



BRANDING CHINA



SASAC's
Li RONGRONG

CONTENTS

STATE-OWNED ENTERPRISES

The Engine of China's Economic Reform

Li Rongrong, Chairman, State-owned Assets Supervision and Administration Commission of the State Council (SASAC), People's Republic of China
92

Shipping Cargo Globally, Earning Credit Internationally

Wei Jiafu, President and Chief Executive Officer, China Ocean Shipping (Group) Company (COSCO), Beijing
94

THE SECTION ABOVE IS SPONSORED BY

Deloitte.
德勤

PROFESSIONAL SERVICES

Global Strength, Local Focus

Peter Bouvie, Chief Executive Officer, Deloitte China, Shanghai
96

REAL ESTATE

The Internationalization of China's Real Estate Industry

Fang Chao, Chairman and General Manager, Beijing Guobua Real Estate Co., Ltd., Beijing
98

BOAO FORUM FOR ASIA

Asia Searching for Win-Win

Long Yongtu, Secretary-General, Boao Forum for Asia, Beijing
102

A Leading Platform for Asia

103

INTERACTION & INSIGHTS

CHINA and YOU Survey

104

The People Behind the Titles

Elizabeth H. Yang, China Chief Representative, LEADERS Magazine
104



The Engine of China's Economic Reform

An Interview with Li Rongrong, Chairman, State-owned Assets Supervision and Administration Commission of the State Council (SASAC), People's Republic of China

EDITORS' NOTE After graduating from Tianjin University with a bachelor's degree in electrochemical engineering, Li Rongrong served first as worker, then was a workshop chief of a factory and later held other key posts in Jiangsu Province. In February 2001, he was appointed chairman and party secretary of the State Economic and Trade Commission (SETC). At present, Li is chairman of the SASAC and party secretary of SASAC CPC Committee. He is a member of the 16th CPC Central Committee. The following is the first of a two-part interview, which will conclude in LEADERS' July issue.

INSTITUTION BRIEF Authorized by the State Council in March 2003, in accordance with the Company Law of the People's Republic of China and other administrative regulations, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) acts as an investor; guides and pushes forward the reform and restructuring of state-owned enterprises (SOEs); appoints and removes top executives of enterprises; evaluates their performances through legal procedures, granting rewards or inflicting punishments based on their performances; and directs and supervises the management of local state-owned assets according to law.

Outsiders often regard your commission as one of the most important engines driving China's economic reform. Do you agree with this opinion?

Although SASAC only supervises 169 SOEs, the taxes they turn in account for nearly one-fifth of the total revenues of the central government. In this sense, it is easy to understand the significance of the enterprises my commission supervises. Because of the significant role these SOEs play in China's national economy, the commission has, since its establishment, taken it as its primary task to administer SOEs well. Only after we administer SOEs well can the national economy develop stably and continuously.

The improvement of quality shows mainly in the following three aspects: the

power to control, the power to influence, and the power to drive. The power to control means we must have the controlling power over the industries that are vital to the nation; for instance, the aerospace industry and the military industry. The power to influence and the power to drive connote that the state-owned economy must be able to influence and drive the national economy. For example, the three gigantic oil enterprises, namely PetroChina, Sinopec, and CNOOC, have driven and influenced the development of the entire oil industry in China. My commission simply takes charge of the supervision and administration of the state-owned assets in these enterprises.

As the leading companies in China, will the SOEs undermine the free development of the market when they are exercising their power to control?

I was once asked whether there was a monopoly in the oil industry. And I think moderate competition, rather than full competition, is appropriate for industries that are vital to the national economy.

In 2005, the world oil price experienced large ups and downs, which exerted a big impact on many countries, while the Chinese economy felt only a minor impact and developed smoothly compared with those countries. The three leading oil enterprises contributed greatly in this regard. They tried hard to digest the oil price difference between purchase and sale within their bodies, at the cost of their own interests, and played their due role in promoting the smooth development of the national economy. Ensuring the stable and continuous development of the national economy is the core connotation of "administering SOEs well."

Besides the responsibility that you mentioned just now, another important task of your commission is to preserve and increase the value of China's state-owned assets. What are the challenges your commission faces in this respect?

To tell the truth, the problem of loss of state-owned assets does exist. However, it only exists in individual cases. We need to

look at the issue from a general perspective and check two indexes: the total amount of state-owned assets and their quality.

Our work performance since the establishment of the commission in March 2003 has so far been satisfactory, and we have achieved sound results. In 2003, when I took over the position of chairman of the commission, the total assets of SOEs were RMB7.1 trillion [\$0.9 trillion], and the number jumped to RMB10.6 trillion [\$1.3 trillion] at the end of 2005, with an annual increase of RMB1 trillion. The total sales of the SOEs reached RMB6.7 trillion [\$0.8 trillion] in 2005, with an average increase of RMB1.1 trillion per year. And these enterprises accomplished profits of as high as RMB630 billion [about \$79 billion] in 2005, increasing more than RMB100 billion per year on average. Tax is the major index for the government to judge whether a company is performing well. The SOEs paid taxes of more than RMB540 billion [\$68 billion] in 2005, with an average annual increase of RMB100 billion. All these performances are better than what we expected. I would say that the good results we have achieved in these three years are the best answer to your question.

China's reform of SOEs has taken more than 20 years, from relaxing control over them and leaving them more profits for their own development to transforming them into joint stock companies. How has SASAC, as the major investor in the SOEs, helped them to establish a modern enterprise system and gradually perfect the corporate governance?

Before the establishment of SASAC, it was hard to find a particular body directly responsible for the state-owned assets in SOEs, although it was said that the government should take responsibility. Therefore, our task is clear, which is to shoulder the responsibility for these state-owned assets. The first step was to formulate and sign the Operation Performance Responsibility Contract. All issues concerning preserving and increasing the value of state-owned assets and how to deal with profits

and losses are defined in the Operation Performance Responsibility Contract, and are to be implemented by leaders of the enterprises with full authority.

The general manager is to take direct responsibility for the performance of the enterprise. For those enterprises registered according to the Enterprise Law of the People's Republic of China, the board of directors will be responsible for choosing a general manager. The commission's work, in the first phase, is to guide the enterprises to develop, step by step, while, in the second phase, we will establish a standardized corporate governance – a check-and-balance governance to ensure the sustained development of the enterprise.

Most SOEs were registered under the Enterprise Law of the People's Republic of China and the general manager was supposed to take direct responsibility for the performance of the company. However, for some companies, although they have a governance system constituted by a board of directors, a general manager, and a Party committee, they actually refer to the same group of people. So when they hold a meeting, it is really hard to tell whether the meeting is convened by the Party committee, the general manager, or the board. In this sense, responsibility is unclearly defined, so the performance of the company is worse than expected.

For this reason, we are now trying to pilot reform in this respect. We selected six central SOEs as key companies to adopt the standard corporate governance, such as Bao Steel, Shenhua Group, etc. We set quite a high requirement as our starting point, which was that the majority of the newly established board of directors had to come from outside the company. The objective of doing so is to make sure that the decision making of the company is not fully subject to people within the company, and to prevent administrative intervention from the government, thus ensuring that every director on the board can voice his or her own opinion independently.

Compared with their foreign counterparts, the development of Chinese political and corporate leaders seems more closely connected to the times in which they grew up. All of your past positions were related to the planned economy, and against this background, you assumed your current position as chairman of SASAC. How has your role changed, and how do these changes reflect the changes taking place in the Chinese society?

The most fundamental change that the Chinese society has undergone in the last two decades is the transformation from a planned economy to a market economy. I formed my deepest understanding about this change when I was working in a grassroots enterprise. That enterprise specialized in manufacturing spare parts for agricultural machines. In the planned economy, all our products

were purchased and sold by the state, so we did not have to consider sales and marketing. Then along came the market economy, and we suffered the first strike. The government did not help us anymore, so we had to work things out by ourselves. As for such matters as a feasibility study for a project or the evaluation of economic returns, the company had to do them and be responsible for itself. The government only needed to investigate whether the project complied with its policies. The government is not good at everything.

I think our enterprises shouldn't rely on the government, but should courageously explore the market by themselves. The government should respect

are performing well, I also hope they can make their evaluation of whether or not I am doing a good job. The 169 SOEs under the supervision and administration of my commission fall into a wide range of industries; moreover, global competition has become very fierce. So I often feel my knowledge renewal cannot keep up with the latest developments, and that I have far less time than I need. Just imagine an enterprise has gone bankrupt but its employees still need to be fed. You would be very worried about the situation. If two enterprises were worrying you at the same time, how could you concentrate on both? Every time I am in this situation, I feel short of knowledge and in great need of time to learn.



Elizabeth H. Yang, China Chief Representative, LEADERS Magazine, interviews Li Rongrong

decisions the enterprises have made according to the rules of the market economy. He who invests, decides. Now that my commission is indeed an investor, we surely need to take our due responsibilities. The definitions of the role played by the government and the role played by enterprises must be clear, and we must agree about what the government should do and what enterprises should do.

Many people describe you as the principal person determining the development trend of Chinese SOEs, which gives people the impression that you are like a strict father. In the eyes of the leaders of the enterprises your commission administers, would you prefer to be "most favored" or "most feared"? How do you define yourself?

To my subordinates, I need to be "most favored" and "most feared" at the same time. I think work is work, and private relations are private relations. The two cannot be mixed. I am serious in work and will raise clear work requirements to my subordinates, which allow no watered-down versions. On the other hand, if someone has family difficulties, I will try my best to help him or her. At that time, I would be the first person to come to his or her mind. I think that in this way I treat my subordinates like an affectionate father would.

More importantly, I am chairman of the commission. When I make my assessment of whether the leaders of the SOEs

The leader is the soul of a group. Executing power is a representation of the leader's power, and will eventually evolve into the competitive power of the enterprise. LEADERS is actively engaging in an evaluation of Chinese corporate leaders' power. How do you regard leadership, and what do you think are the core factors that constitute a leader's power?

Generally speaking, leadership is the ability to lead an enterprise to make a quick response to the environment. When a certain change takes place in the market, a good leader should be able to make an apt response to it, to find out the potential opportunity in it quickly, and to lead his or her team to catch this opportunity. A good leader should be good at establishing a quick and apt market response mechanism, in which the leader's insight and power to influence is crucial.

Therefore, work devoted to establishing such a market response system starts with choosing the right people and forming the right team. The superior is sensitive and responsive to changes, while the inferior can promptly understand and implement the superior's instructions. Every team member performs well in his or her position, and, in the meantime, quickly sends the information to the grassroots. In this way, all team members pull together. If we are one second faster in every link of the chain, we will win. ■

Shipping Cargo Globally, Earning Credit Internationally

An Interview with Wei Jiafu, President and Chief Executive Officer,
China Ocean Shipping (Group) Company (COSCO), Beijing



Wei Jiafu

EDITORS' NOTE With more than 10 years of seafaring experience, Wei Jiafu has extensive knowledge of international shipping management and operations. He is a senior engineer with a doctorate in ship and ocean structural design. As the head of COSCO, Wei Jiafu has been honored with a number of distinguished awards recognizing his outstanding contribution to the international shipping industry. The most eminent honors include the Economic Booster Award from the Massachusetts Alliance for Economic Development and the Port Pilot Award from the Port Authority of Long Beach. In addition, as recognition of his outstanding contribution to China-Belgium business and trade development, His Majesty King Albert II of Belgium named him a commander in the order of Leopold II on November 15, 2005.

COMPANY BRIEF China Ocean Shipping (Group) Company (COSCO) is a state-owned shareholding company with RMB150 billion in assets and more than 40 years' history. It is also one of the 169 large state-owned enterprises that are supervised by the State-Owned Assets Supervision and Administration Commission of the State Council. It owns and manages a variety of merchant fleets, with total carrying capacity of up to 36 million deadweight tonnage (dwt), which

ranks second in the world. In addition, it owns nearly 1,000 membership companies globally with a workforce of around 70,000. Ships and containers with the conspicuous COSCO logo are shuttling among 1,300 ports in more than 160 countries and regions around the world. COSCO is now shifting rapidly from doing business with foreign partners to being an internationalized transnational corporation. It owns more than 700 solely funded and joint-venture companies overseas.

What has COSCO achieved through the process of reform of China's large state-owned enterprises?

The reform of China's state-owned enterprises has experienced a number of phases, including decentralization, interest concessions, the adjustment of operational mechanisms, building modern enterprise mechanisms with innovative systems, revitalizing the national economy, and pushing forward the transformation of management, from owning state-owned assets to controlling them. As a large state-owned enterprise and also a shipping company that came into the international market at an early stage, COSCO has always been in a leading position in the reform process. COSCO has made noticeable achievements throughout the whole process.

The long-term aim of COSCO is to actualize the goal that was set up in 2004, namely to build COSCO as a centennial company. The medium-term goal is to become the system integrator of the international shipping and logistics industry. To achieve this, first we need to continuously develop our core business, namely shipping services; manufacturing and repairing ships and floating equipment; and logistics services. It is vital to focus on these core businesses in the process of system integration. Second, we should firmly adhere to the goal of being bigger and stronger. Our most recent goal is to actualize two transformations: first, to transform from a global shipping carrier to a global logistics provider with the support of shipping services; and second, to transform from an organization running

businesses overseas to a transnational corporation. By realizing the above-mentioned aims, we are striving to become a "global COSCO."

What are the major features of COSCO's internationalization process?

COSCO's internationalization process has its own unique features. We advocate "global thinking, local operation." In the process of actualizing its international strategy, an enterprise should fully utilize its advantages, in terms of ownership, internalization, and location, in order to achieve a dynamic balance between globalization and localization. By doing so, it could truly achieve the transformation from a company running business overseas to a transnational company. By 2010, the overseas assets of COSCO are expected to reach more than \$10 billion, and the total sales income should reach more than \$14 billion. If the above-mentioned targets are realized, COSCO will become a world-class transnational corporation.

China's influence on the global economy is increasing, and people around the world have different opinions about this. What are the principal misunderstandings that global political and business leaders have about COSCO and other Chinese enterprises?

China's fast-expanding economic growth, its reinforced role as a global trading power, and the limitations of people's understanding of the real situation in China all contribute to a sense of anxiety about China. The notion of a "China threat" is representative of people's concerns. Because of these concerns, there are a lot of misunderstandings about the internationalized development of Chinese enterprises. Some people believe that China's state-owned enterprises are owned by the nation and are also controlled by the government, and that they serve the government's political, or even military, purposes. Some people even believe that the development of China's state-owned enterprises depends on the government's support, and that these state-owned enterprises therefore have advantages in terms of policy-making, which creates an unfair

competitive environment for foreign companies. There is a common belief that China's enterprises are facilitating their rapid development and dominating other companies' markets with their low-cost labor forces and low-priced products, which causes bankruptcy and unemployment in companies in others countries.

What kind of information do you want to deliver to the world to erase these misconceptions?

I highly recommend that those people who misunderstand China come to China and have a look for themselves. Americans have a saying: "Seeing is believing." Only when you see for yourself, can you really believe something.

More and more international political and business leaders have noticed that China's fast-expanding economic growth, including the internationalized development of Chinese enterprises, is not a threat for the world. Instead, it brings new opportunities for the world's development. Of course, Chinese enterprises have to follow international business rules strictly in their process of overseas development, to show the world that we are willing to take our responsibilities seriously and also provide valuable opportunities for other countries.

I firmly believe that our efforts will finally eliminate the notion of a "China threat." In 2002, COSCO's container ships made their first direct port call into the port of Boston, bringing employment opportunities to 9,000 Americans. This has become a much-told story that embodies the mutual benefits of the relationship between China and the U.S. The feedback from both nations has been positive.

What role does COSCO play in the formation of a harmonious global economic system, and what social responsibilities does COSCO have?

COSCO's logo is the figure of a ship, which is composed of five characters and an antenna circle, representing how COSCO communicates with the rest of the world. The logo reflects COSCO's management values very well. Our ships and containers are shuttling around the world, and we are actively assuming the responsibilities of a global citizen, trying our best to create wealth for the world. Our long-standing aim is to grow together with our partners. We have dedicated ourselves to providing "green services," to building up a "harmonious enterprise," and to bringing about comprehensive, harmonious, and sustainable development. Moreover, COSCO is a firm supporter of anti-terrorism measures within the international shipping industry.

In 2001, COSCO established a comprehensive management system called QUALENOHSA. In 2004, COSCO formally joined the U.N.'s Global Compact, and promised to follow its basic principles pertaining to human rights, labor standards,

the environment, and sustainable development. On January 4, 2005, after the Southeast Asia tsunami, COSCO donated RMB10 million to the Red Cross. In order to standardize our philanthropic activity, we founded the COSCO Charitable Foundation and plan to donate RMB10 million each year to poor areas in China's Tibet Autonomous Region.

What are the core values of the COSCO brand? What are the factors that determine the core competitive abilities of COSCO and its future development? What do you expect people to think about when they see ships and containers with the COSCO logo, shuttling among different countries?



"The logo reflects COSCO's management values very well."

The core values of the COSCO brand, and the factors that determine its core competitive abilities, are to be found in COSCO's rich corporate culture. I have thought up a new phrase for COSCO to stand for: Commitment Orientation Seriously Carried Out. This aptly summarizes COSCO's above-mentioned corporate culture. When people see the logo of COSCO, I hope they will think about the high-quality shipping and logistics services that we provide. Our motto is: Shipping cargo globally, earning credit internationally.

What features must a person have to become a successful entrepreneur in China?

I once said that to be a good entrepreneur, it is important to make great efforts to realize the following four goals: First, try to become a politician. A mature entrepreneur has to learn to do things from a political angle, both in terms of solving problems and in terms of managing the enterprise. The decisions made by an enterprise for its development have to follow the guidelines set by local government and also conform to the trends of the time. Second, try to become an ideologist. The thoughts of an entrepreneur determine the upper limit of his or her success. Only when an entrepreneur owns deep thoughts and a wide view can he or she continuously lead the enterprise to new areas. Third, try to become an artist. Management is a kind of profound art, and all entrepreneurs should learn to be

artists with advanced management skills. Fourth, try to become a diplomat who is good at utilizing international and domestic markets and resources in order to promote harmonious development.

Nowadays, there are, in fact, no essential differences between Chinese entrepreneurs and business leaders from large international corporations. However, China is now undergoing a transformation process – namely, transferring from a traditional planned economy to a socialist market-oriented economic system. Chinese entrepreneurs are assuming more responsibilities in their positions as leaders of state-owned enterprises, with more social responsibilities and diverse goals. Therefore, to reduce the burdens of China's SOEs' leaders and to let them focus more on managing the company are two of the requirements and contents of deepening the reform of China's SOEs. This is crucial for Chinese entrepreneurs to become professional managers as other international partners in the world.

How do you define your characteristics as a leader and also your leadership style? Is there any connection between these attributes and your unique personal experiences?

I started my career in the shipping industry as an ordinary seafarer. Now, as the leader of COSCO, my success comes from my ability to bring happiness and harmony to many people; to make contributions to the shareholders, society, and the environment; and to maximize value for the enterprise.

As I am an entrepreneur, my wealth is not what my parents have given me. Instead, it is the responsibility that society has bestowed upon me. A successful person must have a strong sense of social responsibility. By eliminating poverty, we could realize the harmonious development of the world, and this is the responsibility of all people who have the rights of asset allocation.

When you remove all of your titles, what do you think are the core values of your personal brand?

"Captain" is a personal brand that I will keep all my life, since it represents a kind of responsibility and contribution, as well as the spirit of exploration. Captains generally hold three kinds of burdens: First, ships that are worth more than \$100 million, which are entrusted by the ship owner; second, cargo worth more than \$100 million, which is entrusted by the cargo owner; and third, the lives of a group of seamen and also their families' expectations for their safety. I would undertake all three of these responsibilities, no matter what position I was in.

After I retire from my position, I am willing to be a communicator, in order to contribute to the world. I hope I will let the world know more about China through my own actions, to ease the misunderstandings that can arise.

Global Strength, Local Focus

**An interview with Peter Bowie,
Chief Executive Officer, Deloitte China, Shanghai**



Peter Bowie

EDITORS' NOTE Since joining the partnership of Deloitte China in 2003, Peter Bowie has been an advisory partner on some of Deloitte's most significant national and global client accounts and is a frequent speaker on issues related to governance, performance, and risk management. Previously, Bowie was chairman of Deloitte Canada, a member of the firm's management committee, and a member of the board and governance committees of Deloitte International. Prior to joining Deloitte, Bowie worked for two global companies in the semiconductor and telecommunications manufacturing industries and was also the CFO of an enterprise software company. Bowie holds a bachelor's degree in commerce from St Mary's University (Halifax, Canada), and a master's degree in business administration from the University of Ottawa.

COMPANY BRIEF Deloitte Touche Tohmatsu (www.deloitte.com) is an organization of member firms around the world devoted to excellence in providing professional services to clients through a global strategy executed locally in nearly 150 countries. With access to the intellectual capital of 120,000 people worldwide, Deloitte delivers services in four professional areas – audit, tax, consulting, and financial advisory services – and serves more than half the world's largest compa-

nies, as well as large national enterprises, public institutions, locally important clients, and successful, fast-growing global growth companies.

Deloitte China provides services through a number of legal entities that are members of Deloitte Touche Tohmatsu (Swiss Verein). A leading professional services provider in the Chinese mainland, Hong Kong, and Macau, the company has been a significant contributor to the development of China's accounting standards, taxation system, and local professional accountants.

When did Deloitte first enter China, and how has your business developed since then?

We can trace our firm's history in China back to 1917, when we first opened an office in Shanghai. In the '80s, our focus was on providing local services to the influx of multinationals coming into China. In the following decade, we went on to assist some of the first Chinese companies seeking foreign financing through listings on the Hong Kong Stock Exchange and other major exchanges around the world. In 2003, our global organization of member firms, looking ahead to the next decade, defined the future meaning of "global" as one that includes a significant China firm, and committed \$150 million over the next five to seven years to Deloitte's China member firm. This investment is enabling us to build superior capability with the objective of delivering measurable, value-added services that help not only multinational companies in China, but also Chinese companies, to increase their shareholder value.

What is Deloitte's future vision in China?

We intend to be recognized as the best professional services firm in China, where the best people and companies choose to be.

What is Deloitte's strategy to realize its vision in China?

Deloitte's commitment is clearly demonstrated by our readiness to invest \$150 million in the Chinese market over the next few years – the largest investment Deloitte has ever made in a single market.

Around 70 percent of this will be invested in human capital development. Every successful member firm in our global organization is a firm run by local partners, complemented by international expertise where needed. This is our model for Deloitte China. We are aiming for a China firm comprised of 80 percent to 90 percent local partners from China, and 10 percent to 20 percent unique experts from other markets. Our recruiting strategy includes a combination of experienced hires, aggressive recruitment of fresh and top talent from China's universities, and strategic mergers with top local firms through which we can enhance the value we can deliver to each other's clients. This is not only self-serving. It also serves to develop the local accounting profession, as well as the wider community in China. The accounting profession is playing a pivotal role in assisting the transformation of Chinese enterprises to increase their competitiveness in the global economy. The internationalization of China's CPA profession is critical to the stability and sustainable growth of China's capital market, and its growing status as a global economic power.

I'm continuously impressed by the people I am working with in China. We now have more than 5,000 people in 10 offices across China, and we are committed to helping them to become the best. We recognize that, in the long run, everyone will benefit from the development of China's local accounting profession.

Our objective is to contribute beyond just the professional service offerings of Deloitte. Over the years, we have supported initiatives that promote education. Most recently, we have been working with the Ministry of Finance on a special program to provide international experience to top students. I think that if we want to be counted as a member of the community, we have an obligation to contribute to the betterment of the community in whatever way we can best add value.

Your profession is a highly competitive one. How does Deloitte differ from its competition?

We are a little different from our competitors with respect to our core range of

service offerings. A few years ago, unlike our competitors, we made a conscious decision to retain and develop our consulting practice as a key service offering.

The opening of China's markets after its WTO entry is challenging Chinese enterprises with rapidly growing domestic and foreign competition. Chinese enterprises are very efficient at production, but are less experienced in marketing. Previously sheltered by government, they now increasingly have to compete for resources such as financing and talent; for market share through branding, versus pure volume; and for shareholder value, by demonstrating conformity to international standards for transparency, governance, and quality. Each of these aspects is a significant challenge on its own, but Chinese enterprises have to address these challenges simultaneously and under intense time pressure.

There is no question that China's state-owned enterprise sector reform is going to be successful. I read in 2003 that Chairman Li Rongrong of SASAC said that China aims to have 50 of the *Fortune* 500 companies by 2010. In reality, China probably already has 50 enterprises large enough to be counted among the global *Fortune* 500 – when they go public. What these enterprises need to do is to achieve a smooth and sustainable transition from being state-owned. We believe we can help.

We have a comprehensive range of service offerings including consulting, financial advisory, tax, and audit, that we can leverage for our clients, which is particularly relevant to the needs of Chinese enterprises at this stage of China's market reform and opening.

The reform and globalization of China's state-owned enterprise sector is a complicated process, particularly given the fast pace of growth in the Chinese market. Given this environment, what opportunities and challenges does Deloitte face in its aspirations to assist Chinese enterprises?

Let's look first at opportunities. We are a local firm deeply connected to a global organization. In China, we have a strong and growing team of local professionals who have a deep understanding of the local market. We also tap into our global organization's network in nearly 150 countries around the world, with more than 120,000 people to draw on for international expertise in various disciplines and experiences with similar challenges in other markets. For example, we can help our clients set their priorities for organizational improvement by drawing upon our international experience in working on different organizational models for our clients around the world.

When you put all these factors together with our advantage in consulting, it becomes clear that we really are well positioned to deliver measurable value to Chinese companies.

Of course, we have challenges too. Right now, with demand for professional services outstripping supply, we are very busy and sometimes have to decline some requests for our services.

To those who find China a tough place to do business, what will help them turn their China challenge into a China opportunity?

I will answer that from my personal experience. First, you cannot come to China thinking that you understand what's going on here. Language, business practices, and cultural differences all bring different expectations.

Second, transitioning into a China business is not as easy as simply sending a bunch of people here from overseas locations. You have to understand the differences between China and the market, or markets, that you came from before you can start to be effective and add value.

Third, don't expect that you will necessarily achieve the same results quickly just because you have established processes and methodologies that you can bring into the China market. Some companies think they can readily transplant their existing approach, but they forget that these processes and methodologies have been built up over many years and are applied by people who have the background, experience, and training relevant to their own environment – which may not be the same as the environment in China.

Fourth, I would say that real communication is critical. You must never assume that you understand everything. You must make sure that what you mean to say is what is being received, and you need to make sure that what you think you heard is what is actually being said. This is critical when both parties don't really know each other that well. To learn how to communicate, you must willingly and wholeheartedly adapt yourself to the real environment. Miscommunication is often the cause of things going off track. It really takes a lot of work and patience to get it right.

What are the critical ingredients helping Deloitte to achieve its vision to be both a localized professional services firm in China and a global brand delivering world-class services to top Chinese companies?

The biggest advantage we have in the China market is the commitment of our firm to become much more significant in China. One of the first things we did was to establish a taskforce, comprised of 30 top leaders of our China firm and key leaders from the global organization, to develop our objectives and priorities in China. That was three years ago, and we have not strayed from these objectives and priorities. Besides this, we have a long-established and very strong business base in Hong Kong, which clearly helps with cross fertilization of talent and business, as well as dynamic, rapidly growing practices in northern, eastern, and southern mainland

China, centered around Beijing, Shanghai, Guangzhou, and Shenzhen respectively. Since 2003, our share of audits of the top 100 companies in China has increased four-fold. So focus, people committed to it, and resources supporting it are key.

You were with Deloitte Canada for 25 years prior to coming to China. What enticed you to come to China, and how have your China experiences impacted your life?

Ever since I was a child, I wanted to come to China because of the history and culture. When I first visited China in 1997, I was fascinated by what I saw, especially the pace of development in China. Then Deloitte offered me the opportunity to come to China and to build something very significant.

I think growing up in a bilingual culture in Canada has helped me adapt in China. I have a deep respect for different cultures and an interest in learning about the similarities, differences, and historical contexts. That aside, the people I work with in China are terrific. They are hardworking, supportive, helpful, and committed.

As for the impact of China on my life, nothing can sum it up better than what my son shared with me after his China trip. He said to me, "Dad, I want to thank you for opening me up to the world."

What is your impression of the Chinese leaders you have met?

I have the greatest respect for them. They are very good at what they do and, I think, they are among the best in the world. They are also open to learning from other experiences. Some of the Chinese business leaders I have met have clearly gone through really tough times, and have built very successful careers in spite of significant challenges.

Li Rongrong of SASAC is a consummate strategist. The proof is in SASAC's supervision – under his leadership – of 169 of China's top state-owned enterprises [SOEs] and their leaders. It cannot be an easy job to engage them in the process of harmonization with established international best practices for corporate governance, performance evaluation, and shareholder value creation and protection. The transition and balance are very difficult. Whereas multinational corporations only need to focus on creating value for shareholders, most China SOEs need to balance political, social, and shareholder value considerations simultaneously. I think SASAC, under Li's leadership, has done a really great job.

How would you describe yourself as a leader? Aside from the titles on your business card, what are the attributes of your personal brand?

I would like to think that people who know me as a leader associate me with integrity, fairness, balance, and commitment. These are the attributes to which I aspire, and I would be happy and proud to be linked with these. 



The Internationalization of China's Real Estate Industry

An interview with Fang Chao, Chairman and General Manager, Beijing Guohua Real Estate Co., Ltd., Beijing



Fang Chao

EDITORS' NOTE With a master's degree from the Chinese Academy of Social Sciences, Fang Chao joined Zhongxing Power Industrial and Commercial Development Company (ZPIC) in 1997 and served as vice general manager from 1997 to 2001. In this position, he was in charge of the project to develop the National Power Management Center, which won two highly regarded national awards: the prestigious Lu Ban Award and the National Superior Quality Award. He joined Beijing Guohua Real Estate Co., Ltd. in February 2001, and is responsible for the overall strategic planning and operation of the business.

COMPANY BRIEF The developer Beijing Guohua Real Estate Co., Ltd. is a subsidiary of the Beijing Guohua Electrical Power Corporation (GHEPC). One of China's energy giants, GHEPC has holding assets of RMB32.7 billion. A recent business focus for Beijing Guohua Real Estate Co., Ltd., is the massive building complex China Central Place, located in the central business district of Beijing. In the future, the company aims to make a strategic move into the national real estate development market.

As one of the leading figures in the Chinese real estate industry, would you outline how the industry has de-

veloped over the past two decades? What are the principal opportunities and challenges facing this industry?

China's real estate industry is only 15 years old, and in its early stages, it could not really be considered an industry at all. At that time, it just involved basic construction, under the planned economy. It was not commercialized at all.

In the '90s, China's fast-expanding economic growth and fast-growing demand for residential housing brought about an explosion in the market, which greatly stimulated China's real estate industry and also expedited its development. However, the central government did not invest in the real estate industry, and a lot of nongovernmental capital came into the industry. These nongovernmental capital investors tended to have the following two basic features. First, they were eager for quick success and instant benefits. They hoped that the estates they developed could be sold fast and that they would get the money back in a short time. Second, they relied mainly on bank credit to acquire capital, which meant that banks assumed all of the risks of the market, even though the nongovernmental companies were the major investors. The construction of most housing estates at that time was inadequate, and the buildings were mainly residences of poor quality. Most of the developers failed to take the functions of the whole city into consideration, or think about future sustainable development. So the development of this industry was rapid, but it was characterized by poor quality. Therefore, although the real estate industry contributed a lot to China's GDP, it did not have a good reputation.

Since 2004, the real estate industry has entered a transformation period, and some of the government's macro-controlling policies have functioned well. The transformation of the market embodied the following aspects. There was a huge adjustment to the structure of the industry, and developing commercial real estate became the major trend. In addition, those nongovernmental capital investors were becoming more rational, after their initial capital accumulation. Because of the entrance of for-

ign capital, changes to consumer needs, adjustments to the government's policies, changes to the way land could be acquired, and so forth, the entire real estate industry shifted gradually from low-quality development to high-quality development.

The real estate industry progressively follows the development of the market economy, in the sense that superior product is retained, while inferior product is discarded. The improvement in quality can be seen in the vibrant competitive environment and the range of product available. As a consequence, developers in China's real estate industry must pay attention to integration, scaled-production, specialization, and the development of their brands. China's real estate industry still has huge potential for future development.

After China's accession to the World Trade Organization in 2001, more and more foreign capital came into the industry. What kinds of opportunities are there for potential foreign partners? What are the returns and the risks?

Foreign investors are already operating in China's market, and the phenomenon has been quite obvious for the past two years. In my view, foreign investors and China's real estate industry could perform complementarily. Foreign capital is surplus and easy to obtain, while China's market has potential but a shortage of funds. The capacity of China's market, the high level of urbanization, and its population of 1.3 billion bring continuous opportunities to the market. No other country offers such a degree of potential and opportunity.

The capacity of the market brings many opportunities but, at the same time, there are risks. The best way to avoid the risks is to enter the market cautiously. I believe it takes a long time to reach market capacity, so developers should avoid big fluctuations in a short period of time. The increase in market demand and supply should remain at a certain level, to give investors and developers sufficient confidence in the market. China's market differs from foreign markets in that it is an extended one with huge potential. In this

market, owning property is a low-risk business. However, if people put their focus on extensive short-term returns, risks will increase accordingly.

What are the core competencies of your enterprise and of China Central Place, the development on which you are currently working?

It took us a long time to do the research and analysis when we were planning the market orientation of China Central Place, and our considerations were based mainly on the following three points. First, we tried to maximize the value of the land resources. Second, we aimed to design the development to be harmonious with the function and structure of the city. Third, the program needed to have durable competitive ability. If clients remained even in an unstable market, I would consider this development to be truly competitive. The core competitive ability of China Central Place can be seen in its internationalized characteristics and top-class orientation. It is a classic business district that could maximize benefits for our clients.

What does the internationalization of Chinese enterprises mean to you? How do you lead the internationalization process within Guohua Real Estate Company?

Because of the integration of the global economy, internationalization has become a trend, and Chinese enterprises must follow the trend. Only by providing products and services that meet international standards can an enterprise truly realize its aim of internationalization. For Chinese enterprises, I do not believe that internationalization only means selling products to foreign countries. The foundation of internationalization is to position your vision in the international market, and to make sure your products or services meet international standards. Also, if the enterprise goes public, then its capital becomes internationalized, and to have foreign shareholders is an important manifestation of internationalization.

China Central Place is a typical example of internationalization. I want to build a world-class business district in China, applying the same standards that are applied in other international business districts, such as Manhattan in the U.S. or la Defense in France, in terms of both appearance and function. I am not concerned with regional difference, only with modernization.

You have introduced the famous brands Ritz-Carlton and JW Marriott into China Central Place, haven't you?

Yes. We believe that by providing the same business environment that is found in other places in the world, we can keep those famous transnational companies in China Central Place. Ritz-Carlton is an international hotel brand that is famous for being scrupulous when choosing an investment location. The Ritz-Carlton

hotel in China Central Place is the company's 57th hotel in the world, and it is identical to other Ritz-Carlton hotels in Europe, the U.S., Hong Kong, Singapore, and other cities, both in terms of facilities and management.

The Chinese have an old saying: "To live and work in peace and contentment." Transnational companies, just like normal citizens, need to find a place to settle down. Settling down is not as simple as finding a good house to live in; it comprises a strong sense of belonging, too. What value-added services does China Central Place provide, apart from its architectural attributes, to give people a sense of belonging?

This question is very important. The charm of a massive building complex comes not only from brilliant modality and top-class property management, but also from more value-added factors that it can provide for its consumers. This is why Rockefeller Center in New York has remained popular for several decades. Although many other building complexes are newer, they do not achieve the same level of success as Rockefeller Center. They do not form a unique environment and culture, and they lack the connotations that a top-class business district should have.

The exciting thing about China Central Place is that it is not only a brilliant building complex, but also a business district. A business district cannot be formed only by a group of buildings. Instead, it must include office buildings, hotels, shopping centers, and other functional areas, equipped with interesting facilities, nice views, squares, and the cultural atmosphere that is provided by the building itself.

All in all, a business district should be a symphony, rather than a toneless melody or a pop song. Within the business district of China Central Place, people can experience things that are in tune with international society, no matter if they are working here or have come here to shop.

For the first 20 years of your career, you worked in the energy industry. Why did you move into the real estate industry? Comparing these two professions, which one do you prefer, and why?

I majored in electrical power when I was in college. I did a good job in the energy industry, as both a technician and a manager, and I had a deep affection for it. I was appointed to establish a multimodal company by chance. After analyzing various industries, I concluded that the real estate industry had great potential. It was very challenging, which suits my character very well. The real estate industry can change a wasteland into a modern city. Some places, like Shanghai and Qingdao, used to be small villages. They have been transformed into international cities. The real estate industry is very challeng-

ing, and people who choose this profession need to have integrated intelligence.

The success of real estate industry practitioners does not come from real estate itself. Instead, it is closely related to their grasp of an integrated concept. When I consider problems, I normally think about them from a historical perspective, and also from a philosophical one. Projects in the real estate industry start from a blueprint, a line, and then they become a reality that can be a carrier of people's lives. Considered from this perspective, the real estate industry fits my character better than the energy industry, at this point. China Central Place utilizes all of my experiences in this industry.

What qualities and characteristics should an enterprise have in order to become a leader in its particular industry, and what makes a successful entrepreneur?

If an enterprise wants to exert its leadership in an industry, it should be able to lead the standards of the industry.

To be a successful entrepreneur, you need to be courageous and resolute and have a broad mind in order to withstand the pressures that normal people are unable to bear. Only when you have enough confidence and courage are you able to influence others around you, even your rivals, and then you can become successful. I think a successful entrepreneur should also have some unique characteristics. They may not be advantageous, but they need to be special.

You are now 50 years old, which is the age of many business leaders in China. What attributes characterize the leaders of your generation?

I think a man reaches his peak in terms of energy and experience when he is 50 years old. People of my generation suffered a lot. I had to work when I was only 15 years old, even before I graduated from middle school. After the university entrance examination was reinstated, I had the chance to go to college. Thus, we are a unique generation in history, since we experienced a lot of difficulties that have endowed us each with a mild mind and solid values. There is not a school in the world that could teach its students these things. The attributes of my generation include the following three. First, we are good at making decisions. Second, we are not afraid of difficulties. Third, we are resolute when pursuing our dreams and cherishing opportunities, despite limited time and resources.

When we were 10 years old, there was a gap of 100 years between China and the developed countries of the world. Nowadays, a 10-year-old child experiences the same kind of living standards, whether he or she lives in Beijing or Shanghai. This is the contribution of my generation. We are the leaders who closed that 100-year gap. Thus, we are people who know history and also create history. 

Asia Searching For Win-Win

An Interview with Long Yongtu,
Secretary-General, Boao Forum For Asia, Beijing



Long Yongtu

EDITORS' NOTE Long Yongtu was elected by the board of directors on January 21, 2003, as secretary-general of the Boao Forum for Asia, which aims to promote the development of Asian countries through greater economic integration across the region. Prior to assuming this post, Long was the vice minister and chief representative for trade negotiations at the Ministry of Foreign Trade and Economic Cooperation, where he led China's negotiations to join the World Trade Organization [WTO] in 2001. Long additionally worked for the United Nations Development Program in New York and North Korea and is now a goodwill ambassador to the U.N. Industrial Development Organization. In 2004, he received the Award of Excellence from U.N. Secretary General Kofi Annan, for his outstanding contribution to the U.N.'s partnership with China. Long also serves as dean of the School of International Relations and Public Affairs at Fudan University and as visiting professor at many renowned Chinese Academic Institutions. He completed postgraduate study at the London School of Economics and holds a B.A. degree in British and American Literature from Guizhou University.

In one simple statement, what is the Boao Forum for Asia?

The Boao Forum for Asia is a plat-

form focusing on Asia issues. Everybody knows that Asia is developing very fast, and is increasingly attracting the attention of the world. So we need a platform for such a newly emerging continent. That is why some statesmen from Asia Pacific countries – including a former president of the Philippines, a former prime minister of Australia, and a former prime minister of Japan – thought it necessary to create a platform for Asia. This idea is strongly supported by the Chinese government. Because of China's increasing importance, both politically and economically, for this region, they recommended setting up this forum in China. The forum was held not in a big city like Beijing or Shanghai, but in Boao, because it is very close geographically to other Southeast Asian countries. To put it simply, Boao was created for Asia and it also attracts the attention of the world's business community. It is a platform for everyone who wants to talk about Asia.

What was the rationale behind forming such a forum, and how would you describe its significance?

Recently, a lot of organizations, especially governmental organizations, are focused on Asia. But basically, all of these organizations put their focus only on East Asia, which means China, Japan, Korea, plus 10 other countries. South Asia, Central Asia, and Western Asia are easily forgotten. The uniqueness of the Boao Forum for Asia is that it is not focused only on East Asia, but on all Asia. So far, this is the only organization that has participants from all over Asia. In this transitional period, before we have a formal Asia institution, Boao aims to get all of the sub-regions of Asia together.

In last few years, many high-profile participants from outside Asia have come to the Boao Forum as keynote speakers, including a former president of the United States, a former president of Mexico, and the prime minister of Australia, as well as businesspeople from the United States and European Union. In one sentence, if anyone wants to understand Asia, please come to this forum. I think it is as simple as that.

In the five years since its formation, what has the Boao Forum achieved?

Our forum has a very clear focus, namely Asian economic integration. Of course, we are not only talking about Asian economic integration at a macro level. We've realized that in order to achieve economic integration, Asia needs several decades. But we cannot wait for several decades. Thus, we have to deal with some of the very urgent issues that are facing business communities in Asia. For example, this year we are focusing on many specific issues, like energy cooperation, banking reform in China, and how state-owned enterprises can be integrated into the market economy system. It is clear that these topics have become more relevant to the day-to-day operations of many business leaders. We balance long-term and mid-term objectives for Asian economic integration with short-term issues that businesspeople are very interested in. So every time we set up an agenda, we distribute a lot of questionnaires to the participants, asking them what kind of issues they are interested in, to make the agenda relevant to what is going on in the world.

What is the main agenda for the Boao Forum in 2006?

We've taken the idea of "Asia Searching for Win-Win" as the permanent theme of the Boao Forum. Under this big umbrella, each year we will try to identify some central issues for discussion. This year, we are focusing on how to take the Asian economy to a new level. We are also trying to set up some special sessions for different geographic regions. For instance, we had a very successful session in Australia last year, which focused on China-Australia cooperation. This year, we are going to set up a China-India session, to discuss whether China and India are competitors or partners. We are also in the process of structuring a session for China and Japan. We are trying to focus on different issues so as to keep the forum very specific, so people from all areas can get something from it. Of course, we are not only talking about these specific issues, we are also focusing on the big picture.

A Leading Platform for Asia



SODERBERG



WATTS



VOELTE



XU



PARRETT

What makes the Boao Forum for Asia unique is that it brings together representatives from all over Asia for collaboration and fruitful dialogue. This takes place not only between businesses, but also between public and private entities. We are proud to be a part of this.

Jess Soderberg, Group Chief Executive Officer, A.P. Moller - Maersk Group

China is undergoing an extraordinary period as it moves from a centrally planned system toward a market-based economy. It is thus no surprise that the Boao Forum for Asia has taken only five years to establish itself as an important forum on economic and other policy issues. Merrill Lynch is pleased to have the opportunity to participate again this year and exchange our views on key regional issues with other government and business leaders.

Kevan Watts, Chairman, Merrill Lynch International Inc.

As Australia's leading publicly listed energy company, and a major supplier of liquefied natural gas to Asia, Woodside has a great interest in the future of the region. We see the Boao Forum for Asia as a key platform on which to debate issues affecting Asia, especially matters of energy demand and security of supply. Woodside believes it has a role to play in both of these issues, and in 2006 we will begin a 25-year relationship as a supplier of energy to China. We look forward to building on this relationship.

Don Voelte, Managing Director and Chief Executive Officer, Woodside Energy Ltd.

Dongfeng Nissan Passenger Vehicle Company and all other Chinese companies are proud to be featured in this internationally renowned forum. As a Chinese automobile company, Dongfeng Nissan would like our brand to be cherished not only by Chinese consumers but also by our clients around the world. Boao is the right platform to enhance such communication.

Xu Ping, Board Chairman, Dongfeng Motor Co., Ltd.

The ongoing advancement of China and the Asia Pacific region requires local and international communities to actively participate in their development. Deloitte proudly supports the Boao Forum for Asia annual conference, as it provides an opportunity for government and business leaders from around the world to address critical issues, including new models for economic cooperation, and to better understand the different cultures and ways of doing business in these markets.

William G. Parrett, Chief Executive Officer,
Deloitte Touche Tohmatsu

BOAO FORUM FOR
ASIA
www.boaoforum.org



The People Behind the Titles

By Elizabeth H. Yang, China Chief Representative, LEADERS Magazine



Elizabeth H. Yang

CHINA and YOU Survey

As part of our continuous effort to build an interactive communication channel between you and Chinese leaders, we would like you to take a moment to participate in this important survey, which will help us to better address topics of your interest in our coming issues, and help the world and China to better understand each other. We can also pass your comments along to related government officials and business leaders in China, in order to facilitate your communication with them.

Feedback on the current issue:

1. Are there any issues we missed that you would like to have seen addressed by the leaders interviewed in this edition?
2. Do you have any questions or comments for any leader featured in this section?
3. What kind of topics or leaders would you like us to feature in future issues?

Doing Business in China

4. What specific questions or concerns do you have regarding your industry's activities in and relationships with China?

5. What do you feel China needs to do to improve the business climate for foreign companies and investors?

6. What do you perceive as the biggest risk in doing business in China?

Best Local Partner in China

7. What are the key characteristics that you look for in a local partner in China?

8. In our upcoming issues, we plan to launch a "China Roundtable" series to focus on the vast business opportunities in China. We will invite industry leaders from China to participate. What fields would you suggest we present in the roundtables, and what issues would you like to see covered?

Thank you so much for giving your input to our survey. Please send your comments to china@leadersmag.com.

THROUGHOUT MY YEARS AS A PROFESSIONAL journalist, producer, writer, and business executive, I have always tried to be an effective communicator, able to elicit relevant aspects of human nature from my interviewees, whatever title they may hold. I am eternally curious about the personal drive and sources of wisdom that have charted their paths across that special map of their lives as a person and a leader. With Branding China, I have the unique opportunity to interview people who are shaping the history of China, and feel an imperative to understand and present the human side of these leaders.

This was certainly the case when I interviewed Mr. Li Rongrong, chairman of SASAC. For a person who is responsible for 169 major state-owned enterprises with total assets of more than \$1.3 trillion and 10 million employees, I can certainly understand him as a busy person with no time to waste. It amazed me, however, as I read the mountainous background information about SASAC, how a person could shoulder such a heavy responsibility, where his actions have a profound impact on China's economy and his challenges are ceaselessly enormous. There's no doubt that he is a person with an iron will, not to mention a serious face, which may have led to his opening statement to me, "I can't quite say that I am here for an interview. I don't quite know what you are trying to achieve and do not want to waste your readers' time."

However, after explaining the mission behind the LEADERS Branding China effort and getting him to drop his shield, I found myself in front of a great human being who is intelligent, quick-witted, respectful, caring, extremely responsible, and sincere. During the next two hours he led me into his world to see his vision, his mission, as well as his personal path: how he started 40 years ago as a worker earning a monthly salary of \$5, and grew to become the leader in charge of \$1.3 trillion in state assets. The interview truly became a heart-warming dialogue. We touched upon all major aspects of SASAC's tasks and Mr. Li, the person, emerged from behind the daunting title he holds. According to the members of his team, Mr. Li opened up to us in a way he had never done before. Hearing him share his personal story left us with a much deeper understanding of the source of his strength as a highly responsible leader.

My mind raced through all the great leaders I have interviewed so far: the pragmatic idealist, Minister Zhao Qizheng of the State Information Office; the idealistic realist, Chairman Guo Shuqing of China Construction Bank; the courageous optimistic captain, Chairman Wei Jiafu of COSCO; the architect of excellence, Chairman Fang Chao of Huamao Center; the fair and balanced executive, Mr. Peter Bowie, CEO of Deloitte China; the effective communicator, Mr. Long Yongtu, Secretary General of Boao Forum For Asia; and of course, Chairman Li, the sincere and responsible leader of SASAC. However different from each other they seem to be, they all strike me as having great similarities: faithful idealists who are committed to a higher cause, to which they are prepared to devote their whole lives. From knowing them, I see my mission more clearly and gain my strength.