

## **Chinese leaders are not neglecting the environment**

David Rosser, CBI Wales

*Western Mail*, 13 May, 2009

Last week I spent two days with the Head of the CBI Beijing office as we ran a series of briefings for companies on China and some of the current issues affecting business there. As we spoke to a range of companies operating in different sectors a number of consistent themes developed.

The first was a confirmation that while China remains a sourcing opportunity, for most companies their interest has moved on to understanding China as a market. The growing middle class with money to spend is boosted by the return of young adults who have enjoyed a western education. This has created a burgeoning demand for Western consumer goods which is attracting the attention of many companies.

And climate change and environmental degradation are big issues for Chinese policy makers who are prepared to invest in buying the advice and technologies to help deal with these problems. Most of the top level political leaders in China have a strong science background. They understand the environmental challenges and consequences for their country of not tackling them, and there is a ready market for UK companies with solutions to offer. Interestingly, this also removes the sterile argument which generally crops up at some stage in the UK climate change debate – that there is no point our taking action in this country when China is just reinforcing the problem.

The Chinese economy has not been immune from the global downturn and growth this year will be in single digits, to their dismay, but still at levels that western economies could only dream of. The government has introduced a massive economic stimulus package, but while there are huge sums of cash washing through the system, as with government interventions everywhere, there remains some doubt as to whether this will be sufficiently targeted to have the maximum effect.

The stimulus is particularly aimed at boosting the Chinese healthcare system and this is another area attracting the attention of western companies. This is one area where a growing westernism, increasing affluence and a huge population will all converge to create a significant market opportunity.

But the credit crunch has impacted on smaller privately owned Chinese companies leading some UK businesses to move continuity of supply up their risk register. And there are growing signs that the significant cost advantages of sourcing in China are

rapidly being eroded. Cost increases in market, coupled with the devaluation of sterling have led to some businesses re-evaluating their supply chain strategies.

And the other issue which dominated our discussion with Welsh companies was the perennial one of intellectual property protection, and the various strategies that companies were developing to tackle this problem. We met one manufacturer which had successfully taken a case through the Chinese court system though it proved to be a somewhat pyrrhic victory – the judgement of \$50,000 was significantly less than the legal costs incurred.

It believed that it was important to send out the signal that it would protect itself, but felt that the only long term solution was to establish itself in China, benefit from the same cost base that its competitors would enjoy, and sell a better product with better service standards than any company copying its IP could offer. In that situation, it reasoned, why would you buy the knock-off?

Other companies were attempting to build features into their products which could not be easily reverse-engineered, others were only releasing older technology to the Chinese market, and others in fast moving product markets took the view that, as their products had a life of a year or two before being superceded, IP infringement would not be a real issue as copies would always be of older models.

But whilst different companies were developing different strategies to reflect their own particular situations, they had one thing in common: China was felt to be too great an opportunity to ignore. And there was nothing discriminatory in the IP infringement: the overwhelming number of IP infringement cases were between two Chinese companies and did not involve any western business.

Lastly, we picked up concerns from a number of companies that there were signs of growing protectionism, with markets not fully open to western companies. But as one CEO commented, the same could be said of most industrial countries at this time, from the US to France.

The good news for Welsh companies which have not yet tackled the Chinese market is that there is a significant body of advice and guidance there to assist. From business organisations such as the CBI, to government agencies such as International Business Wales, and the consulates in market, there are plenty of people to help a company on the journey.