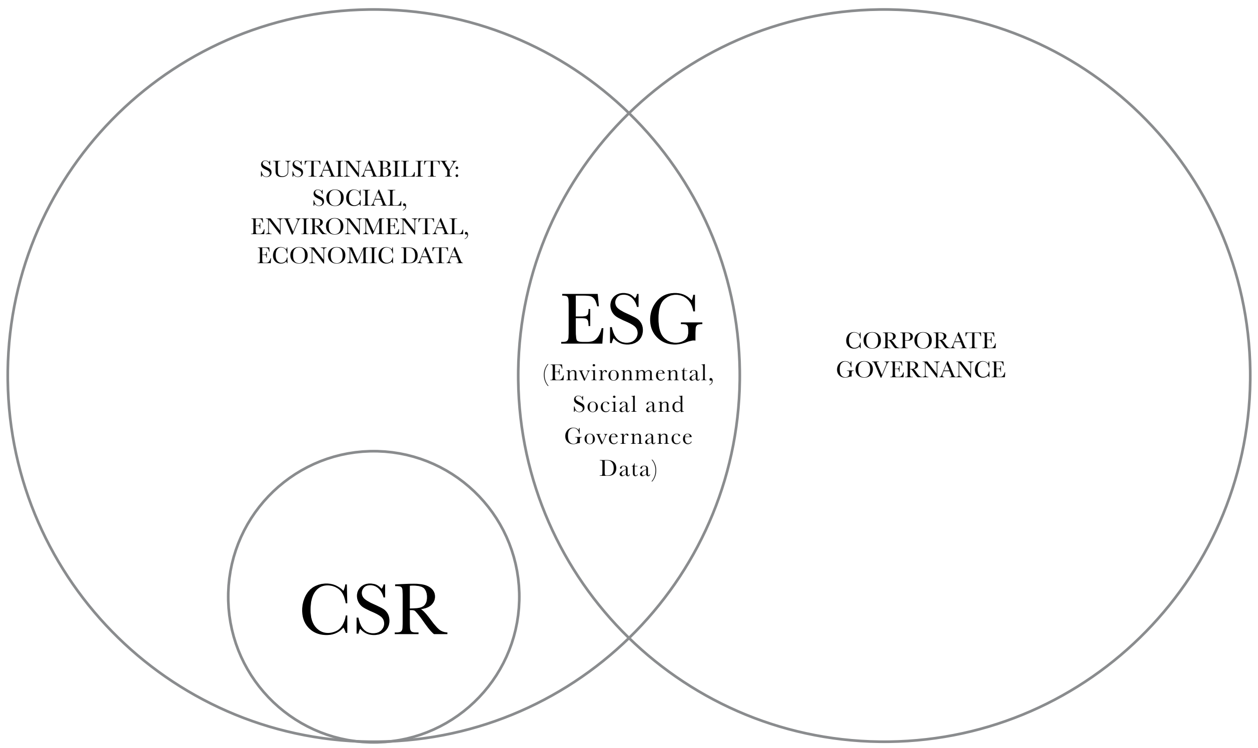
BUILD TO LAST

China's construction and building material sectors have witnessed ferocious growth in recent years and with the country's ongoing development and modernization, this is likely to continue over the coming years despite some potential challenges in the short term. Opportunities exist for local as well as multinational players to participate in this market. Strategies will have to be developed carefully to identify the most attractive subsectors and geographies.

Breaking into new markets is however never easy. China's myriad of local regulations, relationship networks and cut-throat competition can make any strategy risky. Successful examples of companies that have selectively acquired local players while building on their strengths have shown how a presence in China's construction and building markets can be built to last.

Michel Brekelmans and Ken Chen are partners and directors of L.E.K. Consulting's Shanghai office. www.lek.com.

CONNECTING CSR TO GOVERNANCE & INVESTORS



By Mike Thompson and Tim Werkhoven

Companies in China are struggling to get their corporate social responsibility (CSR) programmes right. They often don't know where to begin and are uncertain about the purpose and objective. CSR programmes are frequently disconnected from customer or market relevance and also from investor requirements. In China, as elsewhere, the demand by investors is for greater corporate accountability and transparency on a range of ethical and financial issues.

Laws and regulations in China contain compulsory provisions on several CSR issues that incorporate standards for environmental protection, product quality, a minimum wage and also workplace safety. As a recent Organisation for Economic Co-operation and Development (OECD) corporate governance committee report points out, the Code of Corporate Governance of Listed Companies requires that while ensuring sustained growth and maximising shareholders' interests, listed companies should also be committed to community welfare, environmental protection and social responsibilities.

But, as with a raft of corporate governance laws and regulations, the monitoring and enforcement standards are lacking and there is much confusion about what is legally required and what is not. CSR is not generally a mainstream issue for Chinese consumers and therefore CSR compliance is regarded by management as a contractual cost of meeting procurement requirements and audit regimes, rather than as a means for creating value.

INVESTORS DRIVING CORPORATE GOVERNANCE AND SUSTAINABILITY PRACTICES

Parallel to the Chinese government's push for CSR, there is a growing demand by investors worldwide for greater transparency and accountability by boards in their corporate governance and sustainability practices. The United States continues to enact more laws to prevent corporate malfeasance, while the European Union encourages members along the United Kingdom's "comply or explain" route.

Investors are now forcing attention on these issues through their choices in investment markets. They are demanding truly independent directors to represent their interests on the board. These investors are calling for independent reporting on key corporate governance indicators: disclosure of information to shareholders; remuneration of senior executives; potential conflicts of interest among managers and directors and on independent supervisory structures. Many fund managers are also seeking environmental, social and governance (ESG) data as indicators of the quality of the board's corporate governance strategy and practice. ESG factors are now emphasised by the Chartered and Financial Accountants (CFA) Institute and also in a report issued last year by the United Nations Environment Programme Finance Initiative and the World Business Council for Sustainable Development entitled "Translating Environmental, Social and Governance Factors into Sustainable Business Value."

The focus lies on the quality of a board of directors and its standards, and Chinese investors are making noises about the lack of independence and transparency in corporate governance practice by companies listed on the Shanghai Stock Exchange. The China Europe International Business School (CEIBS) Centre for Leadership and Responsibility (ECCLAR) has established a think-tank to promote market-led initiatives to promote better corporate governance practice for investors many of whom are small investors, lacking in knowledge and subject to disadvantage by the large-scale professional investors.

CSR NOW INCORPORATED IN SUSTAINABILITY AND GOVERNANCE AGENDAS

The context for CSR is changing and should now be understood within the wider agendas of corporate sustainability and governance: agendas that offer a source of economic return, reputation and risk management.

One of the risks that the European Chamber is discussing is how best to inform members of the implications of the new U.K. Bribery Act that has far reaching implications for companies operating in China despite the delay in implementation.

How do you check the ethical behaviour of your business partner? How do you prevent "skeletons falling out of the closet" right after you acquired that attractive Chinese company? How do you get that sweet business deal without paying bribes? How do you prevent your employees paying or taking bribes?

On this point, research shows that individual attitudes favouring bribe payment is positively affected by perceived necessity of the bribe and approval by upper management. On the other hand, bribery is perceived as a negative choice where managers focus on the unethical nature of making this kind of payment.

U.K. BRIBERY ACT OVERVIEW

General bribery offences
When a person offers, gives or promises to give a "financial or other advantage" to another individual in exchange for "improperly" performing a "relevant function or activity."

Bribery of foreign officials
Promise, offer or financial or other advantage to a foreign public official, either directly or through a third party.

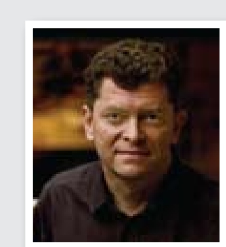
Failure of commercial organisations to prevent bribery
Failure by a commercial organisation to prevent a bribe being paid for or on its behalf, applicable to commercial organisations which have business in the U.K.

Prosecution and penalties
Individuals: £5,000 – unlimited and imprisonment 12 months – 10 years.

Commercial organisations: unlimited fine, subject to confiscation and disqualification of the company director.

Scope
Crimes committed inside or outside the U.K. for persons having "a close connection to the U.K."

For detailed information and updates, please view http://www.justice.gov.uk/publications/bribery-bill.htm



Mike Thompson (left) is a professor of management practice at the Centre for Leadership and Responsibility, China Europe International Business School (ECCLAR).

Tim Werkhoven is a business manager for the European Union Chamber of Commerce in China in Shanghai.

CSR EUROBiz

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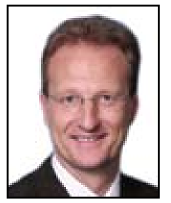
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THE EXECUTIVE INTERVIEW: JENS RUEBBERT

Jens Ruebbert is managing director and chief administrative officer of Deutsche Bank (China) Co., Ltd., based in Beijing.

Along with his responsibilities at Deutsche Bank, Jens serves as vice president of the European Union Chamber of Commerce in China, and chairs the Banking and Securities Working Group in Beijing. Jens sat down with EURObiz's Steven Schwankert to discuss economic prospects for the Year of the Rabbit.

EURObiz (Eb): How long have you been in China?

Jens Ruebbert (JR): First of May 2009 is when I arrived for this posting, so not quite two years yet. This is my second time in Asia though, and I have just completed my 20th year with Deutsche Bank!

It is probably the perfect time to be here right now, in particular in the financial industry. I feel it fantastic to work in this environment where markets are developing, where China has made substantial progress in opening up and developing financial markets considering from where it is coming.

Eb: Why is this the perfect time to be here?

JR: I think we have reached the bottom [of the global economic crisis] and obviously China had not been affected to the same large extent as other countries. Being here for Deutsche Bank is very exciting at the moment because Deutsche Bank is investing in China, as China is on top of the global management agenda. And we are making great progress in developing a platform in China, consisting almost all of our global core businesses.

Eb: What do you see ahead for the Year of the Rabbit?

JR: In my view, the Rabbit tells us a couple of things. Talking about the Chinese economy, I think one of the top priorities is to curb inflation. Deutsche Bank recently raised its forecast of China's nominal export growth to 22% this year from the previous 15%, because of the expected stronger US growth and its potential spillover to other European countries. As a result, Deutsche Bank raised its full-year China GDP growth forecast by another 0.2ppts to 9.4%. Stronger US growth, and the resulting increase in global growth, will tend to push up commodities prices and exacerbate labor shortage in the manufacturing sector, thus not helping the battle against inflation at all.

How do you fight that inflation? It is certain that policy tightening will also likely become more aggressive than expected. We expect that the PBOC will raise rates by 50bps in the coming 4-5 months on the back of the recent increase, probably in 2 steps; raise RRR (required reserve ratio) by another 3-4 times in the next two quarters; appreciate the RMB by 5% this year; and slow credit growth to 16% this year from 20% last year.

The Year of the Rabbit also brings us the 12th Five-Year Plan, which will mean a shift more to quality than quantity, and a shift to a more domestic-demand driven model. However, exports will remain strong, largely driven by the global recovery. Service industry in general, and I hope, banking in particular, will certainly benefit from the change. As for the currency, there have been initiatives including Shanghai 2020, which the banks very much appreciate, to turn Shanghai into a global financial center. But what does it mean actually? Obviously the most exciting of all is the further internationalization of the RMB, where we see Hong Kong as a test market at the moment, to allow companies to issue bonds in RMB, to further develop capital markets in RMB, to increase trade flows, to turn the RMB at least in Asia into a trade currency. For example, Deutsche Bank is among the first to help clients tap into the offshore RMB debt market in Hong Kong. This market alone is expected to grow to RMB 200 billion this year.

Eb: Tell us a bit about the Banking and Securities Working Group.

JR: The working group has the majority of the European banks as members. We meet once per month, where we invite high-level speakers from various regulatory authorities. We try to bring together the issues we face as European banks in this environment, and try to lobby that with the authorities, but also be a partner for them.

Eb: Any advice for the European business community at large?

JR: Be patient. Try to make the best of the Rabbit.

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