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C'M'S' Bureau Francis Lefebvre

Letter from China

With 253 million Internet users, China has the world's largest Web population.

8th China should soon rank among the world's ten biggest wine-consuming nations. The International Wine and Spirit Competition estimates that the country will move into eighth place in 2012.

168 million vehicles are currently on the road in China.

Event

China, the gold medallist in Internet usage

This summer China moved ahead of the United States in the number of Web users. The fact that Beijing hosted the Olympic Games accelerated this inevitable development.

With 253 million Internet users[1], 73 million mobile Web users and 70 million bloggers, China has the world's largest Web population. As witnessed during the Olympics, its two million listed websites are holding their own against the US stars. Baidu is the country's leading search engine, ahead of Google. Similarly, Taobao, Tencent and Dangdang are more widely used than eBay, MSN Messenger and Amazon respectively. As proof of the market's maturity, advertising revenue is growing at around 50% a year and e-commerce is taking off, with 25% of Web users making online purchases. This represents an exceptional business opportunity, which has been seized by Jack Ma, the founder of Alibaba.com[2], and Robin Li, Baidu's owner, both of whom have made a fortune on the Web. Up until recently, the Web was mainly used by city-dwellers under 30 who consume large quantities of online music, information and games. However, 40% of new Web users in 2007 were from rural areas. Fifteen years after it first arrived in China, the Internet still has a bright future. ■

(1) Compared with approximately 230 million Internet users in the United States, and very few mobile Web users.

(2) An e-commerce website.

Contents

Editorial

The domestic market: China's advantage

In response to the worldwide financial crisis, China is fully aware that it must provide a global solution, as evidenced by its participation in the G20 summit. However, according to Chinese Prime Minister Wen Jiabao, *"the greatest contribution a country of 1.3 billion people can make is to maintain stable, rapid growth over the long term."* Boosted by domestic demand and sustained investment, China forecasts strong growth in 2009, despite a considerable drop in exports. Nonetheless, China realizes that it increasingly needs to drive its development through domestic growth and consumption, in particular by promoting consumer and government spending. China recently announced a two-year, $570-billion stimulus plan to develop infrastructure and strengthen the social safety net. The country's sovereign funds come to around $2 trillion (and are increasing by several hundred billion dollars a year), an enormous sum that enables the government to envision such large-scale projects without dipping too deeply into its reserves. However, put off by the setbacks of foreign funds in which it invested, China now seems somewhat reluctant to make substantial capital investments in the global economy.

筷子

Kuai Zi « chopsticks »

Knowing how to eat with chopsticks is a useful way of overcoming a cultural barrier at official banquets and business dinners.

News

Competition

Merger notification thresholds come into effect

Regulations concerning the notification thresholds for mergers involving Chinese companies went into effect on 3 August 2008 as decreed by the State Council. The long-awaited regulations mention only legal thresholds, granting wide discretionary power to Chinese authorities, whereas the preliminary draft addressed major issues, such as the definition of "control" and "dominant position."

Notification is required for mergers or similar transactions that meet either of the following criteria:

Threshold 1: The revenue within China of each party to the transaction is more than RMB 400 million in the preceding fiscal year.

Threshold 2: (I) The combined aggregate worldwide revenue of all parties to the transaction is more than RMB 10 billion in the preceding fiscal year; or (II) the combined aggregate revenue within China of all parties to the transaction is more than RMB 2 billion in the preceding fiscal year.

MOFCOM also retains discretionary power over foreign investment.

The Council has thus introduced objective criteria that can be easily verified by economic actors and competition authorities.

Threshold 1 must be met by all parties, meaning that the merger of two Chinese companies—one large and one small—does not require notification. This is an improvement over the previous policy, which covered only the operations of one of the parties in China.

The regulations do not specify how revenue is to be calculated

Consequently, aggregate revenue is calculated in line with methods used by the Ministry of Commerce (MOFCOM), which has control over mergers.

The regulations grant discretionary powers to MOFCOM

MOFCOM retains discretionary power to examine transactions which fall short of the notification thresholds but which it nevertheless considers have or may have the effect of eliminating or restricting competition. However, a considerable degree of legal uncertainty remains as applicable conditions or procedures are not defined by the regulations.

Labour law

Implementation regulations released for labour contract law

Implementation regulations for China's labour contract law that were released on 18 September 2008 restate the law's provisions but unfortunately fail to provide the necessary clarification. However, the regulations give the employer the right to unilaterally terminate a contract if the employee refuses to comply with its terms. In addition, they specify that a penalty clause included in training contracts for failure to take part in the training can only be applied when the labour contract is terminated because of employee misconduct. The regulations also state that a labour contract can be terminated when the employee reaches retirement age. Lastly, they specify methods for calculating severance pay and financial compensation as well as for determining employee seniority.

Luxury Industry

Shanghai's "Twin Villas" provide a showcase for China

The Swiss luxury group Richemont has developed a vanguard concept in Shanghai. Since October 2008, its two flagship brands have been housed in a mansion in the heart of the city's former French concession. More than just a retail area, the compound comprises a bar and restaurant, a barbershop and an art gallery, making it a true lifestyle and leisure destination.

Huai Hai Lu, in the heart of the city's former French concession, offers a blend of the past and the present amid the hustle and bustle of Shanghai. This neighbourhood of contrasts, featuring a combination of simplicity and elegance, is the site where Swiss-based Richemont realized its twin villa project. Last autumn, the luxury group's flagship Vacheron Constantin and Alfred Dunhill brands, as well as the city's leading art gallery ShanghArt, took up residence in the two white colonial-style buildings comprising this magnificent dwelling at No. 796. Surrounded by an English garden, this peaceful sanctuary tucked away in the world's busiest metropolis includes a bar and restaurant—the Kee Club—in addition to a private barbershop. *"The project is unique in the world, not just in Shanghai and China,"* said Yann Debelle de Montby, Alfred Dunhill's Director of Image and Press Relations. *"The idea is to create an environment where our customers feel at home. These villas have a spirit that allows our guests to immerse themselves in our brands' core values."*

First sales in China date back to the end of the 18th century

During the Roaring Twenties, Huai Hai Lu was called Avenue Joffre. The two pure neo-classical villas were built in the 1920s, when Shanghai was all aglitter. Back then, big companies, department stores, banks, hotels and luxury villas crowded the city's sycamore-lined streets. Following Shanghai's spectacular transformation over the past 15 years, illustrated by the enormous glass towers dotting the landscape, the former concession today offers a completely different image. A meticulous, two-year renovation has restored the twin villas to their former splendour. Beyond a classic boutique environment, the compound offers a true lifestyle and entertainment destination. Using the finest craftsmen of the Swiss watch industry, Vacheron Constantin has assembled a group of engravers, enamellers and master watchmakers to provide customers with unrivalled service, including a special collectors' salon where antique pieces can be ordered. While decorated along the same lines as the parent company in Geneva, the boutique also displays its Chinese identity. *"Vacheron Constantin sales to China date back to the end of the 18th century,"* said Juan-Carlos Torres, Chief Executive Officer of Vacheron Constantin. *"China today is home to 12 of Vacheron Constantin's 20 boutiques around the world."* The west wing villa hosts the celebrated Alfred Dunhill luxury menswear brand. The Dunhill Shanghai Home, which is kin to the other two Homes in Tokyo and London, contains a travel and discovery room. ■

Richemont in China

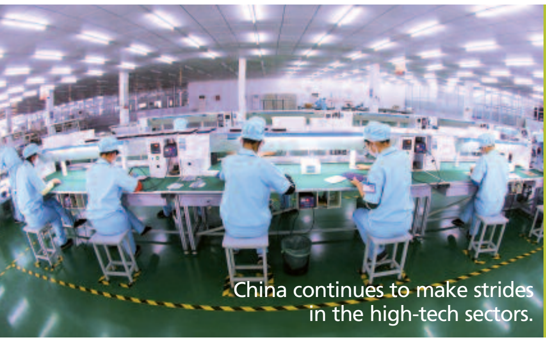
Richemont currently has 200 points of sales across China, not only on the east coast but also in distant areas like Urumqi, the capital of Xinjiang. Says Alain Li, Regional Chief Executive for Richemont in Asia, *"The Chinese luxury market has experienced tremendous growth in the past ten years, driven by the country's macroeconomic development but also by Chinese consumers' strong taste for heritage and art."* Mainland China has thus become, after Hong Kong, Richemont's second-largest market in the Asia-Pacific region (excluding Japan). During the last two years, China was also the fastest growing region, with annual sales rising by 20% to 25%. *"In the first-half of the fiscal year, sales were up 30% at constant exchange rates and 19% at current rates,"* says Mr. Li. *"Asia-Pacific now represents 26% of total revenue."*

Technology

China, a host country for research and development

With approximately 50 existing technology parks and roughly another 30 under construction, China is becoming a preferred location for foreign businesses to set up research and development centres.

Last spring, the computer software giant, Microsoft, announced plans to build a research and development campus in China that would be its largest facility outside the United States. The other information technology majors have followed in its path over the past few months, despite the common belief that India is light-years ahead of China in the IT field. The goal of all these companies is to find new local partners, as well as inexpensive, skilled labour. The R&D centres also give them an entry into a flourishing market. This trend has affected all industries, regardless of sector. "Companies are mainly interested in developing products, which can happen much more quickly here," notes one businessman. "It's also necessary to adjust to the growing volume of Chinese legislation. These things are conducive to innovation."



China continues to make strides in the high-tech sectors.

To attract developers, China began setting up technology parks in the 1980s under the national Torch programme. At present, there are about 50 centres specialized in such fields as information/communication technologies, biopharmaceuticals and renewable energy. Another 30 centres, devoted to software, are under construction.

China's ambition is to become a global software leader by 2010. To meet that goal, the country is developing attractive facilities—usually located near an international airport—and providing labour and office space at competitive rates, while granting various tax exemptions. In exchange for these services, companies are required to make a minimum investment in the site. With 12,000 industrial clusters scattered across the country, it is not easy to find the right one. Thanks to the launch of the CooPol France-Chine cooperation programme in 2008, competitiveness centres in France can create partnerships with their Chinese counterparts. Setting up a research centre in China enables a company to showcase its expertise, although the risk of industrial espionage is ever-present. ▬

IN BRIEF

The yuan is "substantially undervalued"

The Chinese currency remains "substantially undervalued", according to the International Monetary Fund's half-yearly World Economic Outlook report released in October 2008. In the face of the ongoing global financial crisis, the IMF said a more flexible yuan would help shift growth momentum away from exports toward domestic demand. The IMF further predicts the Chinese economy will grow 9.7% in 2008 and 9.3% in 2009.

Renewable energy: China now among the five most attractive countries for renewable energy investment

Chinese investment in renewable energy has been driven by the government's policy of boosting the amount of energy generated by renewable sources. In addition to solar energy, the country is actively harvesting wind power from numerous offshore wind farms. Ernst & Young now ranks China among the five most attractive countries for renewable energy investment in a listing headed by the United States.

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