Ticker

German Chamber

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URBAN MINING

The Call for Secondary Raw Materials is Getting Louder

Interview with Gerhard Schröder
Former German Chancellor on Sino-German Relationships

Shanghai International Board
Enabling a Gateway to the Shanghai Exchange

Second-Tier Cities
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Mr. Jan Noether

Managing Director
German Chamber of Commerce in China • Shanghai

The Limitless Resource

As we usher in a new year of change and opportunity, we at the Chamber are excited to unveil the new version of the GC Ticker. Sleek, informative, pioneering – the GC Ticker is named German Chamber Ticker now and has been redesigned in pursuit of our purpose: to provide you with the most essential information for your business success in China. Understanding the challenges, strategies and exigencies of our community, therefore, is the sine qua non of our mission.

The Chamber conducted our annual Business Confidence Survey this September in order to identify the business outlook of German firms in China. The results indicate that confidence remains high in the Chinese market as both a production centre and growing consumer base. But changes are underway. Nearly 90% of all companies surveyed consider rising labour costs and high employee turnover to be significant obstacles. Energy efficiency has become a pressing issue as Government power cuts put manufacturing at risk. Over half of the companies indicated that they are not treated equally to Chinese firms. The Chamber seeks to address such issues for our members by providing services, seminars and working groups on the most relevant topics for a world where resource scarcity and keen competition create challenges for all companies.

Indeed, today's global economy is characterized by tremendous competition – for customers, for talent and for resources. China, the embodiment of emerging market dynamism, is intimately connected to all three. As the sole source of 97% of the world's supply of rare earths, the Middle Kingdom is central to the production of a litany of high-tech products from iPhones and electric cars to aerospace equipment and cancer treatments. Germany possesses no natural rare earth reserves. Instead, German companies have resorted to the limitless resource of human ingenuity to mine rare earths domestically. Our cover story for this issue of the GC Ticker investigates the phenomenon of urban mining, whereby innovative companies seek to extract valuable materials from urban waste. Furthermore, this November was marked by a special Green Manufacturing Conference, presided by former Chancellor Gerhard Schröder, which offered strategies for rendering the manufacturing made possible by rare earths and other raw materials environmentally sustainable.

The holidays are a time to celebrate and reflect on the performance of the past twelve months. The German Ball in Shanghai and Beijing, highlights of each region's social calendar in the German community, offered an excellent opportunity to toast friends and colleagues for a successful year; a special German Ball supplement in the GC Ticker allows you to relive the memories. We at the Chamber wish you and your team continued prosperity in the future.

Yours sincerely,

Jan Noether

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CONTENT

Cover Story:
Urban Mining
p. 11

In the Spotlight:
Gerhard Schröder, former German Chancellor
p. 25

Chamber Affairs
Event Highlights in Guangzhou
p. 80

Business

8 China News

Cover Story: Urban Mining
11 Urban Mining
15 Political Framework for Urban Mining
18 Challenges in China's Waste Management

In the Spotlight:
25 Gerhard Schröder, former German Chancellor

Features
28 A Woman's World
30 The Shanghai International Board
34 Brand Development for China
38 A Tale of Two Cities

Regional News

Beijing
40 Member Affairs
46 Chamber Affairs

Shanghai
52 Member Affairs
68 Chamber Affairs
74 A Bridge for Sino-German Relationships

South & Southwest China
76 Member Affairs
80 Chamber Affairs

In Person:
42 Wistowine Wines
54 Linde Forklift Truck
58 effective marketing
62 Kerry Properties
78 TÜV Rheinland

85 About us
86 GCC Boards

New Regulation on Inbound M&As that Affect National Security

China's Ministry of Commerce (MOFCOM) has issued a new regulation, effective 1st September, to tighten scrutiny of inbound mergers and acquisitions in areas deemed to affect national security. "The merger deal should be terminated if it could pose potential risks to national security," MOFCOM said in a statement on its website carried by Global Times. Foreign investors, especially those who use the variable interest entities (VIE) model to skirt tough reviews by registering companies overseas (common in the sensitive but lucrative internet industry), will now be placed under greater scrutiny. The new regulation will mostly affect internet and IT companies, analysts said, but it could also impact investments in other sectors such as media, natural resources, and heavy industries. Experts at state-sponsored institutions said the new regulation would solve a major loophole in inbound M&A activity. On 5th March a separate decree issued by MOFCOM came into force defining when Chinese businesses need to submit foreign investments for review.

Boeing Sees Demand for 5,000 Jets over Next 20 Years

Economic development and rising personal wealth in China over the next 20 years will create demand for 5,000 commercial airplanes valued at USD 600bn, according to Boeing. The travel market will be shaped by strong economic growth, growing trade activity, increasing personal income, as well as continued market liberalisation, Mr. Randy Tinseth, Vice President of Marketing at Boeing Commercial Airplanes, told China Daily. China's gross domestic product will grow an annual rate of 7% for the next 20 years, which will drive growth for air travel at an average of 7.6% annually, Boeing said in its outlook for China's commercial airplane market through 2030. High-speed railway development and higher fuel prices could impact China's aviation market, but the nation's air fleet will still expand in the coming two decades, Boeing said.

China Continues Climb up Competitiveness Ranking

China continues its climb up the global economic ladder, rising one place to 26th on the World Economic Forum's Global Competitiveness Report 2011-2012 ranking. China has moved up the ranking each year since 2005. The country performed well in health and basic education (32nd), business sophistication (37th), and innovation (29th), particularly when considering its level of development, the report said. China fared less well in financial market development and technological readiness, which pulled down its overall competitiveness performance, the report said. The nation outperformed its BRICS peers by some distance, with South Africa, Brazil, and Russia ranking 50th, 53rd, and 66th, respectively. The U.S. continued its three-year decline, falling to 5th, while Switzerland, Singapore, and Sweden topped the ranking. "China's performance improves in most pillars of the GCI [Global Competitiveness Index] and is stable in the remaining ones," the report said.

Alibaba Interested in Yahoo, Chairman Says

Chinese e-commerce giant Alibaba Group has expressed an interest in acquiring one of its largest shareholders, Yahoo, but the talks have become political and investor concerns over the behaviour of Alibaba's Chairman may prevent any deal, Bloomberg reported. Speaking at a Stanford University event recently, Alibaba Chairman Mr. Jack Ma said his company was "very interested" in Yahoo. Talks, however, have snagged over "political issues" rather than financial considerations, he said. "We are very interested in Yahoo because our Alibaba Group is so important to Yahoo, and Yahoo is also very important to us," Mr. Ma said. Yahoo, once a major internet portal and a force in internet search, owns about 40% of Alibaba. Alibaba operates business-to-consumer site Taobao.com and the world's largest sourcing website Alibaba.com. It also owns Alipay, the world's biggest third-party e-payment service by users. It runs Yahoo's China platform and has begun expanding into the search market.

China Retail Sales to Surpass U.S. in 2016, Official Says

China's well-documented consumer boom will push retail sales to over RMB 30tr by the end of the 12th Five-Year Plan in 2015 and surpass sales in the U.S. by 2016, Global Times reported, citing a senior commerce official. Speaking at the 3rd China Commercial Real Estate Annual Forum 2011 in Beijing last week, former Assistant Minister of Commerce Mr. Huang Hai said retail sales in China will hit RMB 30.9bn in 2015. China was one of the few major global economies to post solid growth after the global economic crisis in 2008 and has seen personal spending jump as wages rise and the consumerist lifestyle penetrates deeper. Economic growth and consumer spending have slumped in the U.S. in the meantime. Total retail sales in China grew at an average annual rate of 18%, compared to a mere 0.2% in the U.S. for the same period. Mr. Huang made a similar prediction last September, saying retail spending in China would top RMB 34bn by 2016.

China Studying Ways of Boosting Imports, Official Says

China is studying ways of boosting imports ranging from advanced technologies to consumer goods as it looks to enhance its industrial competitiveness and balance of trade, China Daily reported, citing a senior commerce official. "Officials are studying and launching concrete measures related to tax and procedures to increase imports," Mr. Zhong Shan, Vice Minister of Commerce, said during a keynote speech at the China Import Forum 2011 in Shanghai. According to Mr. Zhong, measures such as preferential tax and finance policies, simplifying and reducing relevant procedures, maturing domestic circulating channels, and promoting trade fairs are being considered. China is looking to import more advanced technology, equipment and parts, as well as resource-related and consumer goods in the next five years, and will make a special effort to ship in more goods from poorer nations and with countries that run large trade deficits with it.

China’s Richest Man to Join Party Leadership

Construction tycoon Mr. Liang Wengen, China's richest man according to Forbes magazine's annual rich list, is rumoured to soon become the first private business owner to join the Communist Party's powerful Central Committee, in a move some state media said is a boon for private enterprise. Mr. Liang, who topped this year’s list with a fortune of USD 9.3bn, could be selected by the Party at its congress next October. The Central Committee of the Communist Party of China is made up of around 300 of the most senior Party members from across the country. State media reports said the body that controls staffing positions in the Party has already completed its examination of Mr. Liang. If elected, Mr. Liang is likely to be an alternate - or reserve – member; alternate members cannot cast votes on policy, but can be promoted to full voting members when an existing one retires or dies. "If Mr. Liang is admitted to the Central Committee this will be a statement of reassurance to the private sector," said Mr. Willy Lam, a China analyst at the Chinese University of Hong Kong. However, some academics have spoken out against Mr. Liang's possible inclusion, warning that capitalism should not penetrate the inner workings of the Party. Rich lists in China are closely examined to find missing names, as many of the country's richest fight to avoid public disclosure of their assets. Several people who have ranked highly on the country’s various rich lists in the past few years have later ended up in jail, typically for financial crimes.

Half of China’s Rich Want to Leave: Report

Rich Chinese are increasingly considering emigrating from China, concerned by their quality of life and financial prospects, Wall Street Journal reported. A survey by Bank of China and the Hurun Report, which publishes the country’s best-known annual rich list, showed more than half of China’s millionaires want to move abroad, with the U.S. the most popular destination. Respondents are worried by high inflation, a real estate bubble, an economic contraction, and other issues. The rich are also concerned about social issues such as China's One-Child Policy, food safety, pollution, corruption, poor schooling, and a weak legal system. According to the survey, there are approximately 960,000 people with "personal assets" of at least RMB 10mn, and 60,000 people with RMB 100mn or more.

State Control Limits Foreign Participation in China's Economy: Report

Enterprises under various forms of state ownership control 50% of China’s economy, and the Government's efforts to build “national champions” in key industries could limit the participation of foreign companies, Reuters reported, citing a US research report. "The current economic direction of China is 'commanding heights' state capitalism, with the Chinese Government picking the winning industries of tomorrow and developing state-owned national champions that are prominent at home and abroad," said a report conducted for the U.S.-China Economic and Security Review Commission. The state's involvement in the economy guarantees state dominance in certain industries and has a huge impact on economic policy and trade outcomes, the report said. "For some U.S. firms whose participation in China's economy facilitates the Government's goals, China will continue to be a profitable market," the report said. "For others, especially those in strategic and emerging industries that the government is targeting, the Chinese market may become far less hospitable," it warned. “Strategic industries” such a defence, electric power, and telecoms will stay mainly under government control, while “pillar industries” including equipment manufacturing, auto, and chemicals will see state-run firms as major players, the report said. Meanwhile, emerging industries will be the preserve of “national champions”. China’s private sector has developed quickly over the past 30 years and private firms are more productive than state-run ones, the report notes. However, due to a combination of policy and ideological reasons, the state sector will remain dominant even if its share of total output shrinks.

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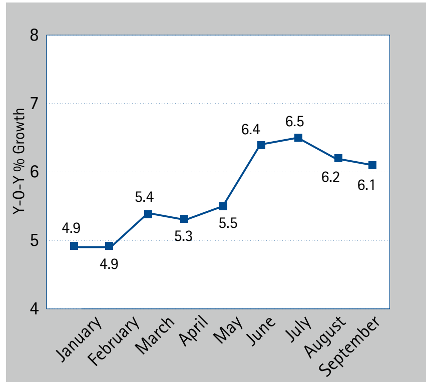
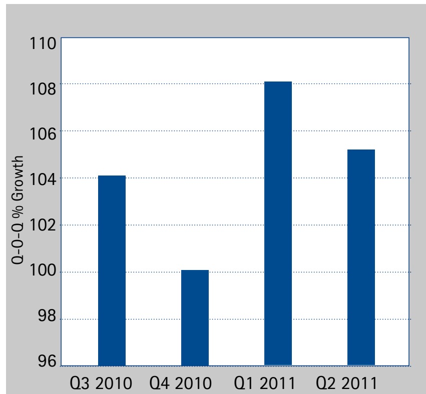
Consumer Price Index 2011



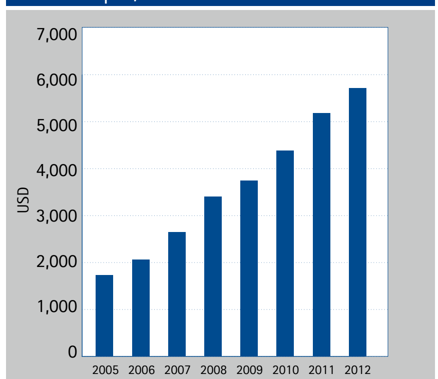
Source: BFC

Consumer Confidence Index



Source: BFC

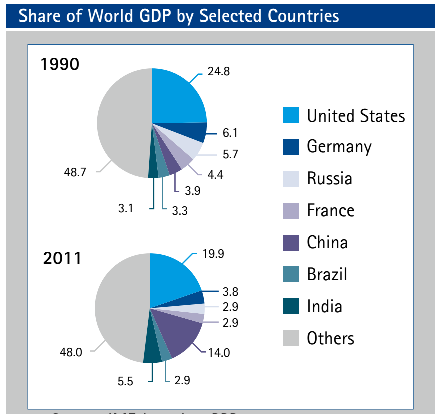
GDP Per Capita, Current Prices



Source: IMF

Note: 2011 and 2012 are IMF estimates

Share of World GDP by Selected Countries



Source: IMF, based on PPP

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Urban Mining

Recycling as a Key to Ensure Raw Material Supply

by SELMA KOEHN

On a yard a metal hill almost 10m high sparkles amidst eight huge warehouses. Next to it lie more than 100 metallic bales ranged next to each with each having a size of 60x60x60cm and weight of 1.5t per piece. And in between several workers take metallic goods back and forth into and out of the warehouses. What they carry is waste, but not just any kind of waste. It's steel scrap made out of items like sinks, pipes, screws, cutlery and cans. They are piled up like a hill and after a certain process end up as metallic bales. This scrap is a significant ingredient for the production of stainless steel and hence, an increasingly important resource of secondary raw materials for the global steel industry. It is not only a cost effective substitute for primary raw materials but saves energy and protects natural resources. Moreover, to recycle steel scrap is far less energy absorbing as well as harmful to the environment than getting primary raw materials through mining.

The scrapyard is owned by a joint venture between Cronimet and a Hong Kong based partner. Cronimet is a German company and worldwide specialist for steel scrap, ferroalloys and primary metals, which collects, analyses, typifies and prepares the material in order to return it to the raw material cycle. Worldwide, the family-run business has supplied the production industry with stainless steel for 30 years. In China, they have just built their first scrapyard, located in the Baoshan Industrial Zone on the outer skirts of Shanghai. It is supposed to be one of the the biggest and most modern of its kind for stainless steel in the country. With 26 employees they cover a yearly volume of 30,000t and sell it to their Chinese suppliers throughout the country. "We are still at the very beginning and see huge potential in the recycling market in China," says Mr. Joachim Pilarsky, Managing Director of Cronimet headquarters. "For instance, all the highrises that are being built now contain a vast amount of steel and in 30-40 years when they are dismantled this steel will then be recycled." The great advantage of steel is that it is 100% recyclable and can be infinetly reused. In fact, it is the world's most recycled material. In 2008, more than 475mn tonnes of steel scrap were globally moved from the waste stream to the recycling stream, which is more than any other recycable material including glass, plastic, paper, coppper, lead or aluminium. Around 34% of all global steel production is made out of recycled material with Germany already producing 47%. Using 1t of steel scrap can save up to 1,400kg of iron and around 400g of coal, which are both essential for the production of steel. Furthermore, 1t of produced steel saves 1.2t of CO_2. If 450mn tonnes of steel were produced from 100% scrap rather than new materials, the total CO_2 savings would be around 634mn tonnes per year. China is already the biggest producer of steel. The reason is that China still concentrates on mining and is the country with the fastest growing construction industry.

Rare Earths

Recycling steel or materials like glass, paper or plastic is not new. Yet the idea of urban mining is. The concept of regarding the whole city as a source to recover materials such as gold, copper, lead and recently rare earths is globally growing. All kinds of waste have become a valuable treasure. Urban mining attempts to deal with raw materials in an intelligent and sustainable way which already starts with the concept of a product. With the increasing demand of new technological innovatiovns and the decreasing supply of some valuable raw materials such as rare earths, deploying secondary raw materials as an alternative to primary raw materials becomes increasingly important. Rare earths are used in TVs, mobile phones, laptops, cars, and energy-saving bulbs and are thel key for even such green technology as wind powered turbines or plug-in hybrid vehicles; for example, 200kg of copper lie in gas, water and heating pipeline as well as steel beams. Every wind turbine contains up to 8t of copper, and for the production of an electric vehicle around 100kg of copper are needed, which is almost double the amount needed for a medium-sized car. In its strategy paper the EU has identified 14 critical metals whose demand could triple by 2030 and which could face supply problems. They are antimony, beryllium, cobalt, fluorite, gallium, germanium, graphite, indium, magnesium, niobium, platinum group metals, rare earths, tantalum and tungsten. Rare earths include yttrium*, scandium*, and the so-called lanthanides (lanthanum, cerium, praseodymium, neodymium, promethium*, samarium, europium, gadolinium*, terbium*, dysprosium*, holmium*, erbium*, thulium*, ytterbium* and lutetium*) and they are divided into light and heavy rare earths due to their chemical aspects. The term rare earths, or rare earth oxides (REO) as they are also called, is actually misleading as they are not rare at all and they can be found in almost all massive rock formations. But because their concentrations range only from ten to a few hundred parts per million by weight, finding them where they can be economically mined and processed represents the main challenge. The deposit of light rare earths is still large. The supply of heavy rare earths is in danger, though. Take, for example, the supply of dysprosium, which is used in wind turbines, next-generation vehicles and mobile phones. Its demand in 2015 may reach 3,000t REO and its supply is only 2,000t REO (Kingsnorth). Additonally, terbium, which is deployed in energy efficient fluorescent light lamps and metal alloys that provide suitable metallic films for the magneto-optic recording of data, will have a demand of 500t REO and its supply will only be 450t REO (Kingsnorth).

Between 2011 and 2015 the global demand for rare earths excluding China will grow from 52,500tpa REO to 75,000tpa REO; in 2020 it could even reach 130,000tpa REO (Kingsnorth). Including China, the global demand could reach up to 300,000tpa REO in 2020. At the moment China already consumes 60% of the global supply. Almost 97% of the world's rare earths are extracted in and controlled by China. The fear of China's control over rare earths is growing due to its quotas and tax policies on rare earths which it continues to deploy. The country has reduced its export quotas from 30,300t in 2010 to 14,500t in 2011 while the demand of the rest-of-the world (ROW) grew from 55,000t in 2010 to 60,000t in 2011. Furthermore, its reserves of heavy rare earths are 30-50mn tonnes REO which might last for only another 15 years. Some German companies already face shortages in the supply of raw materials such as steel, lithium, gallium and rare earths, with prices only rising. In 2010, prices on the metalprice index rose by 45%. "Companies should definitely secure their raw material supply basis," says Mr. Harald Elsner, Geologist at Germany's Federal Institution for Geological Sciences and Raw Materials (BGR). The need for raw materials will no longer merely be covered by primary raw materials. The hunt for global waste has rendered recycling as the most important domestic source of raw materials. This leads to higher prices as well as motivates the political establishment and economy to restructure their strategies in order to guarantee a further supply of raw materials. Consumption is increasing while mining is decreasing. According to the German Federal Institute for Raw Materials, the volume of raw materials imported to Germany grew from EUR 54bn to 120bn between 2000 and 2008. Advanced technologies in particular are absorbing raw materials like a sponge. The more hybrid and e-vehicles that are produced, the more cobalt, rare earth and platin are demanded. Cobalt and platin are extracted in Africa; rare earths in China.

New mine projects are underway in other countries. An ore processing operation at the Mountain Pass Mine in the U.S. is now reprocessing previously mined tailings to extract neodymium from them. Plans are under way to reopen the mine, which has mainly light rare earths but also some heavy rare earths.

E-Waste – Hidden Treasures

One solution to tackle this future bottleneck is to further the recycling field and concentrate on gaining secondary raw materials. Every year around 40mn tonnes of electronic waste is created globally and a huge amount of raw materials gets lost. In Germany, around 800,000t of e-waste is created. Only 96,000t are recycled and around 150,000t exported as secondhand goods to Africa and Asia where they are either partly reused or burned, which negatively impacts the environment. Emerging markets have already recognised the value of e-waste and even developed a niche industry out of it. In China for example, the city of Guiyu has over 5,000 businesses which process discarded electronics and employ over tens of thousands of people running small workshops. The region dismantles around 700,000kg of junked computers, cell phones and other devices a year. Additionally, most e-waste in China is improperly handled, much of it incinerated by backyard recyclers to recover valuable metals like gold. Moreover, the mobile phones and computers which are generated as e-waste during one year in China have a value of 4t of gold, 28t of silver and 6,000t of copper. According to a report from the United Nations Environment Programme (UNEP) named "Recycling - from E-Waste to Resources" which was conducted by the initiative StEP (Solving the E-waste Problem), the gold has a value of EUR 100mn, which is equivalent to the monthly mining revenue of some gold mines. According to the report, China has had almost 2.3mn tonnes of e-waste of which are 500,000t of fridges, 1.3mn tons of TVs and 300,000t worth of computers. The amount of its e-waste is

Worldwide Sales for Mobile Phones (2008)

Sold Mobile Phones: **1.3 bn**
Processed Metal: **approx. 130.000 tons**

Raw Material	Weight per Mobile Phone	Total Weight	Value (in Dollar)
Silver	250 mg	325 t	186 m
Gold	24 mg	31 t	1.1 bn
Palladium	9 mg	12 t	168 m
Copper	9 g	12.000 t	88 m
Cobalt	3.8 g	4.900 t	244 m

Total value of the processed raw materials:
approx. USD 1.8bn
Value of the raw material metals per mobile phone:
approx. USD 1.35
Source: Umicore

now ranked number two after the U.S, which has almost 3mn tonnes of e-waste. Recycling these old products and keeping them in the country would therefore be economically and sustainably a better approach to gain raw materials. Around 20% of cobalt could be taken out of recycling as the concentration of metal in e-waste is much higher than in mines; 1t of ore contains 5g of gold, whereas 1t of old mobile phones bears 200g of gold. Despite that, most mobile phones are still being thrown away. There are around 70,000t of mobile phones in the world, but only 1,000t are being recycled. The report further indicates that raw materials such as gold, silver or palladium are rarely being recycled in Europe, which is a loss of almost EUR 5bn. And estimates show that until 2020 e-waste will increase enormously. For example, in South Africa and China it can be four times that amount, in India five times and in some African countries even eight times the amount. "Germany as all (post-) industrialized nations is confronted with a waste mountain resulting from obsolete electrical and electronic equipment, which is the fastest growing among all waste streams. The biggest challenges associated with this are the limited collection rates meaning that the majority of e-waste generated is still not

**heavy earths*

properly treated. Reasons for this are a lack of consumer awareness and the absence of systems either rewarding the return of equipment or successfully closing the loops e.g. through dematerialization which means purchasing the service and not the product itself," says Dr. Ruediger Kuehr, Executive Secretary United Nations University in Bonn and co-founder of StEP. Since 2003 he and other colleagues from the UN organization as well as original equipment manufacturers are developing a science based but nevertheless applied multi-stakeholder approach in order to attain a better understanding of the quality and quantity of the e-waste problem and based on this pave paths towards possible sustainable solutions. StEP has more than 50 institutional members from all continents which are working in the five Task Forces of Policy, ReDesign, ReUse, ReCycling and Capacity Building, which are considered the priority areas towards possible solutions. Active members of StEP in China are Tsinghua University, the Basel Convention Regional Centre for China, the Chinese Academy of Sciences and a few Chinese companies which currently focus on processing activities from policy related issues, design aspects to reuse and recycling. "There are first indications that substantial capacity building efforts are missing; this still needs to be proven," Dr. Kuehr concludes.

Methods of Recycling Rare Earths

In regards to the innovation of recycling processes of rare earths, Germany is still at the beginning stages. The Fraunhofer IST is planning an EU-funded research project called "Recycling of Rare Earths". Loser Chemie in Saxony is a German company which has already developed a method to recycle some raw materials from waste. It has patented a method which recycles metals like indium, gallium, molybdenum and tellurium from solar photovoltaic panels by dipping them into a special solution of chemicals and then extracting the elements from the residue. None of these metals is classed as a rare earth metal. But Loser is already researching on recycling methods of critical rare earth which were defined by the EU in 2006. So the company believes that a similar technique to recycle energy-saving bulbs promises to be successful. The white powder contained in fluorescent bulbs is a kind of valuable waste. "Although everybody talks about recycling rare earths now, the possibilities are still limited," states Dr. Wolfram Paltizsch, Manager at Loser Chemie. "For instance in regards to green technology and high-tech products, sustainable recycling concepts which guarantee a flawless recycling economy are yet to be defined. Still, the innovative developments of industrialized nations are faster than the recovering methods of raw materials." In the middle of 2011 the Belgian company Umicore developed the first process to recycle rare earths from chargers. Together with the French company Rhodia they 'mined' rare earth elements such as lanthan, neodym and praseodym out of nickel oxide metal hybrid batteries. Furthermore, the Austrian university in Loeben recently found a method to recycle rare earths out of old batteries which contain around seven to ten percent of rare earths. And this is just the beginning. Globally, industries as well as political institutions are responding and are already taking action to face raw materials shortages before its too late. "As it is our key duty to support the German economy to be sustainable in China within the green and high tech industry we, the AHK and its global network, are in a dialogue with German Federal Ministries as well as stakeholders in order to define both suitable solutions to face a possible supply bottleneck of needed raw materials and to further develop the concept of urban mining. Important for further success, is to keep this dialogue especially with the industry constant and effective. Only when you know what is needed can you create the right strategy," concludes Mr. Ingo Schulz, Head of the Department Environmental Services, German Industry & Commerce (AHK Beijing).


GLASS
ALUMIN

Political Framework for Urban Mining

by DR. THOMAS GÄCKLE

"Urban mining" involves the recovery of secondary raw materials from municipal waste and is becoming an increasingly important tool in securing a sustainable supply of raw materials from domestic sources. The German Government's Raw Materials Strategy and the EU's Raw Materials Initiative both call for the increased use of urban mining programmes.

Germany's Raw Materials Strategy lays down key priorities and sets a benchmark for a raw materials policy well beyond Europe. The strategy pursues a coherent approach by pooling a wide variety of related, complementary measures within an overarching initiative. A broad spectrum of actors representing government, business, academia and civil society are involved in its implementation. The strategy is closely linked to European raw materials policy and aims to support EU trade policy priorities such as efforts to combat distortions of competition. Among other things, the strategy places a strong emphasis on boosting recycling efforts.

The policy framework in Germany

Viewed internationally, Germany is a pioneer in the field of recycling. For example, the Packaging Ordinance of 1991 legally implemented the concept of product responsibility by stipulating an obligation to accept the return of used consumer goods packaging. Up until then, household waste collection had generally been the responsibility of municipal governments. With the adoption of the Packaging Ordinance, however, producers and distributors within an entire sector – the packaging industry – were required to come up with strategies to dispose of packaging. In hindsight, it is clear that – despite the justified criticism of the initial monopoly position of Duales System Deutschland (the company in charge of collecting used household packaging) and high recovery costs, particularly for plastic packaging – the Packaging Ordinance has led to a significant increase in the recovery rates of all types of packaging materials. To be precise, the recovery rate rose from approximately 37% in 1991 to just under 82% in 2008, with the highest increases occurring in liquid packaging, plastic packaging and aluminium.

This paradigm shift was broadened and intensified in 1996 with the adoption of the Closed Substance Cycle and Waste Management Act (Kreislaufwirtschafts- und Abfallgesetz), which was designed to foster comprehensive waste prevention and recovery. Among other things, this legislation places a priority on ensuring the most comprehensive and environmentally friendly possible use of the material and energy-related characteristics of respective waste streams. The general requirements stipulated in the Closed Substance Cycle and Waste Management Act are given greater specificity in a series of product responsibility regulations that directly target various waste categories such as packaging, batteries, used electrical appliances and equipment, used vehicles, and waste oil. The Act is currently being revised for the dual purpose of implementing the EU Waste Framework Directive and further strengthening recycling efforts in Germany.

Thanks to this policy framework, Germany has developed a high-performing waste management and recycling sector that provides employment for 157,000 to 250,000 workers (depending on the method of calculation) and takes in annual revenues of EUR 35-50bn. In 2008, the recovery rates for selected key waste streams stood at approximately 88% for construction and demolition waste, 82% for production and commercial waste, 77% for municipal waste, and 66% for hazardous waste. Germany has the highest recycling rates in the world for certain materials, such as copper, with a 54% recycling rate. The recycling rates in Germany for certain selected important raw materials are 35% for aluminium, 59% for lead, 90% for steel, and 20-25% for cobalt. Germany has also achieved impressive rates in the use of secondary raw materials, including 45% for steel, 70% for paper, and all the way up to 94% for glass.

However, current waste management practices make insufficient use of a great variety of materials found in residual household waste that could be re-used as secondary raw materials. According to a recent study, roughly an additional 7kg of metal and plastic containing products per person per year could be recovered and recycled on top of the consumer packaging that is currently recycled as part of Germany's dual waste collection system. On a nation-wide scale, this would mean an increase of approximately 570,000t of recycled materials per year.

For this reason, the Federal Ministry of Economics and Technology supports efforts to harness the potential of urban mining by separating re-usable materials from mixed household waste and recycling them. Given the ongoing rise in raw materials prices, such efforts would deliver not only environmental but also economic benefits.

The policy framework in China

China produces the largest amount of municipal waste of any country in the world. In 2002, China produced approximately 150mn tonnes of household waste. By 2004, this amount had already increased to 190mn tonnes. According to the World Bank, it is a realistic possibility that China's household waste will increase to 480mn tonnes per year by 2030.

The cities of Beijing, Shanghai and Shenyang account for over 10% of China's municipal waste. However, major conurbations such as Beijing are not the only areas affected by this phenomenon: waste management is an urgent issue for rural areas in China as well. For example, there is no regular waste removal in nearly all of China's 600,000 villages. In order to combat this problem, the Chinese Central Government has established a special fund for environmental protection measures in rural areas. Approximately RMB 4bn was allocated to this fund during the past three years, and this total is expected to increase to roughly RMB 9.5bn for the period 2011-2012.

There is another waste category in China that is quite interesting: according to a study by the United Nations, 1,600kg of gold and 630,000kg of copper have gone to waste due to the improper disposal of cell phones in China. This amount is expected to increase four-fold by 2020. These figures show that there are tremendous reserves of reusable materials not only in China's household waste but also in key waste streams such as electronic waste.

China's Circular Economy Promotion Act has been in force since 1st January 2009. Through this legislation, the Chinese Government aims to save resources, foster the efficient use of raw materials, and enhance recycling efforts. This puts China on the right track and will accelerate the build-up of a sustainable waste management sector. These developments also open up good business opportunities for German companies.

Bilateral cooperation

To successfully harness the potential that both countries offer, China's National Development and Reform Commission (NDRC) and Germany's Federal Ministry of Economics and Technology (BMWi) have established a standing working group to promote economic cooperation in the fields of environmental technology and the circular economy. The working group has two central goals. First, it aims to promote the exchange of information and expertise between Germany and China with regard to environmental technology, the circular economy, environmental development, effective policy mechanisms, raw materials, and energy savings. Second, it aims to promote business partnerships between companies that specialise in environmental technology and waste management and to enhance the presence of German and Chinese firms in both countries by supporting the identification and implementation of joint projects.

The working group met for the third time in June 2011 as part of the sixth session of the German-Chinese Forum for Economic and Technical Cooperation, which was co-chaired by Dr. Philipp Rösler, Federal Minister of Economics and Technology, and Mr. Zhang Ping, Chairman of the National Development and Reform Commission. Both events were held within the framework of the first intergovernmental consultations between China and Germany, which took place in Berlin.

The working group meeting sparked tremendous interest and was attended by well over 100 participants. Prominent experts from both countries engaged in in-depth discussions on raw materials and resource efficiency policies in Germany and China. In addition, they examined specific possibilities for cooperating in the areas of environmental technology, waste management, and recycling. Chinese experts outlined the development of China's circular economy following the adoption of the 12th Five-Year Plan guideline and provided an impressive description of the progress that China has made in these areas since the Circular Economy Promotion Act took effect in January 2009. In particular, the potential for urban mining in China sparked great interest among representatives from German industry.

In turn, German experts presented a variety of innovative environmental technologies and products in the fields of waste management, recycling, and water and sewage treatment. Chinese participants showed great interest particularly in the production of alternative fuels from municipal waste, the success story of Germany's "green dot" (Grüner Punkt) programme, automated sorting technologies, and Germany's system for collecting used light bulbs and lighting products. Germany's presentations on plastics recycling and possibilities for cooperation in the water sector also aroused keen interest. Both sides emphasised that intensified cooperation in these key future-oriented sectors is important not only in terms of mutual economic benefits but also in terms of international efforts to tackle global challenges such as climate change, environmental degradation, and energy and resource efficiency.

Conclusion

Investments in recycling and the recovery of secondary raw materials are investments in the future. That's why dialogue, coordination and cooperation between Germany and China is so important – not only for boosting our bilateral economic relations but also for finding solutions to the challenges of our time, such as climate change, environmental pollution, and above all the efficient use of energy and natural resources.

Dr. Thomas Gäckle, Head of IVB Department, Raw Materials Politics, BMWi; Chairman joint Sino-German working group "Environment Technology and Recycling Economy" of BMWi and NDRC

Challenges in China's Waste Management

by JOCHEN TROMMER

The urban population of China is increasing every day due to the movement of rural inhabitants into the cities just as the country's raw material demand is growing rapidly. Experts say that in twenty years China will need 95% of the world's resources in paper and steel. This demand leads to two essential facts: China will have higher import volumes of raw materials and, on the other hand, a higher volume of residual waste. Therefore the main challenge for China in the future will be to meet the demand of raw materials without neglecting the proper treatment of its waste. Europe's recycling industry offers solutions to deal with this challenge.

The Chinese Government's 12th Five-Year Plan demonstrates a strong commitment to the transformation of China's development model into a more balanced one, recognizing the challenges of the environmental impact of the country's fast-paced growth. Setting up and implementing green regulations in the years to come is also a focus of the plan – from a shift in the energy mix to the development of a closed-loop recycling economy.

As an integral part of this closed-loop economy, the rate of controlled processing of China's urban household waste is planned to reach 80% by 2015. Furthermore, there will be a stronger focus on solutions for waste recycling, waste-to-energy incineration and biological treatment.

The 12th Five-Year Plan also emphasizes the establishment of a sound collection and recycling system for separated waste, the improvement of systems for separated waste collection, enclosed transportation and centralized waste treatment as well as the promotion of resource utilization and hazard-free treatment of foods and other waste.

Taking the example of Germany, the positive effects of separate waste collection systems is visible when comparing the residual waste or mixed household waste volumes in the years 1990 to 2008. Due to the nationwide systematic collection of biowaste, glass, paper and packaging materials from households, the amount of residual waste has decreased from 34mn tonnes in 1990 to 16.7mn tonnes in 2008. At the same time, collection and thereby recycling of valuable materials has increased from 5mn tons to 26.5mn tonnes.

In China today, millions of street level collectors are not only making a living by buying paper and other valuable materials from households and small businesses, they are effectively enabling various Chinese industry sectors to access secondary raw material streams for paper mills, plastic manufacturing and other manufacturing sectors. This informal collection system is one of the reasons for the generally low calorific value of the remaining mixed household waste, which is either landfilled or incinerated. High calorific materials such as paper and PET plastic have already been extracted by the street level collectors.

Most commonly, the final disposal solution for household waste in China is landfilling, currently accounting for around 80% to 85% of all waste disposal. By landfilling, valuable recyclables are withdrawn from the economic cycle, the emission of gases accelerating climate change increased and the consequential costs and ecological hazards are shifted towards following generations. In addition, there are currently more than 100 waste incineration plants (WIPs) in operation in China, accounting for around 12% of total urban waste processing with annual capacities of 20mn tonnes. The household waste composition in China varies greatly from Europe or the U.S. Due to the organic portion of food waste being as high as 65%, the water content is also very high and, as a result of the informal collection of high calorific materials by street level collectors, the average calorific value is very low. This results in a big challenge for both WIP operators and an energy efficient incineration process.

With rising incomes, the composition of household waste in China will change as well. The composition of rural versus urban waste is already different, with a higher percentage of valuable secondary raw materials in the generally richer urban areas. By waste incineration, these valuable materials are with-

Source: German Federal Ministry of Environment, 2010

Shanghai's Scrap Peddlers

by KYLE SMITH

If China is the factory of the world, then Mr. Wang is the world's janitor. The Guardian has reported that each of China's megacities may have over 100,000 merchants of the trash trade, scraping by a living on the margins of a society increasingly driven by consumption. These resourceful recyclers are an integral part of the country's urban waste management system, typically broken down into two phases. In the first phase, waste is collected from households and businesses and brought to collection centres. The second stage involves transporting the waste to facilities for treatment and disposal. This is largely done under the auspices of the government. The primary stage, however, is an unregulated market of municipal organizations and the entrepreneurial peasants who operate in the trenches of the trash sector, armed only with bicycle carts and an enterprising spirit. Without access to social insurance and other benefits, scrap peddling is a precarious profession but offers its own advantages, including independence and virtually nonexistent barriers to entry.

In order to understand the ways of Shanghai's waste world, the GC Ticker caught up with Wang Waichun, a 58 year-old scrap peddler in Shanghai's Jing'an District. Resting on the side of the road, the Jiangsu native leaned on a bike that had borne Shanghai's refuse by the cartload for fifteen years, observing the blend of imported cars and pedal-powered recyclers that raced past. Mr. Wang's laconic cadences were punctuated by car horns and the bike bells of collectors calling out for Shanghai's rubbish as he elucidated on the economics of his trade, the code of conduct for scrap peddlers and the business prospects for the merchants of one of Shanghai's most promising industries.

How does a typical workday look like?

We work everyday eight to six. But in the winter we go home once it gets dark. When it rains, we just stay at home and don't come out on the street. When business is good, I can pull in 60-80 kuai per day transporting around 40kg of trash. One aluminum can goes for .1 kuai, which we then sell for.13 kuai, so the profit is .03 kuai for each can. The iron can is basically worth nothing so we don't give money to people for them. We bring everything we collect to the district recycling centre – that is where they pay us and sort the trash for shipping.

What is the most valuable item that you collect?

Electric copper wires. We peel off the plastic wrapper and sell the wire. One kilogram goes for 60 kuai; out of that we get a profit of around 30 kuai. There are some thieves who steal the wire from the public, but that's not what we do! We only take the wire if it's in the trash.

Do you collect the waste randomly or do people request your services?

Both. Sometimes people give us stuff randomly, while other people call us to go to their apartment to collect the stuff. We do all the businesses, stores, and households as long as people ask us to collect. We don't really spend time finding things on the street.

Do you work for the government?

I'm self-employed. I like it this way – we're free and nobody controls us. I have a licence for my work that I bought for a few hundred kuai from an old factory that was closed down years ago. But the government people don't care much about them anymore. Occasionally the police will come and chase away those who don't have the proper permit. But these days China is open and we really don't need one. (Gesturing at the reporter) Even foreigners can come to China nowadays – why would we need a licence to pick up trash?

Is there any competition between the trash collectors?

There's no competition between us; you would just give your trash to whomever you set your eyes on first. (Laughs) Besides, we like to stick together with other people from our home province for company and friendship.

Do you have any recommendations for people who want to live a more environmentally sustainable lifestyle?

Nope. But I can tell you that the items we sell are turned into new things.

You've been doing this job for 15 years. Have you noticed any major changes?

Our situation is much better now.

Why?

More business. People are wealthier these days – that means more cans, more paper cartons, more everything.

ALBA Group Household Waste Treatment Plant Berlin, Germany

drawn from the recycling process in paper mills or plastic manufacturing. Even though the informal collection system operated on the street level secures secondary raw materials today, in the future the amount of metal, paper and plastic not being collected and thereby either landfilled or incinerated will increase overall.

Thus, waste incineration or landfilling is not the solution to satisfy the increasing demand for raw materials. The solution for the upcoming challenges China faces lies in the so-called urban mining process. The idea behind this process is that today's waste has a lot more to offer than only being garbage. These days, waste is an important source for secondary raw materials in countries like Germany, where it is needed in manufacturing and energy production. Already, the German recycling industry provides secondary raw materials to the industry valued at about EUR 12bn each year.

In addition to the downside of waste incineration plants burning valuable secondary raw materials which could be recycled, public awareness in China regarding the construction of additional WIPs has intensified in the past years, leading to public protests of citizens and stops on multiple projects. This has resulted in a positive impulse for alternative treatment technologies such as waste processing to substitute fuels, biogas and composting. German technology providers, such as ALBA Group, are leaders in these segments. Based in Germany the company, for example, operates two alternative household waste treatment plants in Berlin, the capital of Germany. The plants have proven to be an innovative and efficient recycling process and a good alternative to waste incineration plants. Ecologically, the technology used is the most innovative way to treat residual waste.

During the process the waste is dried and divided into combustible and non-combustible groups. The non-combustibles are metals, inerts (sand, glass, stone, ceramics, etc) and water. The remaining, mostly organic, group is the base for a hygienic, odorless substitute fuel called RDF (refuse derived fuel). Recyclable materials (e.g. metals) are separated during the process and can be sold as a genuine high-quality secondary raw material and returned into the material cycle. During the treatment process, hazardous substances such as batteries are separated automatically. Thus the RDF remains free of those compounds as opposed to waste incineration. The RDF is energetically recovered in cement plants and power plants, where it substitutes primary raw materials such as oil, coal, and gas.

The business model is based on the principles of closed loop recycling management: The company organises recycling and trades secondary raw materials. In this way it recovers valuable recyclables for re-usage from both households and industrial sources. Its activities reduce CO_2 emissions considerably – in 2010, the ALBA Group and its 9,000 employees processed more than 6.4mn tonnes of waste and secondary raw materials, saving more than 6.2mn tonnes of CO_2, the equivalent of a 0.8% share of Germany's total annual CO_2 emissions. More than 200,000t of CO_2 were saved alone at the company two household waste treatment plants in Berlin.

This concept - the separation of valuable recyclables, hazardous and inert materials prior to the production of a green substitute fuel used for energy production in coal fired plants - is in line with the basic ideas of a closed-loop economy, saving raw materials and contributing to greater CO_2 efficiency and thus is of particular interest to Chinese cities.

The Chinese market for the comprehensive treatment of household waste shows a lot of potential and opportunities for German companies active in this field. These opportunities are of equal importance for German companies and both the Chinese Government and its citizens in order to successfully improve the access to valuable raw materials now and in the future through efficient urban mining processes and comprehensive treatment of the remaining residual household waste.

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Gerhard Schröder

German Chamber in Dialogue with former German Chancellor

By JAN NOETHER and SELMA KOEHN

During his tenure as the German Chancellor from 1998 to 2005, Mr. Gerhard Schröder intimately involved himself in the establishment of Sino-German relations and paved the way for the future. He even travelled to China more than any other European politician and has been considered as a "Friend of China" ever since, an honorary title which is given to only a few individuals. Today, he still travels frequently to China, not due to political ambitions but rather out of personal reasons. He is fascinated by the nation which lifted almost 400mn people out of poverty. He is encouraged by China's leading position. And he is engaged in consulting German companies in their business activities with the country. For its first Green Manfuacturing Conference in Shanghai in late November this year, the AHK invited Mr. Schröder to give the opening speech. He emphasized the growing importance of this industry, which will increasingly provide huge opportunities especially for German companies.

The GC Ticker met the man who has layed the path for a close economic relationship between China and Germany and talked with him about his personal relationship to China, his opinion about further economic development as well as his view on the shift of global political power.

Apart from your professional relationship with China, is there anything about the country that you appreciate or are fascinated by?

My fascination with China lies in the enormous progress this country has undergone in the last 30 years. A nation which lifts almost 400mn people out of poverty and relieves them from hunger deserves respect regardless of any other justified criticism. In general, the process of relieving humans from severe poverty and hunger was always of my interest, which was the reason why I valued the relationship with China so highly, and still do. And with the modest possibilities that I, as a retiree, have I still stand up for ensuring that this relationship is further treated as imperative in German politics. During my term as Chancellor it was always vital to me to build close ties with China not only out of economic justifications but also based on the fact that China is the leading nation in Asia and one of the leading nations in the world and will become even more important. Consequently, the country is not only a key partner for Germany but also for Europe, economically as well as culturally and scientifically.

In your speech earlier today you talked about strategic partnerships. Back in 2004 you and Prime Minister Wen Jiabao signed a mutual agreement titled "Strategic Partnership with Global Responsibility". In your opinion, how would you view this strategic partnership today?

I would say that Germany pursues a consistent policy towards China which had already begun under Willy Brandt. Helmut Schmidt was very active and still is in regards to relations with China. This has been continued in the Kohl era. And my impression is that, even today, Chancellor Merkel is following that path. As we all know, there were some points of contention, though I think they have been overcome in modern history. Therefore, I see this consistency as absolutely right and can only agree to it.

It appears that the Chinese side values this strategic partnership highly as Chinese companies increasingly show interest in both engaging with and investing in Germany.

This is absolutely correct. And I can only confirm this based on my own personal experience. Through my work with Rothschild, a large European investment bank, I have ascertained that major Chinese companies are interested in cooperating with Europe. And when mentioning Europe they talk about the biggest market there, which is the German market. And we shouldn't be afraid of accepting these investments. On the contrary, we should welcome them. And in my opinion, there are still several tasks to accomplish as the public, specifically the press, still underestimates the importance of more Chinese investments in Europe and especially in Germany. I really hope that this kind of static thinking will soon be changed in the minds of some.

> China is the leading nation in Asia and one of the leading nations in the world and will become even more important.

Speaking of the press, the picture that is drawn by German journalists about China is seldom positive. Moreover, the opinion is even held by some German companies that China is huge, distant, growing enormously and even appears very powerful. Should we fear the Chinese?

Certainly not. Germany is an extremely export oriented country which means we are dependent on other markets. And markets for our high quality goods can only be found in those which are already developed. Such an export oriented country like Germany has no interest keeping other markets small even though they are competitive. Our interest is that most countries develop quickly as only then their markets can be susceptive to our products. Our duty here is not to fear the competition but to be better. This is what we have always accomplished and there is no reason why we shouldn't continue to do so in the future.

If you look closely at the 12th Five-Year Plan, it is obvious that China's political establishment is focused on strengthening domestic consumption. In a nutshell, it is quality rather than quantity which is required. Do you believe that Germany can only profit from this?

Without a doubt. You can find examples for that. A recent one is the Lehman Brothers crisis. This wouldn't have been solved so quickly without the politics of the Chinese Government. Why do I mention that? Well, especially in regards to Germany, this statement is important. During the crisis in 2008/2009 our export economy did not experience severe losses due to China's stimulus package of EUR 500bn. This exemplifies that the stabilisation of the domestic consumption in China automatically offers a huge advantage for export oriented countries like Germany. Back then I travelled to China and asked the responsible people what they would do to solve such a crisis. Their response was that they would do two things. Firstly, they would stabilise the market. Secondly, they would not sell American stocks. And both proved right. If they would have hit the market with American stocks it would have been disastrous, for the U.S. as well as for others.

In case China acts more and more as a leading nation should the RMB become revaluated?

This is a question I can hardly answer. I believe that the criticism of China's financial policy is very often unjustified. Of course China is and has to be interested in keeping its exports, which the country relies on, affordable. And it can only achieve that through its finance policy. This is the reason why China is reluctant about the consistent requirement of a revaluation of the Chinese currency. I think that China's finance policy can be accounted for and the examples which I have mentioned earlier show that the country rightfully rejects criticism every now and then, which is primarily done in the American Congress.

What would you recommend to a Chinese company which would like to invest in Germany?

I would recommend doing it. Major Chinese companies, especially those active in high technology fields, need this exchange in order to develop themselves. And Germany, regardless of the defence technology, is sufficiently open to welcome Chinese investments. What we have right now, and I have criticised that, is a situation where investments which exceed 25% of all stocks are often interfered with. In my opinion this is not correct. Luckily, the law is formulated in a way that it is seldom executed. Apart from that I think the German market is very appealing for Chinese companies. What I would highly recommend is to make oneself familiar with our system which, for example, allows the employees to take part in the supervisory board. Although it has been proven to be very effective and stabilising it is sometimes not understood in other countries. And what I recommend is to view this as an advantage for an investment rather than a hindrance for an investment. Because a labour force which is well educated and informed as well as very engaged is far more productive than one which isn't.

During the crisis in 2008/2009 our export economy did not experience severe losses due to China's stimulus package of EUR 500bn.

Currently there are around 5,500 German companies which either operate through a joint venture, a wholly owned subsidiary or a representative office in China. And there is still some upside potential. What would you recommend to German companies which have yet to engage themselves with China?

This depends on the industry in which the company operates. All those, regardless of whether they are small and medium-sized, who work in the technology sector and specifically in the sector we are talking about today, green manufacturing, should know that this market will be enormous. The Chinese Government focuses strongly on preserving basic living conditions in its policy. This doesn't only mean regulations. Its fundamental meaning is a focus on environmental protection in regards to energy efficiency as well as for the development of renewable energies, which is absolutely essential for German companies who work in both production and service. And because of that I hope that the new generation of companies which engage in the environmental sector will focus strongly on the Chinese market. That they have to be supported, regardless of their size, for example by the German Chamber, is self explanatory. Moreover, they should know that the services that the Chamber offers are of high value for them and they can only profit from knowledge of the either positive or negative experiences others have had. This can be crucial, especially during the market entry phase.

If you could look into a crystal ball, where would you see China's role in ten years?

I see it as the number one economy, but maybe this is not in ten years but in twenty. There is no doubt that this will happen. This is a consequence of the country's size and population. Contingent to that is also a major role of responsibility within international panels that China must assume. China's political system really must be considered responsible for this. And in all significant international questions the country has to be included more. But there is one major concern I have. In line with the G2,

as I forecast, there is a development of a decision-making body through something I would like to call the G3. Firstly this means a revived U.S.A, and you should expect that. He who looses faith in the U.S.A. makes a huge mistake. Secondly, it includes an Asia led by China. Thirdly, there is Europe. The G3 will only exist as a quasi preparatory power instead of a G2 if Europe becomes stronger and more integrated. Moreover, if it enters into a strategic partnership with Russia and signs an international law with it and accepts Turkey as a member state. Only then will an integrated Europe be strong enough to play the same role in the triangle of a G3. If this is not achieved then in ten to twenty years, I'm afraid, no one on the international field will talk about Europe with the same intensity and importance as I would like them to.

In line with the G2, as I forecast, there is a development of a decision-making body through something I would like to call the G3.

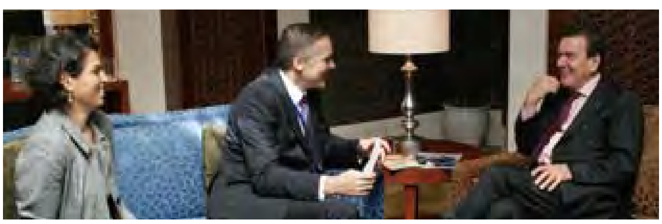
What do you recommend to young professionals who are planning their career? What is important to the achievement of one's goals?

First and foremost, it is vital to acquire a good education. One should know, and I speak here also out of my own experience, that access to education is the most important resource for the realisation of career plans which, by the way, I see as irrelevant. One can have wishes but to believe that you can draw a plan at the beginning of your professional path and act upon it is absolutely wrong in my eyes. It leaves no space for creativity, which is the second most important resource after education. The third most important one is continuity. Don't get discouraged by defeats. Stand up and move on. If you think about making a career you have to stay open and receptive to unforeseen circumstances which contradict a strict plan. The best thing is to face challenges with joy and curiosity.

Mr. Chancellor, please allow us a final question. In regards to the chancellor candidacy in 2013, who do you think would be the favourite candidate for the Social Democratic Party of Germany (SPD?)

Well, in regards to this question there is a standard answer. There are only three possible candidates who would have different qualifications but would equally be able to fulfil the post as German Chancellor. They are Sigmar Gabriel, the Chairman of the Party, Frank Steinmeier, Chairman of the Parliamentary Group, and the former Federal Minister of Finance, Peer Steinbrueck. In contrast to former Chancellor Helmut Schmidt, I'm not willing to say whom I would favour. You should be over 90 in order to be able to make such a proposal. But at least I'm the one who told my party fellows to decide soon who should run for the elections.

Mr. Chancellor, thank you for the interview.



Mr. Jan Noether, Managing Director of the German Chamber of Commerce • Shanghai, and Ms. Selma Koehn, Chief Editor, talking with former German Chancellor, Mr. Gerhard Shröder

A Woman's World

Integrating Women-owned Businesses into Global Value Chains Strengthens Supplier Diversity

by SOPHIE GUERIN

The inclusion of women-owned businesses in the global value chain is vital to economic success in the 21st century. Globally, women own approximately 25%-33% of all private businesses in the formal economy. Despite this fact, women own less than 10% of the world's assets, around 1% of the world's means of production and globally secure less than 1% of the business contract opportunities offered by large corporations and governments. If women are to play a more powerful role in building strong communities and sustainable economies, women entrepreneurs need clear incentives to move from the informal sector to the formal sector, they need access to the right networks and they need technical support to develop their capacity to grow and to create wealth and jobs as business owners.

Globally, women earn approximately USD 13tr, which is expected to rise to USD 18tr within five years. In the doldrums of the current economic recession, these figures are a beacon of hope. The growth of these numbers clearly indicates that women-owned businesses will play an important role in future global economic growth. Savvy companies that actively integrate women-owned businesses into their global value chains will reap long-term economic benefits as this rapidly growing economic powerhouse continues to expand.

Mr. Michael Silverstein of The Boston Consulting Group estimates that the number of women-owned enterprises will increase in the coming ten years. Forward thinking multinational companies such as Cisco Systems, Ernst & Young, ExxonMobil Corporation, Marriott International and Pfizer have already moved to build these suppliers into their business model. As a result, these companies are able to produce a wider array of products tailored specifically to the demands of their consumers.

However, in order for multinational companies to implement a diverse vendor model, suppliers must have the capacity to meet the demands of the global market. Despite the rapid expansion of women-owned businesses, many suppliers still encounter significant obstacles when it comes to scaling up their operations. In the United States, women own 30% of all businesses, but only 5% of all equity capital investments go to businesses headed by women. This funding gap, particularly in the early stages of a company's development, hurts the ability of women-owned firms to compete on a greater global scale. This is of serious concern to companies seeking economic resiliency in a shaky global market.

Many successful corporations including AT&T, The Boeing Company, IBM Corporation and Walmart Stores spend over USD 1bn on diverse businesses per year. Recognizing the challenges faced by women-owned businesses, some companies have started to do more to assist their suppliers in scaling up. A central component of Accenture's Supplier Diversity Programme is their development initiative. This helps suppliers expand capacity through a mentorship programme linking Accenture executives and suppliers. Through this mentorship, Accenture is able to directly communicate their needs and strategize together on overcoming challenges faced by their vendors in the production process.

These companies recognize that greater supplier diversity ensures greater economic resiliency for their businesses, consumers and the global marketplace. It promotes a fully integrated business model where the company and vendor are invested in their mutual successes. As a result, they are able to identify and react faster to obstacles along the value chain. This agility in production means that companies have the capacity to respond faster to changing consumer demands, ensuring that they stay on top of new market trends as they emerge.

As companies with diverse supplier chains expand their market share, women-owned businesses, acting as vendors and consumers, are able to benefit from this increase in economic growth. Today, women account for USD 20tr in annual consumer spending and make up 85% of overall household spending on a global scale. Understanding and meeting the needs and expectations of women as consumers is essential to capture this significant and growing market. With women-owned businesses built into corporate value chains, forward thinking companies retain a competitive edge in this sector. Women-owned businesses are uniquely capable of developing and producing products and services that fit the needs of this consumer base while ensuring that companies are meeting their bottom line.

For those companies that recognize the importance of integrating women-owned businesses into their value chains, finding the right suppliers capable of meeting their needs continues to remain a challenge. Today there are a few committed organizations and multinational-driven programmes that seek to help women-owned businesses scale up their operations. As companies continue to recognize the need for supply chain diversity, these types of initiatives will become an increasingly essential component of successful business-to-business relations along the global value chain.

Ms. Sophie Guerin is a project manager at WEConnect International, an organization that facilitates sustainable economic growth by increasing opportunities for women-owned businesses to succeed in global value chains. To learn more about WEConnect and how it can help you improve your business performance in China and across the globe, contact:
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Case Study: Cisco Systems Streamlines Operations by Helping Suppliers

Mr. David Morgan founded D.W. Morgan Company in Pleasanton, California in 1990. Since its founding, D.W. Morgan has grown to serve the logistical needs of some of today's largest Fortune 500 companies. Over the last ten of those years, D.W. Morgan has been a successful part of Cisco's global supply chain.

Nevertheless, D.W. Morgan Company found it difficult to break into new Cisco-related market opportunities. To help suppliers like Mr. Morgan, Cisco launched the Executive Mentor Protégé Programme with the objective to foster mentorship between Cisco executives and supplier companies' CEOs. In this relationship, Cisco can educate CEOs on Cisco's "expectations, business strategy and potential opportunities for increased spending." The Executive Mentor Protégé Programme adds value to the traditional mentor/mentee relationship by providing protégés with the opportunity to participate in Cisco expos and lectures, meet Cisco customers and regularly network with fellow protégés.

Additional participants in this programme, such as Ms. Nancy Duarte, CEO of Duarte Design; Ms. Jodi Bailey Gill, President of The Experts Bench; and Ms. Linda Gold, President and CEO of M3iworks, have all expressed their support for the Executive Mentor Protégé Programme as a means of scaling up their operations and entering new Cisco markets. Furthermore, each of these protégés have stated that by becoming better educated on Cisco's broader needs and expectations, they are better able to serve the company.

While participating in the Executive Mentor Protégé Programme, Mr. Morgan worked closely with senior Cisco executives in supply chain management to identify opportunities for growth and potential obstacles towards meeting the company's expanded objectives. Through a rigorous and collaborative process, D.W. Morgan Company was able to reframe and reposition itself on the Cisco market, breaking into new markets in Thailand and China, while helping Cisco to streamline their logistics system in the U.S.

Shanghai Financial District

The Shanghai International Board

by JENS PETER OTTO and DR. HOLGER MISS

In March 2009 the Chinese State Council took a strategic decision to foster the development of Shanghai into an international finance centre. To support this objective the Council announced the implementation of the International Board as a market segment on the Shanghai Exchange. The International Board is intended to be a gateway allowing foreign companies to complete a secondary listing on the Shanghai Exchange, giving them access to the growing Chinese institutional and retail investor base.

The final implementation of the International Board has long been announced, but has been postponed regularly. Currently the International Board is expected to open in 2012. Details of the legal framework have not yet been disclosed; in fact, only a small number of Chinese government officials within the administration are involved in the establishment of the International Board.

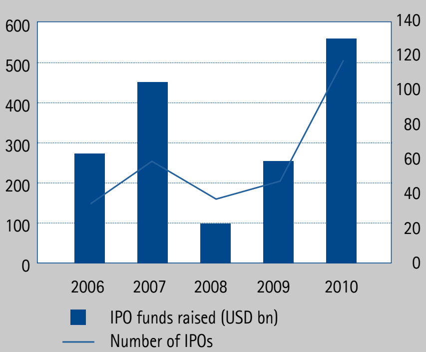
Based on the information publicly available and suggestions of the government committees involved in the process we have an understanding of how the International Board will transpire.

The benefits of the Shanghai International Board

The implementation of the Shanghai International Board will allow Chinese investors to choose from a broader variety of foreign investment options. Currently there are limited choices, primarily due to the officially decreed system of foreign currency control. In addition, the high rate of inflation (currently 6% per annum) means that savings accounts are not considered an appealing alternative to the average Chinese investor. Therefore the opportunity to invest in foreign stocks and shares will have broad appeal.

The opening of the Board would facilitate competition by Chinese and foreign companies in capital markets. Such competition is likely to have a positive influence on Chinese issuers' corporate governance and transparency, thereby increasing the competitiveness of Chinese issuers' to a wider international investor base.

IPO activity in Greater China
(Hong Kong, Shanghai, Shenzhen, Taiwan), 2006-2010



Source: PwC Greater China IPO Watch 2010

The issuance of Western companies' stocks could also help to reduce China's foreign currency reserves. Foreigners would start using the RMB more frequently and the RMB's position as a global reserve currency would be fostered.

However, the International Board does not only aim at more listings of Western companies. In Hong Kong, listed Red Chip companies shall consider a secondary listing in Shanghai and therefore a return to their home country. Red Chip companies are the stocks of Chinese companies which are incorporated in Hong Kong and listed only on the Hong Kong Stock Exchange. The main operations of these companies are still mostly located in China. Examples of Red Chip companies are Cosco Pacific and China Mobile.

Listing as a way of financing

China's economy is growing massively and many Chinese companies are also expanding quickly and on a large scale to support this growth. However, to support this rapid expansion many companies require capital to invest in the companies' asset bases - raising capital in RMB through a listing can help resolve financing restrictions.

This is important since financing by domestic supplier credits is not feasible. The current system of foreign currency control limits the financing options of foreign financed companies significantly. To comply with the strict Chinese capitalisation requirements, foreign capital has to be transferred to China. The current requirements are displayed in the table below:

Size of investment	Required equity (percent of investment)
≤ USD 3mn	70%
Between USD 3mn and USD 10mn	50%
Between USD 10mn and USD 30mn	40%
> USD 30mn	33%

These capitalisation requirements and additional stipulations set out by the Chinese State Administration of Foreign Exchange (SAFE) limit the companies' financing options by shareholder loans. Bank loans which are underlaid with foreign investors' guarantees are subject to these requirements. Furthermore, due to certain rules, foreign supplier credits cannot be an alternative for financing. Increasing the company's capital by transferring capital from the parent company can be regarded as risky or at least as non-flexible since any repatriation of the capital is only allowed due to liquidation or capital reduction. The legal obstacles for doing this are high.

In comparison to other listing venues the P/E ratio on the Chinese exchanges is high. This means that more capital can be raised by a listing of shares on a Chinese exchange than via a listing on another exchange. To put it another way, Chinese investors are satisfied with less return on invested capital than investors in other countries. Foreign issuers can make use of this by listing in Shanghai. On the other hand, in the long run we expect the level of P/E ratio in China to converge on the levels of other listing venues, but there is likely to be a first mover advantage at the start of the process.

We can also assume that an international company will boost its public profile and image by listing in Shanghai. Therefore many international companies will perceive a listing in Shanghai to be a useful marketing instrument enabling them to demonstrate their commitment to China and its people, thereby helping to gain traction in the growing Chinese market.

Other methods of financing: Dim Sum Bonds and listing on the Hong Kong Stock Exchange

RMB bonds can now be issued on the Hong Kong Stock Exchange (so called Dim Sum Bonds). The capital raised can be used to finance the China based group companies either by capital increase or shareholder loan. Since Dim Sum Bonds are a new innovation there is limited experience in the market place. But similar to other capital market instruments, the issue of Dim Sum Bonds requires significant administrative effort. Unilever and Volkswagen are two companies that have already issued Dim Sum Bonds. Being the first German company to do so in May 2011, Volkswagen issued a bond of about RMB 1.5bn to finance its transmission plant in Dalian.

A listing on the Hong Kong Stock Exchange can be an interesting alternative. Especially for companies that focus not only on China but on the whole Asian region. Good examples are consumer goods manufacturers such as Samsonite, L'Occitane and Prada, who are already listed in Hong Kong. But a Hong Kong listing can be interesting for companies from other sectors as well. Schramm Coatings, for example, an Offenbach, Germany based manufacturer of plastic and metal coatings with operations mainly in the Asian region, issued its shares successfully in Hong Kong at the end of 2009. Hong Kong based investors and analysts focus mainly on their own region. The chances of success for a Hong Kong listing naturally increase if the issuer's main operations are located in the region.

What prospective issuers should consider

The rules for a listing on the Shanghai International Board will be mainly determined by the China Securities Regulatory Commission (CSRC). Prior to listing, a complex and rigorous approval process by the CSRC will most certainly take place. This has been the experience of former listings on Chinese exchanges. There is a strong contrast between the comparably easy and fast admission processes in Western listing venues or even in Hong Kong and the admission to a Chinese exchange. Regardless of whether a potential issuer is compliant to all listing requirements or not there is no legal entitlement to an admission to market until the very end of the admission process. Historically the CSRC has excluded a large number of companies from access to Chinese exchanges. However, the plan to only have foreign companies apply for a Shanghai listing that are already listed in their respective home markets as a first step may indicate that the rejection rate by the CSRC for these companies will be rather low.

How issuers will manage to repatriate the proceeds of a Shanghai listing is still an open question. Currently it seems that capital raised in China cannot be transferred abroad. Also, dividends will only be distributed to share holders based in China. Usually, listed companies do not distribute all profits via dividend to their share holders but keep them in the company and transfer them as needed within the group. Regarding capital raised through an IPO on a Chinese exchange, these transfers can only take place within Chinese borders.

In recent years German companies like E.On, Allianz and BASF have cancelled their secondary listing on the New York Stock Exchange. There were a number of reasons. First, the secondary listing didn't result in the broader investor base the companies were aiming at. Second, a New York listing requires compliance with the Sarbanes-Oxley Act (SOX) and therefore implementation, maintenance and audit of a huge and formalistic internal control system. Ultimately, the advantages of a listing couldn't make up for the costs involved with SOX compliance.

China has come up with rules similar to SOX ("China-SOX"). Until now there is only limited practical experience with China-SOX since these rules apply from 2011 onwards for companies listed in China and abroad and from 2012 for companies listed only in China. Basically, China-SOX is a regulatory framework based on the COSO approach. It contains the implementation of extensive internal control mechanisms plus a number of underlying documentation and reporting requirements. We currently assume that these rules will also apply to companies looking for a listing on the Shanghai International Board. Listing rules in Europe and in Hong Kong do not include requirements similar to China-SOX.

Many details are still uncertain

Thus, we already have a general idea of how the Shanghai International Board will look. Nevertheless, a lot of details are still uncertain. The option of a secondary listing will probably be offered to large companies which are already listed elsewhere. It will be interesting to see whether there will be a "numerus clausus" for listing candidates and how this will appear. Regardless, the listing currency will be the RMB.

The implications of the fact that the China-SOX rules will probably apply to issuers listed on the Shanghai International Board should be examined very carefully by companies that are interested in such a listing. We will also have to see which listing requirements issuers in Shanghai will have to meet and whether the requirements are similar to those that domestic IPO candidates in China have to meet at the moment. Overall we can expect that the barriers to market entry and the associated expenses will be higher than in Western markets.

We do not know yet which reporting standards will be required. A reconciliation of China Accounting Standards (CAS) and IFRS would be possible. Another option would be a reciprocal acceptance as it has already taken place between the European Union and China regarding China GAAP. A requirement to publish financial reports in Chinese would be costly for foreign issuers. We can expect the requirement to publish quarterly reports as it is already the case for Chinese issuers.

Conclusions

Rumours have had it for over two years that the start of the Shanghai International Board is at hand. However, until now no start date has been officially announced. There is also no "road map" published regarding when and how any open questions will be sorted out. Therefore, foreign companies interested in a Shanghai listing have to be patient. As shown, a listing in Shanghai will not be the only option of raising capital in RMB. Companies interested in a listing on the International Board should have a look at these alternatives and should also consider the costs and expenses that will probably come with such a transaction.

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Brand Development for China

by PHILIPP FRIES

Since its opening to foreign trade in the 1980s and again after joining the WTO in 2001, China has become increasingly attractive to Western brands. The key opportunity for foreign brands is the rapidly growing market of consumers with little brand experience and few references but a growing willingness to spend. Any foreign corporation approaching the complex and diverse Chinese market will need to modify its strategy as well as adapt its brand awareness to local conditions. At the moment, it may be sufficient to simply be perceived as a foreign brand but the branding approach should be tailored to the Chinese mindset. While this mindset is difficult if not impossible to grasp entirely, experience illustrates that certain aspects of branding work quite differently in the Middle Kingdom.

Western-centric Standards

From a German perspective, many brands in China appear excessively "in-your-face" and strong, as opposed to the more down-to-earth communication style prevalent in Germany. But visuals that work very well in Germany are not necessarily effective in China. And this is not only due to the fact that the models are Caucasian or the environment of a key visual is clearly Western. Chinese consumers appear to approve much more of a visually stimulating and playful communication style. While working for Western brands, one has to keep this in mind. From a Chinese perspective, the visual guidelines from a brand's Western headquarters often seem too restrictive as they place consistent appearance above all. This approach has to be questioned. Of course, "You have to know the rules before you can break them." It is still necessary to be aware of a brand's visual vocabulary and the "do's" and "don'ts" that come with it. But if a more appealing visual and a stronger impact can be created with a minor violation of these guidelines, a brand manager should be open to evaluate that direction.

Friction is a Must

Over the course of a long term design project with the Chinese subsidiary of a very successful German kitchenware brand, it became apparent that image material and guidelines from German headquarters were – unintentionally, perhaps – too localized to a "German style", which in this case meant: clean, precise and sometimes a bit boring. It was informative to see how Chinese designers in the team worked with the brand. While their interpretation often missed the mark, sometimes too emotional, too playful or daring to the point of almost breaking the brand's image, it was still an effective counter balance to the German design culture. Only through constant interaction in a mixed team could the desired result be achieved: A German brand communication with Chinese characteristics.

Friction among the design team and with the client is bound to happen in this challenging situation. Often the German HQ of a brand disapproves of even the slightest deviation from the safe roads of corporate identity guidelines. In this case it worked out very well: the business success of the Chinese subsidiary with its highly knowledgeable Chinese management convinced the HQ that this was the right path. Several results of this long-term collaboration were subsequently adapted for the German and international market.

Raising the Bar without losing Credibility

Western products, especially luxury items, are subject to taxation and import regulations which make them more expensive than in their country of origin, while domestic products are usually competitively priced. In addition, the willingness of Chinese to spend more money on foreign brands allows higher margins. This makes it sometimes necessary that a brand be elevated from medium positioning at home to the premium segment in China. Cultural differences aside, this alone calls for a different communication approach. However, it is important to not lose credibility. If the Chinese localization of a product and brand is too different in market positioning and communication, it will weaken its ties to the brand heritage and subsequently have a negative impact on trustworthiness.

While Chinese customers are still willing to pay a higher price, they often also expect more in terms of presentation and service. For packaging projects this frequently means "more is more". Take Baijiu, the staple of any respectable business dinner and a popular gift and lubricant for business transactions. The elaborate packaging of the high-priced spirit is quite different from the packaging of a Western wine in a similar price range. The ratio of packaging to product cost reveals that Chinese consumers like to see something tangible for their money. Additional services, vouchers and gifts that come with a high-priced product are common as well. However, a balance in terms of offering and appearance must be maintained to remain credible.

Cultural Codes

A chief topic of cross-cultural training is the differences in cultural codes between China and the West: "White stands for grief", "don't give a clock as a present" and so on. Books are published which perpetuate these stories. Surely one has to be aware of certain codes, but visual communication and the perception of colour is less of a mine field than one might think. Colours are not in general interpreted differently in China than in the rest of the world. Certainly, red and gold are more important and culturally "charged" than in Germany: a declining stock value on the website of the Shanghai Stock Exchange is indicated in green while the rising values are red – a colour system that is used in exactly the opposite way in Western Stock Exchange notation. But the emotional connections to colours work in a similar way and the most promising approach is always to look at the end-user and find out what really motivates her or him. Textbook stereotypes only carry you so far.

The Power of the Word

Many foreign brand names are difficult to pronounce for Chinese and obviously do not carry meaning. For several brands, Chinese consumers developed their own transliteration but it is not desirable to leave something so crucial for a brand's perception to chance. Whether or not the Chinese brand name finds its way in a bilingual or Chinese logo needs further examination. Kraft, a brand mostly known for consumer goods, uses a fully localized logotype with Chinese characters. Premium brands such as Mercedes-Benz or Omega rely on their original logo with Latin characters but make strong use of their Chinese brand name in their marketing material. If a brand name consists of an abbreviation like IBM, this Latin notation can also prevail within Chinese text, but in general, not using a Chinese name is a missed opportunity. The metaphoric quality of the Chinese language facilitates the inclusion of memorable images into a brand name which can be of great assistance in promoting it. A simple phonetic transliteration might please Western headquarters as this shows strong connections to the original name, but it might only convey "foreign-ness". Using the Chinese language in its full right (not only to emulate a Western name) and at the same time not neglecting the brand's heritage is a challenge which requires cultural sensitivity from both sides.

Branding Limitations

The most balanced and sensitive branding efforts will not lead to success if the products do not deliver. In particular, the product portfolio has to be carefully examined. Does it fit the market? Do Chinese really use products in the same way we do? A typical example is the dominance of "extended versions" of German cars with their roomier passenger seating area. Once people can afford a car they can usually also employ a driver and will sit in the back. In addition, the larger gap between low and high income class makes it more economically reasonable to focus on premium cars. This also is changing, but for some time the brand communication directive for most German car brands was obviously "premium" and "quality".

On the other side of the spectrum: in a branding project for washing powder, research revealed that in second and third-tier cities most people use the washing powder to hand-wash their clothes. This information has to be considered, since in most Western markets it would not make sense to promote that a washing powder is also good for the skin. The same product is used differently and its design has to adapt to that situation. For foreign brands it can make sense to focus entirely on the top range of their products, but this is not a given and careful market research is an important requirement for foreign brands on their way to China.

Conclusion

There is no standard approach to branding in China. China is very complex and diverse and the best way to have success with a foreign brand in the country is not to simply rely on the fact that it is foreign and thus by default attractive. It is crucial to reach an understanding of the specific market and end-users and find out how they live and what motivates them. During creative development, interaction between Chinese and Western team members is the best foundation for convincing brand localization that neither breaks with the brand's heritage nor ignores China's special characteristics.

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A Tale of Two Cities

Why China's Future Lies in the West

by KYLE SMITH


Dalian


Taicang


Chongqing

Premier Wen Jiabao during the WEF 2011 in Dalian

The economic leadership of China's first-tier cities was capped by equally impressive international events – the Beijing Olympics (2008), Shanghai Expo (2010), Guangzhou Asian Games (2010), and Shenzhen Summer Universiade (2011). The GDP growth in these metropolises consistently outperformed the national average. They came to epitomize China's economic ascendance and serve as the focal point for foreign direct investment (FDI) into the country: between 1985 and 1997, over 70% of all inbound FDI flowed into coastal cities. But new patterns suggest that the conventional growth model anchored on these megacities is coming to end. For the first time in a decade, Shanghai's GDP growth trailed the national average in 2008, a trend which has continued for the last three years. Prices and wages, rising throughout the country, are 20-40% higher in first-tier cities. The consequences are twofold: China's wealth is becoming more geographically dispersed and the costs of doing business in first-tier cities are disproportionately high. In pursuit of both customers and savings, therefore, companies are expanding from their coastal footholds into second and third-tier cities.

Go West: A Customer First Mentality

In the race to gain a following among the panegyrized Chinese consumer, the prize keeps growing. In November, Global Times cited a senior commerce official as claiming that China's retail sales will exceed RMB 30tr by 2015 and eclipse the U.S, the world's biggest consumer market, the following year. Such growth parallels the most essential development for firms in the country: urbanization. This trend is not exclusive to China, but even among emerging markets the magnitude of the Middle Kingdom's urban growth is exceptional. The international consulting firm McKinsey has predicted that by 2030 China will possess an 'urban billion' with over 64% of its people living in cities, equivalent to adding the combined population of the U.S. and Germany to China's urban demographic.

For companies salivating at the thought of a surging, city-dwelling middle class, it won't be accessible from the skyscrapers of Shanghai or hutongs of Beijing. According to ad firm Ogilvy & Mather, in 2003 China's top eight cities contained 70% of the country's affluent households; by 2012, the number will plunge to 33%. Companies are responding. The 2011 Business Confidence Survey of the German Chamber of Commerce revealed that half of all German enterprises in China plan to expand by 2015, with priority given to western regions. adidas, driven by skyrocketing sales growth of almost 12% in 2011 and competition from both Nike and local rivals, has been one of the most aggressive advocates of development in lower-tier cities.

In China's USD 67bn sportswear market, nobody wants second place; adidas is currently number three. Their strategy to get back on top is largely built on leveraging growth in second and third-tier cities. "We are very optimistic about opportunities in lower-tier cities as Chinese consumers become more affluent," explained Mr. Colin Currie, Managing Director of adidas Group Greater China. The company already operates 6,700 franchise stores in the region and plans to open another 2,500 in lower-tier cities by 2015. This is a major threat to local competitors like Li Ning, who once enjoyed minimal international competition in these areas. Simply establishing a presence is no guarantee of success, however. "The important thing to note is that the market is very diverse among regions, and these nuances need to be studied very carefully," said the six year China veteran. adidas restructured its organization last year into four regions – North, South, East and West – to get closer to consumers whose tastes, habits and income levels vary greatly across the country. Such market segmentation allows the company to reach its target customers at the right time and with the right message, whether it is outdoor goods in the northern city of Harbin or running products during the Beijing Marathon. The starkest contrast, though, remains between consumers in the first-tier and the swelling ranks of those in developing cities. "To use broad brushstrokes, we could say that in higher-tiers, consumption is part of personal identity, whereas in lower-tiers it is a quest for a sense of belonging." This is a quest that adidas, and nearly all international retailers, hope their brands will become synonymous with in the eyes of Chinese consumers.

Go West: Big Opportunities for Small Manufacturers

Yet large multinationals are not the only organizations that sense second and third-tier opportunities. Small and medium-sized enterprises (SMEs), chiefly involved in production rather than retail, are also exploring expansion in China. Haering Precision is a German SME producing high-tech metalworking machines in Taicang, a city with half a million people located 60km northwest of Shanghai. Taicang's proximity to the megacity of Shanghai may explain its popularity with many international companies, but like most second-tier cities it has no intention of relying on the patronage of a larger neighbour: Taicang has consistently ranked among the National Bureau of Statistics' most competitive cities in China. Indeed, strong government service and local industry planning were two advantages that Mr. Duan Jiansheng, Managing Director of Haering Precision China, cited for his company's decision to locate in the city. The Chinese Government is as instrumental in the lower-tier expansion of manufacturing companies as the Chinese consumer is to retail firms. Between 2000 and 2006, a total of RMB 1tr was spent on infrastructure investment in Western China as part of the Government's 'Go West' Campaign. This effort did not entirely succeed in closing the development gap between China's East Coast and the hinterland, but second and third-tier cities benefited tremendously from the improved transportation and access to foreign capital. The FDI in Chongqing, a sprawling metropolis in Western China with a population increasing by half a million annually, grew USD 17.65mn within a year of the implementation of the 'Go West' Campaign in 2000.

Even with massive government assistance, however, fundamental challenges remain for firms seeking qualified personnel in lower-tier cities. "The local labour force has a relatively low ability level, so 60% of our workforce consists of migrant employees," said Mr. Duan. Such human resource challenges are best overcome by a firm commitment to employee development. Haering Precision sends all of its employees, even the cook, to Germany for professional training. "Competitive compensation systems, the development of personal potential and the creation of a company identity are the keys to retaining qualified staff," explained Mr. Duan. As the Government's development focus switches from investing in infrastructure to soft factors such as higher education, the dearth of qualified personnel will diminish. Although this will drive up wages, one of the primary reasons many production companies move to lower-tier cities, it will also create more advanced local economies. Thus, ever greater numbers of SMEs will be motivated by the first reason that convinced Mr. Duan to open shop in Taicang: "To be near to our customers."

China's New Champions

In 2007, the World Economic Forum sought a location for its new initiative, an annual gathering of 1,500 prominent 'global growth companies', chiefly from emerging economies. China was an easy choice. Yet the aptly named Annual Meeting of the New Champions is held not in the political centre of Beijing or the financial hub of Shanghai, but in the vibrant second-tier cities of Tianjin and Dalian. It was from this platform that Premier Wen Jiabao first announced China would consider bailing out the Eurozone. Unlike the culminating events held in first-tier cities, this choice was not the apogee of past achievements but a bellwether of truly great expectations for the future.