Journal of the European Union Chamber of Commerce in China

EURObiz

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IN FOR THE LONG HAUL

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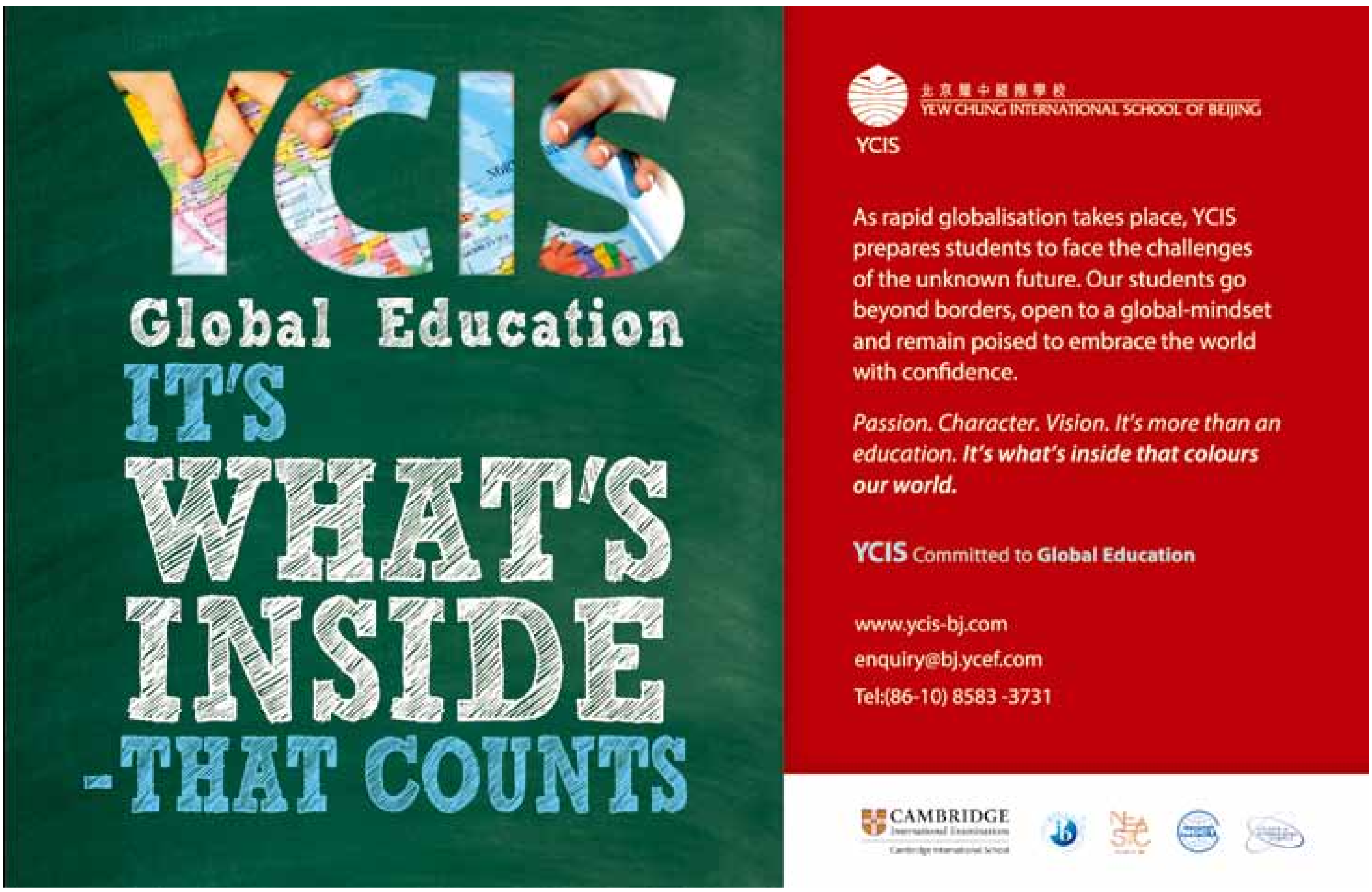
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The Rolls-Royce Trent 1000 engine, which powers the Boeing 787 Dreamliner. This photograph is reproduced with the permission of Rolls-Royce plc, copyright © Rolls-Royce plc 2012.

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FLYING HIGH

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

China's ambitions in the aerospace sector were emphasised by the recent landing of their longest manned mission to space, the Shenzhou-10, and the announcement to launch the Tiangong-2 space lab around 2015. This marks the next step towards China's goal of having a permanently-manned space station by 2020.

This issue of EURObiz will focus on both the aerospace and the aviation industries. For a long time European companies have been an integral part of these industries in China. They have been long-term contributors to their growth, and will undoubtedly be important stakeholders in the years to come. Estimates as high as 360 per cent growth by 2031 have been given for the Chinese passenger fleet, which will increase global market share from 10 to 16 per cent within that time period.

However, European industry has yet to be enabled to contribute to its full potential. Strict joint-venture requirements and opaque procurement practices are discouraging further investment and competition within the industry, and limit the aspirations of European players to bring their best technology and practices while still protecting their know-how and IPR.

Our Working Groups at the Chamber have been, and will continue to be, in constant communication with the relevant Chinese and European decision makers to discuss avenues in which European companies can further contribute to the sustainable growth of these industries.

As we move into the hotter months, the European Chamber is still driving forward in preparation for the busy, post-summer-holiday period.

The secretariat is in full motion with the final stages of preparation for the launch of the annual *Position Paper* in early September. This paper is the result of six months of collaborative work between members in our Working Groups and Fora, and is the most influential document published by the Chamber.

After publication, I will lead a delegation of representatives from our executive board and Working Groups to visit relevant EU government officials and organisations based in Brussels and the capitals of member states. Shortly after our return from Europe we will once again be working hard to finalise the preparations for the EU-China Business Summit, where we are anticipating more activity and exposure than ever.

In response to member demands, the Chamber recently launched a new provincial outreach campaign. As administrative power is becoming increasingly decentralised, thus empowering local-level decision makers, the Chamber is reaching out to these decision makers in order to extend our influence in trade policy. Over the past two months, the Chamber held successful meetings with governors, or other provincial leaders, of Anhui, Henan, Hunan, Hubei, Jiangxi, Shanxi, Liaoning, Xinjiang and Heilongjiang, and we are looking forward to continuing this campaign in the coming months.

Finally, I would like to wish you all an enjoyable summer holiday, and I welcome you to join us for the launch of the *European Business in China Position Paper 2013/2014* in early September.

IN FOR THE LONG HAUL

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Aerospace and aviation are both growing industries in China. European companies are long-term collaborators and have played a crucial role in helping China to reach its current capacity. With China's plans to further open its airspace and the number of Chinese air passengers increasing the future is bright and European industry still has a key role to play. Over the next few pages we will hear from individuals, companies and organisations who have been, and will continue to be, involved in this evolution.

The European Union (EU) is China's largest trading partner in aeronautical products with an annual trade of around EUR 10 billion, but is facing increasingly strong competition from other foreign players. For example, the key role played by the United States (US) Government in promoting US aerospace companies through active dialogue with the Chinese Government has resulted in increasing penetration of US firms.

China is an integral part of European aerospace firms' global strategies, the result of over 20 joint ventures (JVs) as well as extensive direct sourcing from Chinese companies. All major European aerospace companies are present in China providing more than 5,000 valuable jobs across their subsidiaries and JVs, working with Chinese industry in areas such as design, engineering, development, manufacturing, maintenance and training.

It is noteworthy that out of China's total air fleet roughly one in two aircraft is of European origin, and European engine manufacturers enjoy a leading position in the middle kingdom.

Rolls-Royce celebrate a milestone anniversary in 2013, 50 years after the first Vickers Viscount aircraft, powered by a Rolls-Royce engine, was delivered to China. Today they provide engines and parts to all the major airlines in Greater China. They are the leader in powering wide-body aircraft, and their Trent 700 engines power more than 90 per cent of China's Airbus A330 fleet. Their Trent 900 engine powers the first A380 in Mainland China and Cathay Pacific has ordered 38 A350s which will be powered by the Rolls-Royce Trent XWB engines.

Also enjoying success in China's aerospace industry is Safran. More the 3,000 of their CFM56 engines are in service or on order and all major Chinese airlines are operating equipment built by their group companies, including thrust reversers, landing gear and wiring.

Safran have two production sites in China — both in Suzhou — that manufacture parts for the aerospace industry. They also operate four JVs with the China Aviation Industry Corporation (AVIC) and one with the Commercial Aircraft Corporation of China (COMAC).

These are just two of the major European success stories in this industry. It is also significant that European firms are important clients of the Chinese industry, with a cumulative sourcing of close to EUR 1 billion annually, which is likely to increase significantly throughout the present decade.

Despite these industrial achievements there are still areas that require greater attention, for example, in the area of air-traffic control (ATC) equipment. European ATC equipment manufacturers currently have a predominant position, and the Civil Aviation Administration of China (CAAC) has expressed interest in the EU SESAR (Single European Sky ATM (air traffic management) Research) programme. Lack of follow up, however, is leading the CAAC to consider the US NextGen as a feasible alternative, jeopardising the future position of European companies in the domain.

China's civil aviation industry remains profitable and looks set to be one of the largest in the world for the next 20 years. It is expected to expand at an annual rate of 7.9 per cent. This will translate into 5,000 new commercial aircraft, over 2,000 helicopters and the need for 70,600 new pilots and 96,400 aircrew members.

The CAAC has stated that the nation's aviation industry reported a full year profit of CNY 29.6 billion in 2012. It is, however, notably less than the profit made in 2010 (CNY 43.7 billion). In 2012 the number of passengers reached 319 million people[1], a nine per cent increase from 2011, which reflects the booming local economy and increased propensity to travel as domestic consumption expands and government-led investments in the aviation industry increases.

According to the CAAC, it is predicted that air passenger numbers will increase 9.4 per cent year-on-year to 350 million passengers in 2013[2] and cargo volume will increase 4.3 per cent to 5.7 million tons in 2013[3]. Chinese carriers are expected to handle 450 million passengers per annum by 2015[4] and 1.5 billion by 2030[5].

Today there are over 180 commercial airports in China and under the *12th Five-Year Plan* 82 new commercial airports will open over the next five years.

Despite this growth, domestic and foreign players in China's aviation industry — including airlines, OEMS, and suppliers of repair services — face operational constraints such as a lack of qualified pilots and technicians.

The development of foreign players is further hampered by restrictive legislation which is difficult to navigate in a regulatory landscape that is often vague and occasionally opaque.

Also, although the concern of emissions trading schemes (ETS) hampering bilateral exchanges has sometimes been overstated it is still an area that requires constant attention. A clear resolution to this issue is needed.

What these issues highlight is a need to deepen the dialogue between Chinese and European authorities and industry leaders in aerospace- and aviation-related fields that accurately reflects the level of trade between both sides. A feasible way of building trust and mutual understanding, and opening up the channels for meaningful dialogue, is through non-industrial cooperation, an area in which the EU has already made great progress.

More than 10,000 Chinese professionals have been trained by European firms through funding Chinese Universities and through direct training programmes provided to the CAAC and other institutions. The EU has also been an active contributor through its EU-China Civil Aviation Programme (EUCCAP).

In 2005 the European Commission and the CAAC successfully held the EU-China Aviation Summit, which gathered more than 250 representatives from both sides. If replicated it could provide the impetus needed to push forward and deal with outstanding issues, leading to further, mutually beneficial cooperation between China and the EU in aerospace and aviation. Eb

[1] China Civil Aviation Development and planning department, 2012 Civil Aviation Industry Development Statistics Bulletin, viewed 24th May, 2013. http://sqgk.caac.gov.cn/pub/root24/000014170/201305/P020130520565539829713.pdf

[2] National Civil Aviation Conference and aviation security conference held in Beijing, 21st December, 2012, viewed 3rd April, 2013. http://www.caac.gov.cn/A1/201212/t20121221_52981.html.

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[4] *China Civil Aviation Development 12th Five-Year Plan (2011-2015)*, May 2011, viewed 28th May, 2013. http://www.caac.gov.cn/l1/l2/201105/t20110509_39615.html

[5] *China's Civil Aviation Passenger Traffic Will Reach 700 Million Passengers in 2020, Xinhua*, 13th January, 2010, viewed 28th May, 2013. http://news.xinhuanet.com/fortune/2010-01/13/content_12804554.htm

COME FLY WITH ME

From the delivery of their first aircraft 28 years ago until the present day, Airbus' operations in China have grown impressively. Today they are a major European success story. **President and CEO** of **Airbus China Eric Chen** speaks with EURObiz's **Carl Hayward** to highlight some of their milestones and discuss some of the factors behind Airbus' accomplishments in China — balancing the right products with the right strategy.

Photograph courtesy of Airbus China

History

Chen, who joined Airbus in 1994 as Sales Director, says that Airbus' success in China can be largely attributed to a combination of offering the right products for the market, which have played a role in helping the growth of China's air traffic sector, and the company's strategy of cooperating with the Chinese aviation industry. He says Airbus successfully capitalised on the opportunities produced by the growth of the Chinese civil aviation industry, which was a result of the country's reform and opening up policy adopted in the 1980s.

Chen became the president of Airbus China on 1st January, 2013, and is now responsible for Airbus' overall activities in the PRC.

From 1980–2013, the regulatory landscape of China's aviation industry has witnessed enormous change. China's civil aviation was separated from the military in 1980 to be managed by the State Council.

"From the late 80s to the late 90s, six regional civil aviation administration bureaux were set up to oversee civil aviation. During this same period six airlines were established. Now, in the new century, airlines are managed as modern enterprises and are more market oriented," says Chen.

In the early stages of China's period of opening up, their aviation industry was not very strong. Airbus only had the A300 and A310 on the market so the conditions for fully entering China were less than ideal. In fact Airbus had entered the Chinese market as early as 1985 when they delivered the first A310 to China Eastern Airlines, but they didn't actually establish the Airbus China Company Limited until 1994. The A320 became available in China one year later.

Since operations began in earnest, Airbus has gone on to form four joint ventures (JVs) in China: the Hua-Ou Aviation Training and Support Centre and the Airbus (Beijing) Engineering Centre (ABEC), both located in Beijing; the Airbus 320 Final Assembly Line China (FALC) located in Tianjin; and the Harbin Hafei Composite Manufacturing Centre in Harbin.

Additionally there are two Airbus subsidiaries, the Airbus (Tianjin) Delivery Centre and Airbus (Tianjin) Logistics. They also have some 20 field service locations in more than 10 cities around China through which they deliver onsite customer services and technical support. In total Airbus and its JVs employ more than 1,200 staff in China.

Opened in mid-2005, and initially operated as a wholly-owned foreign enterprise (WOFE), the main function of ABEC is to execute design work for Airbus' current and future Aircraft programmes. From 2008, it became a JV between Airbus China Limited (70 per cent), Hafei Aviation Industry Company Limited (HAI, 18 per cent), Jiangxi Hongdu Aviation Industry Company Limited (seven per cent) and China Aviation Industry Corporation I (AVIC I, five per cent).

The FALC was established in June 2007 when Airbus signed a JV with a Chinese consortium comprising Tianjin Free Trade Zone and the Aviation Industry Corporation of China (AVIC I and AVIC II). This facility was opened on 28th September, 2008.

By the end of May 2013 there were some 920 Airbus aircraft on the Chinese Mainland, operated by 15 commercial airlines, two cargo airlines as well as 11 private operators of corporate jets.

This number of aircraft makes up half of China's total civil air fleet, representing a dramatic increase from 20 aircraft, or six per cent of the total air fleet, in 1995. The target, Chen says, "is to get at least half of the market share in terms of in-service fleet. The next step is to become a real market leader."

FALC

Initially it was important for Airbus to bring European expertise to its China operations. The FALC initially employed some 120 European workers in the early days. Chen says that this was in order to ensure that the "Airbus way" was followed. But since this initial period the number of expats employed has now reduced to around 20. Chinese staff have received rigorous training in China and Europe to become qualified for their jobs, not just in technical aspects, but also in management.

As its first final assembly line outside of Europe (Airbus also operates lines in Toulouse, France and Hamburg, Germany) the FALC represents a major development for Airbus. Chen says that it had originally been requested by the Chinese Government, and a memorandum of understanding (MOU) was signed between Airbus and the National Development and Reform Commission (NDRC) on 5th December 2005.

This MOU expressed the desire to establish a "process to evaluate the new fields of enhanced cooperation, including the possibility to establish a Final Assembly Line for Airbus single-aisle aircraft in China." The JV, realised just over three years later, is described by Chen as a "win-win solution" and has been supported by the government.

"Airbus focuses on the quality of the aircraft assembled in Tianjin, the same FAL structure, the same process, the same standard, the same jigs and tools. Chinese partners focus on mobilising local resources to support the project, such infrastructure, local talent, logistics, the Customs process, and other things to be done for the smooth operation of the FAL," Chen says.

Although experiencing some challenges in communication between people from different cultural backgrounds, Chen says that the aircraft assembled in Tianjin are at least as good as those assembled in Europe.

The current output of four aircraft per month is actually less than the market demand, but is the highest rate according to the business plan agreed between the two JV parties. To date more than 130 aircraft have been assembled and delivered to operators in Tianjin.

The FALC draws on a global supply chain which poses some logistical challenges. Most of the sections for final assembly — for all Airbus assembly lines — are put together in Europe. Sections for the FALC are transported to Hamburg and then loaded onto ships and arrive in China by sea.

This is the first time in aviation history that aircraft parts have been shipped by sea, and Chen says that their shipper, COSCO, "has developed some innovative ways to fulfil the task." In order to satisfy airworthiness requirements for aircraft section transportation, COSCO transport each section by a set of specialised jigs and tools, which was manufactured by the Tianjin-based TST company.

Some manufacturing processes take place on Chinese soil, however. For example, most of the wings for FALC are actually manufactured and equipped by Xian Aircraft International Corporation (XAIC). They manufacture the wing boxes and transport them to their factory in Tianjin, where the wings are equipped and tested before being transported to FALC to join to the fuselage.

Industry commitment

Airbus' Hua-Ou Aviation Training and Support Centre provides training to Chinese and foreign pilots, cabin crew, maintenance technicians, performance/operations personnel and structural technicians. Since 1997 it has trained more than 24,500 people. Training for pilots is a particularly important aspect, as Chen says "if no pilots can fly your aircraft, you cannot sell any to the market."

Beyond this practicality, the training also introduces pilots to the Airbus fly-by-wire system, an innovation that was first introduced to Airbus A320s in the 1980s. This system features


Eric Chen, President and CEO, Airbus China

in all of Airbus' aircraft resulting in cockpits on all models of aircraft that are almost identical. The advantage to this is that pilots can remain current on more than one category of aircraft without supplementary takeoff/landing requirements, recurrent training and annual checks. Crew training and conversions are shorter and simpler making this system highly cost-effective for airlines.

Outside of assembly and training Airbus are involved in helping China to develop the aviation industry overall. They jointly organise an annual aviation summit with the National Development and Reform Commission (NDRC), which provides a platform for NDRC officials with responsibility for the aviation industry to communicate with top Airbus executives.

This is interspersed with bi-annual seminars organised for high-level Civil Aviation Administration of China (CAAC) officials. Through such channels Airbus is able to keep Chinese officials up to date with new concepts and developments in the aviation industry in Europe and, Chen says, this information "can be used as a reference when they draft the plan for the development of the Chinese aviation industry."

Seminars are also organised which target those in charge of fleet planning. Chen believes that their commitment to helping to plan for sustainable development of China's civil aviation sector emphasises to Chinese officials Airbus' long-term commitment to China.

Airbus has also cooperated with the CAAC and Chinese airlines on Required Navigation Performance (RNP) which has helped China to develop air transport in the remote and less developed western regions, especially the Himalaya area. It is due to the support of Airbus that China is a global leader in terms of RNP application. The A330 was the first RNP-certified, wide-body aircraft in the world and the first wide-body to fly with a RNP system over Tibet. Today, more than 80 per cent of commercial flights to the Tibetan-Qinghai plateau are flown by Airbus aircraft.

Airbus forecasts that China will need around 4,000 new aircraft over the next 20 years, and Chen believes that Airbus is well placed to earn its share of the pie:

"We have a highly motivated and professional team in China. We provide our Chinese customers with comprehensive aircraft families that can satisfy their needs in every segment. We have built up an excellent customer relationship in this market — a forward-looking, long-term relationship based on the win-win principle and the mutual trust we have built between us and our customers," Chen says.

"Our major strength also includes our cooperative relationship with Chinese aviation, from materials procurement to joint ventures that include the final assembly line in Tianjin. We will continue to pursue this proven strategy for further growth in China." Eb

Angelo Cecchini (centre) and his team at AgustaWestland

A SOFT LANDING

When he first came to in China in 2007 **Angelo Cecchini** only envisioned being here for a few months. Six years on he is still here and says the experience has been an amazing, sometimes puzzling, journey in a society full of intelligent entrepreneurs, business-ready people and fabulous negotiators.

Cecchini is General Manager of **CAH** a joint venture (JV) between Jiangxi Changhe Aviation Industries and AgustaWestland, an Anglo-Italian helicopter manufacturer owned by Finmeccanica. He says that the normal attributes required for business, such as professional skills, commercial and industrial strategies are simply not enough in China. In this article he discusses the situation of general aviation (GA) in China, and introduces some of the essential soft skills that are required to make sure JVs avoid unnecessary turbulence.

General Aviation

The term GA refers to flight operations for civil applications, either for private or commercial purposes, such as civil utilities, oil and gas, passenger transport and emergency services. In the fixed-wing sector the term normally excludes scheduled operations such as those carried out by airlines.

In China, GA is developing fast and players in the market are set to benefit from the changes this development will bring. It is expected that within the next year improved regulations for the GA industry should be introduced.

The rapid growth of China's economy combined with the country's geographical features — vast land with an extremely varied orography, high urbanisation flow and concentrations and low infrastructure coverage for terrestrial mobility — is the ideal environment for creating increased demand for GA aircraft. Demand is expected to increase 15 per cent year on year.

To put the growth potential into perspective we need to consider that there are currently only around 1,200 registered GA aircraft in China, for a population of 1.3 billion people. In the United States the figure is around 250,000 registered GA aircraft for a population of around 300 million. It is a stark contrast.

The current situation in China also displays fundamental constraints, with a lack of an effective regulatory system, limitations on airspace, inadequate air traffic control (ATC) management and a lack of pilots.

Focussing specifically on the GA helicopter sector it is reasonable to expect that a substantial stake of the market potential will be acquired by domestic manufacturers, nevertheless, Western players should be in a privileged position due to their technology advantage. It allows a superior response to customers' requirements in terms of travelling longer distances, greater fuel efficiency and improved payload.

European and American manufacturers are intensifying collaborations with Chinese commercial and public players in order to expand their regional networks, and are proposing partnerships to overcome the lack of skilled pilots and scarcity of engineers. However, Western players will likely have to deal with restrictive investment policies, the imposition of local content integration and increased pressure to share know-how.

Running a JV

Beyond the sector-specific elements required to run a Chinese JV successfully and guarantee a thriving business, it is important to carefully consider how to manage your relationships in China. These relationships should be supported by cultural understanding, and an acceptance of local habits is vital. An inability to embrace this philosophy is a common cause of problems in Sino-European JVs.

Competition is a key incentive for companies to collaborate and establish strategic partnerships.Chinese companies can help Western ones to gain industrial, commercial and technological advantages, all major factors when looking to gain a foothold in the Chinese market. These are also major factors for Chinese companies looking to open the door to international cooperation.

In the helicopter field — a booming sector in China — before setting up assembly lines, service and training centres, a great deal of thought needs to be paid to selecting the right business model, partners and location. This is by no means an easy task, and it is just the beginning of the process. Once these decisions have been taken many other problems can arise, however, most of these can be solved by adopting the right soft skills.

For many foreigners working side by side with locals, the varied approaches to business, the occasional political interference as well as the experience of different working styles, hours, calendars, long-lasting ceremonies, *baijiu* lunches and dinners can all have a deep impact on the functioning of the 'marriage'.

So how to make it work and ensure the partnership has a future? My experience running a Sino-Italian JV has taught me the need to return to the basics of organisation management before even considering business development.

It is crucial, in fact, to define clear roles and responsibilities within the organisation, detailing the tasks for most of the resources. Moreover, it is a combination of putting in place a clear, external relationship management model, an internal reporting management system and then a continuous personal effort to ensure compliancy with procedures and processes and to keep focussed on the goals. Some may say that this approach is important anywhere, which is true, but for a JV in China it is of paramount importance.

Why is it of such importance? It is first essential to understand the complexity of a JV. It is a company with its own mission and rules, but it is made up of different entities sharing a working life together. In an ideal world, both parties share the same goals and overall vision. In reality these can diverge. If the JV does not have a clearly defined structure and organisation business continuity can be jeopardised. In this situation it is common for the different parties to revert to the approaches and rules of operation laid down in their previously separate entities.

The picture gets even more complicated when you throw deep cultural differences into the mix. Generally speaking, Western people have ex-

Photograph courtesy of AgustaWestland

perience with lean business management concepts, are well used to working with effective and efficient processes and can adapt to new management and problem solving ideas. However, once taken out of our usual environment we actually tend to reduce our flexibility — perhaps as a form of self defence — often forcing our rules and ideas onto the other party. This knowledge of how 'we' do business often makes us hyper-critical, yet it should not be forgotten that our ability to quickly act, and react, can rarely match the Chinese in business.

Change management is still a long-term concept in China. In my opinion this is due to the rapid pace of economic growth that has been experienced by Chinese society over the last 20 years. The working environment has gradually become less rigid and more business orientated, yet most Chinese are still not really used to working towards goals the way we are.

From what I have witnessed, and also through anecdotal conversations with other expats in China working in similar roles to mine, local staff are still less inclined to invest today in order to achieve a better position tomorrow. The 'natural' turnover of resources is dramatically worsened by the opportunities offered in the Chinese market today. A side effect of economic growth is that that everyone can find fresh employment relatively quickly. This is a good sign for business generally, but it results in a less stable company structure, and places a constant strain on resources.

In my opinion a JV in China represents not just an alternative way to conduct business; it is itself an opportunity as it allows a foreign company to be inside the market through the presence and the experience of the local partner.

However, although assessing the 'adventure' through the results of a business plan analysis (i.e. the evaluation of the market opportunity, investment needed, the return expected plus the choice of partner) is essential homework to be done, it might provide only a partial indicator of the potential success of a given business. The 'soft' issues discussed above are crucial elements to consider: understanding the right approach is extremely useful when evaluating who should be part of the JV and, ultimately, who can best contribute to improving the pay-back time of the business enterprise. Eb

AgustaWestland *is a worldwide leader in the helicopter industry, offering a wide commercial/military product range encompassing all main weight categories with a full variety of missions.*

AgustaWestland offers solutions for offshore, passenger and VIP transport, air ambulance, law enforcement, SAR or utility missions, with the unique advantage of a family of helicopters that share a common design approach, common parts, common training and the same maintenance philosophy. Providing unmatched capabilities rather than mere platforms is a distinctive characteristic of the company. In the military sector AgustaWestland has the most capable helicopters in production today for naval, attack, utility and combat SAR missions.

EU-CHINA CIVIL AVIATION PROJECT

Steady growth in China's aviation industry has seen its total number of flights reach around 10,000 per day, the third highest in the world behind the European Union (EU) and the United States (US). Starting from practically a blank page in the 1980s, China's civil aviation industry has attained a certain level of maturity in some respects, but its foundations need further strengthening in order to accommodate the increasing volumes of air traffic.

The EU-China Civil Aviation Project (EUCCAP) has been integral in helping China to build its capacity by providing assistance and training in rulemaking, aircraft incident/accident investigation, general aviation, aviation security, initial airworthiness, continuing airworthiness and maintenance, flight operations and air traffic management (ATM), amongst other things. Technical Assistance Team Leader of the EUCCAP **Frederic Campagnac** and EUCCAP Project Officer **Ren Lizhu** spoke to EURObiz's **Carl Hayward** to give some background on the project and discuss some of the achievements to date.

Financed and implemented in partnership between the EU and the Chinese Government's Ministry of Commerce (MOFCOM), with the Civil Aviation Administration of China (CAAC) as the designated beneficiary, the EUCCAP technical assistance cooperation project commenced on 28th October, 2010, with the overall objective of:

"[addressing] critical bottlenecks within the rapidly expanding civil aviation sector and [integrating] more deeply the lesser developed regions into China's civil aviation system and [facilitating] their economic development."

Due to conclude on 28th October, 2014, the project is divided into horizontal and vertical components. The horizontal component, dealing with strategic, technical and practical issues, is officially led by Shao Fengru and a project task force nominated by the CAAC. A Technical Assistance Team (TAT), providing technical support to this task force, is made up of a consortium consisting of Bureau Veritas, Egis Avia, Lufthansa Consulting and Ecorys. As of 31st May, 2013, the EUCCAP has held training and workshops for 538 people from the CAAC headquarters and regions, representing more than six per cent of the total CAAC headcount.

Cooperation

The vertical component focuses on academic training and degree programmes for pilots and in the area of ATM, which is implemented by a consortium composed of the École Nationale de l'Aviation Civile (ENAC) from France, and the Civil Aviation University of China (CAUC).

The project launched with a thorough, six-month assessment of the needs of the CAAC. Once this had been properly evaluated the EUCCAP initiated workshops on various regulations and also took study tours to Europe. Each tour dealt with a specific department of the CAAC, with multiple activities often dedicated to a single issue or sector.

Campagnac says that this period of assessment and study


EUCCAP study tour on Air Traffic Management Rule Making, 2011

allowed them to fully understand exactly where they were at, and what needed to be done next:

"Starting from the second year of the project, we just went much further with providing technical assistance, because we then knew where China stood in these areas. We were able to go deeper to better understand CAAC's needs and also what we could bring."

One remarkable aspect of the project is that for all technical exchanges the EUCCAP has a direct line to each department within the CAAC. Campangac says that although they can point towards data and charts to demonstrate the progress that the project has made, the relationship that they have forged with the CAAC actually represents one of the more significant achievements to date.

Early progress on the project proved difficult. Campagnac explains that a cold reception was received from certain departments within the CAAC. Chinese officials, used to dealing with counterparts from the same level of government, were not so open to dealing with industry players.

The consortium backing the project, though, was representing the EU from a regulation, not an industry, point of view. Campagnac says that once the CAAC recognised this and realised that the project presented a good opportunity to better understand the EU, things began to progress more smoothly.

Safety first

The EUCCAP has been instrumental in helping the CAAC to build greater competence in aviation safety, which is a core facet of the Project.

Because it is primarily the US and Europe that are the most involved in aircraft manufacture, most aviation safety regulations are generated by these states, with the objective of achieving a certain global level of safety. The concepts of how the safety controls are implemented in the US and Europe are different, but the actual regulations have been harmonised quite closely. This is important as aircraft are often sold between continents.

Although originally inspired by the Federal Aviation Administration (FAA) regulations, it is noteworthy that because China's aviation industry is maturing quickly they are now writing safety regulations adapted to their unique situation. They have begun to look at the European situation to try and see how they can draw on some of its experience to suit their own circumstances.

The speed of China's development, coupled with its lack of resources (experts, pilots, airspace etc), has engendered a steep safety learning curve.

"This is a particular problem for China," says Campagnac, "They have a basic lack of resources in this area and they are still growing too fast."

"China's safety practices couldn't be the same as in the US or in Europe because there are guys there who have been doing the same work for 30 years," he continues, "For instance, not a lot of training is required for new inspectors in Europe because, generally speaking, they already come with a significant background and will have mentors to help them learn on the job. In China there is a great need for new inspectors, but it is a difficult to find staff with an existing level of expertise."

The EUCCAP has helped plug the knowledge gap by providing 'train the trainer' programmes in safety. They are also assisting by issuing technical notices on different safety matters which should be implemented during the final year of the project.


EUCCAP experts' onsite assessment at Xi'an Xianyang International Airport, 2011


EUCCAP Workshop for Senior Investigators in Europe, 2012

General aviation

Although it has achieved a reasonably high level of safety over a relatively short period of time, China's aviation sector has a particularity in that it is focussed on airlines, or scheduled flights, meaning that while commercial aviation in China is fairly well developed, general aviation (GA) is not.

General aviation encompasses all non-scheduled flights which include such activities as medical flights, coastguard, search and rescue, mapping, forest surveillance flying schools and recreation. These flights take place at under four thousand metres and are undertaken mainly by light aircraft or helicopters. Despite this section of air space being currently under the tight control of the military, the Chinese Government has expressed its intention to open it up in order to develop the GA industry. Looking to the future of China's aviation industry, this is a necessary step to take.

The development of GA will help to contribute to economic growth, although not just in a direct way says Campagnac:

"China thinks that GA can contribute to economic growth, which is true somehow, but not so directly. The general aviation aircraft are not so expensive so…it's not the point. The point is, when you develop this kind of aviation it is the whole aviation sector that benefits from that, especially through the development of the foundations for producing more experts and a crucial pilot pool."

In Europe and the US, where GA developed before civil aviation, there are many self-funded pilots. Once they gain their first-stage licences many get involved in various GA activities and can then easily take further examinations to become commercial airline pilots, if there is a need in the industry. Although, as China's population becomes wealthier, there is an increasing number of people who want to learn to fly, currently China does not have this pool of talent to draw from and this presents a challenge to its commercial aviation sector.

Europe's rich experience in developing GA could benefit China greatly as their model of high-density cities and high density of flights is a good reference point for many of China's cities. Currently the EUCCAP's objective is to introduce the EU's GA sector to China in all fields, including economic regulation, airspace management, aerodrome infrastructure, certification and maintenance of light aircraft/helicopter and pilot licensing. Campagnac anticipates that this will result in a faster and safer development of GA in China.

Controlling the skies

Another, slightly intangible, success has been in the area of ATM performance, a sector of aviation where the authority is also the operator. In this case the EUCCAP worked in two areas — air traffic flow management (ATFM) and airport collaborative decision making (ACDM). Both of these areas help to reduce congestion and increase airspace capacity.

Because of the limits placed on Chinese airspace by the military, the challenge is how to make the most of what is available. Campagnac explains that China is willing to develop some systems similar to ATFM systems developed in Europe in the 90s, so the EUCCAP made a roadmap with recommendations for the Chinese system.

At this point in time China does not have a centralised system that automatically provides the capacity, or the demand, for the whole of China's airspace. Instead this information is spread all over China and is not coordinated or automated. According to Campagnac this is quite normal for a country that is not extremely congested but as congestion is rising the need for the CAAC, and China, to put in place such an ATFM system becomes greater.

Beyond October 2014, there is a strong willingness from European industry players to continue synergies with China's aviation industry, and this might be facilitated by the EU. Although it is not yet clear what form any prospective cooperation may take, what is apparent is that the EUCCAP has laid strong foundations for any future cooperation. Eb

Lufthansa's Airbus 380, Image courtesy of Lufthansa

'I' IN THE SKY

Obtaining government approval for new aviation projects or initiatives in China is a complicated procedure for foreign airlines. Lufthansa's **Kay Popken**, Managing Director, Strategy and Development China, and **James Wu**, Director of Industry Relations and Operational Affairs for Greater China, met with EURObiz's **Carl Hayward** to discuss one of their current issues — getting approval to use Lufthansa's Flynet system in Chinese airspace.

Originally established in the 1990s, Lufthansa's liaison office in Beijing was engaged primarily in government relations, regulatory issues and lobbying before integrating its activities with the sales function for around 15 years. Last year the liaison office was reinstated indicating the growing importance of strategic communication in the increasingly complex area of aviation legislation.

Leading this strategic office, Popken and Wu have an impressive 57 combined years of experience working for Lufthansa. In their current roles they are focussed on "government relations, and basically getting all kinds of approvals that we didn't get in the past," says Popken.

The picture they paint is of a complicated, vague, at times frustrating, legislative environment that requires hard work and, above all, patience to understand and navigate successfully. However, it becomes clear that not devoting time and resources to keeping on top of the regulatory environment can lead to a reduction in service and, in some cases, loss of revenue.

The issue of Flynet is not exclusive to Lufthansa, all major carriers are experiencing the same problem, but it appears they are leading the race in their efforts to receive the required government approval.

Currently Flynet is operating on most of Lufthansa's long-haul routes, allowing customers to access the internet from onboard the aircraft anywhere in the world, except for China. The service has to be switched off the moment the aircraft enters Chinese airspace.

A pilot scheme for this service was originally operated from 2003 until the end of 2006, when selected aircraft were installed with hardware provided by Boeing. At this point the China Aviation Authority of China (CAAC) acknowledged the use this service and it was passed to the Ministry of Industry and Information Technology (MIIT) for full approval. However, Boeing did not follow up on it as around this time they pulled out of the project because they were losing money. The issue was shelved for a couple of years.

Around 2010 Lufthansa revisited the service and a bidding process took place to find a new hardware provider. The eventual contract was won by Panasonic, who, according to Wu, are the provider for around 60 per cent of the world's major airlines, as well as the four major Chinese carriers — Air China, China Southern, China Eastern and Xiamen Airlines. The process of seeking government approval began again.

One of the initial stumbling blocks was trying to find the right channel to go through.

"We've been talking for a long time with China SATCOM [Satellite Communications Co Ltd] and also the CAAC," says Popken. "We've tried talking with the MIIT…"

"But they wouldn't face us," Wu interjects, "so there's nothing we can do. The CAAC is the channel we are trying to use."

From the perspective of the CAAC this issue remains outstanding largely due to the fact that the issue had not been formally raised with them. Wu refers to their first meeting when they took the issue directly to the CAAC.

"CAAC said to us, 'You're the first ones to approach us, no one has ever asked us before,'" says Wu. "There was a lack of clarity as to who was the actual government regulatory body dealing with this. Panasonic had said they we were doing everything for us, so we just sat there and waited."

What Lufthansa hadn't realised is that CAAC would not deal directly with Panasonic because they are the providers.

Lufthansa now deal directly with the CAAC to reach the MIIT, and act as a conduit between the government and Panasonic. They have also now consolidated with other major carriers such as Dragon Air, Cathay Pacific, United and Turkish Airlines to present a unified 'voice' on this issue.

"Now when CAAC go to the MIIT and push and say that airlines need this because China is the only blank area for this service," says Popken. "MIIT will recognise that this service is required because people are asking for it."

Panasonic's job, as overall network providers, is to deal with China Telecom, who were awarded the license to handle the network traffic from the satellite to the base station in China. In other parts of the world when a Lufthansa flight sends a message via the internet it is relayed directly to the base station in Germany, for flights in Chinese airspace the message will need to go via a base station in China where internet protocol filters are applied before the information goes out into the broader world.

In fact, according to Popken, the government are less concerned about what kind of content is being sent or accessed *per se*.

One of the chief concerns is security. The infrastructure of the Flynet system allows for mobile phone calls to be made onboard. The concern is that if this service is activated a group of individuals sitting at opposite ends of the aircraft could use it to easily coordinate a hijacking. Chinese carriers do not have this option, but foreign carriers have the choice of whether or not to switch this mobile service on.

Wu feels this concern is born from an isolated, hypothetical situation, but adds "when people are talking about security, how can you disagree?"

Popken raises a much more tangible reason for not enabling this part of the Flynet service. "Imagine if you were on a flight and everyone was on their mobile phones at the same time. There is also product aspect to this. That's why until now we have not allowed mobile phone calls onboard our flights," he says. "You could be listening to more than 20 different, noisy telephone conversations at the same time, which would make for a very unpleasant flight."

"We also don't allow social networking and Skype on our flights for this same reason," adds Wu.

Now the Flynet issue has been officially brought to the attention of the MIIT Popken believes they are beginning to see the light at the end of the tunnel. He feels that hopefully by the end of the year Flynet will be ready for the test phase in China, and will then be officially approved so that everyone can switch on. Eb

The waiting game

Waiting for approval to fly the A380 has cost Lufthansa potential revenue through missed opportunities to increase the capacity of their flights. Popken (KP) and Wu (JW) say this very long, and sometimes tedious, process involves liaising with the airports, authorities and different departments of various ministries. Lufthansa have already been through the process once to get approval for A380s flying into Beijing. This time around they are looking to fly A380s into Shanghai.

KP: "When we first started the process for flying the A380 to Beijing, because we were the first ones, I think it took us two years. Now we've been working really hard on it — I mean we're not talking about continuously, ten hours every day — but we've been after it for seven or eight months. We received verbal approval [for Shanghai] in March.

"For Lufthansa it's a capacity issue and it's a cost issue, because you have a lower cost per average passenger on the A380, but it's very much a product thing too. It's a popular aircraft and people like to try it out, and those that have tried it want to fly it again. We now have people from Shanghai who travel to Beijing in order to get the A380 because they feel safe and it's very quiet, so it's a good product.

"The airport needs to get ready of course, and for an aircraft like this, which is bigger and heavier than everything else, you have to build special bridges and have special towing trucks. You may even have to reinforce the runways.

"Quite often what happens in China is that before anybody gets an official approval, there is already somebody in a trial phase. This is what we are doing in Beijing, our COOs came over and talked to the minster or the vice minister until eventually they said, 'Ok, you can have one flight a week, and we'll try out the operations and see if it is smooth.' If it goes ok they will increase the number of weekly flights. So it's developing step by step.

"Every case is different. Not everybody has to do the same all over again but everybody has to go through the approval process."

JW: "Other airlines don't look at what Lufthansa is doing and do the same. The government part is fixed, but they still keeping moving or changing [legislation] without your knowledge."

KP: "We applied for daily flights and in the end received five instead of seven. The argument was they might still have some hiccups so they want to have a trial phase, but until now we have no idea when we will get the daily flights instead of the five. It's very complicated to plan our aircraft rotation because now we have to bring in a 744 for those flights on the two days when we don't fly the A380 into Shanghai.

JW: "At the moment the only thing we can say is, we don't know what are the arguments against us they have in their drawer. If there are no further arguments in their drawer then they should action this because if there is no valid reason, how can they prevent us? So we just sit and wait."

AN INDUSTRY ON THE UP

With the establishment of the Commercial Aircraft Corporation of China Ltd (COMAC), a large jet manufacturing arm, and the launch of several aircraft programmes, the Chinese aerospace manufacturing market has become a fairly hot media topic in recent years. What does this mean exactly for Western companies?

In this article **Dr Michael Tan** of **Taylor Wessing** shares with us his observations and insights from a legal perspective. He says that with a national strategy in place China's aerospace industry is set to take off. Part of this strategy is to encourage an influx of Western advanced technology, so foreign companies looking to get involved will find plenty of opportunities. However, Tan cautions that they will need to closely examine the legal environment and carefully weigh the risks before deciding how, or if, to get involved.

Boosted by its increased demand for defence to protect its rapidly-growing economic interests in the global arena, China's aerospace manufacturing sector has grown at an impressive pace in recent years. What has often been overlooked is the fact that since the 1980s the Chinese aerospace industry has already gained considerable experience in the commercial aircraft field, either by participating in the global supply chain of the world's leading aerospace firms or by pursuing its earlier jetliner programmes such as the aborted Y-10 and MD-90 projects.

Now with the announcement and launch of several new programmes, such as the ARJ-21 and C919 — both developed by COMAC — the Chinese aerospace manufacturing sector is attracting commercial attention. This time around it has more relevance to Western players since it is open to international cooperation, as can be seen from the Chinese industrial legislation and policy development in recent years.

The Industry: a national will

China's ambition in the aerospace manufacturing sector is reflected by the various national-level planning and ministerial schemes. In the *Twelfth Five-Year Planning Framework of National Economy and Social Development* endorsed by the National People's Congress in March 2011, aerospace equipment manufacturing is already mentioned as part of the high-end equipment manufacturing fields for which development shall be promoted in a leapfrog way. Under the more specific *Development Plan for Strategic New Industries* rolled out in July 2012, the ARJ21 and C919 programmes are explicitly mentioned.

Concrete future milestone events for the C919 programme, namely its debut flight (2015) and commercial production (2020) are also revealed. The C919 project was further mentioned as a "major key program" under the *Middle and Long Term Development Plan for the Civil Aviation Industry* promulgated by the Ministry of Industry and Information Technology (MIIT) on 22nd May, 2013, with a vision to secure over five per cent of domestic, new-market orders by 2020.

It is worth noting that these national plans express a general tone in favour of foreign companies becoming involved in its implementation. The MIIT plan explicitly addresses "international cooperation" as one of the measures to ensure implementation of its plan and encourages foreign suppliers to participate in related projects.

The Market: strong demand stimulated

China's firm ambitions to expand its aerospace manufacturing industry are largely derived from its confidence in its aviation market potential. According to a forecast by the RAND Corporation, Chinese airlines are expected to purchase roughly 4,000 new jetliners over the next 20 years. The number of fixed-wing general aviation aircraft in China is expected to increase annually by 30 per cent over the next five to 10 years, resulting in more than 10,000 new aircraft by 2020.

At legislation and policy level more substance has also been added to this promising picture. The most significant public statement is the *Opinion on Deepening Reform in Low Altitude Airspace Control* (*Opinions*) jointly approved by the State Council and the Central Military Commission on 29th August, 2010. According to *Opinions* China is launching a scheme to further liberalise its low altitude airspace control.

The present pilot scheme is intended to cover the whole country by 2015. The new system of airspace control is a much more liberalised version and very close to that in the West, which has already been interpreted by the market as a great boost to demand for aircraft, in particular for general aviation.

Relevance to International Players: market access

In general China welcomes advanced and new technologies from the West, and this attitude is reflected in its regulations on cross-border technology trade, namely the *Administrative Regulations on Technology Import and Export* (TIER), last revised on 8th January, 2011. So far the list of technologies restricted and prohibited from importation contains very few items (normally out-of-date or highly polluting technologies) which should not create a problem for Western aerospace firms planning to sell technologies to China.

A similar picture exists with respect to investment access. Most aerospace and aviation manufacturing activities are either not mentioned (which means permissible), or explicitly encouraged under the *Foreign Investment Industrial Guidance Catalogue*, most recently updated in 2012.

It should be noted, however, that in addition to those areas that are listed under the general 'encouraged' status (e.g. manufacturing and maintenance of ground equipment and aircraft components), encouragement in some fields comes with limitations. For example, Chinese participation (i.e. a joint venture (JV)) is required in designing, manufacturing and maintenance of general purpose aircrafts, helicopters (<3 tons), aircraft engines and components, auxiliary power systems and airborne equipment. Chinese majority is further required in designing, manufacturing and maintenance of trunk-line, regional jets, big helicopters (≥3 tons), ground/water effect aircrafts, drones and aerostat.

As with the car industry, the Chinese Government plans to bring in advanced foreign technology and expertise to help grow the core field of this industry, but at the same time wants a clear Chinese hallmark on it. Although no explicit 'local content' ratio is mentioned so far under publicly available rules, foreign investors may need to anticipate similar requirements in certain fields when they enter this market.

The Other Side of the Coin: typical issues

It goes without saying that international players must always bear in mind the peculiarities and risks in this promising future market due to the fact that it is still heavily influenced by governmental policies and the related industrial legal framework, which is in the process of development. Based on my experience, typical legal pitfalls can arise in the following areas which only serve as a few examples:

- *Administrative interference*: a major feature of the Chinese jurisdiction is the intensive involvement of administrative authorities in business transactions. The same applies in the aerospace manufacturing sector. For a foreign company to supply technologies to its Chinese customer, the related contract is required to be filed with the Chinese authority (i.e. technology importation). As far as an investment deal is concerned, both the project itself and the establishment of the investment vehicle, such as a JV, will require approval from the Chinese authorities. In the case of a large-scale investment deal approvals at central level in Beijing may be triggered which can be time consuming and complicated.
- *Intellectual property rights (IPR)*: this is always a hot issue for deals with China in the high-tech field. When a foreign company tries to build up its patent protection in China, it may potentially face more hurdles than a Chinese company, even though in reality the statutory criteria for review are the same. Foreign companies may often find it hard to pursue its Chinese competitor since it is difficult in practical terms to prove a know-how infringement case. More importantly some popular protective arrangements in favour of the technology supplier will not be feasible in China, due to compulsory requirements under TIER.
- *State-owned customer*: like years ago in the railway sector and the telecommunications sector, foreign companies will often find their Chinese counterpart in a comparably strong position and to be very demanding, particularly when many of them are well budgeted State-owned companies taking up the political task to acquire Western advanced technologies. State funding further triggers public tendering requirements which can result in considerable pressures on the foreign supplier side in a competitive situation. The typical stereotype of State-owned companies, and sometimes their lack of experience in tricky technical areas, can make the maze of negotiation — and sometimes even the implementation of a signed deal — very complicated and time consuming.
- *Chinese certification*: although the Civil Aviation Administration of China (CAAC) has formulated many rules in the certification field, which to some extent follow the Federal Aviation Authority (FAA) model, the lack of commercial aircraft manufacturing experience in China indicates that there is a long learning curve ahead.

  For foreign companies, this would potentially mean the burden of additional work and an increased period of time before a foreign supplier can get its products certified in China. In reality, the CAAC tend to ask for too much detail, which may not be necessary and gives rise to IPR concerns. In particular for European companies, a bilateral airworthiness certification arrangement with China facilitating their entering the Chinese market seems doubtful when this topic is connected with the sensitive topic of emissions trading schemes (ETS).

Closing Remark

Because a national strategy exists to build up the industry with abundant financial aid from the State, there is no doubt that the Chinese aerospace manufacturing sector will remain prosperous in the coming years, especially when the Western world is still struggling with weak demand as a result of the recent economic turbulence. For international players in this sector there are plenty of opportunities, as has already been seen in many other sectors of China's fast growing economy.

The good thing is that after accession to the World Trade Organisation (WTO) China is more used to a 'rule of law' approach under which such opportunities and the role of foreign players are more clearly defined. Any international players wanting to embrace these opportunities will need to take the legal picture into their analysis before starting their adventure in this challenging market. Eb

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WILL CHINA REALLY FACE A MIDDLE INCOME TRAP?

There is a peculiar, well-documented phenomenon that often occurs during countries' development processes, whereby fast-growing, emerging economies begin to slow down just as they are reaching a level of wealth at which their citizens can truly start to enjoy the fruits of their labour. Looking back in history, international experience shows us that this slow down generally occurs well after countries pulled themselves out of poverty but before they graduate into the ranks of the rich economies — the phenomenon is thus dubbed 'the middle income trap' (MIT).

In the following article **Bart van Ark**, Chief Economist and Executive Vice President of the **Conference Board**, and **Andrew Polk**, Resident Economist at the Conference Board China Centre, discuss this phenomenon and examine how it could affect China or whether they could avoid it altogether.

What is the middle income trap?

When poor economies first begin to take off they often do so propelled by a low-wage advantage. This allows the country's manufacturers to offer competitive prices on the global market, since they have a lower cost base. However, as economic growth rates and productivity rise quickly, rapid wage increases tend to follow. Thus the trap is generally characterised by the fact that rising wages eventually begin to eat into the competitiveness that low-base wages originally offered.

Comparative studies show that competitiveness starts to erode in earnest — thus slowing headline economic growth — once a country reaches a level of per capita income that is still a fraction of a portion of the most advanced economies. While there is no clear-cut measure of the income level at which middle income traps occur, it seems reasonable to assume those traps can happen at between roughly 30–50 per cent of the average per capita income level of mature economies.

Around this level of income, which is somewhere in between USD 12,500 – 20,000 (purchasing power parity (PPP) adjusted) per year, the growth model which enabled the initial high-growth phase loses most of its steam. Rapid catching-up growth, characterised by adopting existing technologies from abroad and adapting them to the local circumstances, accompanied by low cost labour and rapid investment and increases in basic education of the labour force, dissipates.

As economies get closer to the development frontier, the growth model becomes more complex. It is increasingly determined by innovation, investment in more sophisticated technologies and through the raising of the level and quality of education, notably secondary and higher education of the potential labour force.

The Asian Development Bank describes countries that cannot "compete with low-income, low-wage economies in manufacturing" and similarly are disadvantaged vis-à-vis "advanced economies in high-skill innovations". In laymen's terms: these countries cannot continue to compete on cost for cheap goods, and they cannot (yet) compete on quality for more sophisticated items. Due to a variety of factors, many countries risk getting stuck in this trap. As economic growth slows, it tends to not substantially outstrip growth in the population, thus average income does not budge, sometimes for decades.

How does this effect China?

China is rightly seen as a juggernaut. However, its recent growth is often wrongly seen as an unprecedented success story. Of course, because China has the largest population in the world, its development has been on a scale not previously seen. But the speed at which China's economy has grown *has* been achieved before. Japan and South Korea are two very pertinent examples. To wit, China will have taken 21 years to quadruple its per capita income — an oft cited policy goal of the Chinese Government — from 1994 to 2015. However, Japan accomplished the same feat in 18 years, while Korea did so in 20 years. Hence while China's growth model has many unique features, when taking a step back it is an economy like any other, with many of the same risks and opportunities. So, like any other economy that is about to change its growth model, does China run the risk of getting stuck in the MIT?

On an aggregate basis, China is still significantly below the level of per capita income that is typically associated with the MIT, standing at just over 20 per cent of USD per capita GDP, or roughly USD 10,000 (converted at PPP). However, because China's economy is so large, the geography so disparate and the population so diverse, to obtain an accurate reading of China's vulnerabilities (and strengths) one must dig deeper to uncover any clear pattern.

To this end, we looked at China's regional breakdown of per capita income. Many of China provinces, or provincial-level cities, including Tianjin and Shanghai, have already reached a level just shy of USD 20,000 (PPP), which is at the top end of the MIT range. What's more, the top five provinces — Tianjin, Shanghai, Beijing, Jiangsu, and Zhejiang — have all experienced rapidly decelerating economic growth rates since 2003, the point around which they would have entered the middle income trap range in full force. Meanwhile, as we might expect, China's poorest provinces — Anhui, Guangxi, Gansu, Yunnan, and

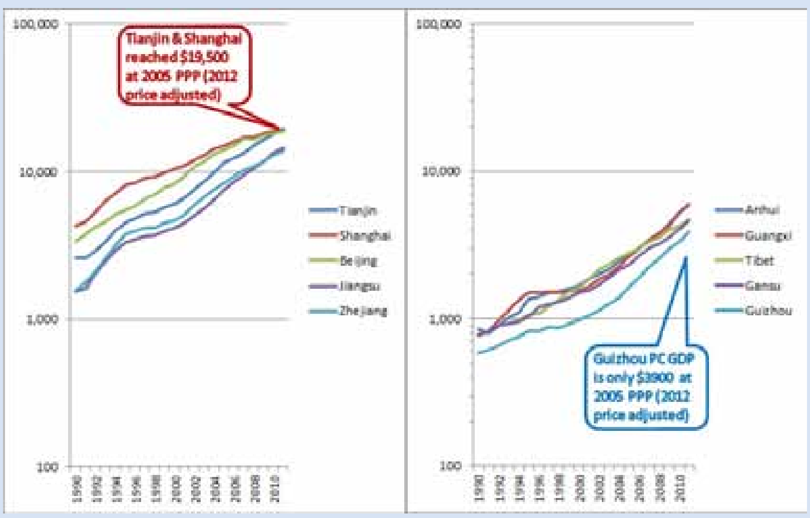
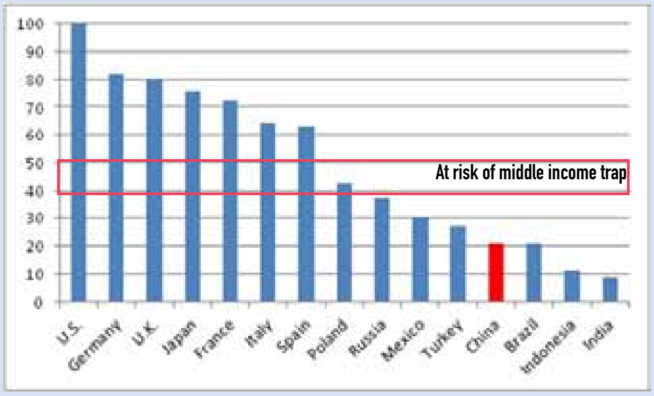


Figure 1: There are many different 'Chinas': Level of GDP per capita (PPP-based) – The richest five vs the poorest five provinces

Source: The Conference Board, Harry X. Wu



Relative levels of labour productivity, US = 100, 2012

Figure 2: As per capita income levels are much lower in many emerging markets there remains potential for catch-up before the middle income trap kicks in

Note: Labour productivity is measured as output per capita – PPP-converted

Source: The Conference Board Total Economy Database, January 2013 (https://www.conference-board.org/data/economydatabase/)

Guizhou — have all maintained per capita GDP growth rates averaging 10 per cent or more during that same period.

Putting everything together, we see a China that is clearly divided among high-, low-, and middle-income groups itself. Strikingly, many of the middle-income provinces are beginning to approach what some consider the first hump in the MIT[1] — at around USD 11,000 per capita (PPP) — while many of the richer provinces are approaching the second hump of USD 15,000 per capita (PPP). When looked at in this way, the possibility that China may begin to face pressures from the MIT sooner than expected becomes clear, particularly when one considers that the rich and middle-income provinces comprise the bulk of economic activity. In other words, if growth slows more substantially in those regions, fast-growing poorer economies will not be able to make up the difference and support overall economic growth — they simply don't make up a large enough piece of the pie.

Can China avoid the middle income trap?

If China is further along the path to the MIT than most expect, as we posit, then the question remains: can China avoid the dangers associated with middle income status, and if so how? As we've mentioned, the primary reason that most economies fall prey to the MIT is rapidly rising wages — to the point that their manufacturers cannot compete. But getting stuck in a lower gear of growth is not a foregone conclusion, as many countries have attested to. Most importantly, economies can offset the effects of higher labour costs by increasing the productivity of their workers and investing in technological innovations that allow for greater efficiency in production. Said another way, to beat the MIT China needs to focus on human capital and innovation.

To date, much of China's growth has been enabled by a rapid shift of labour from agriculture into the manufacturing sector. Moving workers from less productive farming activities — particularly on small plots of land that don't enjoy economies of scale, as is typically the case in China — to more productive pursuits in the manufacturing realm, makes for relatively easy gains in growth simply by putting the labour force to use in a more efficient way.

Another major source of recent Chinese growth has come from catch-up growth, which has led China to quickly integrate (nearly) global best practices and technologies into its production processes. By obtaining investment and know-how from the rest of the world, many companies in China have quickly narrowed the technology gap. A good number of firms are using world-class production processes, therefore improvements in efficiency become much more difficult to come by.

As such, China has begun to exhaust many of the 'easy' gains that have propelled growth in recent years, and as a result many sectors in the economy are beginning to experience symptoms associated with the MIT. In order to forestall a prolonged growth slowdown, Chinese companies and policymakers will be forced to focus on producing the more difficult gains that come from innovation and human capital investment, which drive productivity growth in a more sustainable way. To date, Chinese investment in fixed capital has been highly inefficient, leading to ever-lower returns. What's more the service sector of the economy is still underdeveloped and the educational system, while improving, often struggles to produce highly-skilled workers. Rectifying these challenges will require significant policy changes throughout the economy, from fiscal and financial reform, to re-tooling SOE governance, to more socially-linked areas like the household registration (*hukou*) system that hampers labour flexibility by disadvantaging migrant workers.

These reforms, while large in scale and difficult to enact, would help to unlock some of the latent productivity in the economy, by boosting returns on human capital and creating an environment in which firms could more readily innovate. That jolt to productivity growth would be the key to offsetting rising wages and continue to meet higher income expectations. Because such fundamental reforms are difficult, many economies have struggled to make the necessary adjustments and succumbed to declining competitiveness leaving them for longer in the MIT than necessary. For China, there is still time to beat the MIT, but in order to do so policymakers and businesses will need to shift focus now. Eb

The Conference Board *(TCB) is a global, independent business membership and research association, started in 1916, working in the public interest. Their mission is to provide the world's leading organisations with the practical knowledge they need to improve their performance and better serve society.*

Their membership includes over 1,200 companies in both the established and the emerging markets of the world, and they provide objective economic data and analyses that help business and policy leaders make sense of their operating environments.

[1] Eichengreen, Barry; Park, Donghyun; Shin, Kwanho, 2013, National Bureau of Economic Research Working Paper Series, *Growth Slows Down Redux: New Evidence on the Middle Income Trap.*

EUROPEAN CHAMBER LOBBYING HIGHLIGHTS

Dinner with Commissioner Karel DeGucht, DG TRADE


European Commissioner for Trade Karel DeGucht

On 21st June, the European Chamber met with European Commissioner for Trade Karel DeGucht. The Commissioner debriefed representatives of the European Chamber on the EU-China Joint Committee meeting, the current EU trade policy agenda, both with China and globally, and briefly mentioned the solar panels case.

The European Chamber debriefed the Commissioner on its strategy and current lobbying priorities. The meeting ended with the European Chamber making two recommendations regarding the definition of private capital used by Chinese authorities and the need for a database tracking Chinese outbound direct investment (ODI) to Europe.

Europe Day Appreciation Dinner

The Shanghai Chapter's Board with HE Markus Ederer and Xu Yibo

On 16th May, the European Union Chamber of Commerce held its first annual Europe Day Appreciation Dinner at the Kerry Hotel Pudong. HE Dr Markus Ederer, Ambassador-Head of Delegation of the European Union to the People's Republic of China and Mongolia, and Xu Yibo, Member of Standing Committee of the Shanghai Municipal CPC and Deputy Secretary General of Shanghai Municipal Government, delivered speeches about the ever-growing EU-China economic partnership. Stefan Sack, Chairman of the Chamber's Shanghai Chapter, welcomed the 200 guests including several Consuls General from EU Member States as well as a diversity of high-ranking Shanghai government representatives.

Meeting with Greek Prime Minister Antonis Samaras


Stefan Sack (left) meets Greek Prime Minister Antonis Samaras

On 18th May Stefan Sack, European Chamber Vice President, met with the Greek Prime Minister Antonis Samaras during his visit to Shanghai and presented him with a copy of the *Position Paper 2012/2013*. Mr Samaras took a keen interest in the *Position Paper*, as well as general activities of the European Chamber, and welcomed Chamber delegates to present the *Position Paper 2013/2014* in Athens during the upcoming European tour. Mr Samaras is the highest ranking EU Member State official to have received the *Position Paper 2012/2013* to date.

Meeting with European Commissioner Tonio Borg


Tonio Borg (left) receiving the *Position Paper* from Stefan Sack

On 4th June a delegation, led by European Chamber Vice President Stefan Sack, met with Mr Tonio Borg, European Commissioner for Health and Consumer Policy, in Shanghai. Stefan presented the *Position Paper 2012/2013* to Commissioner Borg. Representatives of the Agriculture, Food and Beverage, Healthcare Equipment, Pharmaceutical and Cosmetics Working Groups had the opportunity to debrief him on specific industry issues.

Provincial Campaign

As administrative power becomes more decentralised, the Chamber has responded to member's needs by arranging a campaign that will allow the Chamber to discuss trade policy on a provincial and municipal level. The Chamber has organised meetings with many of the provincial governments, most notably with the Governor of Heilongjiang, Mr Lu Hao, whose previous position was the first secretary of the Communist Party Youth League. In recent months Chamber members have participated in the following meetings:

On 14th May, the European Chamber held several productive meetings with provincial and municipal officials in **Shenyang, Liaoning Province.** A delegation of Chamber representatives, led by **President Davide Cucino**, met with **Bing Zhigang, Vice Governor of Liaoning Province**. On the same day Chamber representatives also met with **Huang Kai, Vice Mayor of Shenyang.**

On 18th May, **Adam Dunnett, Secretary General of the European Chamber**, led a delegation to the 8th Central China Expo in **Zhengzhou, Henan**. The Chamber Delegation joined an EU Commission Delegation led by **Ambassador Markus Ederer** and his staff. Chamber representatives met with the **Vice Governors** of the six central provinces (**Anhui, Henan, Hunan, Hubei, Jiangxi** and **Shanxi**) and the **Vice Mayor of Zhengzhou**.

On 8th June, a Chamber delegation, led by **Shanghai Board Chairman Stefan Sack**, presented the *Position Paper 2012-2013* to **Zhang Hongmin, Vice Chairman of Chinese People's Political Consultative Conference Zhejiang; Chen Zongrao, Deputy Secretary General of Zhejiang Provincial Government; Lu Guohao, Deputy General of Zhejiang Foreign Affairs Office** and **Ju Yalian, Deputy Director-General of Zhejiang Department of Commerce.**

On 14th June, representatives of the European Chamber joined the **EU Ambassador's** visit to meet the **Governor of Xinjiang Autonomous Region**. The two sides discussed EU-China cooperation on Urbanisation, the local interpretation of the 'Chinese Dream' and future cooperation.

From 9th to 11th July, a delegation, led by **President Davide Cucino**, visited Heilongjiang and met with newly appointed **Governor Lu Hao**. During the meeting, Lu Hao praised the Chamber's *Position Paper* and explained in detail Heilongjiang's investment opportunities. Other government agencies the group met during the trip include the Heilongjiang China Council for the Promotion of International Trade (CCPIT), the Committee of Commerce and the Committee of Agriculture.

CHANGE IN CHINA: AN AVIATION INDUSTRY ON THE FAST TRACK

China is beginning to influence and shape global tourism as its population becomes increasingly affluent and internationalised. **Bart Tompkins**, Managing Director of **Amadeus China**, says that improvements to China's aviation industry and the further gradual loosening of certain travel restrictions means that the number of Chinese people travelling to foreign destinations will only continue to increase for years to come.

The United Nations World Tourism Organisation (UNWTO) announced last month that Chinese now rank as the highest-spending tourists in the world. With USD 102 billion spent on trips overseas during 2012, Chinese travellers have leapt ahead of notorious big-spenders from Germany, the United States and Russia.

This milestone came as no shock, with such a massive and growing population of travellers in China. What continues to surprise many experts is the speed at which Chinese travel continues to grow. Chinese travellers made 83 million overseas trips in 2012, compared to 10 million in 2000. This is not only fuelling growth within China, but also the rest of the region. Arrivals from China to other Asia Pacific destinations have been increasing at an annual rate of 12 per cent over the past few years, and China now generates 18 per cent of all arrivals at Asia Pacific destinations.

It is forecast that by 2030, China could have 200 million outbound travellers; that looks to be on target based on the current pace of growth. However, continued cooperation, ongoing liberalisation and investment in new technology will be needed to ensure that China stays on its fast track and fulfils this prediction.

The Power of Choice

Most international airlines have known for many years that China represents a significant opportunity due to its sheer size, and that the volume of Chinese travellers going overseas for business or leisure will only continue to grow. The number of outbound travellers each year from China is still equivalent to only four per cent of the total population, and around 15 per cent of the total middle-class population.

International carriers have increased flight services to China, introduced Chinese language on board their aircraft, and offered Chinese meals to please the local palate — all in an effort to compete for a slice of the Chinese travel pie. And the Chinese travelling population has been eager to fill their seats, particularly when they have found competitively-priced fares to destinations like Europe and the US. Our research shows that Chinese travellers increasingly want to go further afield and want the freedom to book their own travel itineraries rather than following scheduled tour groups. Yet their access to international airline bookings has been somewhat restricted.

Unlike the rest of the world, global distribution systems (GDS) have not been able to operate in China. This means that technology has not always been able to evolve in line with global standards and the tourism industry in China is using a system that is relatively restricted in some areas.

This has meant that local travel agents don't have the option of working with a GDS like Amadeus to search flights and make reservations. They have to rely on the local provider, TravelSky, with often less-evolved technology, which can mean travel agents resort to time-consuming manual processes to check fares and confirm flights for their customers.

Last October, with the publication of new regulations from the Civil Aviation Administration of China (CAAC), a gradual change is due to take place. Global distribution systems will be able to start working with Chinese travel agents to help them deliver better service and more travel options to Chinese travellers. In turn this will help international airlines access the ever-growing Chinese travel market. This reaches beyond airlines as well, with international hotels, cruises and other travel providers also set to benefit.

However, while the regulations have been approved actual implementation is not yet complete. But change is hopefully underway and, if so, it can only mean good things for the Chinese travel industry.

Other restrictions are also loosening and contributing to the rapid growth of Chinese arrivals in foreign destinations. Seven per cent of Chinese travellers say that visa restrictions are the main reason they do not travel as much as they would like. This situation is set to change though, with many countries including Australia, Singapore and Korea recognising the importance of the Chinese travel dollar and easing visa restrictions to encourage more Chinese arrivals.

The Leapfrog effect

While China could be seen as a late bloomer when it comes to travel technology, this may actually work to its advantage in the longer term. China may in fact 'leapfrog' ahead and build more advanced technology based on lessons learned from other countries.

An Amadeus study earlier this year predicted that the leapfrog effect would have a significant influence on the travel industry in China in the coming years. While bookings on fixed internet have not really taken off in China the way they have in other Asian markets and travel agency bookings remain dominant, it could be that travellers will jump straight to mobile instead. Forty-five per cent of business travellers and 33 per cent of leisure travellers in China already use mobile devices for travel arrangements — higher than many other markets in the Asia region.

As you would expect, younger Chinese are the most enthusiastic users of mobile devices with almost half of younger travellers now using them regularly for both research and bookings. Chinese travellers are seemingly less concerned about security and network reliability than their counterparts in other countries.

Amadeus' report predicts that these numbers will continue to grow in line with Chinese travellers' appetite for all things high-tech. With more Chinese people travelling internationally and seeing overseas technology standards for themselves, the demand for China to keep up will be stronger than ever before.

For travel providers such as airlines, travel agencies, tour operators and others, developing a mobile channel will become increasingly important to target the Chinese traveller, including both a mobile web site and an application with booking capability. This investment must continue to ensure that China remains on a par with, or ahead of, international standards in technology.

Everyone is buzzing about growth in China, and it's common to see experts questioning whether China really will be able to reach the numbers that have been set for 2020, 2030 and beyond. For now, the pace of growth in China's travel industry is certainly not showing any signs of slowing, and more milestones are being reached every year. However, industry progress in areas of liberalisation and technology needs to continue in order to keep up with new demands from Chinese travellers as they spread their wings.

At Amadeus we are very excited to be playing our part in bringing the world's best technology to China, working with travel agencies and airlines to help them share in the success of Chinese travel and keep it moving ahead on its fast track. Eb

__Amadeus__ is a leading provider of advanced technology solutions for the global travel industry. Customer groups include travel providers (e.g. airlines, hotels, rail and ferry operators, etc.), travel sellers (travel agencies and websites), and travel buyers (corporations and travel management companies).

Amadeus employs around 11,000 people worldwide, across 195 markets with 73 local Amadeus Commercial Organisations including China.

A moveable 'Sunshine Court' dealing with a dispute over land rights in Guizhou

I KNOW THE LAW

EU SME Centre launches online law database

To help newcomers to the market get a first impression of what might be in store for them from a legal perspective, experts from the **EU SME Centre** have put together a collection of English translations of the most essential laws SMEs are likely to come across when exporting to, or investing in, China. For the most essential laws, a link to the original Chinese version is provided as well.

Many European companies, particularly SMEs, operating in China are not always aware of some of the most fundamental laws and regulations that affect their business in the marketplace. There are many reasons for this, including language barriers, the lack of in-house expertise and frequent changes to the regulatory environment.

The amount of laws has been increasing at a breathtaking rate since China took up the task of creating a 'socialist legal system with Chinese characteristics' little more than 30 years ago, driven to some extent by the requirements of China's integration into the global economic order and its accession to the World Trade Organisation in 2001.

Even though many of these laws are still not clearly implemented and are insufficiently enforced, those related to the economy are, by now, relatively well defined and routinely applied. Thus, European SMEs entering the Chinese market can expect a reasonable degree of legal protection in the country, provided they know their rights and responsibilities and act accordingly.

Since even a minor infraction could put an otherwise successful business venture at risk and entail significant costs, it is strongly advised to make use of the services of a lawyer thoroughly familiar with the practicalities of the Chinese legal system from the very start of your engagement with China.

A Cosplay event is used as a way to promote careers in China's legal system at a school in Shandong

The database, which is freely accessible on the website of the EU SME Centre, is divided into seven business and legal areas:

1. Foreign investment
Including general regulations and laws on wholly foreign-owned enterprises, joint ventures, foreign-invested partnership enterprises and representative offices.

2. Cross-border trade
Including the Chinese Foreign Trade Law, the Regulations on the Administration of the Import and Export of Goods and the Regulations on the Administration of Technology Import and Export.

3. Foreign exchange administration
Including the Regulation on Foreign Exchange Control.

4. Taxes
Including regulations on corporate income tax, individual income tax, turnover taxes and major taxes involved in the operation of a representative office.

5. Visa policy
Including the Exit and Entry Administration Law.

6. Labour-related laws
Including the Chinese Labour Law, the Labour Contract Law and the Decision of the Standing Committee of the National People's Congress on Revising the Labour Contract Law.

7. Franchising
Including the Regulations for the Administration of Commercial Franchising and the Administrative Measures for the Record-Filing of Commercial Franchises.

In addition to facilitating initial orientation on commonly-encountered requirements, the database is also helpful when considering the best entry strategy, deciding on the scope of business in China and entering into negotiations with a legal advisor. It also serves as a secondary source of information to the Centre's guidelines and reports, many of which deal with legal aspects of market entry in China.

Dig deeper

English translations of Chinese laws should never be used as a basis for final decision making, as key information may be contained within the nuances of individual words or expressions in the wording of a law. Even though the greatest care has been taken to only include accurate translations, the risk of erroneous interpretations has to be taken into account.

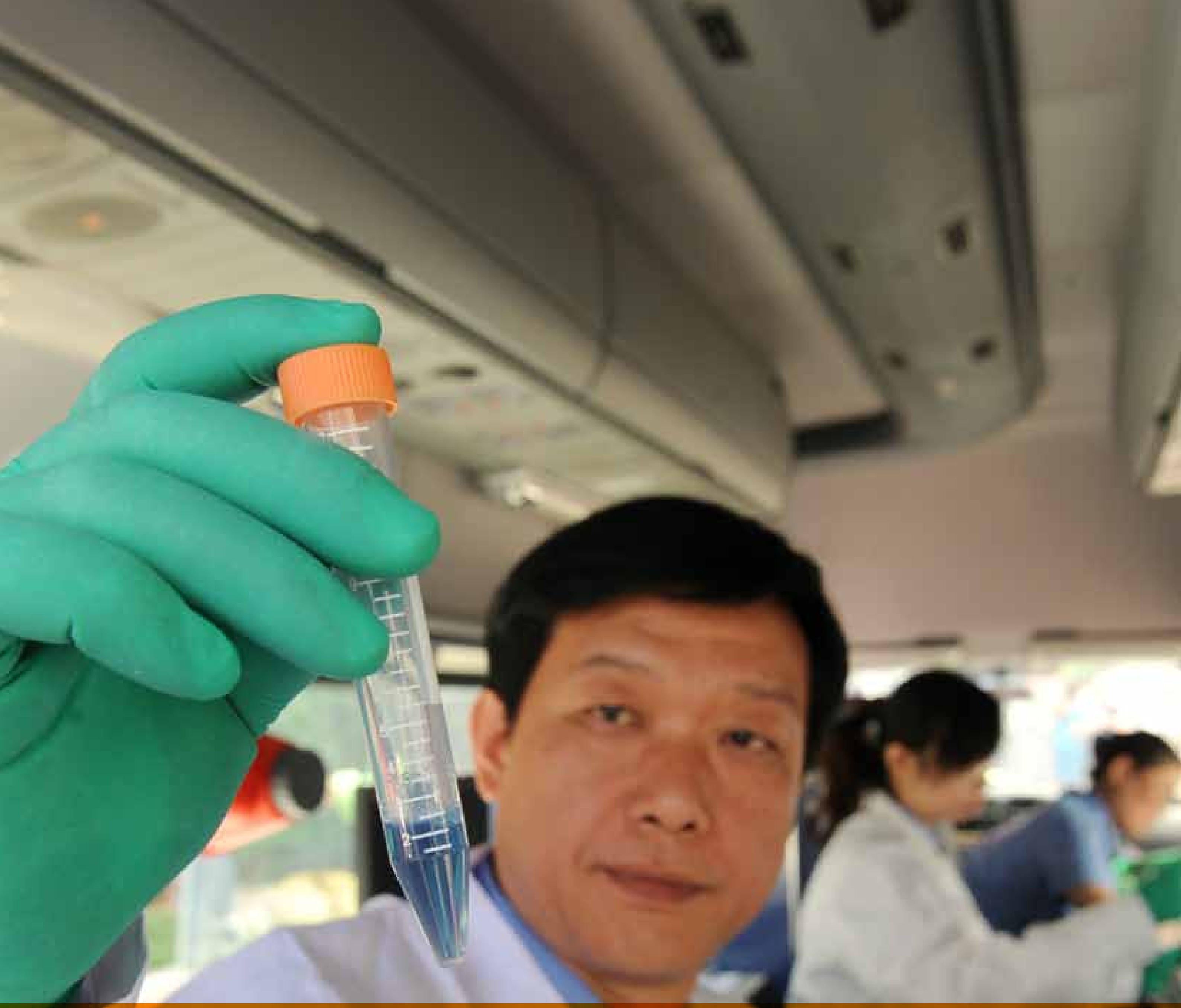
In addition, laws evolve constantly and the most recent edition tends only to be available in Chinese. Finally, interpreting laws correctly may depend on an understanding of related regulations and sometimes even diverging opinions by local authorities, something which only an experienced local lawyer can be expected to possess.

The EU SME Centre law database will help European SMEs in the early stages of market research to better understand China's prevailing legal norms, thus supporting informed decision making when analysing if circumstances are right for their entry to the market.

The law database can be seen in full by visiting www.eusmecentre.org.cn/content/law-database. Eb

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

EUSME Centre



RESEARCH AND DEVELOPMENT

In this first of a two-part study, the **China IPR SME Helpdesk** explore research and development (R&D) in relation to developing your R&D strategy, structuring of intellectual property (IP) ownership and licensing of IP. They point out that legal practices described here should be considered in the context of specific business models and specific methods of technology development.

Develop your strategy

When addressing intellectual property rights (IPR) issues related to R&D, people often quickly jump to questions of IPR ownership, licensing and enforcement. All of these issues are important, however, it is very helpful to examine the following questions before discussing legal structures with your counsel:

Where is your market in your current business model?

If you focus on the market in China, your Chinese business partners might want to ask a lot more from you, including sharing the ownership of IPR, in exchange for helping you develop the product and the market.

Who will be the inventors?

If the primary inventors are non-Chinese citizens, you will have much more leverage in deciding how to control the IPR. If, however, the Chinese team is expected to make key contributions IPR ownership will be a more sensitive issue when negotiating the terms of your agreement. To retain control you will need to include a sufficient amount of rewards and incentives for them as individuals in the case that ownership of the innovation is not granted to them.

Additionally, you will need to consider the legal status of the Chinese inventors. If the inventor is an employee of another party, for example a researcher at a local university, the inventor may be under contractual duty to assign his/her IP rights to that employer. Ignoring the inventor's existing legal duties can cause serious problems.

Is the technology going to be useful for other areas?

Very often small- and medium-sized enterprises (SMEs) introduce a promising technology to develop applications or products to suit the Chinese market. People often focus on the IPR related to the particular applications or products that are being developed. However, the underlying technology may be useful for other sectors. Control over the IPR for the underlying technology, and the outcome of R&D, often have much greater stakes.

Are you willing to give away your IPR in exchange for equity?

Are you willing to give away your IPR in exchange for shares, stock options or other equity interests in their enterprises in China? The answer to this question may help you open up some doors to creative solutions in China.

What if your business fails in China?

Intellectual property rights may be the only asset you are left with in the case of your business venture failing in China. For example, if your current business venture is closed down, can you securely use the IP you have developed somewhere else, or in other fields, or with other partners? Thinking about the worst-case scenario will give you some insight into your fall-back options.

Who owns the IP?

Intellectual property ownership is less of an issue if you simply set up your own entity in China to conduct all R&D activities. You can choose to file patent applications under the name of the Chinese entity, or its affiliates outside China.

Placing the IPR under an overseas entity may provide greater flexibility to suit the future needs of your business operations and financing. However, companies increasingly apply for IPR under their Chinese entities in order to qualify for the incentive plans offered by local governments in China.

If you rely on your business partner to some extent, IPR ownership may be more complicated. Some common choices can be seen below:

- Sole ownership of all the IPR by the European SME.
- Sole ownership of all the IPR by the Chinese business partners.
- Co-ownership, shared between the European SME and the Chinese business partner. Terms of the co-ownership can be largely defined by contracts.

The ownership issue can be sensitive between foreign SMEs and Chinese business partners. Excessive fighting over ownerships will produce risks for future business cooperation. It is therefore advisable to keep revisiting the business models you have in place, and to always sign mutually-agreed contracts on ownership, licensing and other legal tools to support your shared business interests, so that ownership is clearly defined from the start.

For example, if you realise that the software tool you have developed can be used for another business model, to which your Chinese business partner has no relation, you may need to carefully craft the agreement in a way that will allow you the freedom to use the technology in other fields. Failure to do this will likely lead to disputes in the future.

Secure your licenses

An IP licence is a contract to permit where, when, and how your IP can be used by another party, for free, for royalties, or in exchange for other services. In most R&D contracts, licensing is a key aspect. The greater leverage the business partner in China has in terms of knowledge about the market and execution ability, the more consideration is likely to be given to licensing options.

In practice, licensing is probably one of the most important legal tools that SMEs often overlook. Part of the reason is that SMEs are not always confident about the effectiveness and enforceability of the contracts they enter into with Chinese partners. For example, people may be afraid of unfair court rulings and difficulties with the enforcement of judgments.

While such considerations may be justified in some cases, SMEs should not overlook the importance of using contracts, as the lack of an agreement in writing will inevitably lead to disaster. Licensing options for IP should be well thought out prior to negotiations.

In China common types of licences, such as exclusive and non-exclusive licences, are permitted. The laws and regulations are designed to give a large amount of autonomy for the parties to decide what to do with their IP licences. Parties can negotiate and reach a mutual agreement on the following key terms:

- *Territory of the licence*: Does the licence cover China or is it applicable worldwide? Is it better to have a licence that covers a certain specified geographical area in China?
- *Duration of the licence*: When does the licence expire? How should it be renewed? Can the licence be terminated under certain clearly-defined circumstances?
- *Licensed IP*: Are you only going to license your patents? What about copyrights and trademarks? How about less familiar types of IP such as graphical user interfaces, sensitive client information or special skills? Some innovations may not be fully protected by the patent, trademark or copyright laws, but you may use the contract to protect yourself.
- *Licensed products covered by the licence*: You need to clearly define what types of products/services are covered by the licence.
- *Royalties*: You can choose a lump-sum payment, running royalties or even operate royalty free for a certain period of time and then start charging. Issues like tax and auditing should be addressed as well.
- *Limitations of the licence*: Do you have to give warranty or indemnify everything requested by your Chinese partner? Think of ways to limit your exposure to liabilities.
- *Other key terms*: Every licence is different; do not imagine that one template can fit all your needs. Work with your counsel, think about your business interests and come up with mutual agreements with your business partners.

Important note: In the context of joint IP development, keep in mind that Chinese laws do not allow foreign companies to retain ownership of improvements that are made by Chinese parties, unless the Chinese parties are being remunerated in some way for these inventions. This remuneration could be in the form of cash, shared profits, equity interest, or other types of property rights.

Chinese laws also require the foreign company providing the technologies to authorise the quality and usefulness of the technologies, and to bear the liabilities if the technologies turn out to have infringed others' legal rights. Therefore, through discussions, European SMEs and their Chinese business partners should decide on fair and workable solutions before proceeding with a deal.

Take-away messages

- Your first step should be to review your business strategy, and ask yourself the following questions: who are you doing the deal with, what is the potential of your technologies under the R&D, what are the worst case scenarios?
- IP ownership and IP licensing are probably the most important considerations in structuring your R&D agreement. In particular, the licensing options may offer you a great deal of flexibility to fulfil the business interest for both sides and avoid potential conflicts between parties.

In part two of this study we will describe the steps required for building valuable IP portfolios and feature a business case study.

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

European Commission

CHINA IPR
SME HELPDESK

INVESTING IN HEALTH

As public hospitals continue to prevail as the dominant healthcare providers in China an increasing burden is placed on the government in terms of funding and administration. Facilities exceeding capacity have led to increasing numbers of complaints from patients who are not getting adequate access to healthcare services. Reforms to the public healthcare system are urgently required.

Eric Yan and **Helen Chen** from **L.E.K. Consulting** say that the Chinese Government has already started to take some measures by further opening up the healthcare sector to allow increased foreign investment to flow in. Below they discuss some of the options that are available to potential investors.

In March 2013, the Shanghai Government issued *The Implementation Suggestions on Further Development of the City's Social Medical Institutions* (Article 28), which expressed unprecedented support to privately-funded medical institutions. Article 28 not only includes and prioritises private medical institutions in regional healthcare system planning, it also provides substantial support in finance, land, tax, registration processes for physicians, and medical insurance, providing significant incentives for those looking to get involved in the private healthcare sector.

"As the only municipality among the 16 selected cities piloting the public hospital reform, Shanghai's policy move is particularly noteworthy since it may set the direction of the national reform for economically developed cities in the future", says Ms Li, a member of United Family Healthcare's senior management team who has over 10 years' experience in managing foreign/joint venture (JV) hospitals in China.

Their vision is to keep public hospitals as the providers of basic healthcare needs and supplement this with a privately-invested healthcare system that offers advanced and specialised healthcare services. Private healthcare providers are already receiving considerable policy support from the government to facilitate their development.

Does this mean the time is right for investing in this sector? How should investors or hospital management evaluate the potential opportunities and risks?

Investors can consider two basic models for market entry and later expansion (see Table 1): set up a hospital from scratch and then expand it into chains, or acquire existing hospitals. Each model has its own pros and cons and both have been analysed and accepted by different investors.

In addition there is a third model — hospital trusteeship — whereby organisations manage but don't own the hospital. This model is recognised by some large hospital management groups, such as United Family Healthcare, as an additional pathway to expand.

Based on our analysis of many hospital expansion cases, we have found that Parkway Health and Phoenix Health, two representatives of foreign and domestic healthcare management groups, both have very flexible expansion strategies and actually employ all three of these models concurrently to quickly expand their businesses in China.

Hospital models for establishment and expansion (Table1)

	Build from scratch	Acquisition	Trusteeship
Advantage	• Universal brand and standardised operation models are easy to manage and replicate.	• Fast entry and expansion through acquiring existing assets	• Asset-light strategy with lower resource requirements such as labour and capital.
Disadvantage	• The process of establishing the very first hospital, standardising operation models and expanding through self-replication could take a very long time and require significant resources, such as labour and capital.	• Difficult to evaluate target hospital and to integrate its business post transaction. • More difficult to form a universal brand and manage affiliates at a high standard. • Higher capital requirement.	• Managing hospitals based on contracts without owning them may bring potential uncertainties. • The managing party only receives a portion of hospital income as service revenue from the hospital owner.
Examples	• United Family Healthcare • Parkway Health • Amcare • CHC Healthcare • Phoenix Medical	• Parkway Health • Phoenix Medical • Asia Pacific Medical Group (APMG) • Fosun and other comprehensive healthcare groups • Sinophi Healthcare	• United Family Healthcare • Parkway Health • Phoenix Medical

Source: Company websites, L.E.K. interviews and analysis

Selecting the right business model and deciding which therapeutic area (TA) to focus on is another key concern for potential investors. Should they choose to invest in clinics, hospitals or rehabilitation centres? Should they focus on general healthcare or specialise? Different types of hospitals could vary significantly in terms of entry barriers, investment requirements, management challenges and financial return.

When making decisions, new entrants should carefully consider these factors and choose the most appropriate business model and TA focus (Table 2).

Hospital business model and therapeutic area (Table 2)

Business model / Therapeutic area	Clinic	Hospital	Rehabilitation centre
General	Supplementary to hospitals. • United Family Healthcare • Parkway Health	• United Family Healthcare • Parkway Health • Shanghai International Medical Centre (Under Construction)	In the early stages of development. Most are still under construction.
Speciality – high entry barrier (oncology, cardiovascular etc)	Limited demand.	• Concord Medical Services* • Wuhan Asia Heart Hospital • Tianjin Jiexi Oncology Hospital (under construction) • Delta Health ** (under construction)	
Speciality – low entry barrier (ophthalmology, dentistry etc)	• Arrail Dental Clinic	• Aier Eye Hospital	Limited demand.

Note: * Oncology; ** Cardiovascular Source: L.E.K. analysis

In addition, investors should also think thoroughly about how to position the hospital and which patient group to target — the high-end *niche* segment or the mid- to low-end mass segment. Foreign or JV hospitals are usually different to domestic private hospitals in market positioning and model of operation, which can produce very different results in financial return (Table 3).

In interviews with domestic, private hospital management, we found that some organisations are displaying an increasing desire to gain some share in the high-end segment. An example of this is the Hai'an Haibei Hospital, a domestic private hospital in Hai'an city, Jiangsu province.

"We hope to establish a partnership with someone that can bring external experts so that we could offer premium medical treatment with high-quality services to high-net-worth patients. They have lots of money, so as long as the physicians and services are good they should be willing to come to our hospital," says Mr Jiang, the owner of Hai'an Haibei Hospital.

Hospital target patient and operation models (Table 3)

	Foreign (or Sino-foreign JV)	Domestic private hospital
Target patient	• Expats and affluent people • Middle class (new target patient group)	• Generally low-income people
Operation model	• High-quality medical services • Not covered by public medical insurance programmes • Collaboration with private medical insurance programmes	• Ordinary medical services • Some hospitals are covered by public medical insurance recently
Example	• United Family Healthcare • Parkway Health • Amcare	• Many domestic private hospitals

Source: L.E.K. analysis

Under China's current policy and regulations, the profit model of a hospital is another key factor that hospital investors need to consider— for-profit or non-profit? The biggest difference between these two models is the way in which they are able collect financial returns.

In principle, investors in non-profit hospitals are not allowed to receive any financial return directly from hospital operations. However, extracting profit from special 'grey area' arrangements is already a well-known latent rule in the industry. These two models also differ widely in operating cost and tax policy.

The advantages of the for-profit model are that financial returns can be received directly and they are flexible in operation; the disadvantages are the high operating costs and that income tax needs to be paid. The advantages of the non-for-profit model are lower operating costs and taxes, and it is easier for them to be included in the public medical insurance scheme; the disadvantage is that there are potential risks in the way that financial returns can be gained.

Our analysis shows that different investors also have dissimilar views when considering this factor. Wuhan Asia Heart Hospital converted from a for-profit model to a non-profit one in 2006, while Fosun required the Suqian Zhongwu Hospital to convert its model from non-profit to for-profit as a prerequisite in its acquisition of the latter.

Investment in hospitals in China is just starting to gather pace and is a sector equally full of opportunities and challenges. Investors and hotel management groups need to carefully consider all the above-mentioned factors and select the most appropriate business model so as to maximise returns and minimise the risks. Eb

***L.E.K. Consulting** is a global management consulting firm that uses deep industry expertise and analytical rigour to help clients solve their most critical business problems. Founded more than 30 years ago, L.E.K. employs more than 1,000 professionals in 22 offices across Europe, the Americas and Asia-Pacific. L.E.K. has been on the ground serving clients in China since 1998.*

L.E.K. advises and supports global companies that are leaders in their industries — including the largest private and public sector organisations, private equity firms and emerging entrepreneurial businesses. L.E.K. helps business leaders consistently make better decisions, deliver improved business performance and create greater shareholder returns. For more information, please go to www.lek.com.

BRIDGING THE TALENT GAP

Christophe Gamet, HR Director, L'Oreal China

Dan Zhu, board member of the Chamber's Shanghai Chapter and Chair of the Shanghai HR Working Group, talks to **Christophe Gamet**, HR Director for **L'Oreal China** about the challenge of recruiting in China. Gamet explains that by implementing global standards for their talent management strategy they maintain an advantage in attracting the best Chinese talent, both at home and abroad.

Dan ZHU (DZ): What sets L'Oreal apart from other multinational companies in terms of talent strategy?

Christophe Gamet (CG): L'Oreal, like all other multinational or local companies, is facing a battle for talent in the Chinese market. Being a world leader in the beauty industry, and driven by very ambitious objectives, we must set up a first-class talent strategy to fulfil our business needs and to prepare the future Chinese leaders who will direct our company.

The first priority is to retain and develop our internal talent, giving them opportunities to grow and accept responsibilities early on. 'Take a bet on people and promote them' is our philosophy. We conduct systematic talent review meetings with all top managers in order to identify all talent within the organisation.

The second priority is to enrich our pool of talent through external acquisitions. We have completely transformed the way we identify strong potential candidates for the group throughout the world. We are able to identify and recruit talent without boundaries thanks to our network of talent managers. For instance, last year we piloted a new programme called 'Sourcing Chinese Talents Abroad' between our HR teams in China and the USA, to identify and recruit Chinese candidates from the best American universities.

DZ: What does L'Oreal expect from its talent?

CG: We acknowledge the complexity of the world, the global and the local. Our ability to make decisions and take action in an increasingly complex environment, by evaluating both rational and emotional facets, is what we call being a 'poet and a peasant'. We are looking for people capable of combining both dimensions, but they also need to have vision, ambition, judgment, leadership, drive… and passion!

By our definition, a talent is someone who combines a high level of performance in his/her job and the potential to grow by at least two positions in the next years.

DZ: What are L'Oreal's plans (in talent management) for building China into your largest global market?

CG: We have a clear strategy for our business growth and priorities, and our talent management strategy closely follows this ambition and vision.

Based on our overall business plan, we estimate the volume and types of key positions required by the organisation over the next few years. We also identify individuals from our existing talent pool who are capable of growing and filling positions. When there is a talent gap, we anticipate it and fill it through internal mobility or external acquisitions.

In terms of talent acquisition our priority is to hire and prepare the Chinese business leaders of tomorrow. They need to be equipped with the criteria and qualities already mentioned. Often, we don't make an offer focused specifically on a vacant position, instead preferring to share a vision and ambition in terms of career development, and a new professional adventure with a mid- to long-term perspective. This is also an effective way of assessing the entrepreneurial spirit of the candidates.

DZ: How do you aim to develop and groom your local Chinese talents into leaders with a global view? In China we are now facing a severe talent shortage at managerial and executive levels, what can you do to improve this situation?

CG: Within the L'Oreal group, we created the role of Talent Directors in all the strategic regions or countries: USA, Latin America, Middle East & Africa, Asia Pacific and recently we created one in China. The key mission of the Talent Directors is to globalise our talent management approach through the mobility, development, scouting and recruitment of talent.

Exchanging talents between emerging and mature markets, or within regions, can also be an ideal opportunity to groom high potential and prepare strong leaders for the future. It can also test an individual's ability to perform outside of their comfort zone, evolve their leadership and influencing skills, develop human sensitivity and improve their ability to manage complex situations.

Lastly, when universalising our recruitment activities, we initiated partnerships with other countries with the aim of recruiting Chinese in those markets, grooming them for a few years, before bringing them back so they can contribute to the growth of L'Oreal China. This is a good way of promoting diversity and multiculturalism within the organisation. Eb

SEIZING THE MARKET FOR CHILDCARE PRODUCTS

Foreign manufacturers of childcare products could find increasing opportunities in the Chinese market. According to **Adil Husain** and **Jade Zhu** of **Emerging Asia Group**, rising middle-class incomes and an increased awareness of product safety issues in China have spurred a preference and demand for high-quality and safe children's products beyond infant formula. Parents are looking to foreign brands as reliable alternatives across the whole range of children's products.

China's Ministry of Statistics has estimated that 90 million babies will be born between 2011 and 2015, making China the world's second largest consumer market (after the United States) for infant and children's goods. In addition to market size, willingness to spend on offspring is a recognised trait of the Chinese household. The China Chain Store & Franchise Association reported that Chinese households spent roughly CNY 5 trillion in the under-12 market in 2012, with spending expected to grow at an annual rate of 15 per cent and surpass CNY 2 trillion by 2015.

Exploring Online Channels

Demand for convenient, safe and affordable children's products has seen an increase in online presence of juvenile product providers on Chinese ecommerce websites. With sales on Tmall.com and Taobao.com together exceeding CNY 1 trillion in 2012, establishing a web-based marketing and retail presence has become crucial in reaching the Chinese mass consumer market. The number of Chinese online shoppers reached 250 million, in 2012.

The market for children's products is still a "sunrise industry," according to Sophia Zhuang, Investor Relations Director at Goodbaby, a leading Chinese manufacturer of child-care accessories. "Though 15 million babies are born in China every year, only around five million strollers are sold in the country, roughly one third of the potential market. Car seat penetration is even lower, at less than one per cent," Zhuang says.

Strong interest in providing the best head start for children is manifested in online consumer discussions on China's parenting websites. Babytree.com, a platform that markets itself as Facebook for parents, receives between 27 and 30 million unique visitors per month according to its CEO Allen Wang.

Marketing through these wide-reaching platforms can quickly provide foreign brands access to a large potential customer base. Babytree.com sends out roughly 100,000 packages with samples from about half a dozen rotating brands each month.

Foreign brands typically test the waters by working with individual vendors and smaller stores on the consumer-to-consumer (C2C) website Taobao.com.

Once brands have scale they can transition to Tmall.com, the business-to-consumer (B2C) spin-off from Taobao.com. Tmall.com has drawn international brands such as Germany's Nuk and Danish toy icon Lego to its platform. The sales data of Taobao.com and Tmall.com demonstrates growing demand for foreign goods among their 500 million registered users.

Drawing Customers to Physical Stores

Experiencing products in person is preferable for juvenile durables, such as strollers and car seats, meaning physical retail presence remains a necessity. As Chinese customers display a healthy scepticism towards the actual origin and authenticity of goods sold through Taobao.com and its rivals, physical stores are ideal channels for discerning parents looking for high-end, premium children's goods. "The post-80s generation customer relies on the internet for information, but when it comes to juvenile durables, real life experience is vital before making a purchase," Goodbaby's Zhuang says.

Brick-and-mortar shops, such as the Shanghai-based chain Lollipop, tend to be narrower in their merchandising selection than online stores due to the limitations of shelf space, lending a more high-end image as well as an increased perception of credibility and quality assurance. A speciality children's store might focus on only two to four products in each category, selling only top-of-the-range items. "We stock Bugaboo and Stokke strollers, as these are amongst the most high-end strollers on the market," says Wendy Krueger, co-owner of Lollipop. She says the customer mix at physical stores in central locations and high-end malls tends to be affluent, educated, and impulsive in their shopping habits.

Consequently, although success in the mass market requires competitive pricing for online stores, high-end products are more likely to sell through physical outlets where customers are less price-sensitive.

A question of authenticity

For many Chinese consumers, there is a perception that products imported from the United States and European Union have higher quality and safety due to stricter product safety standards.

"The Chinese consumer responds to EU certification seals on products and marketing," says James Feldkamp, co-founder and CEO of Mingjian.cn, a consumer website offering independent, expert comparative tests, product ratings and safety news for Chinese consumers. "If manufacturers can provide products of consistently high quality and safety across global markets and clearly communicate their value proposition, that will prove very powerful and valuable to the Chinese consumer," he says.

However, any foreign brand with popular and desirable goods must cope with the threat of fake products and consumer scepticism towards product authenticity in China.

"At a major mother-and-baby exhibition in China, I came across products purportedly from an Australian brand that I had never heard of," says Leo Xiang, the founder of online retailer Ever Nurture. "On closer inspection, I learned that the products were entirely Chinese, and the so-called Australian connection was just a ploy to confuse Chinese consumers into believing the products were foreign. Actually, everything was designed and made in China."

Successful entry into China's childcare products market depends largely on the pace at which consumers' trust can be earned; it is not simply about selling a brand with foreign origins. Foreign brands must optimise the price point for the specific channels used to sell products and target the appropriate customers accordingly.

Marketing strategies must also establish transparency and direct communication with consumers to prove value proposition. Ultimately, however, brands must create a safe product that meets or exceeds the highest international standards. Eb

Adil Husain *is the President of* **Emerging Asia Group** *and* **Jade Zhu** *is a Consultant at the firm. Emerging Asia is a market intelligence and M&A advisory firm headquartered in Shanghai with a strong practice in specialty consumer products.*

HEFEI: EMERGING DESTINATION FOR FOREIGN INVESTMENT

Hefei plays an important role in linking central China's coastal regions due to its convenient location located between the Yangtze and the Huaihe Rivers. In addition to its proximity to these rivers, Hefei is easily accessible by air, rail and metro which effectively make it a centrally-located, commercial hub.

Alex Tangkilisan and **Kassia Halcli** from **Dezan Shira & Associates** take a look at this city that is fast becoming one of China's most sought after destinations for foreign investment.

Dubbed the 'City of Science and Education' due to its more than 200 universities and research centres/labs scattered throughout the city, Hefei is the capital of the Anhui province in Eastern China.

The city itself has five counties and four districts under its jurisdiction, and has a population of over 7.52 million. It is also serves as the political, economic and cultural hub of the province, and houses an administrative area covering 4,372 square miles.

In 2012, Anhui Province recorded a total gross domestic product (GDP) of over CNY 1.72 trillion, of which Hefei's GDP totalled CNY 416 billion — a 24.2 per cent year-on-year increase — placing it first among the cities in the province.

Economic Overview

Hefei is a comprehensive manufacturing-based industrial city, and the manufacturers located there are capable of producing everything from electrical appliances and daily-use chemical products to specialised automobiles such as forklift trucks.

In addition to manufacturing, the city's economy is founded on the following key industries:

- Automobiles
- Home appliances
- Chemicals
- New materials
- Information technology (IT)
- Biopharmaceuticals
- Food processing

The combined value of the above industries plus manufacturing in 2012 amounted to CNY 76.2 billion, up 28.5 per cent year-on-year.

The services sector also plays a vital role in Hefei's economic development, with the service industry accounting for 39.2 per cent of its GDP in 2011. Tourism — which racked up close to CNY 40 billion in 2011 — accounts for a major proportion of the services sector's revenues, and close to 45 million foreign and domestic tourists visit popular destinations such as Xiaoyaojin Park, Huangshan Scenic Area and Chaohu Lake annually.

Investment and Opportunities

As the most developed city in Anhui province, Hefei already receives a reasonable amount of foreign investment. Foreign direct investment (FDI) to Hefei rose 16.2 per cent year-on-year to USD 1.81 billion in 2011, and another 66 new foreign-funded enterprises were set up that year as well.

Further, the city was named the world's fastest growing metropolitan economy by *The Economist* in 2012, due to its abundant human resources, low comprehensive business costs, broad market prospects and strategic economic development position.

Total foreign trade in 2011 equalled USD 12.31 billion — up 20.9 per cent year-on-year — of which exports totalled USD 5.82 billion, up 34 per cent year-on-year.

In addition, nearly 3,000 enterprises from over 58 countries and regions, including 34 overseas Fortune 500 enterprises — which include Mitsubishi, Walmart and Unilever — have already invested in the city, showing not only the ease of investing in the city but also the city's considerable clout as an investment hub.

The city also maintains trade ties with over 180 countries and regions.

Transportation

Hefei's transportation infrastructure has been a recent popular target for investment with the city's first rapid transit system, the Hefei Subway, currently under construction after obtaining National Development and Reform Commission (NDRC) approval in 2010. It is expected to be finished by 2015.

Hefei Xinqiao International Airport, located in Gaoliu Village, replaced the old Hefei Luogang International Airport after it opened its doors in May this year. The airport provides scheduled passenger services to major airports in China and abroad, including Hong Kong, Macau, Taipei (Taoyuan and Sung Shan), Kaohsiung, Seoul, Jeju, Singapore, Osaka and Bangkok.

The city also houses the Huainan railway line, which joins the Jinghu (Beijing–Shanghai) and Longhai (Lanzhou–Lianyungang) lines at Bengbu. The railway also connects to the Wan'gan (Bengbu–Yingtan), Ningwu (Nanjing–Wuhu) and Xuanhang (Xuanzhou–Hangzhou) lines at Wuhu. Further, the planned Ningxi (Nanjing–Xi'an) line will also run through Hefei, making a total of three national railway lines running through the city.

With the city also being well connected to China's major metro centres in Beijing, Shanghai and Guangzhou, and with Hong Kong only two hours away by plane, Hefei is poised for further growth and additional investment.

Development Zones

Hefei has the following two major state-level development zones that act as investment hotspots:

- The Economic & Technological Development Area (which covers 66 square kilometres).
- The High-tech Industrial Development Zone (which covers 18.5 square kilometres).

The primary industries in the Economic & Technological Development Area are household electronics, automobiles, equipment manufacturing, chemical engineering, and food processing — which brought in CNY 37.97 billion in 2009.

The primary industries in the High-tech Industrial Development Zone are IT, bioengineering, medicine, new materials, advanced machinery and optical mechanical electronic integration — which brought in CNY 13.3 billion in 2010.

With its sprawling catalogue of industries and supporting facilities, Hefei will continue to develop at a high speed to remain one of China's most sought after foreign investment destinations. Eb

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

The Business Women in China Forum, Shanghai

BUSINESS WOMEN IN CHINA FORUM – A WOMEN'S WORLD, A BETTER WORLD?

In May 2013, several events were organised in China to debate the role of women in business today. The European Union Chamber of Commerce in China, in cooperation with the French Chamber of Commerce in China, hosted the Business Women in China Forum in the cities of Guangzhou (17th May), Shanghai (20th May) and Beijing (22nd May). This series of events was sponsored by Mazars, an international accounting and consulting organisation.

The Business Women in China Forum, PRD

For her book *A Women's World, a Better World?* Muriel de Saint Sauveur, Mazars' Group Diversity Director, asked 100 women from 33 different countries how they would change the world if they had the power.

"They want to focus on education, as change in society must be based on the fundamentals of education. They are recommending that we stop creating a gap between economic principles and human values. They know that we can feed the world but we don't focus on distribution. They want a successful career and a new male-female harmony," Sauveur summarises from the responses she received.

Guangzhou

Francine Hadjisotiriou, General Manager of the European Chamber's PRD Chapter, moderated the debate with Muriel de Saint Sauveur, Carmen Cano, Deputy Head of the EU Delegation to China, Danny Hong, Deputy General Manager of BASF Polyurethane, and Qianting Ke, Associate Professor at Sun Yat-Sen University. One of the key issues that emerged is that stereotypes, discrimination and social pressures remain very real issues for women in China, due to the burden of the multiple roles and responsibilities a woman has to take.

Shanghai

The Shanghai panel was composed of Anna Viktoria Li, Swedish Consul General in Shanghai, Joanna Wood, Founder and Managing Partner at Capital Eight, Shiyin Cai, Founder and CEO of Dialogue in the Dark Social Enterprise and Muriel de Saint Sauveur. The discussion was moderated by Ioana Kraft, General Manager of the European Chamber's Shanghai Chapter. A point was raised that Nordic countries are well ahead in social policies and have established models where it is easier to reach a work life balance when parental leave is compulsory, an issue that is currently on the agenda of the French Government.

Beijing

Jaspal Channa, General Manager of the European Chamber in Beijing, moderated an inspiring discussion between Sylvie Bermann, French Ambassador in China, Qingqing Wang, Chief Representative at Société Générale Insurance, Teresa Woodland, Founding principal of WuDeLan Partners and Muriel de Saint Sauveur. It was made clear in this forum that women today want to have both a blossoming personal life and an ambitious professional career.

The conclusion of this series of events is that both men and women clearly need to change their mindset in order to enable revolution in a world aspiring to balance and harmony. Eb

***Mazars** is an international, integrated and independent audit and advisory organisation endorsed by the French Embassy as well as the French Consulates in Shanghai and Guangzhou. It values diversity and is committed to contributing to social debates in the 71 countries where it is present. The book* A women's world, a better world? *is a major initiative which aims to raise awareness about the empowerment of women by generating debates across the five continents.*

An international survey on Generation Y and its relationship with business and gender equality was launched last year, Mazars is now conducting a new international survey which will focus on men from Generations Y and X, to understand how they feel in this new world where women are more and more empowered.

To order a copy of the book (available in Chinese, French, English and Russian), please send an e-mail to dany.sok@mazars.hk. For more information about Mazars, please visit www.mazars.cn.

EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER

2013 Human Capital Conference: Unlocking Innovation (1)

On 7th June the European Union Chamber of Commerce in China held its second annual Human Capital Conference at the Four Seasons Hotel. The conference, entitled Unlocking Innovation, provided dialogue and recommendations from top business leaders and innovation and human capital experts.

China Goes Global with David Shambaugh & James Miles (2)

On 2nd July the European Chamber's Beijing Chapter invited Professor Davide Shambaugh, Professor of Political Science and International Affairs and Director of the China Policy Programme at George Washington University, to present his newly published book *China Goes Global: the Partial Power*. The event, moderated by James Miles, Bureau Chief of *The Economist* in Beijing, had more than 60 participants.

The China Greentech Report 2013: China at a Crossroads (3)

In cooperation with the China Greentech Initiative (CGTI), the Chamber's Beijing Chapter hosted a presentation by Alan Beebe, CGTI Managing Director, who delivered the findings of the annual China Greentech Report on 6th June. The event included a panel discussion with Jose Martos, General Manager of Saint-Gobain Weber China, Fabien Nilsson, Director of Open Innovation Asia at EDF, and Dr Xavier Chen, Vice President, BP China, and was attended by more than 60 participants.

SHANGHAI CHAPTER

Protection of intellectual property during the design, procurement, construction and operation of new production or R&D facilities in China (1)

A half-day conference shared experiences and best practices about these sensitive topics with a highly practical spin. Christine Yiu, Bird & Bird, Anthony C. Chen, Jones Day and Neil Marshall, Hill & Associates (PRC) Ltd, focused on legal issues as well as information security while Oliver Lutze, Bayer China, Michael Maeder, Ward Howell International, and Elliot Papageorgiou, Rouse, presented new developments in HR-related topics. Pascal Metivier, Chair of the R&D Forum, led the conference which was sponsored by Hill & Associates and supported by Jones Day as venue and catering sponsor.

M&A Conference (2)

The European Chamber held its third M&A conference providing an update on mergers and acquisitions in China. The conference welcomed Antoine de la Gatinais, Managing Partner of Shanghai Office, Gide Loyrette Nouel, Thorsten Zwiener, Partner, KPMG Advisory (China) Ltd, Miao Huang, General Manager, Envitool (Shanghai) Management Consulting Co Ltd, Adelene Wee, Vice President, Fraud Prevention & Integrity Risk, Hill & Associates Ltd, Jerel Bonner, International Consultant, MTI Management Consulting (Beijing) Co Ltd, and Graham Wladimiroff, Asia General Counsel, Akzo Nobel. The event was sponsored by Gide Loyrette Nouel.

Insight China (3)

On 25th June, three renowned academics presented their views on China's Demographic Time Bomb. Dr Wang Feng, Senior Fellow at the Brookings Institution and Director of the Brookings-Tsinghua Centre for Public Policy in Beijing, Professor Cai Yong, Carolina Population Centre, University of North Carolina, and Professor Harry X. Wu, Director of Economic Research at The Conference Board China Centre, and Professor of Economics at the Institute of Economic Research at Hitotsubashi University, gave an update on China's population development and its implication on labour force growth, the consumer market, innovation and public spending.

SOUTHWEST CHAPTER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European Networking (1)
On 31st May, the European Chamber Southwest Chapter, UFE (FRENCH ABROAD ASSOCIATION) and Club France Chengdu co-organised the Chengdu – European Networking event at Viavia restaurant in Chengdu. Representatives from all the three organisations gave speeches to over 150 attendees.

Bon Voyage Party (2)
On the 9th of June, 2013, the European Chamber, British Chamber and the American Chamber organised the first InterChamber Summer Mixer supported by Maxxelli and Chongqing International Women's Group at the Cotton Club. About 120 participants enjoyed free-flow of drinks, good music and networking in a relaxed environment.

European Chamber VIP Networking Dinner (3)
European Chamber Southwest Chapter held the June VIP Networking Dinner on 18th June, 2013, at the Dorsett Grand Hotel Chengdu. Ms Wu Yanxiang, Director of Sichuan Investment Promotion Bureau introduced the investment environment of Sichuan Province and its five major economic zones.

VAT Reform Seminar (4)
The European Chamber Southwest Chapter held a seminar on Value-added Tax Reform on 20th June, 2013. Anthony Chau, Partner (Tax) of KPMG China, introduced China's VAT systems, compared the current and future situations, and shared his insights on how to effectively manage China's VAT reforms.

IPR Forum (5)
The European Chamber Southwest Chapter, together with Zhong Lun Law Firm, held the Intellectual Property Rights Forum on 21st June, 2013. Ms Cheng Fang, Ms Zhang Haixiao and Mr Wang Yonghong, all partners of Zhong Lun Law Firm, gave presentations on protection of trade secrets and IPR, and shared useful cases on how to deal with intellectual property litigation.

PRD CHAPTER


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BCS
On 19th June, the Business Confidence Survey – PRD Launch was held at the Sofitel Royal Lagoon Hotel. More than 50 senior executives from Chamber member companies attended this event.

Guangzhou International Investment Promotion Awards,
The European Chamber's PRD Chapter was given the award of Best Cooperative Partner by the Guangzhou Government. The award was received by Nong Keqiang, Board Member of the European Chamber's PRD Chapter. The Vice Mayor of Guangzhou, Deputy Director General of the Bureau for Investment Promotion, as well as other provincial government leaders were present to give the award and witness the ceremony. This annual prize, set up by Guangzhou Municipal Board for International Investment (Invest Guangzhou), is given to those who have significantly contributed to the investment promotion works of Guangzhou and effectively driven the development of Guangzhou's foreign-orientated economy.

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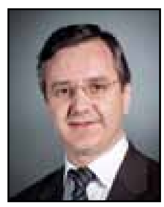
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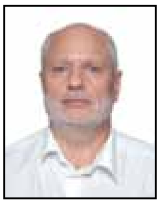
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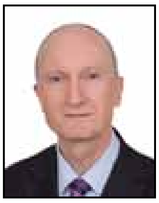
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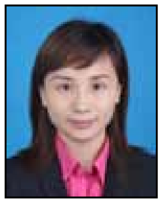
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THE EXECUTIVE INTERVIEW:

Patrick Horgan

Regional Director, Northeast Asia, Rolls-Royce

Initially drawn by his curiosity **Patrick Horgan** first came to work in China in 1989 as a volunteer. He has been continuously dealing with China for the past 24 years, and for most of that time he has been living here too. He joined **Rolls-Royce** two years ago.

For 50 years Rolls-Royce has enjoyed a flourishing relationship with China, and Horgan says that this dynamic looks set to continue. Currently 50-60% of China's wide-body airfleet — a core focus of Rolls-Royce — are powered by Rolls-Royce engines.

What has been the most significant change to the aerospace industry in China that you have witnessed?

The first flight I took in China was in 1989, between Chengdu and Kunming. At one point during the flight a chicken went running down the aisle. It was very clear that many people on the plane that day had never flown before. The development of the aerospace industry in the years since then can be seen as a fair reflection of the wider changes in Chinese society and the Chinese economy. There has been dramatic growth, transformation, modernisation and greatly increased connectivity with the rest of the world. However there is still a lot of growth to look forward to and areas where reform will be required in order to realise the growth potential.

What do you see as being some of the main challenges in China's aerospace industry?

I think the main challenge for China is to manage growth while dealing with human resource constraints and structural impediments.

What has Rolls-Royce's biggest achievement bee in China to date?

Our biggest achievement is the growth and diversification of our business in China since 1963. In addition to our aerospace business, we also have well-established marine, energy and civil nuclear businesses operating in China.

How many different kinds of aircraft does Rolls-Royce supply engines for in China?

Depending how you count, we supply engines for 10-15 different kinds of aircraft in China.

Does Rolls-Royce manufacture in China?

Yes, we manufacture engine components here, both in our joint venture in Xi'an and in a wholly-owned facility, as well as sourcing components from Chinese suppliers.

Are the parts manufactured here just for the Chinese market?

Our manufacturing in China feeds into our global supply chain. Final engine assembly work is mostly in the UK and at our new plant in Singapore.

Does Rolls-Royce have an R&D centre in China?

We have a research project running with the part of the Chinese Academy of Science, but no R&D centre.

Can you tell us about the importance of the Rolls-Royce training centres?

Training is a very important element of our relationship with our airline customers and China's aerospace community and we have been running training programmes continuously for almost twenty years now, providing technical training to over 1,000 Chinese aero engineers and broader management training to more than 800 executives from the airlines, CAAC and others in the sector.

How important is it for Roll-Royce to focus on producing 'cleaner' engines?

Extremely important. In an industry where fuel consumption is a key concern and a major cost factor, working towards cleaner and more efficient power is an over-riding commercial priority. Each year we spend approximately GBP 1 billion on research and development, 75 per cent of which is on initiatives aimed at reducing emissions and improving efficiency. Innovation, to help our customers do more with less, is a key element of our corporate strategy.

Can you tell us more about the other areas Rolls-Royce is involved in in China?

We are active in marine, energy and civil nuclear. In marine we supply a wide range of equipment and services for merchant vessels and specialised vessels for the off-shore oil and gas industry. In energy our equipment is used on China's West-East pipeline and in civil nuclear we have Rolls-Royce Instrumentation and Control equipment installed or on order for 33 nuclear reactors across China.

What are Rolls Royce's future ambitions in China?

There is an exceptionally good fit between our products and services and China's development needs over the next twenty years. Our ambition is simply to work closely and effectively with our Chinese customers and partners to ensure that we realise the full potential of that match in China's demands and our capabilities. Eb

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