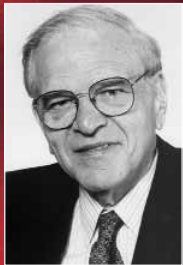


A Wish List for the World's Fastest Growing Economy

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INTRODUCTION While acknowledging the immense potential of China and its vast market, most Western companies operating there also note a number of factors that impede business in the fastest-growing economy in the world.

We asked several business leaders with experience in China for their insight into the current business climate. What would they suggest be done by policy makers and other business leaders alike to make doing business in China easier, in both the public and private sectors?

JOSEPH H. FLOM

Senior Partner, Skadden, Arps, Slate, Meagher & Flom LLP, New York

There is a need for more involvement by affected groups in the conception and drafting of the laws. There is a need for improved clarity and objectivity in the language of the laws, and heightened consistency and transparency in their application and enforcement. The failure to adequately deal with these issues adversely affects efficient capital allocation and formation. It also makes it difficult for leading companies to evaluate and implement large-scale investment opportunities, including the large merger and acquisition transactions required to reallocate the large mass of assets that are currently inefficiently used.

MICHAEL H. JORDAN

Chairman and Chief Executive Officer, EDS, Plano, Texas

Actions for improving the Chinese business climate fall into three areas. First, issues surrounding intellectual-property [IP] rights violations are likely to diminish over the next 5 to 10 years. However, as China becomes a net exporter of IP and seeks its own protections, there will be billions, if not trillions, of dollars lost in the interim. China must begin the immediate enforcement of IP laws at the national and provincial levels, to stop counterfeiting and piracy.

Second, I would encourage the central government and provincial governments to introduce procurement laws that enable full participation from both foreign and domestic businesses in projects for the government and state-owned enterprises. Today's rules largely prohibit multinational companies from participating in a wide range of government projects.

Finally, a data-security law should be enacted that both protects multinationals doing business in China and encourages offshoring projects. The codification – and enforcement – of such a law would create business opportunities for Chinese enterprises and multinational corporations.

TERRY J. LUNDGREN

Chairman, President, and Chief Executive Officer, Federated Department Stores, Inc., New York

Doing business in China would be easier – and more productive – if laws were consistent and applied in a uniform and nondiscriminatory manner across all provinces and municipalities. Moreover, American business would welcome improved financial transparency and good corporate governance within state, publicly, and privately owned companies. Market-oriented financial systems will help make more capital available and productively utilized.

On a more fundamental level, additional infrastructure improvements are needed to keep pace with economic expansion.

MARK V. MACTAS

Chairman and Chief Executive Officer, Towers Perrin, Stamford, Connecticut

In the last 20 years, China has changed more rapidly than any other country in the world. Its economic growth has averaged 9.5 percent annually, and cultural and political changes have made investing in China somewhat easier. But doing business in China is still a complex undertaking, as multinationals try to comply with old and new regulations and navigate

established and emerging cultural mores.

At Towers Perrin, we've found that a crucial first step to doing business in China is to understand its complex legal and regulatory environment. The best way to do this is to have help on the ground from professional firms with deep experience working in China and the credibility and local knowledge to help get things done.

Second, companies must respect the Chinese culture and avoid imposing their own biases and beliefs. One has to go beyond merely knowing how to hold a meeting with Chinese businesspeople; one has to recognize the importance of the local customs and respect them.

Third, be aware of the risks inherent in doing business in China and plan for and mitigate them. For example, Chinese business systems have not kept up with business growth, although they are improving rapidly. And many companies' operations are overly complex and somewhat inefficient. They, too, will improve with time.

A great many multinationals have already discovered, to their benefit, that the Chinese want to do business with the rest of the world. The key to success is to think about the long term and to acknowledge that there will be obstacles, but that – with some planning and patience – they can be overcome.

BERND PISCHETSRIEDER

*Chairman of the Board of Management,
Volkswagen AG, Wolfsburg, Germany*

First, be well prepared. The Chinese have a saying: If you know the opposite party and know yourself, you need not fear the result of a hundred battles. China is a market with many unique issues. You should carry out a full market analysis to see if there is a potential target group for your product or service. Products that work well in the rest of world will not necessarily work well in China. You should also look into the legal requirements for your business in China. For instance, are there any local content issues or special regulations? The Chinese are well prepared for negotiations. Westerners should not underestimate their Chinese business partners.

The second thing to remember is that signing a contract is not everything. Western business is often contract-driven. Today, we know that returning home with a signed contract is a symbol of progress, but it's not everything. There is still a huge gap between a signed contract and implementation. This gap could be filled by developing a long-term, trusting relationship, which might turn the contract from a piece of paper into reality.

Third, you need to find a reliable local partner. The challenges of learning Chinese languages and Chinese culture, with its strong sense of national pride, mean that Westerners can rarely understand Chinese on equal terms. One recommendation is to find a reliable local

partner for your business. They normally have much better access to information and people than Westerners, and they can help you solve problems in a Chinese way.

Fourth, you must be aware of *guanxi*, the Chinese term for building relationships. In China, traditionally, the relationship between government and business enterprises and the relationship between business partners have been close. The government gives direction to industry development. Enterprises are sometimes dependent on the government for access, for instance, to funding. Therefore, political and civil links are useful for doing business in China. In Chinese culture, personal contacts are more effective than written contracts.

WOLFGANG REITZLE

*Chief Executive Officer, Linde AG,
Wiesbaden, Germany*

The development of China's economic power during the past several years has been impressive. However, this extraordinary rise brings with it several challenges. There are huge imbalances between coastal and rural regions, the credit economy creates significant debt risks and is highly unsafe, patent protection is still a big issue, and the whole country is confronting massive environmental problems.

To tackle these challenges, political and social stability must be ensured – including a reliable and stable economic policy, clear environmental standards, and further improvements to the banking system. In addition, an efficient system to control corruption should be established. Ensuring legal security is an absolute imperative too, especially for long-term investments. Although China has made progress in this area with its entry into the World Trade Organization [WTO], further steps need to be taken.

Overall, I believe in the long-term stability and further improvement of the Chinese market, even if some risks may lead to short- or mid-term dips in the economy. For an international technology company like Linde, China offers enormous potential. Therefore, we will continue to expand all segments of our business: our industrial gas and engineering activities as well as our forklift-truck operations.

JAMES S. TURLEY

*Chairman and Chief Executive Officer,
Ernst & Young LLP, New York*

Ernst & Young has the honor of working with, and serving the needs of, public- and private-sector participants in a variety of rapidly developing markets. As with other emerging and developing markets, there are several critical factors that would make it easier to do business in China. In many cases, these factors are the same in developed markets and countries. Most of them require the combined effort of both

the public and private sectors, working together to improve the business environment. These factors include tax reform, accounting reform, the rule of law, the regulatory environment, financial institutions and markets, and business learning and development.

China has made significant progress on tax reform and providing tax incentives for investment. However, there is still room for improvement. We support the proposed reforms, which would improve compliance and balance the tax provisions for both domestic and foreign investors. In areas where significant foreign direct investments are required, we would encourage the government to continue to provide incentives, particularly for the import of capital equipment. Tax reform would also include employment provisions to recruit and retain employees.

With regard to accounting reform, international accounting standards [IAS] are the "global rules" that facilitate efficient capital transfers and provide management with the necessary information to make the best financial decisions. Progress is being made. However, the sooner the alignment with IAS takes place, the easier it will be to make better financial decisions.

The third point is the rule of law. Continued legal reform will undoubtedly improve business conditions in China. The ability to rely on contracts, and the enforceability of contracts, within the judicial system builds confidence. This makes it much easier to do business.

Moving on to the regulatory environment, we encourage the issuance of clear and precise rules and regulations. It is also very important to have consistent interpretation and application of these rules throughout China. At the same time, we would encourage continued efforts to monitor China's commitment under the WTO and to improve and promote a business-friendly environment with respect to procedures for obtaining governmental approvals.

Next come financial institutions and markets. Further liberalization of the convertibility of the local currency would help investors do business in China more successfully. Improving the securities markets would also significantly improve the business environment. This would make it easier for both domestic and foreign investors to do business in China.

And finally, in terms of business learning and development, China has some of the leading educational institutions in the world, which train some outstanding students. However, there is a significant shortage of graduates with business-leadership skills. These include accounting, finance, and business administration. There is a significant opportunity for the public and private sectors to work together to improve business learning and development. Ernst & Young is making substantial investments to improve the learning and development opportunities for our staff in China. 