CKGSB

CHEUNG KONG GRADUATE SCHOOL OF BUSINESS MAGAZINE

JANUARY 2012

China's Innovation Gap

How the world's manufacturing hub can become its idea factory.

A Nation of Provinces

In China, companies are expanding into new regions. But local governments aren't making it easy.

Game Theory

How Western video game companies overhauled their business models to target the Chinese market.

CKGSB

长江商学院

Ready for China 3.0?

A new world operating system is now running. It's powered by a dynamic generation that is rebooting business around the globe. And with a world-class faculty, unmatched insight and China's most influential alumni network, CKGSB connects you with who's next and what's next in global business.

Join us at CKGSB and Know What's Next.

BEIJING | SHANGHAI | SHENZHEN | HONG KONG | LONDON | NEW YORK

WWW.CKGSB.EDU.CN
CONTACT@CKGSB.EDU.CN

CONTENTS

Oriental Plaza, Tower E3, 3F
1 East Chang'an Avenue
Beijing 100738, China
Tel: +86-10-85188858
Fax: +86-10-85186800
contact@ckgsb.edu.cn
www.ckgsb.edu.cn

Issue: January 2012

Editor-in-Chief
Zhou Li

Managing Editors
Xiao Han
Yen Le

Assistant Editor
Elizabeth Mahoney

Produced by Caixin Media

On the Cover: **China's Innovation Gap**

10 Innovation With Chinese Characteristics
How the world's manufacturing hub can become its idea factory.

CHINA UPDATE

03 Chinese Real Estate Comes Back Down to Earth
Where local governments have failed, Beijing is stepping in to cultivate a sustainable housing market.

05 Getting Real About Private Equity in China
Private equity is still one of the brightest spots in China's financial landscape, but future success will require a rethinking of strategy and exit.

06 Business Bias Blues
Why so many deals between Western companies and Chinese state-owned enterprises fail.

INSIGHT

08 Teng Bingsheng: It's About More Than Just The Money

09 5 Questions for Cho Dong-Sung

35 CKGSB IN FOCUS

- Malcolm Sweeting: Bridging Knowledge Gaps Between East and West
- Program Focus: Global China Business Programs
- A Look Back at 2011

FEATURES

15 A Nation of Provinces
In China, companies are expanding into new regions. But local governments aren't making it easy.

20 The Power of Local
Successful multinationals are putting their faith in well-trained and locally savvy China teams.

24 Microsteps
As Chinese donors become disenchanted with big charities, smaller organizations are leveraging microblogs to reach new audiences.

28 Game Theory
How Western video game companies overhauled their business models to target the Chinese market.

ALUMNI SPOTLIGHT

32 Liang Xinjun: Looking to High-Value Investment

34 Maxence Perret-Gentil: Around the World and Back Again

ENDNOTES

45 5 Ways Stores Can Influence Buyer Behavior
If China wants to foster domestic consumption, businesses need to understand why consumers buy what they buy.

46 Moving On Up
Companies and officials in Guangdong Province are beginning to emphasize vocational training.

47 Three Generations of Chinese Entrepreneurs
How the business leaders of the 80s and 90s differ from today's.

48 Socially Commercial
In both China and the West, companies are leveraging social media to build communities around their brands.

For Letters to the Editor or reprints/permission, please contact magazine@ckgsb.edu.cn.

Leading With Innovation, Responsibility and Passion

Commitment to core values defines us as a new generation business school

As we embark on the new year, 2012 marks the tenth anniversary of the founding of CKGSB as China's first independent, faculty-governed, not-for-profit business school. In just a decade, we have established MBA, finance MBA and executive MBA degree programs; opened two new campuses in Shanghai and Shenzhen; built a global network of partnerships with leading educational institutions; and launched overseas branches in Hong Kong, London and New York.

As we grow, we remain steadfastly committed to CKGSB's core values of innovation, responsibility and passion – values that have defined us as a pioneer in management education.

Our innovative education model sets us apart as the first business school to integrate humanistic inquiry into the core of management education courses. This year, we became the first truly global Chinese business school with the launch of our London office. Our international knowledge platforms share insight and experience to bridge the knowledge gaps between East and West. By setting an example of innovation, we foster in our students a desire to become pioneers in their own fields.

Our core value of responsibility means that we take a fundamentally different view of the role that companies play in society. Beyond acting as a leader in charitable giving and community outreach within China, we go a step further by integrating a community service requirement into our programs. Furthermore, our humanistic focus shifts from the conventional emphasis on wealth-creation and the "how" of doing business to foster in our students an understanding of "why" we do business in the first place.

We are passionate about leveraging our deep well of insight to foster entrepreneurs and develop an alumni network that can navigate the shifting global economic landscape and drive the next wave of sustainable growth. Our 5,000 alumni boast some of the most powerful leaders from China's private sector, state-owned enterprises and government bodies.

At CKGSB, our faculty, students and alumni engage with the critical questions facing society today. Our values mean that we support, challenge and inspire each other to become pioneers in all our endeavors. CKGSB is committed with passion and persistence to fostering the next generation of socially responsible global business leaders.

I invite you to join us in the next decade as we lead with innovation, responsibility and passion. I look forward to sharing with you the exciting growth that lies ahead in the year of the dragon.

Xiang Bing
Founding Dean, CKGSB

Chinese Real Estate Comes Back Down to Earth

Where local governments have failed, Beijing is stepping in to cultivate a sustainable housing market.
By Julian Evans-Pritchard

Xu Congjun/IC

Falling land prices are squeezing the revenues of local governments, just as pressures are increasing for them to shore up funding for an expansive public housing policy in China's 12th Five Year Plan. In anticipation of these new stresses on the system, Beijing is working to engineer a soft landing.

Since 2009, property prices stubbornly climbed upwards, despite government attempts to cool the market. But not any longer. Average house prices fell by 0.3 percent in November—their third consecutive monthly decline on the China Real Estate Index System.

The size and effect of the price drops are still unclear, but it doesn't look like property deleveraging in China will squeeze household finances like they did during the U.S. subprime mortgage crisis. A research note published earlier this year by Deutsche Bank pointed out that by international standards, China has very low levels of residential mortgage debt, comprising 19 percent of GDP in 2009. In other words, falling real estate prices won't have too much of an effect on private consumption.

Instead, the most vulnerable point in the system may be China's banks, the report said, since "the direct negative impact on the construction industry … could translate into stress for bank books."

The notion that banks hold much of the risk in a cooling market is supported by the International Monetary Fund's (IMF) most recent Financial System Stability Assessment of China published in November, which claims that "high real estate-related bank lending exposures (20 percent of GDP), and indirect exposures via property collateral, make banks vulnerable to real estate corrections."

Bad loans are not the only concern. Falling land prices are squeezing local government revenues, just as pressures are increasing for them to shore up funding for an expansive public housing policy in China's 12th Five Year Plan. In anticipation of these new stresses on the system, Beijing is working to engineer a "soft landing" and move the country away from a reliance on excessive real estate investment.

Exposures in Local Government Financing Platforms

Aside from their exposures in loans to property developers and industries "vertically integrated" with real estate such as construction, cement, and steel, China's banks hold a large amount of risk in local government financing platforms (LGFPs), which the People's Bank of China says comprise 30 percent of total outstanding bank loans. In its stability assessment, the IMF says that overall bank exposures to real estate and LGFPs are "significant at upward of RMB 20 trillion, equivalent to more than 40 percent of the total loans at end-2010."

Li Wei, a Professor of Economics at the Cheung Kong Graduate School of Business (CKGSB), explains that in their rush to compete on GDP growth figures, local governments have created the LGFP corporate entities (over 10,000 of them, according to the People's Bank of China) to take out loans and finance large-scale infrastructure investments.

"This financial leverage has helped expand the scale of urban development," Li wrote in a recent survey study of China's real estate market. "Not only have local governments gained a significant portion of their income directly from land sales, but they have also been able to use land as collateral for bank financing."

The value of this collateral will fall with any decrease in property prices, thereby further limiting local governments' ability to repay LGFP loans. Local governments—who rely on land sales for over 40 percent of their revenues, according to China Real Estate Information Corp.—have in recent months reported that they are facing increasing difficulties in auctioning off land at previous prices. This is why, according to Deutsche Bank, reform of China's property market must also address local governments' financing constraints.

Grand Plans for Social Housing

In the meantime, Beijing is tackling another corner of the real estate market: social housing. As part of China's 12th Five Year Plan, the government is seeking to build 36 million affordable urban housing units

by 2015. If the project is successful, 20 percent of the urban population will live in social housing by 2020.

The social housing plan looks great for the central government. For local governments, which bear the brunt of the costs, it's less appealing. A report published jointly in July by Banco Bilbao Vizcaya Argentaria (BBVA) and China CITIC Bank estimates that the enormous project will require 5.1 trillion yuan in financing over the next five years. The central government has only pledged to fund 7 to 8 percent of this amount in 2011, with local governments and the private sector providing the remainder.

Not only are local governments expected to partially fund the project themselves, but they must also give up a portion of one of their key sources of future revenue: their urban land stock. This is a significant disincentive, as the BBVA report notes: "[L]and provision for low- and public-rent housing appears to be problematic given the lack of incentives of local governments."

Despite this, officials say they are well on their way to achieving the initial target of building 10 million units in 2011. According to the Ministry of Housing and Urban-Rural Development, 9.86 million of these had already broken ground by the end of September 2011. But construction on these units won't wrap up until 2013, and with a further 10 million units slated to kick off in 2012, the project still risks running into financing problems in the future.

"The chief problem will be the task of finishing them, given that the target was simply to start them," wrote Miranda Carr, head of China policy research at North Square Blue Oak (NSBO), in a November 2011 report on affordable housing.

Banks and developers are also coming under increasing financial strain. As the NSBO report goes on to note, "given the uncertain returns on affordable housing, it will only be by strong coercion that investment will be made." Despite such concerns, most analysts are optimistic that Beijing will step in where necessary to ensure the social housing targets are met.

Illustration by Nice Buenaventura

Beijing Stepping In

The central government is already exploring municipal bond issuances as an indirect way to support local government finances. Guaranteed by Beijing, the trial bonds have so far been successful in allowing governments in places like Shanghai, Guangdong and Zhejiang to borrow at low rates.

The Bank of China's December 5 cut in the reserve requirement ratio--the first in three years—is also a sign that looser monetary policy may be coming soon. Easier access to credit will help developers and local governments weather the changing housing market.

> *"Not only have local governments gained a significant portion of their income directly from land sales, but they have also been able to use land as collateral for bank financing," said CKGSB Professor of Economics Li Wei.*

Beyond social housing, the central government's most widely-anticipated action in the real estate sector is property tax reform. At a meeting of the National People's Congress in October, Assistant Minister of Finance Wang Baoan called on officials to "step up efforts to establish a national property-tax policy" and "expand the role it has in controlling housing prices and regulating the market." Shanghai and Chongqing introduced property tax schemes earlier this year.

While social housing seeks to address the problem of supply for China's low-income families, the property tax aims to resolve other imbalances caused by the changing housing market. According to a recent Nomura research note, the "property tax will likely become an important and stable source of revenue for local governments, and increased holding costs could well deter speculators."

These so-called "speculators" have become an important driver of the sky-high prices China has seen in recent years. China's household savings rate of 40 percent is among the highest in the G20. Much of this excess savings has gone into property, since capital controls still limit overseas investment, and citizens otherwise face low or negative real interest rates in their banks. It has become common for wealthy Chinese to own numerous properties without any debt, leaving the empty buildings there to appreciate in value. This helps explain the low mortgage debt-to-GDP ratio and the high average price-to-rent ratios and vacancy rates in first tier cities, where many of these wealthy investors reside.

A property tax is expected to discourage the use of property as an investment vehicle, and to serve as a penalty for leaving apartments vacant. The Hong Kong Monetary Authority claims that in China's case, "the impact on the price-to-rent multiple of a 1 percent property tax is equal to that of a 1 percent increase in the real interest rate." Without wider credit tightening or restrictions on mortgages and purchases, a property tax would effectively change the market's incentive structure to discourage "speculators" while helping citizens who legitimately need to enter the housing market.

One reason the central government has so far favored purchase and mortgage restrictions is that most municipal governments lack the comprehensive property records that would allow them to effectively enforce a property tax. Last October, Housing and Urban-Rural Development Minister Jiang Weixin revealed that a housing information system has been in the works for the past two years. "Once the platform is built, the house purchase restriction method will be dropped," he said.

For now, Beijing has signaled that it will continue to tightly control the housing market until socially acceptable prices emerge. Cooling the property boom will not be painless, as it has already grown to extremes in recent years. Yet the measures being introduced are already starting to rebalance the industry, clearing the way for a better housing policy and a more sustainable market in the long run.

Getting Real About Private Equity in China

Private equity is still one of the brightest spots in China's financial landscape, but future success will require a rethinking of strategy and exit. By John Kuo

Jin Rong/CFP

Investors are tantalized by previous private equity successes in China, such as Goldman Sachs and Morgan Stanley's 2005 sale of their 9.9 percent stake in Ping An Insurance in 2005, following a $70 million investment.

Capital raising for China-focused private equity funds is booming. In China, however, merely writing a check might not be enough for realizing returns.

According to the Emerging Markets Private Equity Association (EMPEA), private equity funds in China raised $12.9 billion in the first three quarters of 2011, a marked increase from the $7.5 billion generated in all of 2010. Investors are turning to China because they expect strong continued growth, and because they are shying away from turmoil in Western markets.

They are also tantalized by previous private equity successes in China. For example, in 2005, Goldman Sachs and Morgan Stanley sold their 9.9 percent stake in Ping An Insurance for $1 billion after an initial investment of $70 million. Cheung Kong Graduate School of Business (CKGSB) Associate Dean and Professor of Accounting and Finance Liu Jing believes that in the future, private equity firms cannot expect such high rates of return.

"Some private equity firms made a lot of money in the past," he says. "They had returns of five or even seven times their investments. But that's not normal. In the future we can expect to see much more reasonable returns."

Many analysts report that Chinese private equity firms have less stringent due diligence processes, compared to those in the West—and that this is a good thing. According to Robert Partridge, Greater China Private Equity and Transaction Advisory Services Leader at Ernst and Young, having less thorough due diligence is actually a comparative advantage for Chinese firms, especially as they face increasing competition in the private equity market. Oftentimes, international firms must avoid potentially lucrative contracts because they cannot obtain the approval of their investment committees, who have higher thresholds for accepting deals.

"The regional funds are more concerned with their local brand," Partridge says. "They don't have a global brand. If something goes bad, the global brand is more worried about what their investors think because their investors are banking them on deals in the United States, London and China. For local funds, if something goes bad, there's a tendency to say, 'Hey, it's China, there's going to be a black eye every now and then.'"

In China, private equity firms typically exit deals by guiding companies to initial public offerings. Recent private equity-backed Chinese IPOs, however, have been lackluster. While the average Chinese-based company listed in the first quarter of 2011 gained 11.8 percent in its first day of trading, by the end of the second quarter, the average deal had slipped 12.4 percent below its initial offering price. IPOs will still be the preferred method of exit for private equity firms, Harvard University Professor of Finance Li Jin says, but they will be harder to achieve in the future.

"The so-called 'halo-effect' of listing your company in an overseas exchange has diminished quite a bit," says Jin, who researches emerging financial markets. "There is not generally a lot of investor enthusiasm for these companies that are listed overseas because most investors don't really know what's going on so far away from their market and as a result, the trading price of a lot of these firms listed abroad is not so great. Some are even delisting from the international market and moving back or contemplating moving back to domestic markets."

While many company founders turn to foreign private equity firms because they aim to list their companies abroad, others

CHINA UPDATE

seek to add value to their businesses. When competing globally, for example, Chinese companies turn to private equity firms because they are inexperienced in managing intellectual property and brands. But this can be problematic because the firms themselves may be ill-equipped for the job, as many of their employees hail from finance backgrounds.

"Private equity firms have got finance people who know how to structure financial packages," said Cambridge University Professor of Finance Peter Williamson, an expert in globalization and its implications for corporate strategy. "Sometimes their mentality is that they bring in the money. Private equity firms need a broader diversity of staff that knows things about intellectual property, people that can help manage brands and help hire and manage international people and help structure compensation packages."

"So I guess what I'm saying is that successful private equity in China is private equity on steroids," he added.

Eventually, Williamson believes, the greatest opportunity for private equity firms lies in trade sales. Private equity firms can mold firms to be attractive for foreign companies who are looking for a platform to expand in China, or for state-owned enterprises who are looking to expand their product offerings.

Faced with weak capital markets, some private equity firms are already turning to trade sales as an exit route. In 2007, when Bain Capital invested $41 million in the Chinese chemical company Feixiang, they expected to exit the deal through the public market. Bain sold Feixiang to French chemicals producer Rhodia for $489 million in 2010, but decided to keep a subsidiary, Casda Biomaterials, and used the sale's proceeds to start Hipro Polymers. On November 21, Bain sold Casda and Hipro for $365 million, eventuating in returns of more than four times their original investment.

Since most private equity deals in China typically provide non-controlling stakes for between 15 to 40 percent of companies, private equity firms must coordinate closely with company owners for future action. Many entrepreneurs may dream of taking their companies public, but trade sales may prove to be the more intelligent move in the long run. It's just up to private equity firms to make it the right move.

Business Bias Blues

Why do so many deals between Western companies and Chinese state-owned enterprises fail? By Alex Storrie

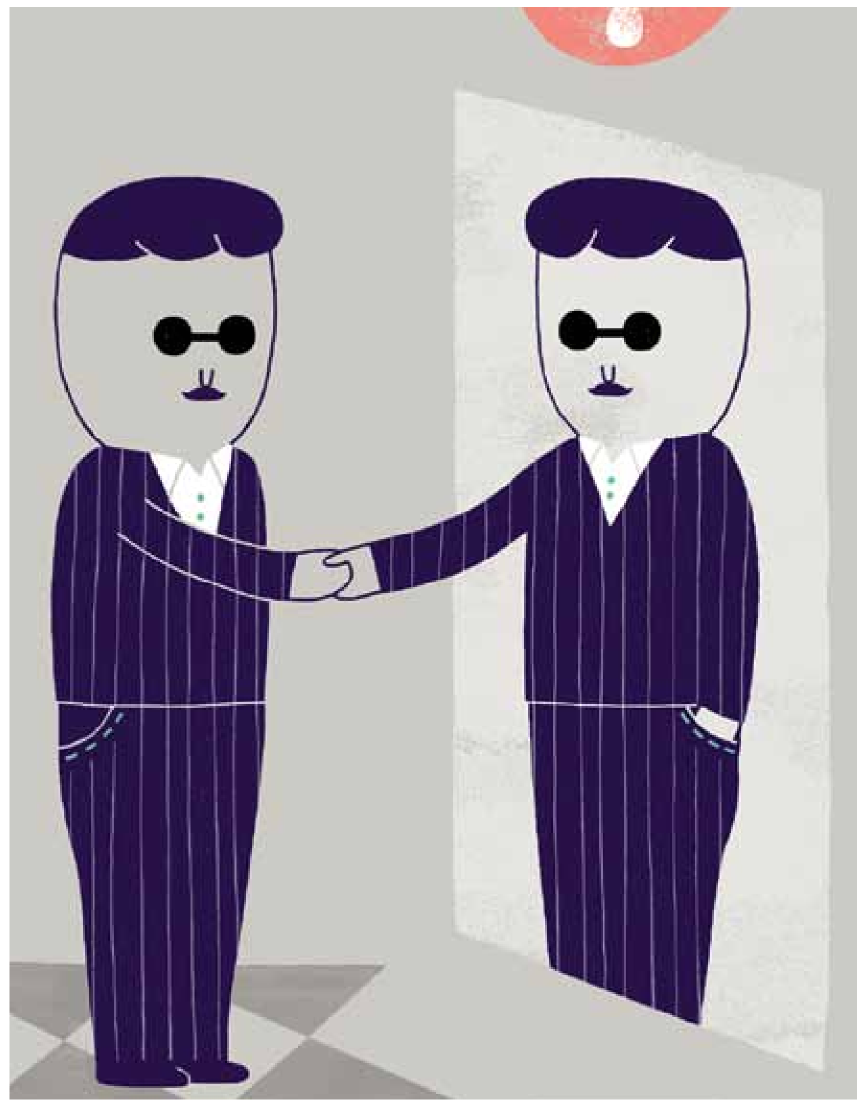


Illustration by Nice Buenaventura

China is not suffering for lack of international attention. Between its booming economy, its controversial monetary policy, and its newfound role as the world's banker, there's been no dearth of China news in the West. Yet international investors still know relatively little about the country they deem so important. And, sometimes, with ignorance comes fear.

The result is "familiarity bias," a concept Cheung Kong Graduate School of Business Professor of Finance H. Henry Cao uses to explain why many investors favor companies that share their culture or language—and avoid those that don't. People tend to treat choices that deviate from the status quo as riskier, Cao argues, regardless of reality.

To Western investors, Chinese businesses may seem especially unfamiliar, and none more so than Chinese state-owned enterprises (SOEs). Although the number of private firms is growing in China, most large, successful companies are still state-owned. Investments by SOEs accounted for 89 percent of large investments ($100 million or more) made by Chinese companies in the year ending in July 2011, according to the Heritage Foundation. Yet Chinese SOEs are often perceived to have different objectives from private corporations. While private companies are profit-driven and responsible to shareholders, some investors believe, the motives of SOEs are more political and strategic than commercial.

As a result, many of these giants have been rebuffed when they've tried to expand overseas. Between 2005 and mid-2011, seventy PRC business deals, each worth $100 million or more, completely or partially failed, with a total value of $165 billion in lost revenue, according to Heritage Foundation data. Two prominent examples are the rejection of a bid for U.S. oil company UNOCAL by China National Offshore Oil Corporation (CNOOC) in 2005, and the rejection of the Aluminium Corporation of China's (Chinalco) 2009 bid for an 18 percent stake in Anglo-Australian mining company Rio Tinto. Both deals were criticized in the United States and Australia for potentially harming national security—or, even vaguer, the "national interest." The SOEs could serve as arms of the Chinese government, critics warned, and may have more than just commercial motives.

Chinese leaders attributed the failures to discrimination. Luo Tao, chairman of China Nonferrous Metal Mining, this year deplored the "bias" shown against Chinese investors. In February, Beijing formally complained that Washington was blocking Chinese investment in U.S. companies.

The evidence suggests suspicions of Chinese SOEs' motives aren't especially warranted. A recent International Monetary Fund working paper shows that 52 percent of Chinese corporations, the vast majority of which are SOEs—issued dividends in 2007—higher than the world average of 49 percent. This rate "suggests strong respect for shareholders' rights," according to the JP-Morgan's September Investments Insights report. "Investors should see this data as proof of solid corporate governance and smart management throughout most of the Chinese corporate universe."

Zhang Yongsheng, a senior research fellow at the Development Research Center of the State Council, dismisses nationalistic concerns. "The motivation of China's SOEs is mainly profit-driven rather than to control markets or the economy," he says.

Familiarity bias could help explain the breakdowns. After Rio Tinto withdrew from the Chinalco takeover bid in 2009, it set up an iron ore joint venture with Australian rival BHP Billiton. Peter Drysdale, emeritus professor of economics at The Australian National University, who has published extensively on foreign investment in Australia, said there were "complementarities (or 'synergies') between BHP Billiton and Rio Tinto, at least at the operational level." Rio's shareholders were perhaps more comfortable working with a Western company whose business culture was similar to Rio's.

Part of the burden for reducing familiarity bias falls on Western governments and business. Step one: Learn Mandarin. Foreign executives have a better shot at sealing a deal if they can speak frankly and directly with their Chinese counterparts, rather than through an interpreter. For executives, visiting potential business partners in China is also essential. This will provide a clearer perspective of how things work on the ground, compared with simply reading reports and figures in the office back home.

SOEs also bear some responsibility for the unfamiliarity. They could make corporate governance more transparent—and therefore familiar—to potential business partners. Jonathan Woetzel, a director in McKinsey & Company's Shanghai office, suggests that investors judge a company not by its ownership, but by its level of openness. After all, the fraud allegations against Chinese companies listed in the United States in 2011 were directed mostly against private enterprises.

One indicator of openness is hiring foreign talent. Minmetals Resources, a Chinese mining SOE operating in Australia, decided to outsource management to local experts in 2009. The company is now one of the most successful SOEs outside China and has become a model for other Chinese companies looking to do business overseas.

By not examining Chinese SOE investment objectively on a case-by-case basis, Western countries risk losing good opportunities to help their economies. In that sense, foreigners overcoming their fear of China—and vice versa—isn't only a matter of sentimental cultural exchange, but also pragmatic self-interest.

Fits and Starts

Since 2006, a number of high-profile cross-national acquisitions have failed due to monopoly regulations, national security concerns, and no small amount of nationalist pride.

2005

Bidder: Carlyle Group
Target: Xugong Group Construction Machinery
Reason for Failure: Economic security concerns

Bidder: CNOOC
Target: Unocal
Reason for Failure: Political opposition

2008

Bidder: China Development Bank
Target: Germany's Dresdner Bank
Reason for failure: Political opposition

Bidder: Coca-Cola
Target: Huiyuan
Reason for Failure: Competition concerns

2009

Bidder: Sichuan Tengzhong Heavy Industrial Machinery
Target: GM's Hummer
Reason for Failure: Financial viability, environmental concerns

2010

Bidder: Huawei, ZTE
Target: Sprint
Reason for Failure: National security concerns

It's About More Than Just The Money

Before it goes public, Jingdong Mall must address bottlenecks in its profit model and logistics.

By Teng Bingsheng

When online retailer Jingdong Mall, also known as 360buy.com, announced its plans to raise up to $5 billion for a 2012 IPO, everyone began to speculate: Is it due to high profits, or no profits? Should they be going public so early? A few key issues shed some light.

First of all, it is without question that e-commerce in China is skyrocketing. According to iResearch, the volume of online retail transactions in China reached 189 billion yuan in the second quarter, a 77 percent year-on-year increase. Even so, the total volume of online shopping only constitutes 3.5 percent of the country's total retail sales volume, much less than in developed countries.

So what is Jingdong's position in this flourishing field? Roughly speaking, Jingdong's competitors can be divided into three categories: Taobao, integrated B2C websites (such as Dangdang, Amazon China, and Mecox Lane), and home electronics chains (such as Gome and Suning). Of these, Taobao is in the lead, with 49 percent of China's online retail volume, far ahead of Jingdong's 18 percent. But remember: Taobao was originally a C2C business, and it relies on each store to take the initiative. Although its platform is superior, it does not completely control operations. Thus, Taobao is encountering bottlenecks in terms of reputation, economies of scale, and distribution. Its market share can be expected to fall.

After Dangdang and Mecox Lane went public in the United States last year, their performance fell off, and they have also fallen victim to Wall Street's current aversion to China concept stocks. Moreover, the capital they raised, $272 million and $113 million respectively, is relatively limited, and may not be enough for the next stage of development. Compared to Taobao, these companies are less of a threat to Jingdong.

Relatively speaking, the competition between Jingdong and home electronics chains is the most direct and fierce. Price is undoubtedly the e-commerce outlets' greatest advantage because they save the costs of opening brick-and-mortar stores.

According to Suning Deputy Chairman Sun Weimin, Suning's economies of scale provide purchasing cost advantages that make up for the additional costs of opening stores; Dangdang's Li Guoqing also thinks that Jingdong's purchasing costs are 8 percent higher than what Gome and Suning pay. Over the past two years, this has been a nearly incontestable fact. Home electronics manufacturers have the lowest supply price guarantees with chain stores, and they fear that Jingdong's ferocious price subsidy tactics will upset their pricing systems. Manufacturers have a love-hate relationship with Jingdong. At first they were reluctant to supply directly from factories, but their hands were forced by Jingdong's persistent buyers, who search everywhere in order to pay the lowest possible price.

But does Jingdong truly have a cost advantage? According to my own informal comparison of prices between Jingdong, Suning and Gome, Jingdong has no clear price advantage, even though it is selling at a loss to gain market share.

For one, there are bottlenecks in Jingdong's profit model and logistics. Everyone knows that for Gome and Suning, opening a store just means establishing a platform. A large portion of operational costs are passed on to manufacturers through fees, and indeed, access to these manufacturers' billions of yuan in capital is the crux of these retailers' profit model. If Jingdong can't obtain more upstream resources, then its so-called cost advantage is nothing more than a mirage.

Another reason that Jingdong is struggling to be profitable is because the gross profit of electronic products is in fact relatively low. If Gome and Suning can achieve 15 percent or more, Jingdong cannot even do 10 percent. So two years ago, facing opposition on costs from his initial investors, Liu Qiangdong insisted on expanding into general merchandise, with its higher gross profits, in order to become profitable as soon as possible. Today, it seems that his wager is paying off.

Finally, everyone is looking carefully at logistics, which is a crucial issue for all large-scale B2C enterprises. China's e-commerce companies, including Jingdong, have to use their initial funding to win customers, leaving them with relatively weak logistics. This is why some consumers have vociferously complained about Jingdong's service and distribution. So investing the $1.5 billion raised from the third round of investors entirely in its own warehouse and circulation network may be the key to success for Jingdong. The price is high, but it must be endured.

The question is, is the money there? This talk of going public has many people wondering if that $1.5 billion has actually reached Jingdong's accounts, and if it has, whether it is enough to support operations until its IPO. My take is relatively optimistic. An IPO is already a foregone conclusion, and starting early is not a bad thing—the difference is only six to 12 months. In the meantime, the most important thing for Jingdong is to use the capital it already possesses to make real improvements in its user experience. Otherwise, the company will have the money, but no customers.

Teng Bingsheng is an Associate Dean at Cheung Kong Graduate School of Business. *This article was originally published in Chinese at www.sina.com.*

5 Questions For Cho Dong-Sung

CKGSB sat down with Professor Cho Dong-Sung for his take on the origins of Korean creativity, and how he thinks management can incorporate design theory and art.

Cho Dong-Sung is a Professor of Strategy at Cheung Kong Graduate School of Business (CKGSB), and the author of over 90 articles and 43 books, including *Chaebol: Korean Business Giant* (2007), *From Adam Smith to Michael Porter: Evolution of Competitiveness Theory* (2000), *Tiger Technology: The Rise of the Semiconductor Industry in Asia* (1999) and *The General Trading Company* (1986).

Hi Professor Cho. How did you decide on "creativity" as a value to emphasize in your teachings?

Until five years ago, I was a very traditionally-oriented, staunch conservative person. If you're not accustomed to doing this, then you think you can't move out of what you're used to doing. Instead of trying to create something new, you try to accommodate yourself with what you are surrounded by. I guess that's the starting point of creativity, perhaps those who tend to be creative, are in many cases the sort who don't easily mix with conventional people. And in particular, MBA students are probably the best examples of those who belong to conventional wisdom.

That's why here and there, people cry for MBA programs to be remodeled for design, especially in the areas of ethics and values. Whenever there are global financial crises, fingers point to MBA programs. We live in a new world where MBA education is using a 20-, 40-year-old model.

What's an example of creativity being integrated with business management?

I've been working in the field of management design, and management by art, but this has nothing to do with conventional design. It's not about how to design a product or how to decorate the interiors of department stores. What we're doing is thinking about how we can design a new practice for HR departments to attract better talent, or how we can design the process by which customers can get a better sense of satisfaction.

If a problem is dealt with in a company, then the managers would use the kind of models that they learned from their MBA program. In management by art, we are using a completely different approach, we are not using SWOT analysis, we're not using the Five Forces model, we're not using 4 P's, we're not using business purchasing models. What we are using is design theory. Any business decision can be a design issue.

As you're also teaching at Seoul National University now, what do you think makes South Korea such a creative powerhouse?

Do you know the city in which there are the most number of operas being performed in a year? Seoul. Do you know which country has the most number of opera companies? It's Korea, with more than 100 opera companies. And in Korea, there are more musicals being created and performed than in New York's Broadway. Korea is also producing the largest number of classical singers. If you go to Italy, Koreans are the majority of students.

In most countries, classical performances with orchestras, ballet, opera—they all have to be subsidized by the government or big companies. In Korea, classical ballet and operas make a profit by selling tickets.

In the last 50 years, Koreans have become footloose, and perhaps that has changed how Korean people think of themselves. We have 4,000, 5,000 years of tradition that has been deeply embedded in our mindset, but because of the war we went through in the 1950s when the North Koreans invaded Korea, most Koreans had to leave their hometowns and move south. I am one of them.

They have the experience of changing their residence, which meant changing their culture, their ways of living. This experience has allowed Koreans to feel that creating something new is not that alien.

How can other countries learn from South Korea's creative path?

Korea has been in the global lead, in moving away from the "knowledge society." In the past 15 years, all leading countries in the world, America and Europe, Japan, Korea and China as well, have been striving towards becoming "knowledge societies." Knowledge has become a virtue, knowledge is what every company has been after. With this, those successful will go to business schools, medical schools and so on.

If we have to break the period into distinctive periods, in Korea the period of knowledge society is over. We have moved to becoming a society of creativity and culture, of art.

Who should be driving creativity, the private sector, the government, academia?

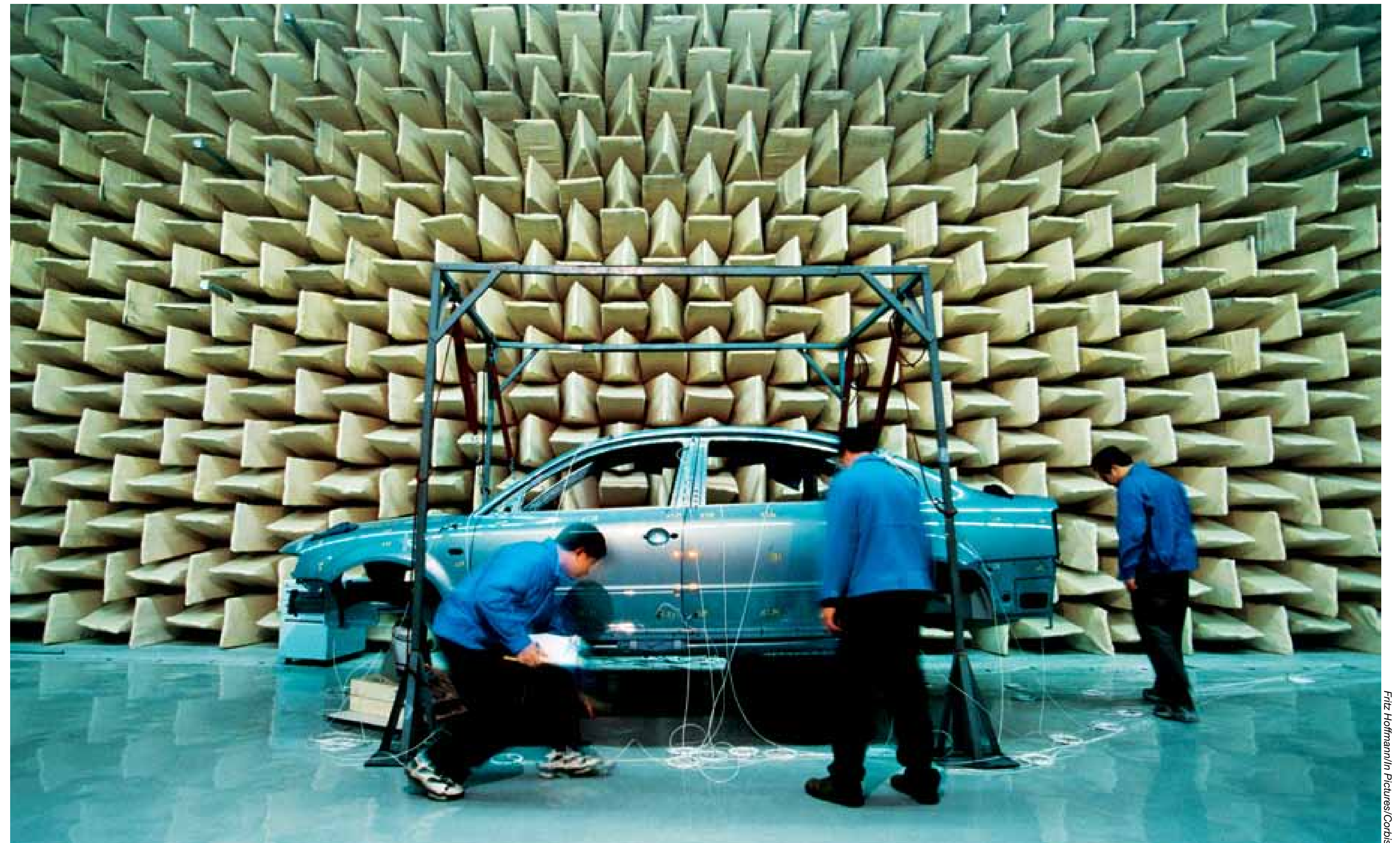
There should not only be one single step, you should have individuals, companies, private society moving together. To expedite the process, business schools can play a very important role. Nowadays, when business professors talk, people listen. I think it's better that people like myself—who are very traditional professors—talk. But if an art professor argues what I'm saying to you, then people will say, "That's their profession." So perhaps that's why I am arguing the importance of a field for which I haven't been conceived. More cross-disciplinary thinking is needed.

Q&A by Lea Yu. Interview has been condensed and edited for clarity.

Innovation With Chinese Characteristics

How the world's manufacturing hub can become its idea factory.

by Christopher Beam



Fritz Hoffmann/In Pictures/Corbis

Innovation is happening in China, but it tends to manifest as incremental tweaks to existing technology, rather than the kind of original product innovation that changes the direction of industries.

Around the world, the October death of Apple co-founder Steve Jobs was a collective moment of mourning, admiration, and reflection. In China, another element was added to the mix: self-flagellation. Why, lamented many commentators, has China failed to produce its own Steve Jobs?

Former Google China chief Kai-Fu Lee, writing on Sina Weibo, blamed an educational system that prioritizes rote memorization over creative thinking. Investment strategist Qiu Lin argued in *Caixin* that government support of state-owned enterprises over private businesses discourages innovation. Independent scholar Wu Jiaxiang put the blame squarely on China's political system. "If Apple is a fruit on a tree," he wrote on his microblog account, "its branches are the freedom to think and create, and its root is constitutional democracy."

The reaction to Jobs' death underscores an aspect of China's rapid economic growth that sometimes gets lost in all the hype about dragons awakening and red stars rising. That is, while China manufactures a huge number of products each year, the ideas for the products are conceived—and the profits mostly accrue—outside China. Indeed, China's 10 percent annual GDP growth is largely attributable to manufacturing capacity, rather than original product conception and design. It's one thing for so many smart new gizmos to be "Made in China," but why are they so rarely invented here?

President Hu Jintao acknowledged this quandary back in 2006 when he laid out a 15-year plan to make China an "innovation-oriented society," promising to foster "indigenous innovation" by nearly doubling research and development expenditures as a percentage of GDP. This plan was motivated by more than just nationalism; China's economic future depends on it. "Low-cost manufacturing has seen its best days already," says Cheung Kong Graduate School of Business (CKGSB) Associate Dean and Professor of Strategic Management Teng Bingsheng. With the price of labor and raw materials rising, Chinese companies are being forced to adapt. For most firms, that means moving up the value chain

"Low-cost manufacturing has seen its best days already," says CKGSB Associate Dean and Professor of Strategic Management Teng Bingsheng.

from manufacturing to R&D, design, and branding.

Examples of companies that are successfully making this transition abound. Large companies like mobile communications giant Huawei have prioritized R&D and are starting to see results. Having faced accusations of copying early last decade, Huawei later produced genuine innovations in 3G, such as wireless base stations that could be installed quickly and cheaply. Although the microblogging service Sina Weibo launched after Twitter, it was first to integrate threaded conversations and photo and video features. The LED maker Lattice Power has produced original high-powered light bulb technology. Recognizing the potential for profit, foreign venture capital firms have sunk money into Chinese start-ups and, in 2010, Chinese government investment helped finance the world's fastest supercomputer. (A Japanese machine soon surpassed it.)

Another recent government plan calls for two million patents to be filed by 2015, a goal that appears achievable. According to a 2010 report by Thompson Reuters, China was on track to become the world's top patent-filer in 2011. (The final data is still pending.) But explosive numbers like these can be deceptive. Of the 203,481 patent applications filed by Chinese organizations in 2008, only 473 were recognized by all three leading patent offices in the United States., the European Union, and Japan. (This compares to 14,399 patents approved out of 400,769 filed from the United States and 13,446 out of 502,054 from Japan that same year.) A 2011 Thompson Reuters list of the 100 most innovative companies in the world did not include a single Chinese firm.

Cover Story

Some analysts are skeptical of China's innovation potential. "If you go back 20 years, nobody cared a damn about what was happening in China," says Anil Gupta, a professor of strategy and entrepreneurship at the University of Maryland who co-authored a book on economic growth in China and India. "The innovation level was zero. So now when it wakes up and starts walking, people say, 'Wow, I thought you were dead.'"

There are many kinds of innovation, however, and China may simply not excel at the sort of radical, new-product innovation that overhauls industries and draws media attention. "By and large, I don't think it's a culture of great non-incremental change," says Richard P. Suttmeier, professor emeritus of political science at the University of Oregon, who testified before the U.S. Congressional-Executive Commission on China in 2010 on the subject of innovation and intellectual property in China. Instead, China specializes in localization, which adapts existing technologies for a local market; incremental innovation, which improves a product's cost or time-to-market without drastically changing the technology; and process innovation, which adjusts the manufacturing and supply processes to make them more efficient.

That's why Chinese innovation is often described as "renovation," meaning that a company borrows the technology or business model of a successful Western company and adjusts it to suit the Chinese market. A prominent example of this practice is Xiaomi, which last summer launched a high-end smartphone that runs Android software and sells at less than half the price of an iPhone. Imitating leading brands at lower prices is a good strategy—for now. "The big question for the Chinese is, how do you go beyond catch-up?" says Suttmeier.

While there's no single answer, a range of experts on Chinese technology and innovation argue that China needs to take several steps if it's going to become a truly "innovation-oriented society." These include:

Improve the research environment.

In 2010, professors Yigong Shi and Rao Yi, both of whom returned to Beijing from prestigious academic jobs in the United States, published an editorial in the journal *Science* criticizing Chinese research culture. "It is an open secret that doing good research is not as important as schmoozing with powerful bureaucrats and their favorite experts," they wrote. "China's current research culture ... wastes resources, corrupts the spirit, and stymies innovation." Many Chinese universities also offer professors perverse incentives by rewarding them based on how often they publish. The result is shoddy research, plagiarism, and outright fraud. A 2008 study found that 31 percent of scientific papers in China included copying or plagiarism.

Justin Guariglia/Corbis

Much of China's innovation happens at the manufacturing level. For example, the white power cord that plugs into Apple laptops has been incrementally improved over time thanks to ground-level Chinese innovation, according to Georgia Institute of Technology Professor Dan Breznitz.

Rewarding Chinese patent examiners for approving patents is "like giving teachers bonuses for how many kids they pass," says University of Maryland Professor of Strategy and Entrepreneurship Anil Gupta.

Curb the "great leap" mentality.

Technological "leap-frogging"—a country using its relative lack of infrastructure to jump ahead of the competition—can benefit developing economies. But it can also backfire, especially when it involves excessive speed, inadequate testing, and other means of cutting corners. For example, investigations of the July train crash in Wenzhou cited an overzealous competitive drive as a contributing factor. "If you just do it top-down without consideration for social costs and tremendous risks, then you end up actually slowing down the process rather than speeding it up," says Dieter Ernst, a senior fellow at the East-West Center and former senior advisor to the Organization for Economic Cooperation and Development.

Clean up the patent system.

An incentives structure similar to that of academic publishing leads professors to apply for—and governments to approve—patents that lack merit. In 2009, about half of China's patent applications were for so-called "utility" patents, which, unlike "invention" patents, don't require official inspection and last only 10 years instead of 20. Just as researchers are rewarded for the number of applications they file, patent examiners in state intellectual property offices receive bonuses based on the number of patents they approve. "It's like giving teachers bonuses for how many kids they pass," says Gupta. As a result, the vast majority of patents approved in China don't pass muster in the United States and Europe.

Encourage cross-departmental collaboration.

The number of colleges in China has doubled since 1998, and the number of students has increased more than fourfold. While this is largely good news—more Chinese people are receiving higher education—it has also strained student-teacher ratios and stretched university resources. "That speedy expansion almost by definition will raise quality problems," says Ernst. Another concern is the process by which students are siphoned into professional fields early on. "A lot of innovation comes from people who cross boundaries," says Willy Shih, a professor of management practice at Harvard Business School who has published extensively on innovation in China. Allowing students more choice in their studies and encouraging professors in different disciplines to work together will spur innovation.

Eliminate "structured uncertainty."

The Chinese business environment is characterized by what Georgia Institute of Technology Professor Dan Breznitz calls "structured uncertainty." In their new book, *Run of the Red Queen: Government, Innovation, Globalization, and Economic Growth in China* (Yale University Press), Breznitz and co-author Michael Murphree argue that Chinese laws are deliberately ambiguous, leaving local officials to interpret and implement them however they want. Uncertainty is the opposite of what businesses want and need. When tax rates shift unpredictably and entire industries fall in and out of government favor, investors have less incentive to bet on risky ventures with distant payoffs. "The whole system is tilted against taking risks with money over long periods of time," says Breznitz.

Reduce interagency rivalries.

Bureaucratic competition and overlapping jurisdictions compound problems of uncertainty. For example, the Ministry of Industry and Information Technology has clashed with the State Administration of Radio, Film and Television over which agency is responsible for security standards and certification in mobile communications, according to Ernst. The result is not just unclear standards, but confusion about who even has the right to set them.

Strengthen intellectual property rights.

When the movie *Kung Fu Panda* broke Chinese box office records in 2008, Chinese commentators rued Hollywood's "selling back" of Chinese culture to China. While some blamed government restrictions on the content of domestic animated films, Shih says intellectual property also plays a role: "The property rights environment for that type of creative property is very weak. Where's the incentive there?" Likewise, China has yet to produce a software giant like Microsoft or Adobe, in part because would-be entrepreneurs

Zhai Dong Feng/Redlink/Corbis

China's research culture suffers from perverse incentives, as scientists are rewarded based on the number of patents they file and papers they publish. As a result, 31 percent of scientific papers in China contain plagiarized passages, according to a 2008 study.

know that no one would realistically pay for such products.

China's IP policy can be viewed as a classic chicken-and-egg problem. It has no Microsoft because IP rights are weak—or perhaps IP rights are weak because it has no Microsoft. Once Chinese businesses start creating valuable property and demanding protection for it, China will start enforcing property rights. Until then, companies will have to innovate their way around weak IP enforcement, says Andy Mok, CEO of Red Pagoda Resources, a Beijing firm that helps start-ups recruit talent. For example, video game companies offer free mobile apps that sell virtual goods and musical acts focus more on live performances than record sales.

Support failure.

The self-help books don't lie: failure is key to success. When nine out of ten startups are doomed to fail, investors and entrepreneurs must be willing to take risks. Researchers, too, must feel confident conducting experiments that might not succeed—which of course describes any experiment worth doing. In China, failure is often penalized. In 2007, China passed a law that would allow scientists to report failures without having their funding pulled, as long as they can show they did their best. The same forgiving attitude should apply to R&D in the business world. "The essence of innovation is to tolerate failure," said Xiaomi CEO Lei Jun at a recent Beijing conference organized by *Entrepreneur* magazine. "Only if we have an environment that tolerates failure can Chinese society and industry advance."

"Only if we have an environment that tolerates failure can Chinese society and industry advance," said Xiaomi CEO Lei Jun.

China of course isn't the only manufacturing economy that has tried to boost innovation. Japan, Korea, Taiwan—just about every other advanced economy in Asia has gone through the same process of reinvention. Ultimately, the question isn't whether China will become a more innovative economy, so much as when. "It's going to take a generation," says Rebecca Fannin, a *Forbes* contributor and author of *Startup Asia: Top Strategies for Cashing in on Asia's Innovation Boom* (Wiley).

When China does become an innovation hub, odds are it won't look like Silicon Valley, the I-95 corridor, or North Carolina's Research Triangle. Instead , it will build on China's existing competitive advantage in manufacturing and make small but critical changes to things like the white power cord that plugs into any Apple laptop. "Not that many years ago, they had a tendency to get hot and burn like batteries," says Breznitz. But thanks to constant tweaking of the technology and design—in China, not California—the power cords have improved. Breznitz and Murphree argue that China should focus on this kind of innovation—incremental, manufacturing-based, often subtle to consumers.

Fannin believes the day will come when China finally does produce a Jobs-caliber entrepreneur. "If you look at Chinese entrepreneurs' personalities, there are a lot of Steve Jobs-like characteristics. There's a lot more confidence today," she says. It helps that Chinese entrepreneurs can now look up to home-grown heroes, like Alibaba's Jack Ma and Baidu's Robin Li. "They did it," Fannin suggests budding entrepreneurs might ask themselves, "Why can't I?"

A Nation of Provinces

In China, companies are expanding into new regions. But local governments aren't making it easy.

by Lea Yu

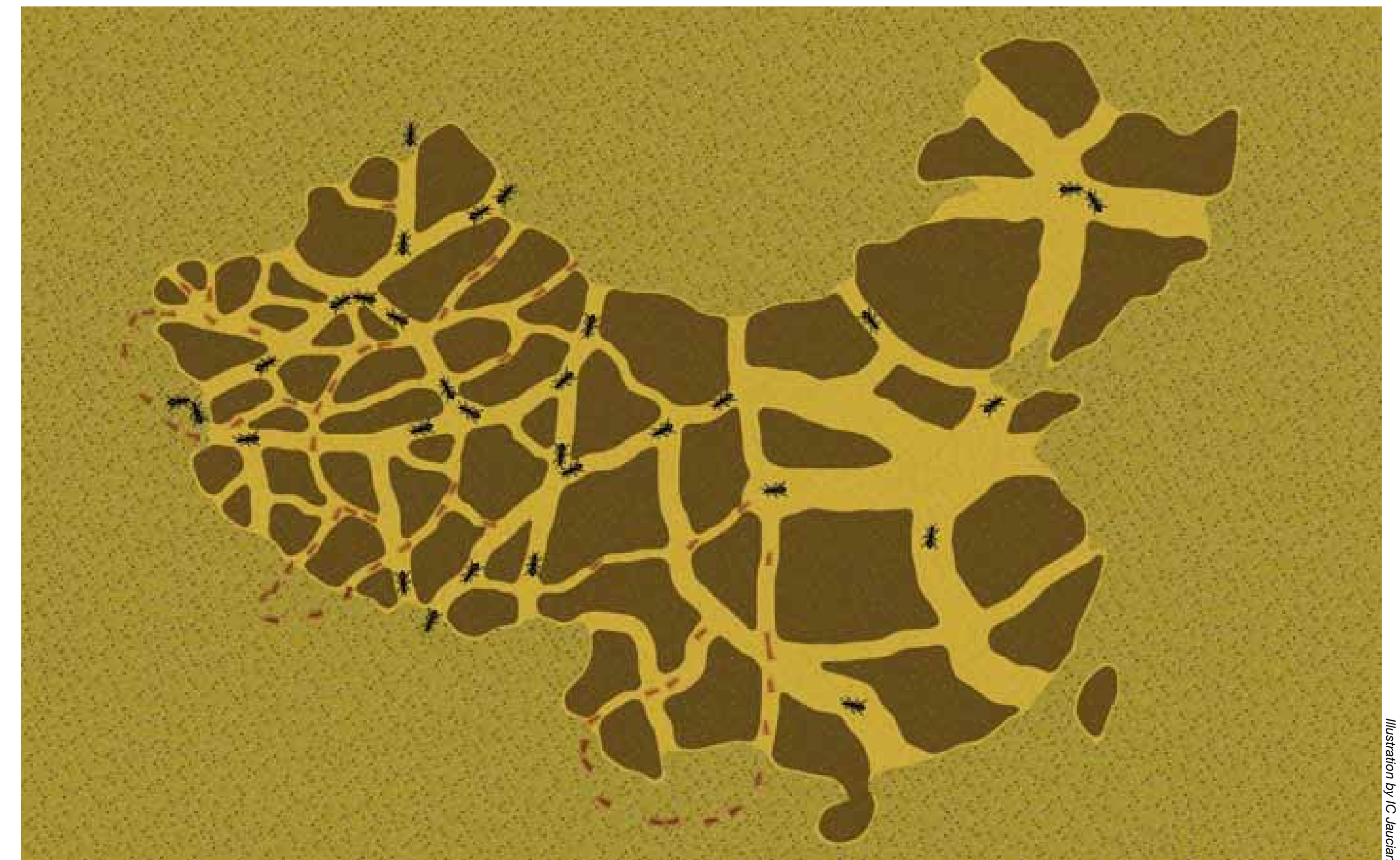


Illustration by IC Jaucian

In 2009, the company Hunan Xiangtan Fenli Auto Parts was looking to expand. Business had been a little slow that year, and it wanted to set up operations in the city of Chongqing, the auto production hub of western China and home to major players like Chang'an Ford.

But when company manager Nick Nie and his co-workers arrived in Chongqing to ask municipal officials about moving in, the answer was a flat "no."

The reason soon became clear. "There were several leading companies in the market who the local government was protecting [from competitors], because these companies are their big taxpayers," says Nie. "We were outsiders and couldn't contribute any tax revenue." After that meeting, Xiangtan Fenli abandoned the Chongqing plan.

Stories like that of Xiangtan Fenli reveal a serious structural problem, economists say. Because local governments have to meet high revenue goals and other economic targets, they are hostile to non-tax-paying companies from other regions, or industries that bring less tax revenue or local jobs to the table.

Call it local protectionism or enlightened self-interest, these regional barriers allow officials to protect inefficient

businesses, while preventing others from expanding and thereby lowering costs. And even when companies do manage to expand, they still face a barrage of fees and "buy local" requirements imposed by local governments. These barriers drive up the pricetag for consumers.

Regional barriers are especially problematic now. China's 12th Five Year Plan, passed in March 2011, emphasizes the need to spur domestic consumption as a counterweight to the country's weakening export sector. If economic growth is to continue, China's leaders will have to address local policies that hinder fair competition or unnecessarily drive up costs, the prominent economist Cai Hongbin said at a recent conference.

"Local government decentralization largely drove the last 30 years of reform, but another consequence is that it has forced local governments to care too much about GDP and local taxes," Cai said. "The tendency to be locally protectionist is very strong."

Starting in the 1980s, China's economic decentralization allowed local governments to build successful companies in their own backyards. This created the competition between provinces that many have credited with China's economic rise.

The time has come, however, for these local governments to take a step back, financial experts say.

"[Protectionism] is good for local firms in their infant stage," says Cheung Kong Graduate School of Business (CKGSB) Assistant Professor of Economics and Finance Li Xiaoyang. "But I think we have reached a point where it is excessive for most industries in China. Resources need to flow freely from province to province, to their best use."

The Price of Expansion

For the past ten years, wind power has been one of China's industrial darlings, enjoying hundreds of millions of dollars in value-added tax (VAT) cuts and equipment subsidies. Thanks to these measures, China in 2010 managed to surpass the United States as the country with the most wind power capacity.

Still, local governments haven't exactly welcomed wind developers looking to expand. Wind farm managers often have to sweeten the deal for local officials—buying equipment from local suppliers, building manufacturing plants, investing in local infrastructure, and even making "donations" to the government.

"Local protectionism is the biggest headache for wind power developers," Long Yuan Electric Power Asia General Manager Hsieh Chang Jun told Chinese media in May. "In some areas it is still very serious. ... [S]ome have joked that even the screws have to be bought locally."

Local officials insist their hands are tied. Their governments have to wait seven to 10 more years before seeing any tax revenues from wind developers, because of the way that China's 2009 VAT reforms shifted the tax base from production to consumption. Now, unlike before, companies can receive tax deductions on fixed assets like equipment investments, but in the case of wind energy companies this deduction is far larger than the taxes they are paying in.

"We provide services and resources, but we get nothing in return," an official at Hebei Province's Zhangbei New Energy Office told the *Economic Observer* in October. From that perspective, imposing fees and restrictions isn't protectionism. It's an attempt to recoup the loss from letting wind developers move in, when green-lighting a manufacturing plant instead would provide both local jobs and tax revenue.

The tug of war between local officials and central planners played out early last year in China's northern Gansu Province, as energy officials jockeyed to regulate a massive wind farm project in the city of Jiuquan.

Gansu officials have hailed the Sinovel Wind Co., Ltd. project—nicknamed "Three Gorges on Land"—as one of the pillars of China's strategic push into the west. The goal of the project is to install 20 gigawatts of wind power capacity by 2020, rivaling the 18.2-gigawatt capacity of the gigantic Three Gorges Dam along the Yangtze River.

Han Chuanhao/Xinhua Press/Corbis

Nicknamed "Three Gorges on Land," the Jiuquan wind energy project in Gansu Province is one of the pillars of China's strategic push into the west. In March, Jiuquan officials sought to impose a "buy local" requirement on the massive project, but the National Energy Board pushed back.

VALUE-ADDED TROUBLES

Local governments say they have to impose fees and "buy local" requirements on wind developers because they can't collect any revenues from these projects.

Here's how the math works out, supposing a wind energy company spent 1.6 billion yuan in a project, with 1.2 billion yuan invested in equipment:

VAT Input (deducted): 1.2 billion yuan x 17% VAT rate
= 204 million yuan in input

VAT Output (paid in): 480 million annual kilowatt-hours x (price of 0.51 yuan/kilowatt-hour) x 8.5% VAT rate
= 20.808 million yuan in output, annually*

204 million yuan output / 20.808 million yuan input
= 9.8 years before the difference is made up

**In 2001, China halved the value-added tax rate for wind power projects from 17% to 8.5%*

"[Protectionism] is good for local firms in their infant stage," says CKGSB Assistant Professor of Economics and Finance Li Xiaoyang. "But I think we have reached a point where it is excessive for most industries in China."

In March 2011, Jiuquan's Municipal Energy Bureau issued a set of regulations imposing "construction requirements" on wind energy firms. Companies that failed to buy local equipment, the notice said, would no longer be able to do business in the area. In response, China's National Energy Board (NEB) issued a statement banning Jiuquan officials from "requiring companies to buy locally-produced resources or creating other restrictions that protect local manufacturing industries." Jiuquan ignored the notice.

The NEB finally gave Jiuquan an ultimatum: If Jiuquan continued to build the wind farm without state approval, the NEB would cut off the city's access to the power grid and revoke its renewable energy subsidies. Jiuquan eventually received NEB approval in July, after promising that it would regulate wind turbines and other equipment with NEB guidance.

Local protectionism is a common phenomenon in the wind industry, says Shi Pengfei, deputy director of the China Renewable Energy Association: "[Since] local government resources mostly come from infrastructure, wind developers have no choice but to conform to their needs."

Logistical Hurdles

China's shift to a consumption-based economy is also threatened by the high logistical costs of delivering products between producers and customers, Cai said. Last year, Xinhua News Agency reported that it costs 1.5 yuan to move every kilogram of freight across the Pacific Ocean from Shanghai to New York, but between six and eight yuan to transport the same amount from Guizhou to Shanghai, two provinces away.

Local policies help drive up costs. For example, many local governments collect revenue through illegal and legal highway tolls. And they raise *a lot*. Since 1997, its first year of operation, the Guangzhou-Shenzhen Expressway has raised 35 billion yuan in toll fees, far exceeding the 12.9 billion yuan it took to construct the highway. A 2008 National Audit Office report found that up to 2005, 16 provinces had collected 14.9 billion yuan from 158 illegal tollbooths.

"Local protectionism, more precisely, should be called 'GDP-ism,'" says Liu Fuyuan, the former vice-director of the National Development and Reform Commission's Macroeconomic Research Academy.

For companies that ship products across provinces, the tolls add up: "It's local politics and local finance," says CKGSB Professor of Finance Chen Fangruo.

As a result, Chinese companies have some of the highest logistical costs in the world. In 2010, logistical costs comprised 17.8 percent of Chinese GDP, compared to 8.3 percent in the United States. Tolls account for about a third of operational costs for Chinese logistics companies, according the China Federation of Logistics and Purchasing. And the numbers are only going up, with logistics costs in China rising by 18.7 percent year-on-year to 6.4 trillion yuan in 2011.

A warehousing shortage is also aggravating the logistics bottleneck. In the last few years, local governments helped inflate China's recent property bubble by selling massive amounts of land—in 2010 alone, land sales and leases provided 2.7 trillion yuan, or 83 percent, of their budgetary tax revenues. Local governments have thus become highly reliant on land revenues as a tax base.

On the flip side, this means they're shutting out certain types of land occupants. Zoning a plot for commercial use—as opposed to industrial purposes—is far more attractive for government officials, says Andrew Hatherly, the industrial and logistics division executive director of the real estate services firm CB Richard Ellis. But even if land does become slated for industrial use, logistics companies are not prioritized.

"The problem is, local governments are extremely interested in how many new jobs and how many new taxes come from the zones and districts," Hatherly says. "So they would rather sell the limited amount of land that's available to manufacturers or research and development centers where it's very labor-intensive, and therefore [results in] a lot of people employed and a lot of tax revenue."

By contrast, warehouses are exactly what governments don't want taking up space: They're not labor-intensive, they occupy large buildings and they don't redistribute much business to their surroundings.

CBRE reports that starting in 2011, suppliers in China began to suffer a warehousing shortage, resulting in rent increases that can push up costs and hinder consumption. According to their figures, there are 0.41 square meters of warehouse stock per person in China, compared to 4.46 in Hong Kong, 3.78 in Japan and 5.16 in the United States.

Chinese officials have begun to address soaring logistics costs. In June, five central government departments launched a new campaign targeting illegal tollbooths, and in August, the State Council announced general measures for restructuring and revitalizing China's logistics industry. The guidelines pledge to prioritize logistics in future government land plans.

Hatherly says incorporating logistics should go in tandem with China's turn towards consumption. "These products have got to be warehoused somewhere, and it needs to be reasonably close to the markets," he says.

GDP-ism

Protectionism isn't the fault of money-hungry local officials—at least not entirely. The incentives to be protectionist are deeply entrenched in China's current GDP-worshipping political system, where job promotions depend on growth and revenue targets.

"Local protectionism, more precisely, should be called 'GDP-ism,'" says Liu Fuyuan, the former vice-director of the National Development and Reform Commission's Macroeconomic Research Academy.

Every year, central government leaders set growth targets that include tax revenues, investments, employment rates and GDP growth, in addition to non-economic indicators such as social stability and enforcement of the one-child policy. Local officials sign performance contracts with the next highest jurisdiction, promising to deliver.

"If the central leaders decided on an 8 percent growth rate, then this percentage will be allocated to local officials," says City University of Hong Kong Assistant Professor Jie Gao, who studies civil service reform in China. Local officials must then develop their own detailed indicators, like how many trees to plant and how many pigs to raise in order to meet the central government's goals. Failure to meet certain goals can result in dismissal, salary reduction, or demotion.

"Local authorities, in order to get promoted, have a strong incentive to strengthen their revenue base," says University of Chicago Professor of Political Science Dali Yang, an expert on Chinese governance.

Liu compares this arrangement to a feudal system "with more than 4,000 fiefdoms, and every county-level office is its own little fiefdom."

"It's irrational for administrative subdivisions to also be economic subdivisions," he says. "Without governance and tax system reforms, local protectionism will never be resolved."

Uwe Zucchi/IC

Local governments charge high tolls and have a disincentive to give land to logistics companies, causing China to have some of the highest logistical costs in the world. Logistics comprised 17.8 percent of China's GDP in 2010, compared to 8.3 percent in the United States.

Unwritten Rules

Even Nie admits that local protectionism has both helped and hurt his company, Xiangtan Fenli. In his home province of Hunan, he says, there is an "unwritten rule" that car manufacturers must source their auto parts locally. Local companies also pay less in taxes.

There are even explicit rules helping companies like Nie's. For instance, guidelines released in 2009—the same year the company failed to break into the Chongqing market—mandate all public officials to "actively purchase province-produced cars" and other local products including fuel, raw materials, equipment, machinery and medicines.

Nie's story is only one example of a larger trend. Local protectionism abounds in China, whether it is provincial committees that favor local drug companies for hospital medicines, complicated licensing procedures that keep car rental companies out of cities like Shanghai, or government-backed regional steel monopolies that are too big for others to compete with.

Because local overreach takes many forms, experts say, resolutions may require case-by-case troubleshooting. In an industry like wind energy, the central government could reconfigure the VAT to give local governments more revenue, Li suggested. Greater transparency in government procurement bids would also help prevent local favoritism, he said.

There are signs that "GDP-ism" is waning. Compared to past Five Year Plans, the latest one focuses more on quality of life and less on GDP growth. It has scaled back China's target GDP growth rate to 7 percent (compared to the 11th Five Year Plan's 11 percent average GDP rate), and seeks to encourage household spending by increasing wages and bolstering the social safety net. This change in emphasis may reduce the pressure on local governments to chase after fiscal targets.

In addition, Gao says, some local governments have already reconfigured their performance targets to give more weight to social goals like stability, production safety and handling of complaints. But revenue will always be the clearest indicator of success, which means officials won't abandon it anytime soon, says Yang: "It's the only hard number that they can get their hands on."

Xu Wenqing contributed reporting to this article.

The Power of Local

Successful multi-nationals are putting their faith in well-trained and locally savvy China teams.

by Sam Waldo

Imaginechina

Groupon's struggles in 2011 illustrate the incredible challenges foreign firms face when moving into the Chinese market—particularly when they fail to be adequately local.

Time and time again, the group buying company Groupon has found itself in hot water in China. Before Groupon's Chinese site Gaopeng even launched, China's group buying sites formed a loose alliance against the firm and threatened to blackball Groupon employees from any future employment in the industry. Then the news came out that Tissot watches offered through Gaopeng turned out to be fake and that McDonald's had rejected 700 coupons for reduced price meals sold to customers in Beijing.

Multinational corporations (MNCs) like Groupon are discovering that success in China hinges on localization. Chinese consumers need to be wooed. If a firm fails to appeal to Chinese tastes, then it can't seize or maintain market share in China, regardless of previous successes elsewhere. This is particularly true, given the increasingly fierce competition from homegrown Chinese firms.

When starting an operation abroad, MNCs typically transplant talent from their home country headquarters, said Cheung Kong Graduate School of Business (CKGSB) Professor of Managerial Practice Shalom Saada Saar. But in the past few years, there has been "more and more demand from Chinese consumers for Chinese managers" who better understand local needs and wants, said Saar.

As a result, more and more MNCs are starting to localize staff and transition native employees into managerial positions in China. As they do so, they face a complex set of questions: Is localization the right decision? Which positions should be localized, and who should fill them? How can MNCs strike a balance between local knowledge and brand control?

Groupon's Shaky Start

Groupon's struggles following the Tissot mishap and the McDonald's controversy illustrate the incredible challenges foreign firms face when moving into the Chinese market—particularly when they fail to be adequately local, says Ben Cavender of China Market Research.

Cavender, who studied Groupon since its intensified push into the Chinese market in 2011, says the company's strategy of bringing in a large number of foreign MBAs "was just a total disaster."

The foreign hires "didn't understand what was happening in the market, meaning that they were expensive but did not have many valuable skills to add because they had not really worked in China or in the group buying industry for that long," he says. Moreover, the company "limited the local team's ability to actually drive change here or drive the organization in the right direction."

But Groupon CEO Andrew Mason remains optimistic about the firm's future in China. In a leaked internal communiqué to employees in August 2011, Mason said Groupon's "China growth strategy was to hire quickly and manage out the bottom performers. So far, that strategy has improved our competitive position in China from #3,000 to #8." Indeed, Groupon's Chinese site Gaopeng captured 3.7 percent of China's group buying market in September 2011, according to figures compiled by the group buying analytics platform Dataotuan. This put the company on the top 10 list of China's group buying sites by revenue, for the first time. In October, however, its market share slipped to 3.2 percent, putting it just out of the top 10.

From Cavender's perspective, the most critical lesson to be gained from Groupon's experience thus far is: localize. "It's really important for organizations to really allow the Chinese staff members themselves to make decisions about what is supposed to happen," he said.

Stability, then Localization

From his interviews in 2009 with over 200 MNCs operating in industries from manufacturing to services, Chinese University of Hong Kong Business School Professor of Management Kenneth Law found that confidence and predictability were two key impetuses for MNCs making the final push to localize. A few years ago, Law says, firms "did not know what was going to happen in the future in China." Without confidence in the sustainability of a long-term presence in China, firms were left with short-term plans of 3 to 5 years.

But this changed in recent years, as firms observed that China's economic and political environment was changing and stabilizing. This, in turn, encouraged confidence and longer-term planning. "Whenever a firm has a longer-term plan, they will start to localize," Law says.

Why Local, Why Now

With China's business landcape stabilizing and competition for Chinese consumers intensifying, localization is increasingly becoming a priority for MNCs in China. But as they make the leap to localize, more and more firms are dicovering that operating in China entails a steep learning curve, according to CKGSB Professor of Strategic Management Teng Bingsheng.

Maneuvering in China requires a thorough understanding of local conditions—what customers like today, what they'll like tomorrow, what will offend them, how they spend money. "It's important to have people in charge who understand the China market," says Teng.

"When you have a fresh expat in China, the odds are that they cannot survive these days," he says, because the significant competitive advantage enjoyed by MNCs and expats in China "is no longer so dominating or absolute." MNCs can no longer coast on an international reputation, as the quality offered by local firms is gradually catching up with global standards. Foreign managers also no longer have clear advantages over local talent. General Electric recently recruited their corporate vice president in China from a purely Chinese firm, something which was "not common five or ten years ago," says Teng.

According to Teng, MNCs are recognizing that some professional managers in China can be very competent and sometimes have training in Western management practices, even if they lack overseas experience. When Yang Yuanqing took over for an American as CEO of Lenovo. "performance improved drastically" for the firm, Teng says, citing this as just one instance where a Chinese manager outperformed an American predecessor on a global scale.

Expensive expatriate salary packages are also driving localization efforts. Expat salaries in China are traditionally much costlier than those for local workers, but fewer firms can afford them in the aftermath of the economic downturns in both Europe and the United States, Teng says.

On the flip side, the cost of local talent is also rising. "There is such a demand for local talent that a lot of the local managers are actually more expensive than the foreigners that companies were previously hiring," Cavender says.

Creativity in the Face of Scarcity

The dearth of adequately trained local Chinese talent has already created a bidding war between firms in China.

Gan Jun/IC

The British multi-national financial services firm Standard Chartered Bank (SCB) found it "nearly impossible to recruit commercial banking talent" because of poaching from other firms, according to Kenan-Flagler Business School at the University of North Carolina Chapel Hill Professor of Leadership Doug Ready. Ready, who has authored case studies on SCB's struggles to retain talent, said the firm would recruit and train local employees, only to have a competing firm "steal them away for a 3 percent pay increase."

Beyond salary, SCB also had to compete with a sense of nationalistic pride—the idea that "now is our time"—that motivates Chinese talent to work for local firms like Tencent, Baidu, Alibaba and Lenovo, Ready says.

Frustrated, SCB in 2007 went on the hunt for untapped human resources, engaging in what the firm called a "raw talent initiative." Instead of competing directly with other financial firms for talent, Ready says, SCB recruited from outside of the finance industry, looking for employees "who understood client service, customer relationships, and building an effective working climate." They turned to the hospitality industry and drew out new hires from hotels like the Ritz Carlton and the Four Seasons, giving them training in finance for six months.

The raw talent initiative has proved "enormously successful" for SCB in the years since its inception, according to Ready. SCB's salary packages were competitive compared to those in the hospitality industry, and the personal development opportunities they offered made SCB attractive as well.

SCB has also actively worked to establish a meritocratic, development-based culture where employees see opportunity for future advancement, explains Ready. This is in contrast to the phenomenon of Chinese employees at some MNCs feeling they are "second-class citizens" whose career prospects are limited by their nationality, says Law.

The company stopped "throwing BMWs at people" to get them onboard, instead making it clear to employees that there were no glass ceilings for local employees, Ready says. In the first year of the new policies, attrition declined by 3 percent, which was significant compared to the dramatically increasing attrition rates other foreign financial firms are seeing.

At the end of the day, there is simply not enough trained, capable talent to satisfy demand. Attracting and retaining that talent requires ingenuity and a corporate culture that will keep employees excited, energized, and upwardly mobile, Ready says.

Weng Lei/IC

The China operations of Yum! Brands, the parent company of KFC and Pizza Hut,account for 36 percent of the company's global total revenues. KFC alone has captured 40 percent of China's fast food market.

"When you have a fresh expat in China, the odds are that they cannot survive these days," says CKGSB Professor of Strategic Management Teng Bingsheng. The significant competitive advantage traditioanlly enjoyed by MNCs and expats in China "is no longer so dominating or absolute."

Balancing Autonomy and Control

Successfully leveraging localized staff requires decentralized decision-making, but this can become problematic if local managers are given too free a hand and stray from a headquarters' oversight and control. The experience of Yum! Brands, the parent company of KFC and Pizza Hut, is illustrative of the delicate balance between independence and control.

Walking into a Pizza Hut in China, guests are escorted to a cushioned booth in a large, warmly lit dining area. They receive a tome of a menu, with pages upon pages of choices ranging from pizza and spaghetti to snails, octopus and quail eggs. In Chinese KFCs, guests are welcomed by the ubiquitous smiling face of Colonel Sanders and can choose from traditional local cuisine such as fried dough and soy bean milk, classic KFC fried chicken meals, and East-West crossovers such as chicken sandwiches accented with a spicy Szechuan sauce.

Contrast this to customer experiences in the United States. There, Pizza Hut is generally a take-home food, and the storefronts themselves tend to offer little in the way of selection beyond different toppings. KFC is also mainly a takeout affair, and the only choice that many customers make is how many pieces of fried chicken they want in their bucket.

It is specifically these kinds of innovations away from their home base models that have brought Yum! Brands success in the China market, said CMR's Cavender. These innovations only exist because Yum! authorized "their local teams to actually make decisions, allowing them to grow and respond to change very quickly," he said.

But localizing is only half the battle for an MNC like Yum! Brands. Yum! has also managed to protect its international reputation for quality, even when confronted with challenges.

In 2005, consumers were scared off when a food coloring product linked to cancer was found in one of KFC's sauce products, leading KFC to suffer a 30 percent drop in its profits during the second quarter of 2005, following the scandal.

Since the incident, KFC has been vigilant, ensuring that no similar accidents will occur. If KFC hadn't improved its safety protocols following the incident, the chain might not enjoy its current level of success in the mainland, Cavender said. Yum!'s China operations generated $4.1 billion USD in revenue in 2010, 36 percent of the MNC's total global revenue, and KFC and Pizza Hut both dominate their respective restaurant sectors in the country. KFC alone has captured 40 percent of China's fast food market.

Yum! managed to dodge the quality concern bullet, but it is unclear whether Groupon will manage to survive quality-control mishaps like the Tissot and McDonald's scandals.

"If you get caught selling something that is fake, whether or not you intended to, it is pretty much guaranteed that people are not going to trust you anymore," Cavender says. Since the Tissot scandal broke, Groupon has raised the compensation it is offering to customers who purchased the watches, to double the original $109 USD purchasing price. In December, the Shanghai Public Security Bureau's Economic Investigation Department said it was still investigating Gaopeng for criminal liability in the Tissot sandal.

For his part, Groupon CEO Andrew Mason said that the company would be giving more autonomy to its China operation Gaopeng. In an investors' conference in late November, Mason indicated that working in China's market would require a unique approach.

"We're patiently supporting the team," he said.

Feature

Microsteps

As Chinese donors become disenchanted with big charities, smaller organizations are leveraging microblogs to reach new audiences.

by Tom Hancock

Wang Keqin's office is not the polished workplace you might expect from a major Chinese charity. The space is borrowed, the furniture donated. As Wang expounds on China's social problems, he whips out a tissue and scrapes a thick coating of dust from his desktop. And yet, thanks to Wang's fresh approach to online fundraising, his organization has managed to raise tens of millions of yuan in a year, with almost no operational costs.

Since the end of 2010, Wang has been publicizing the plight of workers with pneumoconiosis, a terminal lung disease contracted when workers breathe in dust from coal and building materials. Wang estimates that as many as six million people in China suffer from pneumoconiosis, making it the most common terminal illness contracted in the Chinese workplace.

Unlike bigger, more established charities, Wang's primary fundraising platform has been the microblogging service Sina Weibo. Since its launch, Wang's organization—its English name is "Love Save Pneumoconiosis"—has raised over 80 million yuan from online donations alone. His office, which belongs to a friend, is staffed by around five volunteers every weekend.

Wang's is one of a small number of Chinese non-governmental organizations (NGOs) turning to microblogs as a fundraising tool. Groups have launched microblog-based fundraising drives for causes as diverse as school lunches in China's poverty-stricken countryside, treatment for children with leukemia, and even return trips home for Chinese soldiers abandoned in Burma in the 1970s. Meanwhile, private individuals in China are increasingly eager to donate to non-governmental organizations, with charitable donations up 3.5 percent since last year, according to the Chinese Academy of Social Sciences. Not only do microblogs allow charities more direct access to their disproportionately educated, middle-class users, they help circumvent the tough regulations that dictate how charities can raise money. And because raising money over microblogs requires barely any overhead, it allows small charities to compete with relatively large bureaucratic counterparts like the Red Cross Society of China.

Strictly speaking, there are no charities in China, as the government does not provide a legal definition for a charitable organization. Instead, it uses "social organization" as a category to cover all non-profit groups, from grassroots NGOs to local chambers of commerce. Just over 440,000 of these "social organizations" had registered with the government by the end of last year, according to the Ministry of Civil Affairs, the government department that regulates charities. But many more NGOs—an estimated three or four million—are unregistered.

Most of these unregistered organizations are not allowed to ask the public for funds. That right is limited to the 1,300 or so officially recognized "public foundations," as well as any "social organizations" that officially register their activities as programs of these public foundations. Only a small fraction of Chinese NGOs have registered and are therefore permitted to raise funds, according to Karla Simon, a professor at Catholic University's Columbus School of Law who co-authored a study on Chinese civil society for the World Bank and the Chinese Ministry of Civil Affairs in 2009.

In practice, many charities fundraise anyway. For example, Chinese actor Jet Li's One Foundation is legally entitled to collect donations only in the southern city of Shenzhen, but currently solicits from all over China. The organization may have more flexibility than most, as its chairman, Ma Hong, is

In connecting donors to each other, microblogs have transformed small-scale charity drives into full-blown campaigns, while also playing a critical role in turning public opinion against large philanthropic organizations.

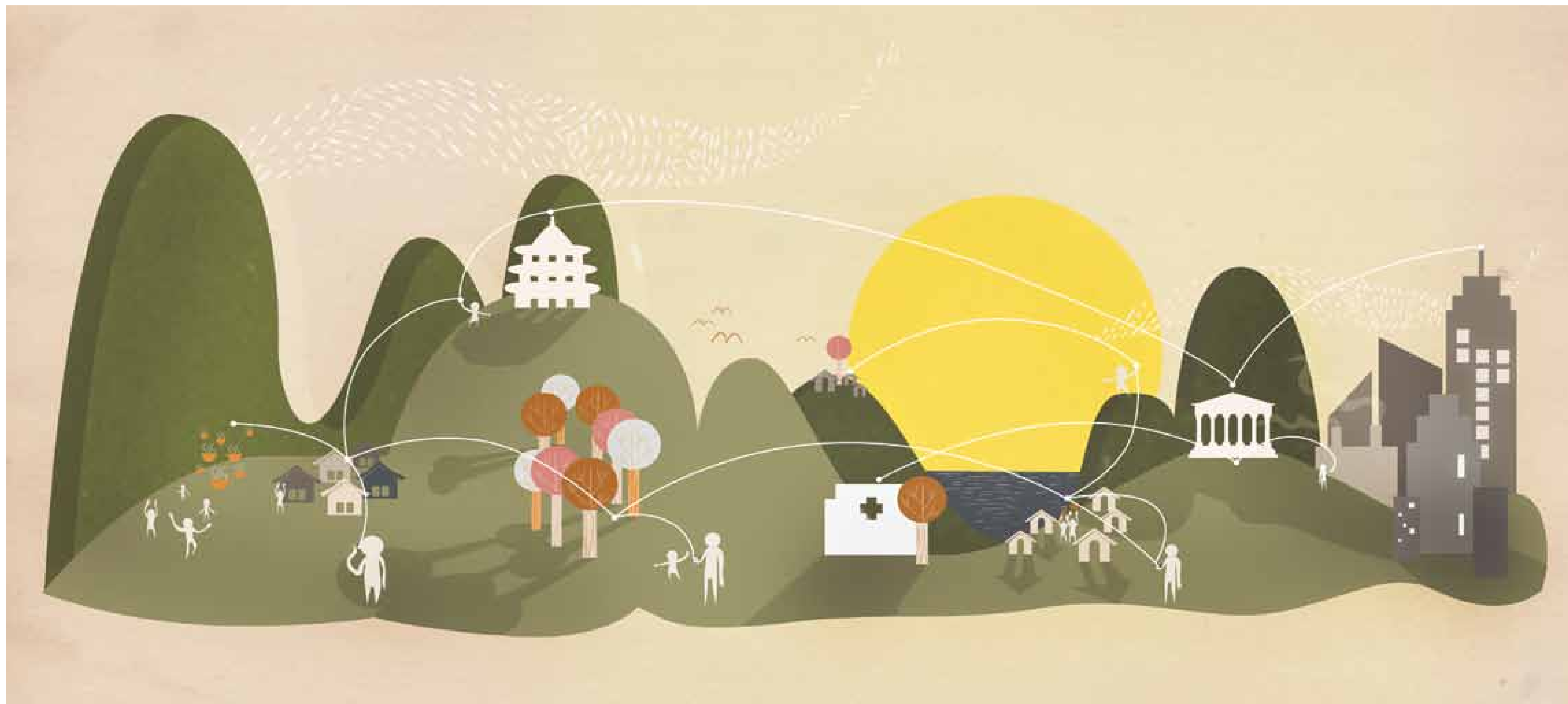


Illustration by Luigi Lacsamana

Feature

He Guang/CFP

"The transparent nature of social media has enhanced fundraising, by dramatically reducing donors' concerns about the inappropriate use of funds," said CKGSB Professor of Marketing Sun Baohong.

a high-ranking official in the Ministry of Civil Affairs.

In addition to connecting charities to donors, microblogging platforms connect donors to each other. Wang's first 140-character post simply listed the name of one pneumoconiosis sufferer, the date he contracted the disease and a bank account in the name of a local villager. Within days, a group of volunteers had arranged to travel to his village for a dinner and film screenings, including the Kung-fu epic *Shaolin Temple*, Wang said.

Deng Fei, a journalist at the Chinese magazine *Phoenix Weekly*, started a campaign to rescue abducted children by posting photos given to him by parents. "I felt that I could achieve a lot more by campaigning on weibo than from writing articles," he said. He soon realized weibo could help him raise a lot more than awareness. In 2011 he founded Free Lunch, an organization dedicated to raising funds for school lunches in remote rural areas.

Finding donors may be relatively easy. The difficulty for unregistered charities is setting up a bank account. When Wang started soliciting funds, he couldn't open an account because he wasn't associated with a public foundation. He instead directed donors to send their money directly to a bank account owned by a farmer in Gansu who lived near several pneumoconiosis sufferers. The man received around 8,000 yuan, but refused to transfer the money to other villagers. "It was a massive headache," Wang said.

It was the Internet companies Sohu and Tencent that finally offered to connect Wang with a public foundation. In July, Wang registered under a public fund, and since then has been able to publicly solicit cash. Deng also registered Free Lunch with the help of some friends in Beijing. "The process was very easy, but you need the right connections," he said.

Registering with a public foundation brings a new set of headaches. "We have to get approval from the fund every time we want to withdraw money," Wang said. The organizations also pay a five percent fee to the funds on any income they collect.

Microblogs have also played a role in turning public opinion against some large charities. This June, a Sina Weibo user named Guo Meimei, who listed her employer as a branch of the Red Cross Society of China, posted a series of photos showing her posing with expensive sports cars and designer handbags. The photos seemed to confirm what many Chinese suspected: that charities like the Red Cross refused to publicize their incomes because they were misusing donor's money. It turned out Guo had lied about her Red Cross affiliation, but the damage was done. Genuine scandal soon followed, when news broke that the Henan Soong Ching Ling Foundation, a children's organization and one of China's largest charities, converted into luxury apartments a plot of land set aside for a youth activity center.

The controversies had an immediate detrimental impact on big charities—and may have helped small ones. A branch of the Red Cross in Shenzhen reported that donations fell by 97 percent in the month immediately following the Guo Meimei scandal, while another branch in central China reported a 94 percent decrease. Wang and Deng, meanwhile, saw thir donations increase.

According to Cheung Kong Graduate School of Business (CKGSB) Associate Dean and Professor of Marketing Sun Baohong, an expert on social media, microblogs have produced a more transparent model for Chinese charities. "The transparent nature of social media has enhanced fundraising, by dramatically reducing donors' concerns about the inappropriate use of funds," she said. Free Lunch posts its receipts and expenses to its microblog daily, and requires all schools participating in the project to report how many lunches they serve. Wang's organization also posts its accounts online. "Because we solicit donations, we have to prove we're using the money responsibly," he said.

Wang and Deng's organizations may have similar origins, but their relationships with the state couldn't be more different. Deng's Free Lunch has been welcomed by educational authorities in remote villages, whose budgets are too slim to fund their own lunch programs. This September, the Chinese central government pledged 16 billion yuan to fund a lunch program almost identical to Deng's. "We were always a strategic charity," Deng said. "We wanted to act to bring the government's attention to the problem."

Wang has encountered less support. Local governments are nervous about the attention his organization brings to worker's compensation issues, guaranteed by law but often denied by officials who have financial links to the mining companies required to pay fair wages. One volunteer for Wang's organization was detained by local police in northwestern China's Liaoning Province last summer and told to stop his investigation of pneumoconiosis. In response to this harassment, Wang has adjusted the tone and content of his microblog feed. "I tell our volunteers not to write microblog posts about local government corruption, but about saving lives," Wang said.

Wang has also had trouble finding support in China's print media. This July, China's central propaganda department banned domestic media outlets from reporting on his organization. "Giving food to children makes for positive reports," he said, referring to Deng's Free Lunch program, "but our organization touches on more sensitive matters."

"Now we depend entirely on the Internet for promotion," Wang said.

Deng said he chose to focus on school lunches knowing the issue would draw support. "I'd like to found an organization focused on protecting migrant workers, but the issue is too sensitive," he said.

There are signs that the legal environment for NGOs is liberalizing. The government of Guangdong Province launched reforms last November that simplify the process NGOs undergo to register with the government. These reforms are likely to spread nationwide in the next five years, as local governments realize that NGOs are often more effective than the state is at addressing social problems, Simon said. Deng sees charity liberalization as inevitable. "The government will increase the involvement of NGOs in social management," he said. The first step, perhaps: Allowing non-profit organizations to raise funds directly from the public. "I expect to see that happening," Simon said.

Feature

Game Theory

How Western video game companies overhauled their business models to target the Chinese market.

by David Cohen

China is a daunting place to bring intellectual property. It's especially tough for businesses that produce content, like movies and music. Widespread piracy has all but shut out Western publishers, record labels, and television studios.

But for the video game industry, the Chinese market is becoming central to growth. Not only is it vast and lucrative—in November, China became the largest consumer of smartphones—it's also an unlikely driver of innovation. Gaming companies have been forced to adapt to China, whether that means developing new models for payment and distribution, taking creative approaches to IP, or partnering with pirates to reach their audiences. Some companies have even applied these lessons to markets back home. For years, China has represented the piracy problem. Now it may be the solution.

The gaming industry has adapted far more rapidly than its counterparts in music, movies, and books, says Cheung Kong Graduate School of Business (CKGSB) Assistant Professor of Strategy and Economics Brian Viard. "The music industry is painfully slow," he says. "But if you look at games, I think they've been some of the most progressive companies."

Three video game companies in particular—Rovio, creator of the "Angry Birds" franchise; PopCap, which made the hits "Bejeweled" and "Plants vs. Zombies" before being acquired by the studio Electronic Arts in July; and Blizzard Entertainment, which created the monumental "Warcraft" series—have tweaked their business models to fit China's unusual gaming market. This, their executives say, will help them adjust their strategies around the world as piracy becomes more commonplace. "We see Asia as a kind of time machine into the future," says James Gwertzman, Asia division chief of PopCap.

Illustration by Mark Mendoza

Justin Sullivan/Getty/NorthAmerica/CFP

Above: Rovio, creator of the popular "Angry Birds" franchise, plans to make a deal with now-unlicensed merchandise sellers: They pay licensing fees for "Angry Birds" products to Rovio, and Rovio in return designs in-game ads to promote their toys to fans.

Lesson One: If You Can't Beat Pirates, Join Them

When Rovio Chief Marketing Officer and "Angry Birds" developer Peter Vesterbacka came to Beijing last spring to discuss the company's China strategy, he found that the game's titular birds had preceded him. For months, local stores had been selling a dizzying array of copyright-violating merchandise based on the game, especially plush toys, which have become about as rare in China's capital as rice.

Whereas a more traditional company might have dialed its lawyers, Rovio saw opportunity. Vesterbacka went on a pirated-goods shopping spree and showed up to a press conference announcing the merchandising plans with a bouquet of beaked balloons. The Finland-based company opened its first office outside Helsinki in Shanghai over the summer, and plans to open branded stores across the country. (Vesterbacka pointed at Hello Kitty's 120 stores in China as a benchmark for the end of 2012.) Company leaders have begun boasting that they are "China's most pirated brand."

First, however, the company plans to parlay with the pirates. It may seem counterintuitive, but Vesterbacka argues that merchandise counterfeiters have a lot to gain by working with Rovio. If toy manufacturers pay licensing fees, Rovio designs in-game ads to promote their physical products to millions of Angry Birds fans. The strategy has helped Rovio build a large catalog of China-specific products, including, if talks work out, a group of theme parks. (The idea was inspired by an unlicensed "Angry Birds" attraction at a theme park in Hunan province.)

PopCap struck a similar agreement with software pirates. When the company was preparing to release a new edition of "Plants vs. Zombies," it created a free version in Chinese with built-in ads. "We contacted pirate sites and told them, if you take this game from us, we won't make any trouble about it," says Gwertzman. "Pretty much unanimously they all said sure." It was win-win: The pirates got a clean, Chinese-friendly version of the game to hawk on their websites. PopCap got a captive audience for display ads pushing other PopCap games and merchandise. The Chinese version now has more than a million daily users, according to PopCap.

Rovio's first China-only content was even more locally focused. During China's Mid-Autumn Festival, the company released a set of Angry Birds levels in which players are challenged to collect moon cakes, a food traditionally eaten during the holiday. Rovio also produced and sold real "Angry Birds"-themed cakes in stores.

The success of the Mid-Autumn Festival campaign confirmed Rovio's hunch: A content provider's most valuable resource isn't copyrightable code or cartoon characters, but a network of fans willing to pay for a brand in many forms.

Merchandising has been key for PopCap, too. The company has sold "Plants vs. Zombies"-themed plush toys and branded clothing at major retail outlets, all inspired by counterfeit products. "We estimate that we have fans of the game in China who have never even played the game," says Gwertzman.

Lesson Two: Make Games Accessible

Many people in China are willing to pay for content, says Gwertzman. It's just that stealing it is often much easier.

The most obvious reason is price. Companies coming to China should rethink their pricing, says Viard. A high sticker price is off-putting to Chinese consumers, but they're often willing to part with their money incrementally, he says.

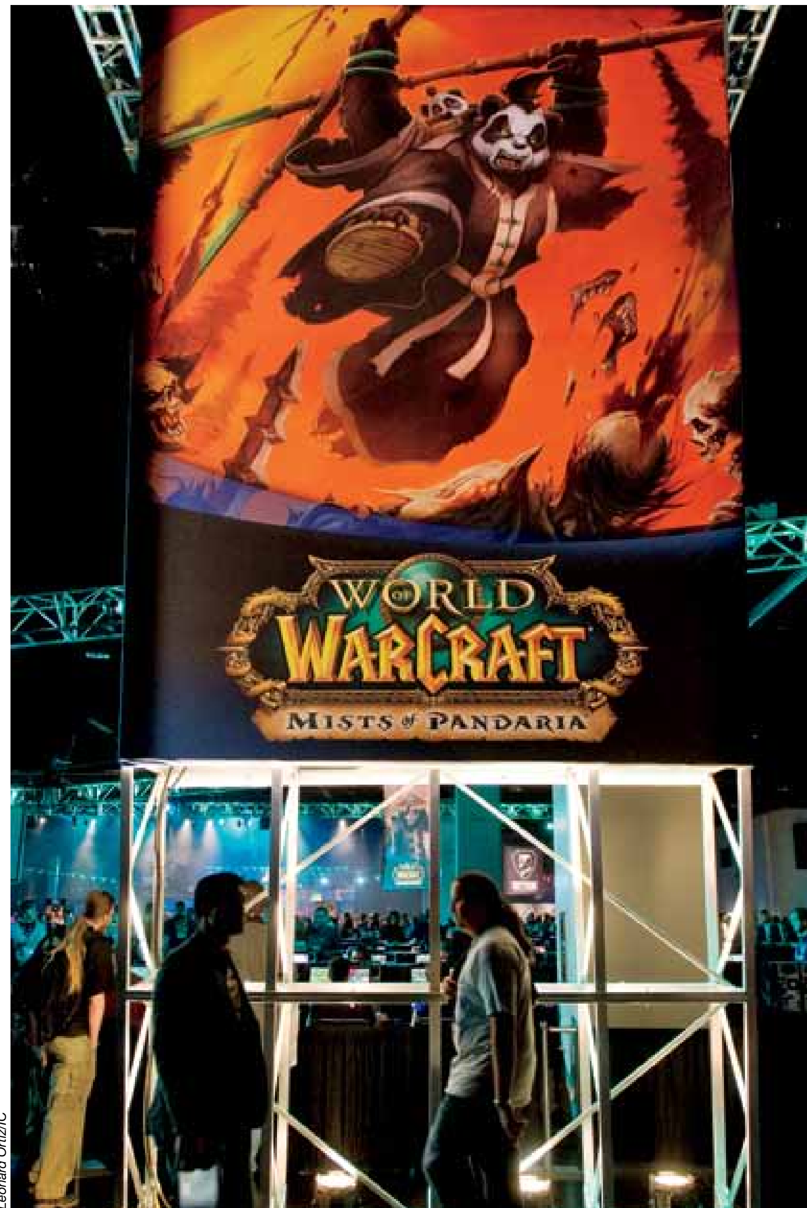
Take Blizzard Entertainment, maker of the popular massively multiplayer online role-playing game (MMORPG) "World of Warcraft." Blizzard uses different pricing structures in China tailored to lower incomes. For example, instead of paying the regular subscription fee for "World of Warcraft," Chinese gamers can buy pre-paid cards. This arrangement allows all but the heaviest users to pay far less than gamers in other markets. For "Starcraft II," a multiplayer game in which players direct armies in short battles, the company made the more radical move of selling cheap monthly subscriptions, instead of selling the game as a $50 boxed product as it does in the United States. The low prices work because the Chinese market is so big. "The average income is lower, but the marginal cost is essentially zero, so you can make up on volume," says Viard.

Stealing may also be easier because international distribution channels don't always work in China. Until November last year, Apple's App Store didn't accept Chinese credit cards. The Marketplace app for Google's popular Android system still isn't available in China. People who wanted to buy games or other apps for Apple's iOS mobile operating system had to use a workaround, buying gift certificates from intermediaries with foreign credit card numbers. For traditional media, the obstacles are even bigger—DVD shops rarely stock anything but bootleg copies.

When Apple finally started accepting Chinese cards, sales of "Plants vs. Zombies" leapt up fivefold over the weekend, making it the highest-grossing app that week. "The middle class is willing to pay if you make it easy for them," Gwertzman says. Rovio was able to work around the limitations of direct sales by licensing "Angry Birds" as a preinstalled bonus on Lenovo tablet computers and Nokia feature phones.

Translating games into Chinese also makes users in China more willing to pay for legitimate copies. According to PopCap's data on pirate distribution, the release of a Chinese translation of the original version of the game made only a modest contribution to the game's overall popularity in China, but it sparked a huge increase in the payment rate. After a spike in App Store sales, he said, they leveled off at nearly triple their previous level.

Then of course, there's cultural translation. While Rovio's moon cake-themed Angry Birds game was a hit, Gwertzman argues that localization plans should focus on understanding the market rather than patching on ersatz references to local culture: "We never thought 'Plants vs. Zombies' would be anywhere near as popular in China as its become, because the undead are not nearly as culturally relevant in China as in the U.S."



Leonard Ortiz/IC

Blizzard Entertainment offered Chinese "World of Warcraft" players a pricing structure designed for gamers with lower incomes: Instead of paying for monthly subscriptions, users could buy pre-paid cards.

Lesson Three: Free to Play, Costly to Win

Even if some fans won't pay for content, they will pay for the chance to meet, impress, and, in some cases, defeat each other.

Many online games have solved the piracy problem by charging players not to play, but to interact and compete with other players, says Viard. This model is best known as the basis for Zynga's "Farmville." The game is free to play on Facebook, but offers players the chance to decorate their virtual farms or avoid time-consuming tasks by paying small amounts of real money. The model was popular enough to transform Zynga in two years from a startup into a company valued somewhere between $9 and $15 billion, with $306 million in revenue in the third quarter of 2011.

Xu Congjun/CFP

Instead of cracking down on piracy, PopCap, the company behind "Plants vs. Zombies," offered pirates an approved, Chinese-friendly version of the game. "Pretty much unanimously they all said sure," said James Gwertzman of PopCap.

Aw Guo, the founder and CEO of Chinese gaming company MagnetJoy, says that for Chinese players, paying for in-game features is more than an incremental alternative to paying full price for a game—it has its own appeal. "When you beat someone in a game, it feels like you beat them in real life," says Guo. "It's addictive."

Many Western gamers consider buying upgrades in competitive games cheating. Blizzard has for years battled private, largely Chinese, entrepreneurs who buy and sell powerful characters and items to "World of Warcraft" players, arguing that the practice alienates fans who expect to compete on a level playing field. But in China, the practice is normal, and indeed expected. ZT Online, one of China's most popular MMORPGs, uses a model that explicitly fosters animosity among players and then sells them the weapons they need to get revenge. In order to encourage spending, the free-to-play game makes it largely impossible to earn higher-level upgrades—it takes an estimated 100,000 yuan to ascend to the game's highest ranks. Foreign MMORPG developers have reportedly gotten complaints from fans about having to spend time rather than money to get ahead.

PopCap has applied these lessons to create a more Chinese version of "Plants vs. Zombies" on Renren, China's closest equivalent to Facebook. The game is free to play, but players can buy upgrades. Weekly competitions allow players to show off to their friends and, if they're good enough, a wider audience. But players don't have a chance of getting on the high score lists unless they pay for upgrades. "What you're buying isn't fun, it's bragging rights," says Gwertzman.

Sometimes, players compete just to see who can spend the most money. MagnetJoy's most successful game, Pet Party, began as a clone of a Facebook game in which players take care of a pet by buying furnishings for its house. To give players a chance to interact beyond their list of friends, MarketJoy added a virtual street with millions of identical houses players could buy in auctions—and a leaderboard that records the largest transactions. The virtual land became its own real estate market, with one house selling last November for 11,111 yuan. The land auctions saw similarly high bids on Russian and Brazilian social networks, Guo says, but excited little interest in developed-country markets like the Netherlands.

PopCap plans to take models developed in China back home. A "Plants vs. Zombies" social game will be added to Facebook once it's been sufficiently fine-tuned in the Chinese market. If anything, Gwertzman says, PopCap has been too slow to borrow ideas from China. "When we saw free-to-play games in 2005, we recognized that they might one day come to America, but we didn't realize then how fast Facebook would grow."

PopCap and Rovio's success in China may be a hard act to follow for a brand that isn't already established. But any company with a piracy problem in China may have the same opportunities, Gwertzman says. Indeed, brands battling trademark infringement have used similar strategies to turn profits in China. In the 1980s, the Taiwanese restaurant chain Cafe 85 reached out to a wave of imitation Cafe 83s and Cafe 86s and turned them into profitable franchises. Luxury goods makers like Louis Vuitton can coexist with counterfeiters, since consumers tend to upgrade to the genuine article when they can afford it, according to a study by the China Market Research Group.

Other content providers, like record companies and television studios, can do the same in China. It's a matter of finding ways to tie spending to the acts of reading, watching, and listening. This could mean giving content away to promote physical goods and live events, or it could mean rethinking the nature of content to incorporate social or competitive elements. If the experience of video game developers is any indication, those kinds of changes wouldn't just solve the China problem—they could revolutionize entire industries.

Looking to High-Value Investment

Liang Xinjun is a co-founder of Fosun International Limited, where he serves as Executive Vice Chairman of the Board and Chief Executive Officer. He is a member of the Eleventh Shanghai Committee of Chinese People's Political Consultative Conference, among many other government positions, and is a four-time "Outstanding Entrepreneur of China's Science and Technology Private Enterprise" award recipient. He earned his executive MBA in 2007 from Cheung Kong Graduate School of Business (CKGSB). Most recently, Fosun Intl. made headlines for investing in the Greek retail group Folli Follie.

What are your initial reflections about this year's investment opportunities?
During the second half of the year, the world's investors, capital markets and industries took a tumble, but now all the value investors in the world have a great opportunity on their hands. Furthermore, I don't think this opportunity will disappear before the end of the second-half of the year, it could even continue to next year, or the year after next.

What should value investors be doing right now?
In terms of value investing, investors need to consider the long-term trends of an industry and wait for opportunities. For example, if you want to invest in banking in China, then you should study which period of banking has been fruitful, and buy when people are dumping their shares into the markets and prices are falling. Only then can this be called value investing. If you are bragging about being a value investor when prices are rising, you are not actually a value investor.

How has Fosun done this year?
I've been relatively satisfied with this year's investments. Firstly, performance was good. Industrial profits in the first half of this year were about 1.7 billion yuan. Many people know investment profits come quickly, but where do investment funds come from? These need to be accumulated. It's important to have a foundation of industrial profits. Secondly, investments in the first half of 2011 were good, with more than 2.2 billion yuan in profits.

How would you compare China's investment environment to that of the West?
Who are today's high-growth firms? Most would say, biotechnology, biomaterials, emissions reducers, environmental protection, telecommunications, etc. In China, this is not true. For Europe and the United States, it took 30 to 40 years to transition their industries. But in China, industries change incredibly quickly, eight to 10 years is a cycle. It seems that in one lifetime you can experience four different economic cycles.

Where should investors be looking?
I think four industries are high-value. Firstly, high-end consumption. This includes creating home-grown brands, with increasing added-value. Secondly, financial services, even though right now they are at an all-time low. Thirdly, energy resources, as long as China is supporting its manufacturing sector this big country will need energy resources. Fourthly, industrial upgrading. There aren't that many people involved in this. Industrial upgrading is not research and branding. It's improving logistics technology, inventory technology, capital flow, facilitating of flow of labor.

What challenges does China's economy face in the near future?
Firstly, can China really sustain high growth in domestic demand? Can China's system ensure that people's incomes continue to increase, or cultivate a large middle class? From a macroeconomic perspective, this requires clear adjustments of institutional mechanisms. For example, last year national income grew 29 percent, business income increased 23.8 percent, but citizens only saw a 13 percent increase in their incomes, which shrinks to 7.6 percent after factoring in CPI. You also can't ignore wealth redistribution reforms.

The second challenge is that the inflation problem is still a credit problem. Currency evaporation is a very important reason for inflation in China. In the past 33 years the value of the yuan has diminished by 24 percent.

The third challenge is the growth of China's small- and medium-sized enterprises (SMEs). China's economy right now to some extent is linked to the health of SMEs, because they account for 50 to 60 percent of reserves and employment, 80 to 90 percent of incremental employment. Fifty percent of people in all of China rely on SMEs for wages or newly-created jobs. Thus, government policies need to emphasize SMEs.

The fourth challenge is upgrading. But this upgrading can't only happen in technology or home-grown brands, it needs to consider the supply chain. Also, we must allow Chinese manufacturing industries to shift resources, so they aren't limited to developing in China.

What's ahead for capital markets, given the recent crises in the United States and Europe?
As for what's ahead for capital markets, Europe, the United States and China are not the same. The next two to three years of capital markets won't be that bright for Europe and the United States, but from an investor's perspective, this is a very good opportunity. Private enterprises previously couldn't get the best resources because of government controls. Now they can get them, and this is a good time for optimizing asset allocation. The key is whether entrepreneurs have enough courage to do it.

Interview originally conducted in Chinese.

Ready for The Great Wall Street?

Meet a world-class faculty with unmatched insight into Chinese business and its global implications. Connect with the network of entrepreneurs and visionaries defining tomorrow's China. CKGSB's business education programs and alumni network introduce you to China through the eyes of the individuals who are driving the returns on Chinese and global business.

Join us at CKGSB and Know What's Next.

BEIJING | SHANGHAI | SHENZHEN | HONG KONG | LONDON | NEW YORK

WWW.CKGSB.EDU.CN
CONTACT@CKGSB.EDU.CN

Around the World and Back Again

Maxence Perret-Gentil (MBA '10) was already a successful engineer with an advanced degree. Having worked for some of the leading manufacturers in his industry, including the Swiss Institute of Technology, he, like many engineers, wanted to accomplish more. He wanted to move his career forward with an MBA degree, so Perret-Gentil went one-step further, one giant step. Perret-Gentil's MBA journey took him from his home in Switzerland to the other side of the globe to study at Cheung Kong Graduate School of Business (CKGSB). The experience immersed him in the heart of China, the world's largest emerging market, developed his business skills, and returned him home to Europe with an MBA and an offer to become project manager and the Chief of Diversification for VOH SA, a leading manufacturer of precision watchmaking tools.

Although you already had an engineering degree, why did you decide to get an MBA?

I wanted to stay in the same industry but I wanted to do more. When you are an engineer, you are told what to do; you are given a budget, a project and told to get it done. I would ask why this project needed to be done and was told that it was beyond my understanding or need for understanding. That was not enough for me; I wanted to understand the whole picture. I wanted to understand the steps that led to the project. I had engineering knowledge but needed to develop my business skills.

What motivated you to get your MBA in China?

I was coming to the end of my contract and I wanted to get an MBA. This was at the beginning of the financial crisis and I saw a lot of small- and medium-sized companies talk about looking outside Europe to China for new opportunities, but none of them had the skills to develop that market. A lot of those companies died because they had no idea of how to do business in China. Europe as a whole is sort of blank in this respect. Those companies have products that could do well in China if they only had the resources. There seemed to be a demand in the market that I could fill.

Was there something that you wish you had known before you arrived in China that you know now?

There are several things. One has to do with cost: Housing is the largest expense but food, going to restaurants, and everything else is cheap because of the low cost. That is another thing I wish I had known: Housing is easy to find, and getting around on bike in Beijing is pretty easy. I bought an electric bike and used that most of the time. It is fine as long as you can handle the traffic.

Can you tell us a little bit about your experience at CKGSB?

I really liked my professors. I liked how they put emphasis on how what we were learning applied to the reality in China, the real world application. We did not just study cases about the U.S. but we used the original cases on China developed at CKGSB. We had students from different industries and different cultures and they brought that experience into the classroom. No one knew everything, so there was a lot of knowledge sharing. With our small class, you really learn who is from where and from what industry pretty fast; so you also get to know who knows what and from whom to learn about an industry pretty fast, too.

My classmates were open-minded and curious about what we were learning in class but they would also tie it into their careers. We formed small groups and clubs focused on an industry or career to share knowledge. The class was young and diverse, which was good since we had to communicate and depend on one another. There was a family atmosphere and many of the students became very involved with extracurricular activities.

After graduation, you found the job you wanted in Europe. What made a difference for you in your job search?

The MBA from CKGSB certainly made me stand out in a positive way. When I applied for jobs, companies saw that I got my MBA in China from CKGSB, and they were very curious about the different knowledge and skills that comes with a CKGSB MBA. The MBA from CKGSB put me in a more exclusive job applicant pool that helped me get noticed and helped me get in the front door. Of course, what you do once you are in there is up to you.

The Career Management Center helped me put together a great resume – they helped add clarity. The practice interviews were important. They helped me discover what I should focus on in the interview, what to talk about, and how to present myself. They also brought in a lot of companies to recruit us for both internships and post-graduation jobs. There were many Chinese and foreign companies coming to CKGSB with open positions we could apply for.

Can you tell us a bit about your new position?

I wanted a position that was focused half on technology and half on business. I now have a project management role, and, in addition, I am the Chief of Diversification. I am responsible for exploring new markets for the company and looking outside our traditional industry to identify new opportunities. I work with the CEO to expand the market for the products we make utilizing our current capabilities. It is exactly what I wanted: not only technology and not only business, but both sides are integrated in my new role.

CKGSB In Focus

36 Faculty Research and Achievements

38 Malcolm Sweeting: Bridging Knowledge Gaps Between East and West

42 Program Focus: Global China Business Programs

IN FOCUS

Faculty Research and Achievements

CKGSB faculty members—through their combination of scholarly research, on-the-ground observation and access to leading domestic executives—provide unique insight on both the theory and the practice of doing business in China. Their diverse backgrounds and extensive overseas experience have positioned them ideally to interpret business in the global context. In 2011, CKGSB faculty members have published 31 articles in leading peer-reviewed academic journals on a variety of topics.

Henry CAO
Professor of Finance
Ph.D.'s, UCLA and Yale University

Published in *Journal of Economic Theory*; and *Review of Finance*. Won the runner-up of the 2011 Spängler IQAM Best Paper Prize.

SUN Baohong
Associate Dean
Professor of Marketing
Ph.D., USC

Published in *Information Systems Research*; *Marketing Science*; and *Journal of Marketing Research*

CHEN Long
Professor of Finance
Ph.D., University of Toronto

Published in *Journal of Financial Economics*

Brian VIARD
Assistant Professor of Strategy and Economics
Ph.D., University of Chicago

Published in *Regulation and the Performance of Communication And Information Networks* and *American Economic Journal: Microeconomics*

LI Wei
Professor of Economics
Ph.D., University of Michigan

Published by National Bureau of Economic Research, Inc.

GAN Jie
Professor of Finance
Ph.D., MIT

Received the 2011 Barclays Global Investors - Michael Brennan Award from *Review of Financial Studies*

LI Xiaoyang
Assistant Professor of Economics and Finance
Ph.D., University of Michigan

Published in *Journal of Corporate Finance*

JING Bing
Professor of Marketing
Ph.D., University of Rochester

Published in *Quantitative Marketing and Economics*; *Marketing Science*; *Management Science*; and *Quantitative Marketing and Economics*

LI Haitao
Visiting Professor of Finance
Ph.D., Yale

Published in *Journal of Econometrics;* and *Journal of Financial and Quantitative Analysis*

Tony CUI
Visiting Assistant Professor of Marketing
Ph.D. Wharton

Published in *Management Science*

ZHU Rui (Juliet)
Visiting Professor of Marketing
Ph.D., University of Minnesota

Published in *Journal of Consumer Research*

Vicki Wei TANG
Visiting Professor of Accounting
Ph.D., University of Michigan

Published in *Journal of Accounting and Economic*. Received the 2011 PricewaterhouseCoopers Inquiries Award and the 2011 McDonough School of Business Center for Financial Markets and Policy Award.

Bridging Knowledge Gaps Between East and West

Malcolm Sweeting, Senior Partner of Clifford Chance shares his thoughts on Chinese companies heading West.

Malcolm Sweeting is Senior Partner of global law firm Clifford Chance. He has been a leader of the firm's London Banking Group and was a member of the firm's Partnership Council. Sweeting has a widely established reputation as a finance lawyer, most recently with a focus on emerging markets. This year, Sweeting joined the CKGSB European Advisory Board.

Clifford Chance is similar to CKGSB in that it is also in the "knowledge business". What knowledge is most needed among western business leaders on China?
Many Western-based global businesses have major operations in China and a very good understanding of how to succeed in China. However, that knowledge is not widespread within their organisation and for global businesses to be truly successful there needs to be a much greater understanding throughout the organisation of how to make the most of the opportunities that exist in growth markets and, in particular, China. Therefore, I see CKGSB as being ideally positioned to educate senior leadership in Western-based business organisations, both on the opportunities for doing business in China and also how the world is viewed through a China lens. As China continues its rapid growth, it is constantly looking at opportunities that exist for it in the global marketplace. This means that all organisations involved with China have to develop a knowledge and understanding of it and keep that up-to-date. It is no longer sufficient for business organisations to rely solely on their "China experts" but senior managers throughout a business organisation need to have knowledge and understanding of how effectively to do business with China.

We recently saw the first Chinese law firm establish a presence in London. What advice would you offer Chinese firms seeking to "head West"?
Like all markets, the legal sector is impacted by the growth and success of China. We have also seen the first link up between a leading Chinese law firm and a leading Australian law firm. My advice to Chinese firms "heading West" would be to have a clear understanding of what you want to achieve and to position yourself effectively and appropriately. There are tremendous opportunities for Chinese law firms to assist their clients as they expand globally. Any investment should be seen as for the long-term, and to be truly successful requires hard work and compromise.

Competition among European countries to secure Chinese FDI is intensifying. What advice do you have for CKGSB alumni who may be considering potential suitors?
The competition for Chinese FDI is very apparent across the markets in which we operate. Whenever we talk to clients one of the areas that they focus on is Chinese outbound investment. Our lawyers who have worked in mainland China but are now based elsewhere in our international network are in great demand for their China knowledge and expertise.

In a survey that we sponsored through the Economist Intelligence Unit last year, 82% of the respondents from large Chinese companies felt that they lacked management experience in outbound investment, and that they also struggled to understand local regulations and differences in culture. The feedback from this group was that this posed a challenge to their ability to expand successfully overseas.

To me, this points to the importance of very thorough preparation in advance of any deal, particularly, robust due diligence and a clear approach to orchestrating and executing the integration process. Where there are likely to be political and/or cultural sensitivities, careful communications and engagement with the right people inside and outside the organisation you are acquiring are also critical.

What do you see as the major knowledge deficit among western SMEs about doing business with the emerging economies?
Many SMEs operate under severe resource constraints and when they start to look at emerging and rapidly developing markets, this puts them under a great deal of pressure as they often do not have the same capacity as larger organisations for allocating individuals to research the target market. On the other hand, SMEs can often be more nimble and innovative than large corporate organisations and better able to grasp opportunities as they see them.

Although we are not a SME, we face some of the same issues. I would say that the greatest challenge is inculcating a good, current understanding of the growth economies across the firm. Our success in that market will ultimately depend not just on our people on the ground in Beijing, Shanghai and Hong Kong, nor even on our teams across the wider Asia Pacific region. Rather it will depend on us being able to share effectively that same knowledge and cultural and client insights about China with our people in the US, Europe, Latin America and Africa. I think at Clifford Chance we are making great strides in this direction but it requires a great deal of investment and focus.

The China Opportunity

Now, more than ever, the UK and China have an opportunity to benefit from exchange. By Neil Selby

The slogan for the UK's London 2012 Olympics is 'Be Part of It!'

The same slogan could well apply to the UK's trade with China. At a time when China is looking actively to encourage new models of growth through domestic consumption and investment in strategic industries, a huge business opportunity is being created in China's health, education, luxury goods, consumer and financial products, IT, creative industries, high tech engineering, environment and energy efficiency sectors, to name but a few.

Several UK firms, of course, are already "part of it."

Jardine Matheson, Standard Chartered, Rolls-Royce and Diageo have recently been in the news after winning sizeable contracts. China is Jaguar Land Rover's third-largest market in the world and its revenues are growing consistently with latest quarterly year-on-year figures up 87 percent. Companies such as BT with its Customer Innovation Centre in Beijing, HSBC with its growing penetration of the rural Chinese market, and Tesco with its green logistics center in China in Zhejiang Province, are all helping to showcase UK expertise. Penguin, the British publisher, won the 2010 "Continued Commitment Award" in recognition of its "sustainable and ethical investment" in the region. Penguin is training a new generation of literary translators through its Chinese-English Literary Translation programme, launched in partnership with the Chinese government in 2008.

The 2012 Olympic slogan is not about current athletes and medal winners. It's about persuading the next generation of participants to come forward. And the same is true of trade with China.

For many companies, cautionary tales of corruption, opaque business-government relationships, and lack of intellectual property protection mean doing business with China gets dismissed as too difficult. But as the outlook in America, Britain's single biggest export market, looks increasingly bleak—and as the euro zone, where half of Britain's exports go, starts imploding—China's economic resilience and vitality become ever more appealing.

The hard economic reality is that the UK needs more companies to understand how to do business in China, to be "part of it" and contribute to the UK's growth.

As an opening to understanding one another better, we might reflect that we are not so dissimilar in our challenges and objectives. We both face aging populations, growing urban issues and income inequality. We are both looking to combat unemployment, improve levels of education, increase social welfare and use resources more efficiently. We are both looking to prioritise investment in innovation and the development of a dynamic service sector to create sustainable sources of growth.

And though our geographies, cultures, development paths, political systems, and societal values may be undeniably different, our interdependence are well-established through existing trade relationships. Further opportunities for exchange and complementary relations appear in the ambitious goals of the most recent Five-Year Plan.

Recognizing the opportunity to bridge Eastern and Western business cultures, Cheung Kong Graduate School of Business (CKGSB) became the first Chinese business school to "Go West" by opening a branch office in St. James's Square, London. According to CKGSB Dean Xiang Bing, "the role in London for CKGSB will be to offer sustainable knowledge platforms and executive education programmes to link Western executives wishing to go East with business leaders who are shaping China's economy, as well as linking Chinese executives who wish to go West with top European business leaders".

London originally won the 2012 Olympics on a platform of sustainability. Now, more than ever, the UK has the opportunity to be an even greater part of China's dynamic and sustainable future. And China has the opportunity to be even more part of ours.

Neil Selby is the Director of Executive Education for CKGSB Europe.

A NEW DEVELOPMENT FOR CKGSB IN THE UK

CKGSB Europe is delighted to announce the signing of a Memorandum of Understanding with Lord Nat Wei of Shoreditch, on 27th October 2011, confirming its role as Secretariat to a newly established All Party Parliamentary Group (APPG) on East Asian Business.

The All Party Parliamentary Group will create a knowledge platform for parliamentarians and leading business people to inform and support the continued development of good trade and investment relations between countries of East Asia and the United Kingdom. The group will present a series of seminars and events, with its inaugural event on the 29th February 2012 at the House of Commons, Westminster.

Its two honorary presidents are Lord Mandelson of Foy and Lord Powell of Bayswater, its Chair is Lord Wei of Shoreditch with two Vice-Chairs Lord Risby of Haverhill and Kevan Jones MP, Treasurer Roger Godsiff MP and Secretary Mark Lancaster MP.

A Look Back at 2011

CKGSB global events provide platforms for scholars, industry leaders and government officials to share ideas and exchange opinions on China's role in the global economy. To address areas where understanding could be improved between China and the West, CKGSB conferences generate insights on how companies can integrate China and emerging markets into their global strategy. Here are a few notable conferences from this past year.

London Launch a Crucial Milestone in CKGSB's Globalization

Lord Patten of Barnes, Chairman of the BBC Trust and Chancellor of Oxford University and Stephen Barter, Chairman of London and Shanghai Holdings Ltd, joined other distinguished guests and CKGSB leading faculty at the launch of CKGSB's London office at Spencer House, London. CKGSB's official presence in Europe reflects the school's commitment towards contributing to a global business environment of mutual cooperation, respect and prosperity.

CKGSB Annual Forum: China & the World in Transition

At the 2011 CKGSB Annual Forum held on January 15 in Sanya, Hainan, over 1,200 CKGSB alumni, students, faculty and leading figures in Chinese and global business discussed the theme of "China and the World in Transition: The Next Five Years of Globalization, Innovation, and Sustainable Development."

CKGSB Annual Summer Forum: Developing China & ASEAN Nations

Over 1,000 participants attended the annual CKGSB Summer Forum held in Kunming and jointly hosted by the Yunnan Provincial Government on July 15. Attendees shared knowledge of innovative models for new development in China and ASEAN member countries.

China Institute Executive Summit Examines the Globalization of Chinese Companies

On October 21, Dean Xiang Bing and CKGSB professors, along with 90 EMBA students and alumni, gathered with distinguished guests, China Institute President Sara Judge McCalpin, daughter of former US President Richard Nixon, Julie Nixon Eisenhower and CEO of Kamsky Associates Inc. Virginia A. Kamsky, to discuss the globalization and rise of Chinese companies.

Meiji University 130th Anniversary Celebration

On October 31, Dean Xiang Bing was invited to participate in Japan's Meiji University 130th Anniversary celebrations, where he delivered a keynote speech, "Building a global business school based in Asia". He also shared some of CKGSB's innovative ideas on how to integrate global management best practices.

Ernst & Young Entrepreneur of the Year China Awards Gala

As the exclusive knowledge partner for the Ernst & Young Entrepreneur of The Year 2011 China Awards Gala, CKGSB hosted an afternoon roundtable discussion on November 4, for 50 past and present Chinese entrepreneur award recipients. The discussion focused on development strategies for Chinese companies and was moderated by Liu Jing, Associate Dean and Professor of Accounting and Finance.

2011 Horasis Global China Business Meeting

CKGSB Professor of Finance Mei Jianping moderated a panel titled "Redesigning Financial Services" on November 7 and 8. A group of more than 50 Chinese executives participated in CKGSB's China CEO Program to discuss the theme of "Globalizing Chinese Firms" at the Global China Business Meeting in Valencia, Spain.

IN FOCUS

Program Focus: Global China Business Programs

Burgundy Asset Management executives gained an in-depth understanding into the globalization of Chinese companies and the implications of this to the West through a customized Global China Business Programs.

Dean Xiang Bing presents, "China in the Global Economy" to EMBA students from Darden Graduate School of Business during the Global China Business Programs.

CKGSB welcomed business leaders from New Zealand Trade and Enterprise and Thunderbird School of Global Management's Global Executive Leadership Program in December 2011.

CKGSB partners with top business schools such as Columbia and Cambridge Judge to offer open enrollment programs in North America and Europe on global business strategy. These courses offer critical insights for international business leaders seeking to refine their strategies to reflect China's growing importance in global business.

CKGSB faculty members work with partner schools to co-design and teach courses that focus on how to navigate the Chinese landscape and how to compete and collaborate with Chinese firms going abroad. Participants learn how to leverage China's growth opportunities and gain new perspectives on China's fast-changing business environment. Courses often include opportunities to learn from and network with visiting Chinese business leaders.

In 2011, CKGSB hosted Global China Business Programs with participants from Darden Graduate School of Business, Thunderbird School of Global

CKGSB Assistant Dean Zhou Li (center); HRDF CEO Amirnuddin Mazlan (left); and SRW&Co. Chairman Daniel Wong (right) celebrate the launch of the ASEAN Global Leadership Program—China in Beijing.

Management (in association with the New Zealand Trade and Enterprise), Burgundy Asset Management and formed an new partnership with Malaysia's Human Resource Development Fund (HRDF) and S&WCo. a Southeast Asian consultancy firm. The diversity and scope of these programs are evidence of the global thirst for China insights and knowledge.

From September 17 – 24, 2011, CKGSB hosted Darden Graduate School of Business EMBA students through the "Leading in an Emerging Economy" Global China Business Programs held in Beijing and Shanghai. CKGSB professors led discussions on China's financial markets and business strategies in China, and China in the global economy. The 60 Darden participants also visited Beijing Hyundai and Wal-Mart in Shanghai as well as cultural sites to understand the impact of China's history on its contemporary business practices.

In April 2011, Burgundy Asset Management Executive Immersion Program and CKGSB's Global China Business Programs co-organized the Understanding Investment Opportunities in China Program. The three-day intensive immersion program focused on China's growth through a comparison and contrast with the West, evaluating Chinese companies from both Western and Chinese perspectives, the globalization of Chinese companies and business strategies of western companies entering China. These issues were examined in a practical environment beyond the classroom with visits to Lenovo and international leader in high-tech measurement systems, Agilent Technologies, Inc.

On November 21, 2011 CKGSB announced a new partnership with Malaysia's Human Resource Development Fund (HRDF) and SRW&Co. a Southeast Asian management consultancy firm in which the school will provide training to ASEAN businesses. CKGSB will develop customized business courses to be delivered in China to high-level executives from Malaysia and ASEAN countries.

At the inaugural Global Executive Leadership Program coordinated by Thunderbird Global School of Management and New Zealand Trade and Enterprise, CKGSB China Global Business Program hosted 23 New Zealand business leaders from November 30 to December 5. In order to understand global executive strategies from a China perspective and to recognize the impact of the growth of Chinese companies, the executives discussed the emergence of China and India and strategies for overcoming cultural gaps.

Alumni Watch

Our alumni are part of an influential and far-reaching network. Being part of the CKGSB alumni network is synonymous with being part of the generation of business leaders that is reshaping global business.

Throughout 2011, CKGSB alumni have shown tremendous commitment in their support of the Yangtze River Community Fund. Since its launch in 2010, over 1,000 CKGSB alumni have donated 8,000 community service hours to building libraries in remote villages throughout China.

While in Kunming, Yunnan province for the annual CKGSB Summer Forum held on July 15, EMBA students participated in an environmental cleanup. The EMBA program incorporates six days of community service as a core course requirement to foster social responsibility and civic pride among students.

In May 2011, CKGSB students and alumni participated in the Gobi Desert Challenge, where EMBA students trekked across the Gobi Desert. Completing the race in first place was a testament to the teamwork and dedication of CKGSB students.

In 2010, the CKGSB Alumni Photography Club traveled to north Japan, looking to capture the country's compelling natural beauty.

5 Ways Stores Can Influence Buyer Behavior

If China wants to foster domestic consumption, businesses need to understand why consumers buy what they buy. By Lucille Liu

In China's 12th Five Year Plan, domestic consumption figures more prominently than in years past. To this end, China's economic growth depends on how successfully businesses can sell their products to Chinese shoppers and understand their purchasing decisions. Companies in China are starting with a relatively blank slate: Chinese consumer behavior research is a young field, and good data is hard to come by. There is, however, a deep body of Western research on the physical experience of shopping, which companies in China could use as a starting point for getting customers to stay longer and buy more.

Space: Narrow Layouts

People buy a wider variety of products in tight quarters. That was the conclusion of a study produced by Rui (Juliet) Zhu, a Visiting Professor of Marketing at Cheung Kong Graduate School of Business (CKGSB), and Jonathan Levav, an associate professor at Columbia Business School. In one experiment, they found that people tended to buy a greater variety of candy bars when they had to pick them from a narrow aisle compared to a wide aisle. They then tested their findings in the marketplace by tracking purchases in 455 groceries stores in the United States. The researchers found that consumers tended to make more unique and varied choices when the store was more crowded, the closest substitute for tight space in a physical store. "We believe that if you constrain people physically, as a way to regain freedom, they are likely to use variety-seeking," says Zhu.

Touch: Let Buyers Feel the Product

You touch it, you buy it. Customers who touch products in a store are willing to pay more for them, according to a study by UCLA Professor Suzanne Shu, published in the *Journal of Consumer Research.* Shu asked more than 200 college students

Atlantide Phototravel/Corbis

Consumer behavior research shows that buyers are influenced by physical factors, from the layout of a store to its smell.

to value two consumer goods. Half were allowed to touch the products and the other half were not. Those who held the products assigned them higher values. One possible explanation is the "endowment effect," an economic theory that suggests people value objects more when they own them.

CKGSB's Zhu has also studied the effects of sensation on purchasing habits, in particular the sensation of a store's flooring. When a customer stands at a moderate distance from an item, he is more likely to find it appealing if the floor is carpeted, a 2009 study co-authored by Zhu found. But if he stands close to the item and is better able to assess it, a hard tile floor provides a contrast in sensation that makes him enjoy the products more.

Sight: Warm Colors Attract, Cool Colors Retain

Consumers are more physically drawn to warm colors than cool colors, according to a study led by Joseph A. Bellizzi, associate professor of marketing at Colorado State University. The study found that in a laboratory setting, participants were more inclined to sit near yellow and red walls than blue and green ones. The study's authors concluded that cooler colors may be appropriate when the purchase requires deliberation, since consumers tend to associate cool colors with calm feelings.

Smell: Pick the Right Scent

Turns out customers follow their noses. In a 2006 study, professors from Washington State University and Concordia University found that the proper scents could influence consumers' evaluation of the store environment and increase shopping time and amount of goods purchased. The clothing store where the experiment was conducted sold more women's clothing when they used a feminine scent like vanilla, compared to when they used a masculine scent such as rose maroc. (Participants assigned genders to the scents in a preliminary test.) Men also tended to spend more time and money in the store when they smelled a masculine scent.

Sound: Play Unfamiliar Music

In a study published in the *Journal of Business Research*, professors from the University of Washington and Washington State University examined the effects of music on amount of time spent shopping. They found that shoppers perceived a longer shopping time when they were exposed to familiar music than when they heard unfamiliar music. One theory from an earlier study on subjective time estimation says that familiar music makes people more aware of their environment and the activities taking place in it. They are therefore able to recall more events from that period, which gives them the impression that more time has passed.

That's not to say these results apply fully to Chinese consumers. Colors, scents, and music all likely have different effects, depending on culture. Likewise, Zhu doesn't expect the results of her shopping space study to be replicated in China: "In the West, people value personal space and crowding is a negative factor. In China, where the population density is so high, people are used to crowding. It is likely a different type of pattern will be observed." As Chinese companies expand—and foreign companies move into China—understanding these behaviors will become ever more crucial.

Moving On Up

Companies and officials in Guangdong Province are beginning to emphasize vocational training to upgrade their businesses and bring unskilled laborers into the blue-collar workforce. By Jen Wang

"In this industry, it's just one or two heroes directing a bunch of knuckleheads," says Peng Wen, a technician at a Winto Ceramics subsidiary factory in Guangdong Province's Foshan city. Peng's words illustrate the barriers between skilled and unskilled workers at many factories in the manufacturing hub of Foshan, where the latter are rarely able to elevate their status.

As China seeks to move up the smile curve and upscale its manufacturing sector—as envisioned in its 12th Five Year Plan—companies will have to break down the barriers between low-wage and skilled laborers.

Some companies are already starting to educate their workers. Foshan-based kitchenware producer Canbo Electrical Appliance Co., Ltd, for example, outsources its employee vocational program to a local training firm, Bewise. The Bewise training center provides instructors to develop the skills of production-line workers in areas such as efficient warehouse management and enterprise resource planning models. Bewise also offers career-planning services.

"Four years ago when we started customized in-house company training, people were in their forties, but now it's the so-called generation born after the 80s or 90s," says Bewise founder Li Huijuan. "The young workers are more educated than their parents' generation, and are often bored by the work. They need to do more than just feed themselves."

This is a stark contrast to the Winto Ceramics factory, which employs 1,500 workers, including about 50 technicians who are all either friends or relatives of the factory owner. They receive twice the average salary of an unskilled worker, and rarely share their knowledge of ceramics firing techniques with outsiders. The baseline salaries of the majority of the

Jerry Cooke/CORBIS

In the Guangdong Province city of Foshan, vocational training subsidies range from 420 to 2,000 yuan per person, depending on his or her skill.

laborers start from around 1,200 yuan ($188) per month, and are are capped at 3,000 yuan ($469) per month.

Every two or three years, an unskilled employee may be lucky enough to receive technical training in ceramics firing, but the vast majority of workers are consigned to the arduous tasks of mixing clay or moving semi-finished products from one production line to another, nine hours a day.

In Foshan, thousands of factories similar to Winto Ceramics dot the landscape. Most are private or family-owned small- and medium-sized enterprises (SMEs). Over the past thirty years of China's reform and opening up, some of these companies, such as Midea and Galanz, have become national brands known for offering affordable products, made possible in part by cheap labor.

When markets declined sharply during the 2008 global financial crisis, the companies that drove Guangdong's export manufacturing engine suffered. As the central government tightened housing policies and directed banks to restrict loans to SMEs, ceramics dealers and factories saw thinner profit margins. Shopfloor workers were forced to migrate from factory to factory.

After these economic shocks, Guangdong officials decided to upgrade their home industries to acquire a competitive edge. They chose to focus on SMEs, on the assumption that large private companies like Canbo had enough capital to institute internal training programs.

In 2009, thousands of workers began to access vocational training in Foshan, sponsored by both their employers and provincial and municipal subsidies, which ranged from 420 to 2,200 yuan ($66 to $344 USD) per person, depending on his or her skill. Beijiao, a small town in Foshan, trained 2,700 unemployed migrant workers in 2011 alone, in conjunction with local vocational training schools. Companies have also reported training more than 20,000 people internally, said one official with Beijiao's Ministry of Human Resources and Social Security.

According to Li Shaokui, an independent scholar who frequently consults with Guangdong officials, the provincial government's plans for unskilled workers go beyond job training.

"Migrant workers have no standing in our constitution," Li says. The newest generation of workers should be able to attain skills and senior technician certification after five to seven years, Li says, which will open the door for registered residency—or hukou—in the city. There, he says, they can settle down by renting low-cost houses and become senior technicians after another 12 years of hard work.

Just as high trees need strong roots, Li says, China's 200 million migrant workers "need to have a channel for promotion."

Yet Yang Yongye, a 36-year-old mechanic working at a 100-person textile factory in Foshan's Nanhai District, says he had never heard of the government subsidies, and is skeptical about the government's efforts. Since his first factory job at the age of 13, Yang has been through more than ten factories, teaching himself various skills along the way. He said he plans to acquire enough experience and money to start his own business someday.

"No one would like to do unskilled work for others for the rest of their lives," he says.

Three Generations of Chinese Entrepreneurs

How the business leaders of the 80s and 90s differ from today's.

China's business landscape is changing fast. So fast, in fact, that entrepreneurs face a new set of challenges and advantages every few years. **Cheung Kong Graduate School of Business Dean Xiang Bing** and **Associate Dean and Professor of Strategic Management Teng Bingsheng** identify three generations of entrepreneurs that have emerged—or, in the case of the Third Generation, are still emerging—since the beginning of China's opening and reform in 1978.

First Generation 1980s-early 1990s

Dominant sector Manufacturing
Major players Liu Chuanzhi (Lenovo), Zhang Ruimin (Haier), Ren Zhengfei (Huawei)

Business landscape
In the early years after reform and opening up in 1979, the First Generation of entrepreneurs faced an economic reality that hadn't existed before: Companies were privatizing for the first time, market competition barely existed, and entire industries awaited profiteers. Still, it was hard for entrepreneurs, many of whom had worked in state-owned enterprises, to break away from traditional systems.

Advantages
A lack of market regulations, few transparency requirements, and high trade barriers that prevented foreign companies from competing for Chinese customers. Manufacturing costs were also low.

Challenges
Low profit margins, a lack of skilled professionals, and inexperience in global management. And while labor costs started low, they soon started to rise compared to countries like Vietnam and India.

How they succeeded
The companies that profited from China's new "socialist market economy" were those that maintained the old system's lessons of having good relationships with the government, while also meeting the new system's requirements of versatility and adaptability.

Second Generation Late 1990s-2000s

Dominant sector Services
Major players Jack Ma (Alibaba), Ma Huateng (Tencent), Robin Li (Baidu)

Business landscape
The Second Generation enjoyed a flood of international private equity to fund their companies. As a result, firms expanded fast and business leaders achieved high levels of wealth. Whereas the First Generation benefited mainly from low-cost manufacturing, Second Generation companies like Taobao, CTrip, and Baidu borrowed business models from the West.

Advantages
Business leaders had strong educational backgrounds, exposure to the global market, and other successful companies to emulate. They also operated in a more predictable legal environment, with larger amounts of equity to help start companies.

Challenges
Companies faced greater competition from overseas, as well as rising wages. CEOs had less experience than their predecessors.

How they succeeded
Second Generation companies took Western business models and adapted them for a Chinese audience. They also diversified. Tencent, for example, created the chat program QQ, a popular micro-blogging service, a virtual goods store, online games, and a search engine, making it the third largest Internet company in the world, after Google and Amazon.

Third Generation 2000s-present

Dominant sector Remains to be seen
Major players Remains to be seen

Business landscape
The 2008 financial crisis and its aftermath have changed the calculus for China's export-driven economy. It's not enough to simply copy the products and business models of foreign companies—companies have to start making original products that will appeal to a global audience.

Advantages
Falling barriers to entry for small businesses mean entrepreneurs can found more startups. New government investment in R&D and emphasis on indigenous innovation can help make Chinese companies more competitive with their foreign counterparts.

Challenges
Competition with global firms will mean Chinese companies have to rise to an international standard, not just a Chinese standard.

How they succeeded
They haven't yet. Chinese companies still need to adjust to a global economy, where they're competing with Swiss factories and Silicon Valley engineers in addition to their domestic counterparts. That means not just tweaking existing technology for Chinese consumers, but creating original products that they can sell everywhere.

Socially Commercial

In both China and the West, companies are using social media to build communities around their brands. By Lucille Liu

Zhu Jipeng/ IC

According to a recent Chinese consumer study by the consulting firm McKinsey & Company, 20 percent of Internet users in China share information about products over social media, compared to 36 percent of American users.

In the West, many companies are already using social media to listen to customers, build brand loyalty and learn how they can improve customer service. Facebook recently partnered with Amazon.com to generate recommended gift lists based on Facebook users' favorite books and movies, recent activity, and what friends have liked. The telecommunications company Verizon monitors Twitter for public comments mentioning the company, and customer service agents directly message negative commenters to resolve their complaints. Apple Inc. liaises with over 800 registered user groups, whose members post on forums, plan events and attend Apple sales training courses to stay up-to-date with the company's latest products.

It would do Chinese companies some good to learn from these examples, says Cheung Kong Graduate School of Business (CKGSB) Associate Dean and Professor of Marketing Sun Baohong, since Chinese companies are only starting to understand how they can leverage social networks to build communities around their products.

"Chinese companies still use social media as a tool to draw eyeballs," Sun says. "They advertise on social media, but this is only one of the many uses of social media [available for companies]."

According to a recent Chinese consumer study by the consulting firm McKinsey & Company, 20 percent of Internet users in China share information about products over social media, compared to 36 percent of American users. There is a gap, but Sun said there are some advantages to reaching out to a Chinese audience.

"Social influence is always important among Chinese consumers and Chinese people are comparatively less concerned over privacy issues," Sun said.

Already, some Chinese companies are venturing into social commerce to build their audiences. In November, Xiaomi Technology Company's CEO Lei Jun used the company's BBS forum to "poll the audience" on whether an upgraded version of its low-cost smart phone with more advanced capabilities should be launched, since only high customer interest could justify the phone's development costs. Within one month, over seventy-thousand people responded to the Xiaomi survey: 42.8 percent voted in favor of launching a newer version of the phone, while 42.6 percent considered it unnecessary. The company has yet to decide if it will create the newer version.

Meilishou, another Chinese start-up, is a popular online forum for the style-conscious to discuss the latest deals and purchases. Taobao, China's largest e-commerce site, has been operating its own social network called Tao Jianghu since 2009. According to the China technology blog TechRice, the social network has roughly 10 million active users, making it one of China's top ten social media communities, in terms of number of users.

Online communities based on user-generated content have opened up a new body of research into the value of acquiring content creator fans. Kaifu Zhang, a Ph.D. candidate in marketing at INSEAD, investigated the benefits that new users bring into online marketplaces. According to Zhang, every person who enters a company's marketplace immediately brings far more value beyond his or her transactions—by attracting more people into the network through word-of-mouth or by contributing content that makes the site more attractive to other users. After developing a tool to quantify these indirect benefits, Zhang and his colleagues found that the average value of each user to the website (in terms of sales commissions) quintupled.

The sooner companies realize the many different ways they can reach out to customers over social networks, the better they can use social media to its full potential, Sun says: "Social media should be used as a tool to create customer satisfaction, to listen to consumers' voices. In essence, to make a consumer want to spend money on your product."

The CKGSB MBA Program is a leading boutique course designed to cultivate the next generation of business leaders with unsurpassed global perspective and local insights.

The CKGSB MBA is a full-time, 12month program based in Beijing and taught in English, with courses delivered by international professors who have served on faculties such as Wharton, Stanford, Harvard and INSEAD. Our faculty ranks sixth among worldwide business schools in research contributions and our professors take up advisory roles in global policy-making bodies. We pride ourselves on unrivaled research and hands-on knowledge of the Chinese market. We are at the forefront of Chinese business education in the next economic superpower. The CKGSB MBA Program is your ideal guide into the new opportunities of this emerging giant.

Know What's Next.

Learn more about us at www.ckgsb.edu.cn/mba Email:mbaadmissions@ckgsb.edu.cn Tel:86-10-85181052

BEIJING | SHANGHAI | SHENZHEN | HONG KONG | LONDON | NEW YORK