C.C.comm
Commerce and Communication to the Point
Issue III 2012

The Chinese Labour Market: Ready for the New Economy?

- Eastern Germany's 20 Years of Gain
- Art Market Hong Kong: Review of the Spring Madness

Climbing to New Heights

Dear Members,

As a centre for commerce Hong Kong is unbeatable, officially. Hong Kong was rated the world's freest economy for a 17th straight year in 2011 in a ranking by the U.S. based Heritage Foundation, above rivals Singapore and Australia for the title. Hong Kong International Airport, located less than five flying hours from half of the world's population is the No. 1 ranked airport for cargo throughput, and the third busiest International passenger airport in the world. The question facing us now though is how to maintain this lofty position in the future - in the face of intense regional competition and infrastructure restrictions.

In March this year, the Government gave its approval in principle for the Airport Authority of Hong Kong to adopt the three runway system as the future direction of the Hong Kong International Airport. This marks the beginning of the project's statutory Environmental Impact Assessment (EIA). The process that will include the creation of community liaison groups, exhibitions, seminars, talks and frequent meetings with community leaders is expected to take two years. This is effectively the pivotal point of what's known as the HKIA 2030 Masterplan.

From an airline perspective this is very welcome. Infrastructure developments in the mainland, such as those in Shenzhen can rise up at a rapid pace, unrestricted as they are, without space limitations or public consultation processes. Whilst these developments are important, especially with an integrated air transport policy, and will provide more opportunities for air transport growth; it also highlights how vital it is that Hong Kong should remain number one, not only for the city, but also for the huge industrial communities of the Pearl River Delta. Only Hong Kong can truly market itself as an international hub, uniquely positioned as it is as an international gateway, a centre for commerce and a hugely popular tourism destination.

Airlines are queuing up to bring additional capacity to Hong Kong in anticipation of the expected continuation in passenger and cargo growth. Whilst this obviously presents competitive challenges for those of us close to the action, it also highlights the need for capacity development. Voted in 2011 as the 'World's Best Airport' by Skytrax, Hong Kong International Airport already gives the city a strong competitive advantage, staying ahead of the game though is vital and in order to at least maintain its diversified position in the future, Hong Kong needs to grow with the market. It is important therefore that the business community supports the authorities through the assessment process to help ensure that airport capacity can cope with the surging growth in aviation demand and maintain Hong Kong's long term economic development.

Yours sincerely,

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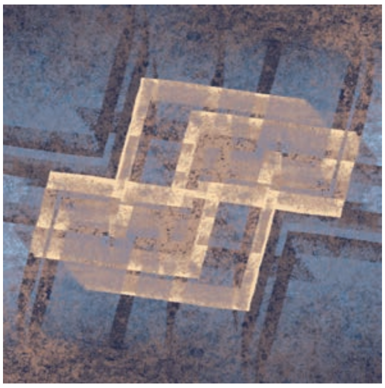

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Content


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SOLUTIONS IN ASIA?
Just ask Logwin!

The Chinese Labour Market: Ready for the New Economy?

In China, the battle over talents is in full swing. As parts of the economy are becoming more service and research oriented, qualified employees are in high demand – so much so that filling an upper management position may take up to nine months in China. Curiously, unemployment among university graduates in China is three times that of the working population as a whole. The Chinese labour market is thus characterised by a central antithesis: a scarcity of qualified workforce, and an oversupply of university graduates. What are the reasons for this and how does the rest of Asia shape up?

Human Resources is a topic of central concern to businesses in China and Asia as a whole. A 2011 study by the German Chambers of Commerce China revealed lack of highly qualified employees, rising labour cost, and high personnel turnover rates, as the top three challenges faced by German companies in China. Likewise, personnel restraints have been identified as the single biggest challenge facing multinational enterprises in China since the 1996 edition of the widely read China Business Report of the American Chamber of Commerce Shanghai. In fact, more than half of respondents to PricewaterhouseCooper's 15th Annual Global CEO Survey said a talent crunch in China prevents their businesses from "innovating effectively."

Not only enterprises have an interest in fostering a large pool of motivated and loyal employees with proper qualifications. In order to steer the Chinese economy toward a more high-tech and service-oriented path of development, a boost in employee qualifications stemming from better academic and technical training is an undeniable prerequisite. The continuous rapid growth of many service industries, including logistics, accounting, financial and legal sectors, lets corporations scramble for talent. The Hong Kong Logistics Association estimates, for instance, that Chinese universities are graduating fewer than 15,000 students a year in logistics—less than half of what experts believe to be the annual demand for professionals in that sector.

Staff turnover rates are thus excessive in China. Highly qualified employees have a wealth of opportunities to choose from and loyalty to companies is among the lowest in the world, according to a report by the Economist Intelligence Unit. Turnover rates reached 26.3 per cent in 2011, up from 24.6 per cent in 2010. In 2001, this rate only stood at 8.3 per cent, testament to the growing variety of options for well-educated Chinese, and better conditions of compensation packages they are able to secure. Not only must businesses in China offer better remuneration terms, but also incur considerable expenses related to retention, recruitment, and training aspects. Should a business hire staff before completion of their original labour contract, it is liable for economic damages to the previous employer. This provision is an additional roadblock to MNEs in particular, as it seems to specifically target foreign corporations known to poach employees from SOEs, according to the EIU report.

Businesses struggling to fill their positions with qualified staff further suffer from localisation trends that seek to replace expatriate employees with local ones. Companies active in China (and beyond) increasingly employ locals in management positions for a number of reasons, chief among which is reduced labour cost. Expatriates moving their household and families from their home country to new locations in East Asia demand a starting salary between US$60,000 to US$200,000 on average. Managerial salaries for Chinese staff on the other hand generally start at about RMB 10,000 (ca. US$1,580) per month for junior managers. While salaries for local professionals vary between cities and regions in China, the total compensation package of a Chinese manager is about 20 to 25 per cent of that of a Western expatriate. Local employees also possess the respective Chinese accreditations and an inherent cultural affinity.

The localisation trend, however, is not only a product of business strategies, but also a product of exogenous state regulation. In May 2012, China's Ministry of Finance announced that it requires the 'Big Four' accounting firms to appoint Chinese citizens to head their mainland operations within five years. By the end of this year, no more than 40 per cent of their Chinese partners are allowed to have gained their certified public accountant (CPA) accreditation overseas. By 2017, that cap will drop to just 20 per cent. This mandated localisation may affect

MNEs in other industries in the future.

Strategies that gear toward retention of qualified and trained employees thus take on a critical role in the China business. Overall compensation is naturally a decisive criterion for employees, given the high level of competition and relatively weak social security network in the country. Apart from salary, businesses may consider offering or increasing additional perks such as performance bonuses, enhanced medical and pension benefits, transport and food allowances. On-the-job education or part-time postgraduate programmes also appeal to employees and increase their commitment to the company greatly, studies show. Foreign managers should also be aware of cultural attributes unique to China, and, for instance, refrain from criticising employees in front of others so as to avoid 丢面子 ('loss of face'). Some analysts have pointed out that the Chinese education system does not foster entrepreneurship and an aptitude for creative risk-taking, to the extent companies in the West might expect. Should this in fact be an issue with local employees, dividing them up into small teams that each have a clear leader overseeing the group may increase productivity, experts recommend.

Investing in human capital

Truly tackling the talent scarcity prevalent on the Chinese labour market requires a long-term approach aiming to enhance the tertiary education system and increase the number of highly skilled individuals. Building human capital is at the heart of human resources improvement. The Chinese government has recognised this and plans to increase its expenditures on education drastically. Already, China came second in the world in terms of spending on tertiary education with a total of US$220 billion in 2008. While the U.S. spends more than double that, the EU-15 accrued a total of only US$188 billion that year. Consequently, the number of higher education institutions has increased from 600 in 1978 to more than 2,300 in 2010. Both student enrolment and the number of people with completed tertiary education ballooned to 34 million (including internet-based courses) and 57 million in 2010, respectively. The latter figure has seen an increase of 700 per cent over 1990.

Equally impressive has been the rise in R&D expenditure in the country, which has increased 615 per cent since 1996 to US$42 billion in 2007. The trend has not halted since, as evidenced by a 22 per cent increase in R&D expenditure in 2011. According to a recent Deutsche Bank report, China also boosted its share of global patent filings from 0.3 per cent to 3.5 per cent between 1996 and 2007. The added attention on education has manifested itself in a stark rise of academic measures. In 2003, there were 29 universities in the prestigious Academic Ranking of World Universities (ARWU) list in East Asia. By 2011, 49 universities appeared in the list and the lion share of this increase is attributable to China.

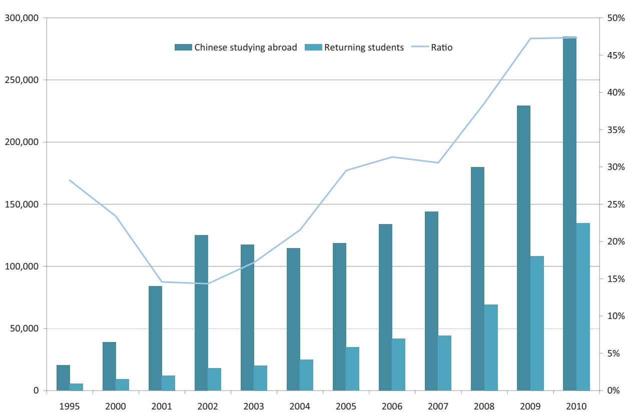
Establishing a baffling new number of universities that churn out record amounts of graduates has created its own array of difficulties, however. According to Chinese sources, the unemployment rate among university graduates is 12 per cent – compared to four per cent in general. The figure is likely underestimated, though. The American Chamber of Commerce Shanghai estimates the employment rate for graduates at less than 70 per cent in 2008 and their average monthly salary to have been just RMB 2,549 (~US$400), down 15 per cent from 2007. One can only estimate that underemployment is also is a significant source of frustration for many graduates that did manage to secure a position.

It thus emerges that the Chinese labour market is riddled by two seemingly opposing trends: at once, a scarcity of qualified staff and an oversupply of university graduates exist. One reason for this central antithesis of the Chinese labour market is an excess of graduates in a narrow range of fields, including accounting, law, art, literature, and computer science. Quoting Xiong Bingqi, deputy director of Jiao Tong University's 21st Century Education Research Institute, the American Chamber highlights that "[s]tudents seek the degree that they think will bring them the most 'status' instead of the education that suits them the best." The situation is further exacerbated by the fact that while students may submit a request for pursuit of a particular major, they are not guaranteed admission to that programme and may instead end up in an entirely different field – one for which demand is lower within the pool of university applicants. Whether or not the applicant has any affinity to the topic unfortunately may not always be a criterion.

As a result of the deficiencies in the Chinese education system, businesses often moan about lack of 'soft' qualities in recent graduates, including an entrepreneurial nature, and a willingness to take risks and assume leadership roles. Methods for rectifications, though, have been proposed through various channels. The Chinese government actively supports the establishment of professional and vocational institutions that put less emphasis on endowing students with a purely academic skillset, and rather focus on more practical training and application of concepts learned in class in a business setting. From a German viewpoint, the model of vocational schools appears to be a good route of action, as it has proven to offer a range of opportunities to develop human capital within the young generations. Another widely popular higher education model in Germany is known as an "integrated degree programme," in the course of which students take classes in a university while working part-time in the respective department (accounting, administration, communications etc.) of a business. This is perhaps another method worthy of exploration to businesses and Chinese policymakers.

In an effort to respond to the lack of qualified workforce, the Chinese government has enacted a number of programmes aiming to vie Chinese scholars who studied abroad to return. According to the China Statistical Yearbook, almost 285,000 Chinese nationals studied abroad in 2010, choosing universities in the U.S., the UK, France, Australia, and Germany most frequently. More than 1.7 million students have attended foreign institutions of higher education since 1978, yet only about 580,000 have returned. The return rate of those trained in engineering and the sciences is even lower. Policies such as the Chunhui Programme, and the Changjiang Scholar Incentive Programme provide salary, insurance, travel and social welfare subsidies to returning and visiting scholars. Figure 1 provides evidence that the return rate of Chinese who have studied abroad has indeed been climbing steadily from 15 per cent in 2000 to 47 a decade later.

Figure 1 – Number of Chinese Students Overseas and Returning (with share)

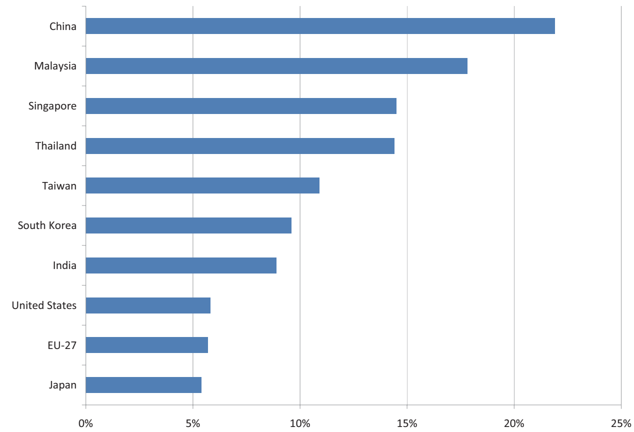


Source: China Statistical Yearbook 2011

Comparing to other Asian nations

Equally vital to investors and MNEs is the situation on the labour markets of other East and Southeast Asian nations. As a whole, Asia has made great strides in investing in its institutions of higher education. Asia-10 and Asia-8 have increased scholarly output in science and engineering articles considerably, while the combined share of Western nations has dropped from 69 per cent in 1994 to 59 per cent in 2008. The growth in R&D expenditure in Asia generally has vastly outstripped that in developed Western nations and Japan (see figure 2). This can be an indicator for convergence in the quality of both education and the next generation of employees, trained at universities able to attract a growing number of prominent scholars.

Figure 2 - Average Annual Growth of R&D Expenditure as Share of Economic Growth (1996-2007)



Source: Constant, Amelie et al. "China's Overt Economic Rise and Latent Human Capital Investment," IZA, 2010.

Hong Kong

Labour shortages characteristic to China exist in other Asian markets as well. In Hong Kong, unemployment rates stand at just 3.3 per cent, signifying virtually full employment. Due primarily to an aging population, Hong Kong is projected to suffer from an overall manpower shortage of about 14,000 workers by 2018. Unlike mainland China, where demand for staff in managerial positions exceeds qualified supply, it is mostly the industries requiring low-skilled workers in Hong Kong, such as cleaning, catering, elderly care, and construction that experience difficulties in filling vacancies.

In contrast, there is a large labour pool of well-educated employees for knowledge-based industries in Hong Kong. The SAR remains a magnet for international talent and boasts some of Asia's best universities, four of which are ranked among the top 150 in the world by the Times Higher Education Ranking. Hong Kong University of Science and Technology, and Hong Kong University are considered the two best universities in Asia by US News World's Best Universities. In addition, local students ranked fourth in the world in OECD's 2009 PISA study. Hong Kong thus seems well positioned to meet the employee demands of local and international businesses.

Japan

Japan, on the other hand, is facing a grave number of challenges at the moment – and the labour market is one of them. In the past, graduates were hired while they still attended university and ensured lifelong employment with the same company, granting a maximum amount of work security. As companies struggle with the consequences of last year's natural disasters, growing competition from Korean conglomerates, and an unfavourably strong Yen, this employment model is less popular and positions that still assure the work security young graduates long for are becoming fewer. Instead, a dual labour market with part-time employees and job-hoppers is growing rapidly. According to official sources, the percentage of those employed 'irregularly' has increased from 28 per cent in 2001 to nearly 36 per cent in 2011.

Lack of gender equality is another characteristic of the Japanese labour market. The country is 98th in the respective OECD ranking, behind countries such as Tajikistan, Angola and Vietnam. According to Japan Markt, the magazine of the German Chamber of Commerce in Japan, the country comes in last in the world when considering the share of women in managerial positions. It thus seems as though MNEs should have little difficulty in filling their vacant positions with qualified staff given both the recent developments on the labour market, and the high share of unemployed and underemployed women.

In terms of human capital, Japan faces losing its edge over other East Asian nations in the medium term. In 2003, 36 universities were listed in the ARWU top 500 ranking. By 2011, this figured had dropped to 23 universities. The number of students that go abroad for studies has also decreased considerably from 63,600 in 2003 to 44,700 in 2011. This is often attributed to the fact that companies start their recruitment process during the third academic year when students normally chose to go abroad for a semester. As a result, MNEs bear the cost of training new employees in the English language. Companies such as Rakuten, Panasonic, and Sony have English programmes for young managers. Hiring in Japan may thus entail a significant initial investment.

Vietnam

Companies and media increasingly look to newer frontier markets, suggesting they present alternatives to production in China, where labour costs are rising. Vietnam is often cited as such a market with the potential to attract enterprises manufacturing more labour-intensive products in particular. The pool of workers required for these businesses is shrinking already, however. A recent McKinsey report highlights that the "key drivers that powered its robust growth in the past—a young, growing labour force and the transition from agriculture to manufacturing and services—are beginning to run out of steam." According to the report, some companies report labour shortages in major cities and that the wage cost advantage is beginning to erode. For Vietnam's economy to continue its strong growth, labour productivity will have to be boosted, McKinsey suggests.

Exploring new ways

The Chinese labour market is in upheaval. At once, shortages of highly qualified workforce and unemployment among university graduates are widespread. Businesses must bear high turnover rates among employees, invest considerable expenses in retention schemes, and deal with localisation demands from headquarters and the Chinese government. In a country with a labour force of more than one billion people, bottlenecks in recruiting would seem to be an anomaly. Fostering human capital, however, is a slow process that, in China, lags behind trends in the economy, in which knowledge-intensive service industries are growing rapidly. Investment in higher education and R&D is rising accordingly, but it may take a number of years and some additional concepts to overcome the current antithesis of the Chinese labour market.

East and Southeast Asia may profit greatly from instituting a programme similar to Europe's ERASMUS (European Region Action Scheme for the Mobility of Students). Within the scope of this programme, over 200,000 students have been able to study in over 4,000 institutions of higher education in 33 countries for a semester or longer. ERASMUS is a pillar of European integration and has helped cultivating language skills and intercultural competence. First steps to enable student exchange on such a scale have been made in Asia as well. Hong Kong has increased its quota for non-local (including mainland Chinese) students. Similar proposals have been made in Taiwan, but abandoned due to political objections. The advantages to both society and the business community of a more integrated approach to cross-border education in Asia overwhelm concerns over national security and loss of competitiveness. Greater mobility of human capital in East and Southeast Asia ought to be as high on the agenda as the free flow of financial capital. ■

The following sources were used to compile this article: Amelie Constant et al., China's Overt Economic Rise and Latent Human Capital Investment, IZA Policy Paper No. 19 (September 2010); Elaine Wu, China's Graduate Problem, Insight, American Chamber of Commerce Shanghai (June 2009); Geschäftsklimaindex 2011: Deutsche Unternehmen in China, German Chamber of Commerce Shanghai (2011); Hong Kong Challenged by Manpower Imbalance?, CGCC Vision (May 2012); Ingo Rollwagen, The global race for excellence and skilled labour, Deutsche Bank Research (March 2012), accessible here: http://www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000285883.pdf; Marco Breu, Richard Dobbs, and Jaana Remes, Taking Vietnam's economy to the next level, McKinsey Global Institute (February 2012); Tiffany Yajima, A National Resource, Insight, American Chamber of Commerce Shanghai (March 2011); Zwischen Polarisierung und Globalisierung, Japan Markt (April 2012).

In-Sight

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***GC.comm:** In your experience with clients, how critical are human resources issues to MNEs in China? Within the past 10 years, have they faced an increase in turnover rates among employees in managerial positions?*

TCHRS: Human Resources remain a critical issue in Asia and particularly in China. Whilst China and other emerging economies still experience higher turnover than in other parts of the world, there seems to be increased stability within managerial positions in MNEs. This appears to be due to the fact that once people reach such a level, they are aware of the benefits that the MNE offers, they enjoy the culture and level of security. The other important factor appears to be that people who have already opted to work for an MNE, and have reached a managerial status, place value on people and career development, as well as a sense of empowerment that is more prevalent in Western run organisations than local ones.

MNEs appear to be placing more emphasis on flexible/situational leadership, and are aware of the need to align corporate guiding principles with local cultures. For example a German executive in China needs to learn how to adapt his style in a local environment and of course the reverse is true for locals in China to adapt themselves in a Western situation.

***GC.comm:** In your estimation, has there been a noticeable 'localisation' trend within companies, seeking to replace expatriates with local talents? If so, what is the reasoning for doing so?*

TCHRS: There has been an increase in localisation both in Hong Kong and in China. This has affected Western executives, as well as the expatriate Asians who have had their packages changed to local contracts and associated allowances. In part this is about equality and fairness, in part cost cutting for the companies. It is also driven by the complex Chinese regulations and legal structures that are impacting businesses and the need to have people with specific qualifications and language skills. Moreover, it is the result of general evolution in any market where initially, MNEs needed to bring in managers, who are well trained in their own culture and skillsets when entering a new market. Once they have established matured structures and processes, the need to have such managers diminishes. Also, the local talents have caught up with the needs of the MNEs in terms of skills and cultural understanding, making the need to have expats less critical.

***GC.comm:** What are your thoughts on recent graduates from Chinese universities? Do you find them to lack any skills necessary for their positions? At the same time, do they excel at particular facets of the job?*

TCHRS: There are a high number of fresh graduates every year which drives competition. The main way they currently differentiate themselves is through focusing on academic achievements, rather than on experience and opportunities to apply and develop interpersonal skills. For example, when we are delivering development centres and managerial experiential training workshops for multinational clients, we see that the graduates often have the theory, but lack practical application and understanding of the consequences of certain behavioural styles. Yet there is a great 'hunger' to learn about new approaches and when they actually apply them, they are extremely successful.

In the last decade there appears to be an increase in the level of written and spoken English, as well as an understanding of cultural diversity and an acceptance of Western managerial concepts. This contributes to the narrowing of the cultural gap and their success in working in an international environment.

***GC.comm:** Based on your experience, how do you compare the mainland Chinese labour market with Hong Kong, Singapore, Japan and other Asian countries particularly in regards to the pool of highly qualified employees and the skillsets of fresh graduates?*

TCHRS: There are many ways that this question can be addressed. For example, is the pool of qualified employees enough to meet the actual business needs in these different countries? Are they able to work to the global standards that many MNEs expect? It is more important for companies to be clear on the competencies and company values in order to tap into the new talent that is emerging rather than focusing on hiring from a regional perspective. ■

After the Suspension of EU and U.S. Sanctions: Investment Boom in Myanmar?

The lightning speed with which political reforms are being undertaken in Myanmar (formerly Burma) has come as a surprise to the world community. The reasons driving the sudden relaxation of the authoritarian rule by the military junta are not entirely understood, and may well just be a strategy to prolong power. Yet, whatever the objective is, political prisoners have in fact been freed and pleas of civil society answered. The key event that finally led the international community to re-evaluate its position on Myanmar was the April 1st by-elections, which enabled Nobel Peace Prize winner Aung San Suu Kyi to enter parliament. This event moved Australia to suspend its sanctions on April 18th, followed by the EU five days after. On May 18th, the U.S. suspended its investment and travel sanctions, which were considered the most restrictive.

Analysts had argued that such a move by the U.S. government could be an 'investment moment', heralding the start of a period in the Myanmar economy characterised by rapidly growing foreign investment and greater integration into the world economy. Whether or not this scenario is realistic remains to be seen; yet, there are a number of factors that make Myanmar an intriguing place for business. Given the state of the economy, agriculture is the sector that probably has most immediate potential. Burma used to be the world's largest rice exporter until about fifty years ago. With demand for fresh fruit, vegetables, and meat products rising in East and Southeast Asia due to growing disposable incomes, Myanmar may become again a premier exporter of agricultural products, provided it can modernise its agricultural sector.

Besides fertile land, Myanmar is rich in other natural resources. Chief among them is natural gas, reserves of which are estimated by some news sources to exceed 90 trillion cubic feet. Due to its long coastline, many offshore fields exist that have not been explored thoroughly. China, Japan, India, and Singapore have expressed interest in securing a steady supply for their energy-depraved economies. China in particular has already negotiated some tangible deals, including the construction of a network of pipelines that will run from the deep sea port Sittwe to Kunming in Yunnan Province, and carries both crude oil from the Middle East and natural gas from Myanmar's own reserves. Geopolitically, the project is important to China as it reduces its dependence on the narrow Strait of Malacca for fossil fuel imports.

Myanmar is a largely undeveloped market of 60 million that, at the moment, needs to import most things necessary to upgrade its economy and infrastructure, including construction materials and equipment. There are some opportunities for imports of consumer goods, such as motorcycles, refrigerators, and the like, but Chinese suppliers will likely meet this demand. Some market segments, such as non-commercial automobiles and high-technology products, will unlikely expand in the near future given the current state of the Burmese economy. If, however, larger shares of the population can benefit from the growing economy, demand for products such as mobile phones and even personal computers may also rise starkly.

There are few economies that are as undeveloped, but with such great potential as Myanmar in the world. Its slow political opening may ring in rapid economic development similar to the experience of the Asian Tigers and China over the coming decades. However, Myanmar may also find itself as the 'dairy cow' of Asia, exporting its natural resource reserves and agricultural products while importing all higher valued goods and services. For Myanmar to enter a development path that ensures more favourable terms of trade, its domestic industry will need a boost. In the face of rising labour costs and a modification of the economic growth model in China, Myanmar has the opportunity to become a low-cost manufacturing base for the garment and shoe industries. Before the onset of the sanctions, Myanmar already had a modest garment industry with the necessary infrastructure in place. Lost jobs and closed factories may soon be restored and revived. Indeed, according to the Hong Kong General Chamber of Commerce, Myanmar has begun drafting a package of incentives for foreign investors, including allowing 100 per cent foreign owned companies, land leases for up to 60 years, and tax holidays for up to five years.

Make no mistake: Myanmar cannot yet be compared to Thailand, Taiwan, or South Korea in the 1980s and early 1990s. Political power remains firmly in the hands of an autocratic military regime that is ensured veto power and the majority of seats in parliament. Doing business in Myanmar is met by challenges as complex as capital flow restrictions and obscure as electricity shortages. Still, the country has immense potential as production base, transport hub, and resource provider for Asia. Its location in the midst of the India-China-ASEAN triangle is one of its unique advantages that may lead it to become the next Asian success story. ■

Art Market Hong Kong: Review of the Spring Madness

Bestowed with the unflattering reputation of being one large bank, Hong Kong presents itself in a pronounced cultured light each May. World-renowned art exhibitions and high-profile auctions are a magnet for connoisseurs of all types, lending the city concerned on most days with IPOs and re-export figures a distinct urbane flair. Hong Kong is now the third largest market for art worldwide as measured by auction turnover, behind only New York and London. The growing number of artists in residence, and exhibition venues displaying works of international acclaim account for Hong Kong's commitment to become Asia's chief location for cultural industries.

May 2012 in particular has proved a highly successful month in attracting big-name auction houses, international art galleries, and a wide range of visitors from abroad. The highlight was the fifth edition of the ART HK exhibition, which has grown quickly from a rather inconspicuous collection of just 80 galleries in 2008 to the premier art fair in Asia. This year, marking the last year of the fair's management under the banners of the original Hong Kong organiser, ART HK boasted 266 galleries coming from 38 countries, including 14 from Germany. The success has stirred a great deal of attention, leading the organisers of the widely respected Art Basel to acquire a 60 per cent stake in ART HK with the option of complete ownership next year. The new Swiss owner has already made it clear that the success factors of the fair – a wide variety of nations represented with a wealth of Asian art exhibited – will remain key features, soothing collectors, and gallery owners. Already, media reports suggest a new record interest of galleries to display their works at the 2013 fair.

Spring Madness in the Auction Houses

The ART HK was only one of this spring's high points of the art market. Apparently undaunted by on-going economic worries in other parts of the world, collectors gathered in Hong Kong to attend the ever-more popular auctions as well. The selection of items on offer encompasses paintings, antiques, sculptures, photography, prints and video. Setting the scene was Sotheby's in April with its spring auction that raked in US$326 million. Some of the most coveted items included a rare Northern Song Dynasty Ruyou jade-like glazed ceramic washer (for brushes) and paintings by prominent 20th Century Chinese artists. Sales of fine Chinese paintings alone were double the forecast, amounting to US$60 million.

Following one month later, British auctioneer Christie's held its week-long spring auction at the end of May. Total sales accrued to nearly US$353 million. Of that, US$81 million came from three sales of Asian 20th Century and Contemporary Art, during which 60 per cent of lots realised in excess of the high estimate. The somewhat smaller auctioneer, Bonhams, also achieved a solid success rate of its lots, raising nearly US$46 million from wine, cognac, ceramics, jewellery and Chinese paintings.

The market appears to be highly attractive to auctioneers and seems far from saturated. Sotheby's thus recently opened a 15,000 sq.ft. (1,400 sq.m) complex that includes a large exhibition showroom, auction platforms, and offices in central Hong Kong, paying some of the highest commercial rents in the world. After London and New York, this space is only the third gallery Sotheby's is operating, moving Hong Kong "in line with the two art hubs," Sotheby's chief executive in Asia told the South China Morning Post. The international art market is increasingly gravitating toward Asia and Hong Kong clearly benefits not just financially.

Since the start of the year alone, five blue-chip galleries from around the world have opened dependencies in Hong Kong. London's influential White Cube, and Simon Lee galleries have launched in March and April respectively, followed soon after by Parisian icons Galerie Perrotin and NeC, as well as Shanghai's Pearl Lam in May. New York based Gagosian has been established since January of last year. While these galleries are naturally interested in selling the works on display, they fulfil an important cultural role and expose visitors and locals alike to international works of art.

Mainland Competition in the Pipeline?

Hong Kong by itself is not the only allure for both auctioneers and gallery owners to expand so aggressively. The SAR is in the midst of Asia's growing art scene with a particularly weighty market of a growing art-versed clientele looming just behind its borders. Georgina Adam, editor-at-large with The

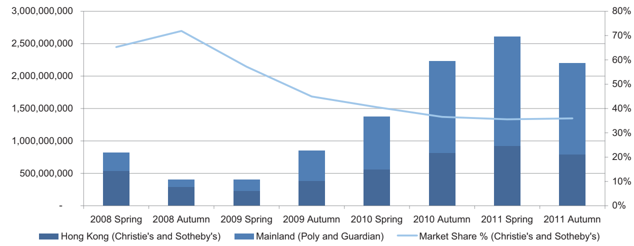
Art Newspaper, highlights what investors have in mind when setting up a gallery or auction house in Hong Kong: "Asia has achieved astonishing growth in the art market over the last 12 years, with China in particular now representing 30 per cent of the global art market – in 1990 it was less than 0.4 per cent. Hong Kong is a very important element in this growth, as foreign auction houses see it as the 'gateway' to the whole region."

Around three-million millionaires live in Asia and about 60 billionaires in China, many of whom like to combine fine arts with investment opportunities. After all, economics is as much a part of the US$15 billion market as the customary easel. Pieces of art appreciate yearly somewhere between 5-18 per cent, beating inflation and most stock market performances by a wide margin. Owners can also lease their paintings and other objects to hang in company and hotel lobbies, raking in dividends of about 7 per cent on average. With many banks hesitant to lend and stock markets rather bearish, investment in art is soaring. Global art auction sales reached a record US$11.5 billion in 2011, according to market data provider Artprice. Much of that growth is occurring in Asian nations.

According to Swiss newspaper NZZ, the Chinese share in trading art and antiquities has risen by a near fantastic rate of 530 per cent between 2004 and 2010. The new generation of wealthy Chinese from the metropolises of the coastal regions are not deterred by economic uncertainties and flock to auctions in Hong Kong to benefit from its free port status that does not levy import duties on works of art, compared to the 34 per cent charged on entry in mainland China.

At the moment, the auction house and gallery market in Hong Kong is still dominated largely by Western providers. These, however, are still in the process of completely grasping the taste and preferences of Chinese collectors. While the key players from London and New York are still navigating the young market, Chinese auction houses in particular are growing quickly. According to the French Conseil des Ventes, ten of the 20 largest auctioneers in the world are now Chinese. The two most prominent ones, China Guardian and Beijing Poly, were only founded in 1993 and 2006 respectively. Christie's and Sotheby's have been losing market shares to these two Chinese auction houses since 2008 (see Figure 1). Yet, Anders Petterson, Managing Director of London-based art market research provider ArtTactic, says that while "domestic auction houses have had a an amazing growth in the last two years [...] their growth is likely to slow down this year. China Guardian sale in May 2012 was 45 per cent lower than November 2011, whilst Christie's was more or less flat." Overall, Petterson believes that "Sotheby's and Christie's will continue to dominate the Hong Kong market for some time more."

Figure 1: Total volume of auctions with premium in all categories (USD)



Source: ArtTactic

In general, Chinese auction houses seem to pose only a limited amount of competition to Western auctioneers. While they operate representative offices abroad, including in Hong Kong, these seem to be concerned mostly with repatriation of Chinese art and do not exhibit international ambitions. Furthermore, illicit business practices cast a poor image on mainland competitors. Manipulation of prices by both artists and auction houses has been amongst the most cited accusations.

Economics Apart

While there are signs that 2012 sales will not manage to achieve 2011 record levels, experts remain optimistic about the market in both Hong Kong and mainland China. Particularly within the lucrative contemporary Chinese art market "the overall sentiment [...] remains firmly positive," says a recent report by ArtTactic. This goes hand in hand with the growth of the art scene in Hong Kong. Enrolment in art programmes has been on the rise at the local universities, and artists from Hong Kong are gaining recognition globally. Curators and art agents are drawn to the city, as are world-renowned exhibitions. The Hong Kong Heritage Museum, for instance, currently displays the by-far largest collection of Picasso works that the city has ever seen. Projects such as the West Kowloon Cultural District, as well as the redevelopment of the Central Police Station and Former Police Married Quarters into hubs for arts and culture are fuelling the bourgeoning creative industry. Both visitors and collectors can expect Hong Kong to enhance its role as Asia's leading art hub. ■

This article is based on the following sources: China, Auction Analysis, ArtTactic (January 2012); Confidence Report China, ArtTactic (May 2012); Georgina Adam, Editor-at-large, The Art Newspaper; Bonnie Engel, Vibrant, Exhausting Hong Kong Art Scene, Hong Kong Business (May 2012); Georges Waser, Chinas Reichtum und die Kunst, NZZ Online (21 April 2012).

A Guide to China's Growing Commercial and Service Sectors

Worries about a subsiding Chinese economy are abounding these days. Indeed, GDP figures have been corrected downward slightly, and expectations in the manufacturing industry indicate a very moderate growth at best. Yet, while economists debate whether China will have a 'hard' or a 'soft' landing, an argument can also be made that China is simply growing in new sectors. Indicators particularly in the service sector look more favourable. The HSBC service PMI, for example, rose to an 18-month high in May at 54.7 points, defying an unstable U.S. labour market and continuous concerns about the Eurozone. Growth especially in the commercial sector has grabbed the attention of analysts. What should investors be aware of, and what opportunities do recent CEPA liberalisations entail?

According to the National Bureau of Statistics (NBS), total retail sales of consumer goods grew nominally by 17.1 per cent year-on-year to reach RMB 18.1 trillion (~US$2.8 trillion) in 2011, slightly lower than 18.4 per cent growth of 2010. It is expected that China's total retail sales will double that of 2010 to reach RMB 32 trillion (~US$5 trillion) by 2015, with an annual growth rate of 15 per cent, and that the number of people employed in China's domestic trade sector will reach 130 million by 2015, of which 100 million are urbanites.

Four factors drive the growth momentum in particular: (1) domestic consumption is an important driver of GDP under the National 12th Five-Year Plan; (2) China continues its effort to put forward urbanisation and consumption upgrade; (3) household income is expected to increase steadily given the government's determination to boost income of the low-income households; and (4) CPI growth tends to slow down as the low-base effect is going to fade out in 2012.

One of the key policy objectives of the Chinese government in the next five years is to accelerate the transformation of the country's economic growth model from one that is export-oriented and investment-led, to one that is more consumption-driven. There is also a very clear shift in the government's focus from the speed to the quality of growth, and from economic growth to social welfare over the next five years. All these have enormous implications on the formulation of the policy framework for China's domestic trade sector. With the government's efforts to increase minimum wage across the nation and raise the price of agricultural products, as well as its continuous efforts to push forward urbanisation, income growth of rural and low-income urban residents are expected to increase further in the next five years. They will be the breakthrough points for driving domestic consumption.

Shopping scene in Chengdu

It is widely anticipated that the Ministry of Commerce will unveil the Development Plan for Domestic Trade (2011-2015) by mid-2012. It will be China's first national plan on domestic trade. Major themes of the Plan include expanding domestic demand, improving people's livelihood and increasing household income, developing and modernising the distribution sector, promoting the development of new retail formats, and speeding up the development of the service sector.

One particular sector that is experiencing above average growth is online retailing, an increasingly important sales channel in China especially among young consumers. E-commerce grew at a rate of 67.8 per cent in 2011, and is predicted to expand by another 53 per cent in 2012. In 2011, the market was estimated to be worth US$122.72 billion, accounting for five per cent of total retail sales in China. In 2013, some expect it to hit US$230 billion, surpassing the volume of the market in the United States. With the rising popularity of online shopping, online trading platforms are an increasingly important sales channel in China and a rising number of traditional retailers are resorting to online retailing platforms to reach out to customers.

Tapping the Domestic Market Successfully

The government's initiatives to boost domestic consumption and to promote a healthier business environment are bringing huge opportunities to corporations. Businesses are advised that success on the domestic market in China will require a different recipe than purely export-oriented operations. Most MNEs have wide experience already with aspects related to production or sourcing in China, shipping to European and North American markets, and marketing finished products within their home markets. When launching their products on the domestic market, however, they face a number of new obstacles, including high transaction costs, lack of know-how and little investment in branding. Table 1 gives an overview of some important differences in business practices that foreign companies may expect to encounter.

Table 1: Engaging in domestic trade vs. foreign trade

	Domestic Trade	Foreign Trade
Order volume	Smaller order volume, but orders are generally placed in a more frequent manner	Larger order volume
Method of payment	Case by case for each manufacturer Usually late payment by the clients	Use the Letter of Credit, which is internationally accepted.
Operation	Buyers require the manufacturers to produce the products first and then determine the order volume after examining the products It increases risks such as excessive inventory to manufacturers	Buyers provide the manufacturers with designs and other technical requirements when placing orders
Marketing & after-sale services	Buyers require the manufacturers to work together for better sales performance by asking them to take part in the promotion and advertising, which involves manpower and financial resources	Manufacturers are not involved in such aspects as marketing and after-sale services

Source: Li & Fung Research Centre

As this issue's cover story highlights in detail, lack of qualified workforce is a major issue for businesses in China. For the retail industry, this is no different – demand for talent increases at the same rate as the sector grows. Currently, it is estimated that around 80 to 90 million people work in the industry. Many retailers already have difficulty finding suitable employees to fill job vacancies. This is particularly true for small retailers, where the job vacancy rate can be as high as 15 to 20 per cent. Long work hours and low salary are the major reasons for frontline retail staff to quit their jobs. According to a survey conducted by IBMG, staff turnover rate in China's retail sector has been between 20 to 30 per cent in recent years.

Inadequate training in business schools is another concern for the nascent commercial sector. Although there are more than 300 business schools in China and nearly 100 of them provide relevant retail training courses, most of the teachers do not have practical experience in the sector. The discrepancy between the courses offered by schools and the expectations from retail enterprises is huge. Very often, graduates are not equipped with practical skills as needed for the workplace.

A major concern for companies in the commercial sector is the tax burden, which is heavier than in most other industries. In 2010, the contribution of China's domestic trade sector to GDP was 10.6 per cent; however, tax revenue for domestic trade accounted for 18.3 per cent of the national tax revenue in the same year. Currently, China's commercial tax burden is well above 25 per cent. According to the State Administration of Taxation, the tax rate for service industry will increase by 2 per cent a year in the coming years.

In order to sell in the domestic market, traditional processing trade factories (TFPs) have to transform their registrations into foreign-invested enterprises (FIEs) and temporarily stop their production for auditing by Customs. Production stoppage can take 9 to 12 months, which will undoubtedly exert huge pressures on the cash flow of many. Furthermore, the transformation from processing trade to foreign-invested enterprises involves the work of more than 10 government departments; the procedures are even more complicated if enterprises want to sell their products to different provinces in China. Yet, the trouble will likely be worth it, considering the huge growth potential of the commercial sector. Transformation into FIEs can also incur substantial tax repayments. Factories engaging in export processing are exempt from paying tariffs on imported components and machinery.

Chinese consumers are becoming increasingly discerning and expect better choices and more unique merchandise offerings. With the rapid growth of various retail formats such as professional stores, discount outlets and online retailing platforms, suppliers and brand owners have more choices for product distribution. Businesses may consider forming sales alliances to share costs of transportation, promotion and marketing costs, and leverage on industry associations to expand domestic sales.

A boon not just for Hong Kong: CEPA Supplement VIII

The growth in the commercial sector is complemented by favourable outlook in China's service sector more generally. Particularly banking and insurance, technical testing and analysis of products, and professional services go hand in hand with a strong retail sector. Market research, legal advice, and product certification are just some of the services for which retail chains and distributors exhibit growing demand. In 2011, China's service sector attracted US$55.2 billion in foreign investment, overtaking the manufacturing industry for the first time, according to the Chinese news agency Xinhua. Yet, while opportunities for international corporations exist to invest in the commercial sector, China has yet to liberalise many aspects of its shielded service sector.

As with many other industries, an entry into the Chinese service sector may be more accessible via Hong Kong. Fittingly, April 2012 saw the implementation of the CEPA Supplement VIII measures that particularly target the service sector. Specifically, the Chinese mainland has granted relaxed market access conditions in the 16 service sectors as follows: (i) Legal services, (ii) construction services, (iii) research & development services, (iv) technical testing, analysis and product testing, (v) manufacturing services, (vi) job intermediary services, (vii) distribution, (viii) insurance services, (ix) banking services, (x) securities services, (xi) medical services, (xii) tourism, (xiii) recreational, cultural and sporting services, (xiv) road transport services, (xv) professional qualification examinations, (xvi) individually owned stores.

In order to be eligible for preferential treatment within the scope of these latest CEPA liberalisations, a corporation must hold the status of a Hong Kong Service Supplier (HKSS). An HKSS can be a natural person with permanent residency in Hong Kong or a juridical person. The latter status can be gained by multinational enterprises when they are a legal entity "duly constituted or otherwise organised under applicable laws of Hong Kong (i.e. corporation, partnership, sole proprietorship, etc.) and which has engaged in substantive business operations in Hong Kong for three to five years," according to Hong Kong's Trade and Industry Department. Service suppliers should apply to the Trade and Industry Department for a HKSS Certificate, and apply to the relevant mainland authorities for providing services with CEPA treatment.

The liberalisations implemented open doors to China's service sectors in many ways. Mainland-incorporated banking institutions established by a Hong Kong bank are now allowed to engage in the sale and distribution of mutual funds, and mainland banks can make use of Hong Kong's international financial platform to develop their international businesses and bilateral co-operation in the development of insurance products, business operation and operational management in return. Furthermore, Hong Kong banks (including foreign ones that can satisfy criteria to qualify for this status) need to provide US$6 billion in assets to establish a branch, compared to US$20 billion a foreign bank must show.

Technical testing, analysis and product testing is a second interesting field in which HKSS now enjoy preferential treatment. Many products sold in China must receive the China Compulsory Certificate (CCC) – a standard only used in the mainland. Foreign testing organisations are not allowed to undertake testing of products, but HKSS are now allowed to co-operate with designated mainland organisations to undertake product testing on a pilot basis. CEPA Supplement VIII also has stipulations for the establishment of law firms in association with a mainland firm. Unless the firm is a HKSS, foreign law firms currently cannot operate in association with mainland law firms.

The CEPA Supplement VIII has the capability to allow a variety of businesses from Hong Kong and beyond to benefit from the growth in China's service sector. Liberalisations target the core industries of Hong Kong, such as banking and finance in particular, but extend to a number of other sectors in which German MNEs have wide experience. At the moment, the service sector contributes about 43 per cent to China's GDP – compared to around 70 per cent in developed economies. As the Chinese government is actively supporting job creation in higher value-added industries and steering its economy to a more consumption-driven path, growth in service and commercial sectors can be expected to exceed that of the manufacturing sector substantially. While challenges to tapping the domestic market exist, few internationally active companies are deterred. ■

This article includes reprinted passages from two insightful reports: Teresa Lam and Carol Ma, 'Ten Highlight's of China's Commercial Sector, 2011-2012,' Li & Fung Research Centre, 2012; Edward Leung et al., 'CEPA Supplement VIII measures – opportunities for Hong Kong,' Hong Kong Trade Development Council, February 2012. We would like to thank the authors for their permission to take information from their works. Image is credited to Kyle Taylor.

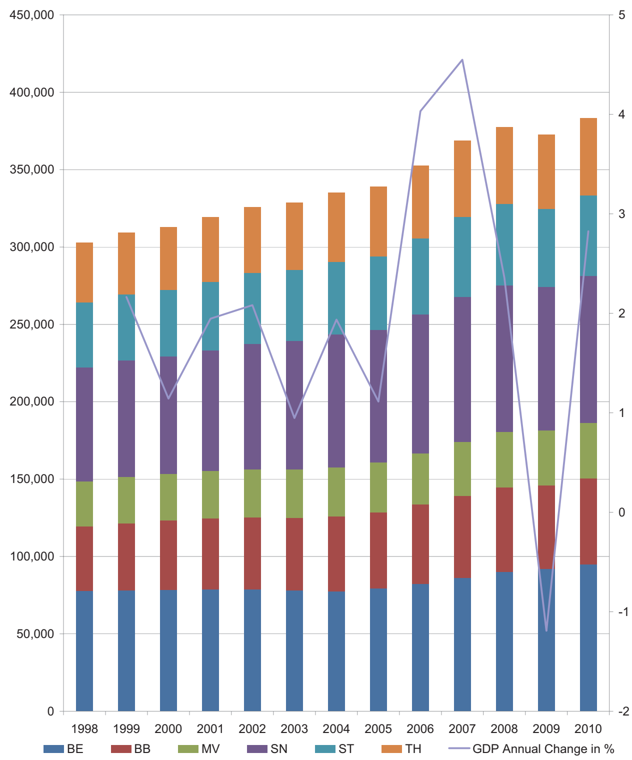
Eastern Germany's 20 Years of Gain

Much has rightly been written about the historical and political significance of the fall of the Berlin Wall in 1989, and the German reunification in October 1990. The so-called 'Peaceful Revolution' of 1989 in East Germany played an important role in the Wende (Turning Point) process, which eventually resulted in these two world changing events. Less spectacular, but an equally important precursor to German unification after four decades of separation, was the act of creating an economic and currency union signed between West Germany and the German Democratic Republic (GDR) in July 1990.

An industrial 'new beginning' was the overarching aim of the fledgling republic's economic policy – and with good reason. In 1991, unemployment rates in the new eastern federal states were double those of their West German counterparts. Gross domestic product (GDP) in the new federal states (excluding Berlin) was little more than a third of western levels, export levels were half those of the existing federal states, and the eastern share of overall manufacturing sector value added was a paltry 3.5 per cent. Concerted and forward-looking reconstruction and development policies involving both public and private partners at national and international levels have transformed the economic landscape. GDP levels have more than doubled in the intervening years.

Around EUR 1.3 trillion has been spent on the reconstruction of Eastern Germany. Major investment in road, rail, air, and telecommunications infrastructure has helped set the path for the steady growth being witnessed today. The on-the-ground presence of internationally renowned universities, technical universities, and research institutes has driven the rapid development of forward-looking industry sectors like biotechnology and renewable energies. German reunification has proved to a resounding economic success. The country's new federal states have proven particularly resilient in staving off the effects of the worst international financial crisis in recent history, recording positive economic and GDP growth in 2010. Foreign direct investments, as well as public and private partnership have played a defining role in radically transforming the fortunes of the new federal states. Eastern Germany has come a long way in the last 20 years. The next 20 years promise to be just as rewarding.

Figure 1: GDP and Annual Growth Rates in Eastern Germany (including Berlin)



TH: Thuringia, ST: Saxony-Anhalt, SN: Saxony, MV: Mecklenburg-Western Pomerania, BB: Brandenburg, BE: Berlin
Source: Federal Statistical Office 2011

The New Federal States

The region of Eastern Germany consists of six federal states (most commonly referred to as the 'new federal states'). These are Brandenburg, Mecklenburg-Vorpommern (Mecklenburg-Western Pomerania), Saxony-Anhalt, Saxony, Thuringia, and the city state capital of Berlin. The region is home to a population of around 16.5 million people, of which more than 3 million live in Berlin alone.

Europe's Foreign Direct Investment Magnet

The United Nations Conference on Trade and Development (UNCTAD) World Investment Prospects Survey 2009-2011 confirms Germany's reputation as one of the most attractive business locations in continental Europe. In terms of market size and GDP, Germany outstrips every other country in Europe – little wonder that it is Europe's largest single market; contributing over 20 per cent of total European GDP. Eastern Germany in particular, offers significant business advantages to foreign investors. FDI stocks within the region more than doubled for the period 2002 to 2008. Around seven thousand foreign companies have profited from Eastern Germany's location advantages, with the USA being the largest single investing country in the region.

Labour and Productivity

The new federal states' population of over 16 million people is highly qualified. More than a quarter of the Eastern German workforce boasts university or technical college qualifications, with a further 60 per cent of the labour force classified as skilled craftsmen and technicians. Productivity levels within Eastern Germany have more than doubled since economic and political reunification 20 years ago. Highly flexible labour practices contribute to enhance the region's suitability as an optimal investment location for international business. German productivity rates are almost ten per cent greater than the average of the EU's (European Union) core national economies and almost one quarter higher than the Organisation for Economic Co-operation and Development (OECD) average.

German labour flexibility is reflected in higher than average employee motivation levels – exceeding those of most leading industrialised nations. In fact, according to the IMD World Competitiveness Yearbook, German employee motivation levels are greater than those of their counterparts in the US, China, Russia, Poland, France and the UK. A direct corollary of this is the fact that Germans work more than their international peers (41.2 hours per week) and lose less days per annum to strike action than other European nations (significantly below the EU-27 average according to Eurofound).

Another decisive argument in favour of Germany's new federal states as a premium business location has been the significant closing of the labour cost gap between Germany and its eastern European neighbours. In fact, Germany has gained the labour-cost edge in recent years. Since 2000, wages have risen in most EU countries (average growth rate of 3.7 per cent). While some countries – particularly those in Eastern Europe – experienced a rise of more than seven per cent, Germany recorded the lowest labour cost growth within the EU at just two per cent.

Leading Edge Logistics and Infrastructure

Located at the heart of Europe, Eastern Germany provides access to a sophisticated infrastructure that allows investors to serve established western European markets and burgeoning new markets in the east from a central location. Around EUR 72 billion has been spent on upgrading and expanding Eastern German infrastructure. As a result, the new federal states can boast Europe's most modern road, rail, and airport networks. Eastern Germany's state-of-the-art transportation and power supply infrastructure make up an integral investment location advantage when compared like-for-like with neighbouring European countries. A significant number of the country's airports – including Europe's most modern airport as of 2013 – are located in the east. Goods distribution by sea is well served by around 2,400 km of navigable waters. Northern seaports provide quick and easy access to the UK, the Baltic States, and Scandinavia. Rail freight benefits from the 11,000 km of rail track dotted across the region. From Berlin alone, it is possible to reach 200 million consumers across Europe by rail or road freight within 24 hours. The region can also boast a completely digital telecommunications network with 87,000 miles of fibre optics for optimal, cost-efficient IT and telecommunications. Eastern Germany also benefits from ready availability of affordable real estate, low office and housing unit rents.

International Conference and Exhibition Location

With major conference exhibition cities like Berlin and Leipzig, Eastern Germany has established itself as a major international destination for conferences and trade fairs. Germany is the recognised world leader in international conference events – two thirds of all internationally leading industry exhibition and trade fair shows take place on German soil. The undoubted strengths of the country's trade fair landscape are its international character and Germany's central position in Europe.

Free and Open Markets

Business-friendly local government and swift company establishment procedures ensure that time-consuming bureaucracy is kept to an absolute minimum. According to the Wall Street Journal and Heritage Foundation compiled '2010 Index of Economic Freedom,' Germany scores considerably higher than the international average in terms of business freedom. It takes just 18 days on average to start a business – compared to the international average of 35 days. In countries like Poland and Bulgaria, business start-up takes 18 and 31 days respectively.

Vibrant R&D Landscape

Eastern Germany's thriving research and development (R&D) landscape is best exemplified by close co-operation between the worlds of science and industry. The world's most renowned fundamental research institutes are also located in Eastern Germany. The Leibniz Association, the Max Planck Society, the Fraunhofer Society, and the Helmholtz Association allow companies to outsource costly research activities. This lowers the risk of developing new products and decreases R&D costs.

Eastern Germany is home to 23 universities, 36 universities of applied sciences, and numerous R&D facilities. According to the Halle Institute for Economic Research, Germany's Eastern states boast a higher R&D intensity level than Eastern European neighbours Poland, the Czech Republic, and Hungary. The creation of universities, R&D institutes and business partnerships has proved decisive in increasing the attractiveness of Eastern Germany for international investors. They have helped lay the groundwork for the internationally leading high-tech clusters that have sprung up in the biotechnology, ICT, nanotechnology and new materials, renewable energies, security technologies, microelectronics, and optical technology sectors.

As R&D is considered to be among the most important areas for the development of the German economy, both industry and the public sector have made a commitment to spend around three per cent of national GDP per year on R&D activities. This amounts to approximately EUR 70 billion R&D spending each year.

Germany's unique industry 'cluster' concept has created an environment in which operators from all sectors are able to flourish in close proximity with other industry actors and investors, academic institutions, and research centres. Comprehensive industry value chain presence in the new federal states ensures that the newest and most innovative products and services are delivered to the highest possible standards.

Attractive Investment Incentives

Incentives in Germany are designed to meet the immediate capital needs of investors. During the investment phase (when capital needs are high), cash incentives programmes reimburse direct investment costs by providing non-repayable cash grants. There are two main programmes directing the allocation of cash grants in Germany: the Joint Task for the Promotion of Industry and Trade (GRW - Gemeinschaftsaufgabe); and a special cash incentives programme to promote investment activities in Eastern Germany called the Investment Allowance (IZ - Investitionszulage). The highest GRW incentives rates are allotted in Eastern Germany subject to investor company size, investment project location and investment volume. All investors in Eastern Germany are automatically eligible for Investment Allowance funding (subject to all eligibility criteria being satisfied) without recourse to general incentives programme application procedures.

Public loan programmes, offered by publicly owned and organised banks existing at national and state level, and public guarantees round off investment project financing. They are accessible to foreign investors subject to the same conditions available to investors from Germany.

Quality of Life

As well as providing optimal investment conditions, the new federal states provide a quality of life that is hard to match. Germany's eastern states are cosmopolitan and modern in outlook, with an excellent standard of living. Superior health and education provision, numerous sporting and recreational activities, and a landscape of breath-taking natural beauty are just some of the reasons why more than seven million foreign nationals have made their homes in Germany. ■

This article was authored by Anne Schettler and William MacDougall on behalf of Germany Trade and Invest. Visit www.gtai.de for more information on investment and trade opportunities.

ANNOUNCEMENT:

Investor Conference in Hong Kong

Date: 20 September, 2012
Time: 6:00 p.m.
Venue: Island Shangri-La, Pacific Place, Supreme Court Road, Admiralty, Hong Kong

Germany Trade & Invest with German Industry and Commerce Hong Kong will welcome Chinese company representatives for an investor conference on September 20th, 2012, in Hong Kong. While enjoying an exclusive dinner, participants will have the opportunity to discover the full advantages of smart industry solutions by investing in Germany.

Contact the German Industry and Commerce Hong Kong at +852 2526 5481 for more information.

Market Expansion through Hamburg

Since 1986, GIC has partnered with HWF Hamburg Business Development Cooperation (HWF) to provide free of charge and confidential services and assistance to businesses, and in particular small to medium-sized companies in Hong Kong to set up office in Hamburg. HWF Hamburg Business Development Corporation is a private-enterprise consultancy company that specially supports growing companies in their plans to expand, restructure or invest in Hamburg. HWF's shareholders are the Hamburg Marketing GmbH, the Hamburg Chamber of Commerce, the Hamburg Chamber of Skilled Trades, Hamburger Sparkasse AG, and Hamburger Volksbank eG. German Industry and Commerce has organised regular seminars/ workshops and individual company visits throughout the years with HWF visiting experts.

Hamburg - Gateway to Europe

Companies looking for the right business location in Germany can call on a number of other services: We see our role as a pilot who guides business interests through the 'jungle' of public authorities and institutions, especially for the city of Hamburg. Together with HWF, GIC offers:

- Extensive location information
- Help in setting up business in Hamburg
- Support in procuring residence and work permits
- Cluster management

With 400 Chinese companies present in Hamburg, and 700 Hamburg companies active in China, Hamburg is Europe's gateway to the Far East. Hamburg boasts the highest number of Chinese branches in Europe, making it the EU's most important centre for China-related business. China's top three shipping companies, China Shipping, Cosco and Sino-trans, have established their European headquarters in Hamburg and invested millions of euros in real estate. Numerous large companies such as BKK Mobil Oil, Amago Pure Entertainment, Hamburg International HHI, and Garbe Transport GmbH have significantly expanded their activities in Hamburg. To secure future success, HWF repositioned its active marketing policy by establishing transnational clusters focusing on Hamburg's key industries – Media and IT, logistics, aviation, life science, Maritime Industry, and Renewable Energy.

Internationalism is the city's brand

In May 2006, Slovakia opened the 100th Consulate in the Hanesatic City, making it the world's third largest consulate place after New York City and Hong Kong. The city is enjoying a long-standing reputation as 'gateway to the world', every consulate is a bridgehead for Hamburg's international relations in trade, science, culture, and sports, and a pillar of the city's cosmopolitan lifestyle and flair.

No. 1 logistics partner

Besides, the Port of Hamburg is ranked No. 2 among Europe's container ports and plays an essential role to the city's economy. Hamburg is well-placed to serve as both Sino-European trading hub and logistics centre with access to both the North Sea and the Baltic Sea. The city offers excellent traffic connections for the handling of worldwide foreign trade transport chains. Back in the days of the medieval Hanseatic League, close trade links with Asia already existed and by the early 18th century ships were regularly plying between Hamburg and Asian ports. The Port of Hamburg is more involved with China than any other European port. In 2011, about 3 million TEU came from and went to China, accounting for 30% of the Hamburg total container volume. Germany continues to be China's strongest commercial partner in the EU.

Find out more about our service, please contact Ms. Michelle Chan, German Industry and Commerce Ltd. at tel.: +852 2526 5481, email: info@hongkong.ahk.de.

VDMA – Verband Deutscher Maschinen- und Anlagenbauer e.V.

Introducing VDMA Beijing and Shanghai Representative Offices: Specialised Services across Mainland China

VDMA – Verband Deutscher Maschinen- und Anlagenbauer e.V. – is the German Mechanical Engineering Federation. It was established in 1892 and is Europe's largest industry federation representing over 3,100 European members from all sectors of mechanical engineering.

The VDMA Beijing representative office was established in 2004. VDMA Shanghai representative office was established in 2006. There are a total of 11 professional employees in the team, who can support all enquiries with regard to the mechanical engineering industry.

About 20 per cent of VDMA members are active in China. VDMA China offices connect an estimated 500 subsidiaries and local representatives. Over 60 per cent of the subsidiaries are located in Shanghai Greater Area, Zhejiang and Jiangsu provinces. About 20 per cent of the subsidiaries are located in North China: Beijing, Tianjin, Dalian, Shenyang etc.

The VDMA China representative offices maintain good relation with international and Chinese government institutions and associations, providing information and consulting services to mechanical engineering companies.

Typical Questions

As 85 per cent of VDMA members are SMEs, local subsidiaries often accept additional advice on strategic steps in China. Typical questions asked are:

- *How can I expand my customer network and sales activities in China?*
  Companies working with agents in China consider establishing their own trading company. The minimum financial investment for a FICE (Foreign Invested Commercial Enterprise) in China is not high and the establishment procedure takes about 4-12 months. Companies with sales & service in China can expand their activities and establish their own sales and service team.

- *Should I start production in China?*
  Before entering China with own assembly or production, it is crucial to conduct a product-specified analysis of the local competition. It's important to understand if there is a market for the product, or if the product has to be amended to local market demands. A second task is to check the product copyright and patent situation. More and more Chinese companies file and register local patents – especially utility patents – as well as trademarks. The local jurisdiction approves a first-to-file-concept. As a foreign manufacturing company wishing to enter China, it is mandatory to check the legal protection possibilities in China.

For more information, feel free to contact us in our main office in Beijing.

Beijing Office
Ms. Stephanie Heydolph
Chief Representative
heydolph@chinavdma.org

Member Update

Deutsche Bank opens Agency Securities Lending desk in Hong Kong

Deutsche Bank announced in May it will open an Agency Securities Lending desk in Hong Kong in the second quarter of 2012 to better service the needs of clients in local Asian markets. Supporting the Agency Securities Lending needs by being in the same time zone, allows for better co-ordination in trading in local markets. The Hong Kong desk will complete Deutsche Bank's Agency Securities Lending coverage, which is already in place in Frankfurt, London, New York, Poland and Turkey. ■

Hong Kong wins the 2012 KPMG Global Student Competition

From 18-20th April, KPMG International Case Competition (KICC) was held in Hong Kong. It was the first time for the event to be hosted in Asia. After three days of intense case study analysis and presentations, a team of four students from the University of Hong Kong won the event. The other three finalist teams represented Spain, Sweden, and Vietnam.

KICC is a global student recruitment initiative, which drew some 6,000 students from over 300 universities in 24 countries/jurisdictions to compete against each other, developing solutions to realistic business scenarios. This challenge represents the complexity KPMG professionals tackle every day, working with some of the world's most notable organisations.

KICC exemplifies KPMG's commitment to learning and development, offering new graduates the opportunity to work across geographies and take on highly challenging and ground-breaking work. ■

Hong Kong University Students Gary Chui, Patricia Wong, Mimi Mo, Athena Au won this year's KICC

ALBIS PLASTIC builds compounding plant in China

Albis Plastic GmbH, specialist for the distribution and compounding of technical thermoplastics, is investing EUR 10 million in the construction of a new compounding facility in China. On a site covering 5,000 sq.m in Changshu (90 km west of Shanghai) the company is erecting a production plant to produce the Albis brands ALTECH and ALCOM. The plant is due to be operational at the latest by the middle of 2013. The future facility will initially be able to produce 10,000 annual tonnes and strives to meet European product quality standards. Albis Plastic will also be focussing on acquiring and supplying local Chinese OEMs and level 1 and level 2 suppliers that will profit from the benefits of the local production. The product range specifically targets the plastic processing sectors, such as the automotive, electrical, white goods, and consumables industries.

Albis expects annual growth in the demand for technical plastics in China of around 14 per cent over the next few years. Having a site in Changshu goes up against the local suppliers making full use of Albis technological head start. Up to 90 percent of the value creation, including the purchase of raw materials, will be generated locally. ■

Lanxess starts up new rubber plant in China

German specialty chemicals company Lanxess has started up a nitrile butadiene rubber (NBR) plant in Nantong, China, as part of its 50:50 joint venture with Taiwan's TSRC Corporation on schedule. The two companies have jointly invested USD 50 million (approx. EUR 39 million) in the new plant, which has an initial annual capacity of 30,000 metric tons. Some 100 new jobs have been created through the investment. China is the world's biggest and fastest-growing NBR market, with a compound annual growth rate of approximately 10 per cent. Demand is being driven by the local automotive, footwear and flooring industries.

The new plant is the most modern of its kind in Asia and will address the needs of the two leading megatrends in China – rapid urbanisation and growing mobility as stated by Axel C. Heitmann, Chairman of the Board of Management at Lanxess, during the official opening ceremony. ■

Osram expands with new LED assembly plant in China

Osram AG has signed a contract with the Wuxi New District Administrative Committee to build a new assembly plant in the Chinese province of Jiangsu. In the face of sharply rising demand for LED-based products, Osram has opted to set up a further plant in Wuxi, China, to augment the capacity of its chip plants in Regensburg, Germany and Penang, Malaysia. With this move, the company is strengthening its access to the lighting industry's largest single market worldwide. The new plant is scheduled to be up and running by the end of 2013. It will be able to accommodate up to 1,600 employees when fully operational.

According to a market survey conducted by McKinsey, the rapidly growing Asian region today already accounts for around 35 per cent of today's global general lighting market. This share is expected to increase to 45 per cent by 2020. Forecasts predict the Chinese market alone, worth over EUR 8 billion today, to more than double by 2020. In fiscal year 2011, Osram generated about one fifth of the Group's revenue in the Asia-Pacific region, where it employs over 16,000 people. This workforce is larger than that of any other region worldwide, and roughly half of it is employed in China. ■

German Chef de Cuisine at the Mira

The WHISK, one of six dining concepts at The Mira Hong Kong, has a new Chef de Cuisine: One Star Michelin awarded Björn Alexander Panek from Germany. Chef Björn Alexander began his culinary career at the age of 20, and has since worked as an apprentice for two 3-Star Michelin chefs. He has worked in numerous multi-awarded restaurants in Europe and later developed his skills in the world-famous Burj Al Arab Hotel in Dubai.

The hotel was also recently awarded the title "Best Business Hotel in Hong Kong" during the 5th Annual TTG China Travel Awards ceremony. The TTG China Travel Awards seeks to recognise best performing travel and tourism organisations in the Greater China region as determined by votes cast by fellow trade professionals. The Mira Hong Kong, in business since 2009, received the award for the second time since its opening. ■

The Mira's new German Chef de Cuisine Björn Alexander Panek

BASF-YPC breaks ground on acrylics project in Nanjing

BASF-YPC Company Limited, a 50-50 joint venture between BASF and Sinopec, broke ground today on a new superabsorbent polymers (SAP) plant in Nanjing. This milestone signifies BASF's commitments in bringing important chemicals to the China market that will support the development of more sustainable local industries. The 60,000-metric-ton SAP plant in Nanjing is planned to begin commercial operation in early 2014. Superabsorbent polymers have a wide range of applications, they are plastics with the capability to absorb and hold up to 500 times their own weight in liquid – even under pressure. The absorption drops to a still impressive figure of 50 times their weight in salty body fluids such as urine. The product is used in form of a white grainy powder, mainly to make baby diapers.

BASF and SINOPEC are also planning to build a new acrylic acid facility, as well as a new world-scale butyl acrylate plant with a capacity of 160,000 tons per year. ■

South China Morning Post Invests in manroland Solutions

Brilliant Star Printing Services Ltd. in Hong Kong, the company responsible for contract printing and a 100% subsidiary of the South China Morning Post, recently invested in a new manroland press while concurrently implementing the pressupdate program from manroland web systems for its existing printing systems. In May 2012, the long-term customer signed the contract for a new GEOMAN press from manroland web systems. This investment, with a production start planned for July 2013, will allow the company to expand its capacities considerably and cater to customer requests with even greater flexibility. In addition, a GEOMAN from 1999 and REGIOMAN from 2005 will be geared up for the future. The South China Morning Post is the largest English-language newspaper in Hong Kong and one of the leading economic newspapers in the region with a print run of roughly 150,000 copies. The biweekly Jiu Jak Magazine and the weekly Post Magazine, as well as the Business Post and supplements, are also printed in Hong Kong. ■

Dear Members,

If you have any news you would like to publish, please send your press releases to:

info@hongkong.ahk.de

Member Introduction

Corporate Member

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Ms Anne Busfield
General Manager

Discovery Bay, a serene resort development located on the northeastern coast of Lantau Island, is a peaceful oasis away from hectic Hong Kong. Surrounded by lush greeneries and tranquil sea, it is the ultimate leisure, event, and incentive destination.

Auberge, Discovery Bay Hong Kong is located on the picturesque waterfront of Discovery Bay, the hotel invites visitors to explore another side to Asia's dynamic city. Although part of Hong Kong, Auberge is worlds apart.

Boasting unobstructed sea views, luxuriant greenery and superbly appointed interiors, the 325-room resort offers an extensive range of accommodation options and a wealth of leisure and event venues. The all-day dining restaurant, award-winning Spa Botanica, white wedding chapel, outdoor swimming pool, fully-equipped gym, and 1,300 square metres of function space comprising a 700 square metres pillar-free ballroom and seven function rooms; all planned to suit your every need whether your stay is for leisure, meeting, incentive, event, wedding, or a special celebration. ■

Corporate Member

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Mr. Benjamin Mueller-Rappard
Senior Sales Manager - Europe

Located in the vibrant heart of Hong Kong, dynamic lifestyle hotel, Langham Place, Mongkok, Hong Kong brings your next stay to life. Blending trendy sophistication and contemporary chic, the 665-room vibrant hotel directly connects you to markets, over 300 shops, a cinema complex, and the train station, making it the hottest location in the city. Its state-of-the-art function facilities combine advanced technology and extraordinary service to create an engaging environment. Versatile meeting facilities come with video conferencing, simultaneous recording and screening, and built-in LCD projectors with multiple, large drop down screens.

Home to a contemporary art collection of over 1,500 pieces, the hotel promises a sparkling stay with it soul-soothing Traditional Chinese Medicine-inspired Chuan Spa featuring over 60 treatments, a glamorous roof-top pool, and stellar dining ranging from the two-Michelin starred contemporary Cantonese restaurant, Ming Court, to The Backyard outdoor cocktail deck and modern take on Japanese, at Tokoro Robatayaki & Whisky Bar.

Members of the German Chamber of Commerce in Hong Kong and their guests enjoy exclusive rates when booking their stay at the award-winning Langham Place Hotel. ■

Not for Profit Making Organisation Member

Hong Kong Standards and Testing Centre Ltd.

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Dr. Richard Fung
Chief Executive

Established in 1963, STC is an independent, not-for-profit, testing, inspection and certification organisation. The company established laboratories in Hong Kong, Dongguan, Shanghai, Germany, and strategically set-up offices in China's cities, Italy and USA. With its global network and accreditations from renowned standard bodies such as China's CNAS, Germany's DAkkS and US FCC, STC can provide a comprehensive one-stop conformity assessment service to ensure the products are in compliance with relevant technical and safety requirements.

Young Entrepreneur Member

Mr. Guido Jackels

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Managing Director
c/o GHC Ventures Ltd.

GHC Ventures Ltd. was founded in the summer of 2011, and is the licensee of the brand White Diamonds. Its young and energetic founders are from Berlin, Germany, and they believe to currently possess a very unique portfolio of mobile phone accessories designed in collaboration with award-winning European designers. As a SWAROVSKI ELEMENTS licensee, White Diamonds is an expert in the field of individual product customisation. In order to guarantee the authenticity of the used crystals, White Diamonds is authorized to use the label 'MADE WITH SWAROVSKI ELEMENTS'. GHC Ventures Ltd. is headquartered in Hong Kong and currently sells its portfolio in 40+ countries worldwide. Its mantra is "Affordable Luxury", and translates this into its goal to offer great products for exceptionally attractive prices.

Junior Management Member

Mr. Dominik A. Billig

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Sales, Operations and Business Development Executive
c/o Owen Meany Ltd.

Owen Meany distributes European Premium Design and Lifestyle collections, which are nice to have and the ideal gift. Just having arrived from Munich, Dominik Billig is the new Sales, Operations and Business Development Executive and your one-stop-contact for unique corporate gifts.

Change of Chamber Representative

Amann Asia Ltd.

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Ms. Fiona Cheng
Managing Director

Ms. Fiona Cheng is the Managing Director of Amann Asia Ltd., AMANN GROUP Hong Kong subsidiary. She has joined AMANN GROUP since 2010. Her professional sales experience gives the company a strong push to future growth. ■

Change of Chamber Representative

Bosch Rexroth (China) Ltd.

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Mr. Balder Lai
General Manager

Mr. Balder Lai joined Robert Bosch Company Ltd. as General Manager in January 2012. He is also the General Manager of Bosch Rexroth (China) Ltd. He joined the Bosch Group since 2001. He spent 16 years in Shanghai in managing the sales team of Eastern China before relocating back to Hong Kong in 2011. ■

Change of Chamber Representative

Germany Trade and Invest (GTAI)

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Mr. Achim Haug
Chief Representative
Hong Kong, South and West China

Starting from 1st May 2012 Mr. Achim Haug is the new Chief Representative of Germany Trade & Invest (GTAI) in Hong Kong. His main responsibility is to oversee and analyse trade performance and economic development between Hong Kong and Germany, as well as the economic integration of the Pearl River Delta region. Mr. Haug worked at the Asia Department, GTAI in Bonn in the past four years as Economic Manager. He holds a degree in Area Studies China from University of Cologne, and had studied Chinese Economic Studies at University of Finance and Economics in Chengdu. GTAI is the official foreign trade and investment agency representing the Federal Republic of Germany abroad ■

Change of Chamber Representative

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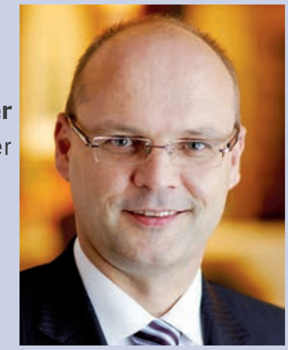
Mr. Wolfgang Krueger
Area General Manager



Mr. Wolfgang Krueger was appointed Area General Manager of Island Shangri-La, Hong Kong in April 2012. Apart from overseeing the overall operations of Island Shangri-La, Mr. Krueger also has supervisory responsibility over the Shangri-La hotels in Taipei, Tainan, and Tokyo.

Change of Chamber Representative

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samuel.wu@osram.com
www.osram.com

Mr. Samuel Wu
President / CEO Asia Pacific

Mr. Samuel Wu joined OSRAM Asia Pacific Ltd. as President / CEO Asia Pacific in April 2012. He has over 20 years experience in the energy, O&G and process solutions business. He has spent a major part of his career in the U.S. and APAC, and had worked previously in China.

Flashlight

20.02.2012
International Business Committee Dinner

Representatives of the foreign chambers of commerce in Hong Kong were pleased to lunch with Chief Secretary of Administration, the Hon. Stephen Lam, on 20 February at The Hong Kong Jockey Club, exchanging views on how businesses can prosper most. German Industry and Commerce's Chairman & CEO Ekkehard Goetting attended the popular event. ■

24.04.2012
Joint Chamber Breakfast Seminar: The End of Progress: How modern economics has failed us

Sometimes it's time to take a step back from turnover rates and LTD ratios, and take a look at the broader picture. What are the long-term prospects for economic growth in the Western world? Is the current financial crisis a sign of broader shifts in the world economy? Have traditional economic theories failed? Graeme Maxton, freelance writer for *The Economist*, author of several books, and former chair of the EIU's CEO programme in Hong Kong and Singapore, addressed these questions in his presentation. ■

25.04.2012
Joint Chamber Lunch Seminar: Views on the news

Organised by the Swedish Chamber of Commerce, this event featured Jake van der Kamp, one of Asia's best-known financial affairs columnists presenting on his view on the most recent news that affect the financial and economic position of Hong Kong. Jake writes for the South China Morning Post, worked previously in Hong Kong as an investment analyst, and has made Hong Kong its residence for the past 30 years. A lively question and answer session followed his insightful speech at the Club Lusitano in Central. ■

19.04.2012
GC.N@WORK

Attracting members from the German and international business communities, GC.N@WORK took place at the Langham Place. The signature event of the German Chamber of Commerce combines networking, warm atmosphere, and a great crowd each month. Don't miss next month's event. ■




















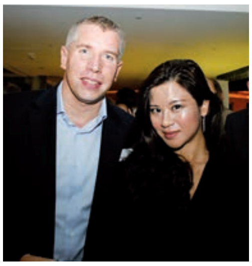


26.04.2012
Joint Chamber Breakfast Seminar: Trade with China Series (1): How to ensure a successful transport of your goods in and out of China?

The first part of a series of talks, with knowledgeable speakers addressing various issues relating to trade with China, this event was particularly relevant to those in the logistics field. Frans Duwaer, General Manager of Ahlers Hong Kong, and Jason Zheng, Branch Manager of Ahlers Guangzhou, delivered practical advice to help ensure smooth transport in all aspects, including customs clearance, trade documentation, quality control, and trade regulations. New rules by the Chinese authorities aim to ease transport, but have left some question marks with procurers and logistics experts. The seminar, organised by the Belgium-Luxembourg Chamber, filled many of these blanks. ■



03.05.2012
Symposium: Sourcing in Asia, future trends and models

A two-day event organised by the French Chamber, this symposium focused on all the hot topics related to sourcing in Asia. Panels with experts in the field focused on sustainability, human factors, and financial best practices to optimise sourcing needs. Day 2 featured a variety of workshops that detailed how to source in new countries, starting an office, total acquisition costs, and new emerging sourcing models. Speakers came from various industries with different positions and included Adam Salzer, Managing Director, Consulting, PwC, Patrice Martin, Managing Director, Kuehne & Nagel, and Christophe Bataille, Finance Director, Tesco International Sourcing Ltd. ■




15.05.2012
GIC / GTAI / GSIS Workshop: German food industry in Hong Kong

Representatives from GIC, GTAI, the German Consulate, and local supermarket chains attended this workshop, which gave an overview of the current market situation and future business opportunities for German food products. Emphasis was ceded to demand of wine, beer, and meat products in Hong Kong's supermarkets, bars, and restaurants. Three apprentices from the German Swiss International School's Business College – Julian Schulz, Lennart Hector, and Richard Goehringer – presented their research findings. ■

16.05.2012
Lunch Seminar: Managing Generation Y

As members of Generation Y are graduating from universities and are starting their careers, it is vital for supervisors, managers, and team leaders to have a better understanding of some of the most important characteristics of this age group, appreciate their strengths and weaknesses, and learn how to best motivate them. Differences to Generation X and the baby boomers are quite pronounced. Building a hybrid team with staff from different generations can thus be a challenge. Heidi Adick, Director & Consultant with Dew-Point International Ltd., gave attendees the necessary advice, so they can get the most out of their Generation Y employees. ■

24.05.2012
Workshop:
Building a Green Brand Image – Green trends in the consumer products industry

Being 'green' is not just good for the environment, but can also be beneficial for customer relations. Yet, building a green brand image is not a job for the marketing department, but requires companies to grapple with ever more regulations and certification procedures. Two representatives of TÜV Rheinland, Robert Zorn, responsible for Strategic Projects and Green Solutions, as well as Peter Chen, Senior Manager of the CSR Business Section, outlined recent development in regulatory frameworks and mainstream CSR audit standards. ■

31.05.2012
Executive Development Seminar: Driving Change

Tailored for supervisors, managers, and team leaders, this seminar focused on how to effectively deal with the changes in all aspects of the business environment within the workplace. Attendees learnt how to create an environment that encourages flexibility, trust and a willingness to adapt to change. Ms Heidi Adick from Dew-Point Hong Kong, led the seminar. ■


06.06.2012
Joint Chamber Luncheon: Shifting political weights and the efforts on the euro crisis

Dr. Michael Fuchs, member of the German Parliament and Chairman of the German SME Circle (PKM) of the CDU/CSU parliamentary group since 2006, candidly shared his views and insights about the current European debt crisis and its effects on European politics. Representatives of the Hong Kong business community, media outlets, and political institutions attended Dr. Fuchs' talk. An in-depth question and answer session followed the event, held at the Club Lusitano in Central. ■














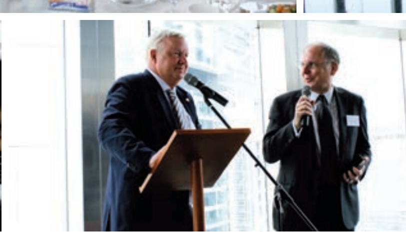


The 13th Asia-Pacific Conference of German Business (APK)

1-3 November 2012
Gurgaon, Delhi

Partnership, Innovation and Sustainability: Challenges for Sustainable Growth

For more information on the APK programmes and online registration, Please contact: apk2012@indo-german.com, www.apk2012.in

1.11.12 **Welcome Reception**

2.11.12 **Opening Remarks**
Panels I & II - Asia, Europe and the World Economy
Forums: Energy Efficiency and Clean Technologies, Urban Mobility, Science and Innovation, Raw Materials: Availability, Recycling and Substitution
Evening Reception

3.11.12 **Forums:** Security and Stability in Asia-Pacific –The Political Dimension, Sourcing and Logistics: Quality Management and Supply Chain Security, Water and Industries, Ageing Society and Health Care, Financing
Concluding Remarks & Closing Reception

4-7.11.12 **Supplementary Programmes**

Organised biannually in Asia since 1986, this conference has evolved into the largest networking event in the region attracting political as well as business leaders. The 2012 APK will be completely in English language for the first time. More than 700 delegates attended the last APK held in Singapore in 2010.

Upcoming GIC/GCC Events

GCC

Date	Name of Event	Venue
July		
5 July 2012	Sandwich Lunch Seminar: Shared Service Centre	GIC/GCC Boardroom
6 July 2012	Executive Development Seminar: Handling Difficult Customers	GIC/GCC Boardroom
August		
9 Aug 2012	Joint Chamber Cocktail: Summer Networking Cocktail	Oasis Room, Renaissance Harbour View Hotel
17 Aug 2012	Executive Development Seminar: Getting Results from Email Writing	GIC/GCC Boardroom
21 Aug 2012	50th Intercham Young Professional Cocktail	Hard Rock Café
September		
3 Sep 2012	Executive Development Seminar: Positive Influence Skills	Dew-Point International Ltd., Ritz Plaza, Kowloon
7 Sep 2012	Joint Chamber luncheon with Dr. Joerg Kraemer, Chief Economist, Commerzbank	Island Shangri-La
20 Sep 2012	Investor Conference organised by Germany Trade and Invest (GTAI)	Island Shangri-La

Upcoming Trade Fairs

Hong Kong

Date	Name of Event	Location
July		
3 July - 6 July 2012	Hong Kong Fashion Week for Spring/Summer	HKCEC
7 July - 8 July 2012	Hong Kong International Education Expo	HKCEC
13 July - 15 July 2012	Hong Kong Wedding & Wedding Gifts Expo	HKCEC
18 July - 24 July 2012	Hong Kong Book Fair	HKCEC
20 July - 22 July 2012	Better Living Expo	AsiaWorld-Expo
August		
16 Aug - 20 Aug 2012	Hong Kong Food Expo	HKCEC
September		
5 Sep - 7 Sep 2012	Asia Fruit Logistica	AsiaWorld-Expo
27 Sep - 29 Sep 2012	APLF Fashion Access	HKCEC
October		
3 Oct - 5 Oct 2012	Interstoff Asia Autumn	HKCEC

Germany

Date	Name of Event	Location
August		
31 Aug - 5 Sep 2012	IFA Berlin	Messe Berlin
September		
18 Sep - 21 Sep 2012	InnoTrans	Messe Berlin

Point of View

Mr. Jochen Schlessmann

Vice President
Heraeus Ltd. Hong Kong

A Member's Point of View

When and why did you or your company decide to come to Hong Kong?
Heraeus started its activities in Hong Kong 38 years ago. Since Heraeus is a major player in the precious metal business, and Hong Kong was a major centre of the jewellery industry, it was a strategic decision to start with gold and silver refining, as well as trading of precious metals in Hong Kong. Since then, Heraeus is very successful not only in the core businesses of precious metal refining and trading, but also in related businesses in precious-metal-containing industrial products and semi-finished products for jewellery customers. We have expanded our refining activities to other precious metals as well. In terms of market coverage, we are serving our customers who reside not only in Hong Kong, but also throughout the Asia-Pacific region.

I came to Hong Kong together with my family in November 2010 to join Heraeus Ltd. Hong Kong as Vice President. I was offered this interesting and challenging job in a very fascinating and vibrant city. How could I refuse?

In your opinion, how have Hong Kong and South China changed since your arrival?
Since I moved to Hong Kong, I saw a gradual change in the economic landscape of Hong Kong; in the past, Hong Kong played a major role in the re-export business from China to USA and Europe; today, Hong Kong's economy is depending heavily on the financial service sector. In 2011, Hong Kong was the world leader of IPOs, but experienced a declining trend of its re-export business. It is inevitable that China, challenged by weak economies in Europe, is shifting its focus on the growth of its domestic market. This trend has not been affecting our company much, being a major player in precious metals markets.

What would you say are the advantages/disadvantages of doing business in Hong Kong?
One advantage of Hong Kong is definitely the strategic location in Asia, and being a logistical centre for a long time already. This, together with the fact of being a gateway to mainland China gives strategic advantages for certain businesses. Many Hong Kong manufacturing companies started migration north-bound about twenty years ago. Southeast Asia, and especially Singapore, is competing nowadays with Hong Kong as a logistics, trading, and finance hub, and offers interesting support for foreign investments in the manufacturing sector as well.

How do you see the development of Hong Kong in relation to China in the next years?
I don't see big changes in the nearer future. The on-going infrastructure projects will support the integration of Hong Kong with the South China region.

How well are German companies doing in Hong Kong/ South China in your opinion?
I do think Germany's reputation as quality and technology leader and provider of sophisticated engineering solutions is still highly appreciated in Hong Kong and South China. Germany is an export nation, and German products and quality is still top level. We expect to see more transfer of advanced technology from Germany into the region.

Looking into the future, what are the main challenges facing your work/company?
We are optimistic to further expand our refining business, as we are covering a broad market in the Asia Pacific region.

How long are you expected to stay?
My assignment will end late 2013, however, I am looking into an extension. There are still too many exciting things to do, not only businesswise.

Thank you for your interview Mr. Schlessmann. ■