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intelligence



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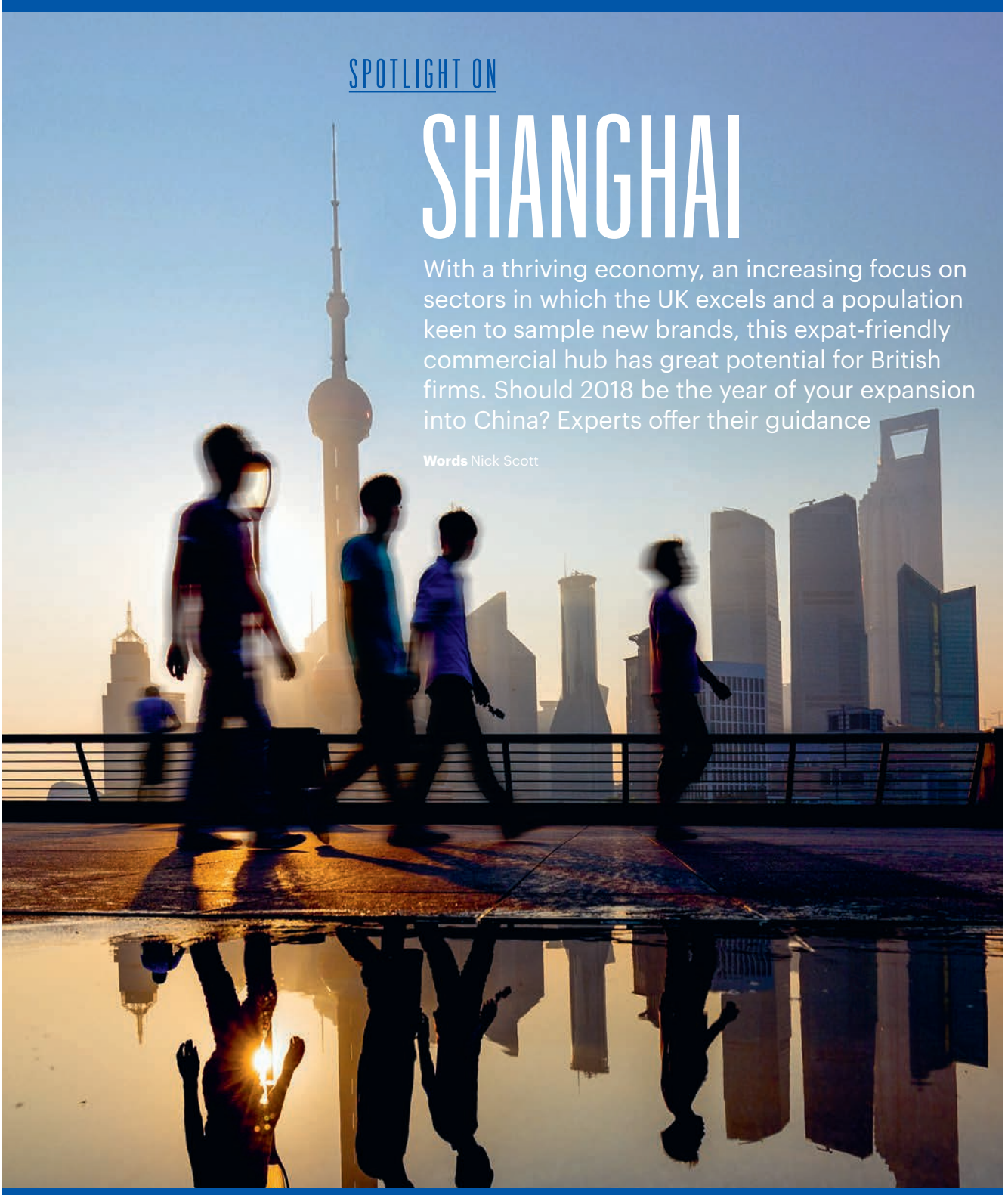
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SPOTLIGHT ON

SHANGHAI

With a thriving economy, an increasing focus on sectors in which the UK excels and a population keen to sample new brands, this expat-friendly commercial hub has great potential for British firms. Should 2018 be the year of your expansion into China? Experts offer their guidance

Words Nick Scott



The author J G Ballard, who grew up in Shanghai before the second world war, described his experience of the city as a “waking dream, where everything I could imagine had already been taken to its extreme”. If the late writer could see this monumental megalopolis today, his wild youthful reveries might start to seem tame by comparison.

Its population was estimated in 2016 to be just over 24 million – larger than that of the UK’s 10 biggest cities combined – with more than 100 million people within an hour’s train ride of its centre. It has the longest metro network in the world (365 miles, serving 364 stations), while its Pudong and Hongqiao international airports serve 70 million passengers each year.

The city (whose name translates as “upon the water”, as per its location on the Yangtze River Delta) is routinely showered with superlatives when international polls are conducted: most popular city, safest city – even the sexiest city in one survey. But it’s Shanghai’s cosmopolitanism that really sets it apart from other parts of mainland China. According to 2015 figures, more than 170,000 foreign citizens call the city their home. In September 2017 a poll of immigrants to China by the Center for China and Globalization (a Beijing-based policy think-tank) and Chengdu’s Southwestern University of Finance and Economics found Shanghai to be the nation’s most attractive destination for expats for the second year running.

Its rude economic health is probably both a cause and an effect of its continuing

According to OECD estimates, China has 15 megacities – ie, those that are home to more than 10 million people – but Shanghai remains the largest, with a population of 24 million. Its growing middle class is developing an appetite for western products



allure to foreigners as a place in which to live and work. The average disposable income per capita in Shanghai in 2016 was ¥37,458 (£4,275), compared with a national average of ¥23,821. In the same year the city’s economy even grew at a slightly faster rate (6.8 per cent) than China’s GDP. With the government’s efforts to make Shanghai the Asian equivalent of New York City going into overdrive – measures include free-trade zones and six-day visa-free stays for foreign visitors – it will surely go from strength to strength as a global commercial hub.

“Along with the surrounding area, it forms the heart of the British business community in mainland China,” says John Edwards, consul-general at the British Consulate-General in Shanghai, who points out that more than two-thirds of UK companies operating in China are based in the city. “The universities of Cambridge and Oxford are setting up their first ever overseas R&D and innovation centres here. This is because the economy of eastern China is set to become the fifth largest in the world. What’s more, it’s pivoting towards sectors – creativity, advanced manufacturing, financial services, innovation and high-end retail – in which the UK is strong.”





A city that has had districts administered variously by the British, the French and the Americans since the treaty of Nanking ended the first opium war in 1842 is clearly more welcoming to incomers than ever before. And, according to Edwards, the immigrant community is joining forces here with the strongest Chinese talent from across the country.

“You won’t find a shortage of extremely well-informed, highly motivated and internationally educated people,” he says.

Opportunities for UK businesses

British firms that can testify to Edwards’ observations include Forward3D, a global digital marketing agency that expanded into Shanghai in 2012 and now has 20 employees in the city.

“We work closely with our clients, so we go where they go and grow as they grow – and the established hub of international business in Shanghai attracts international people,” says Hannes Ben, the company’s chief international officer. “Beijing may have a better-known history and culture, but Shanghai is a great modern market in which to do business. As a coastal city, it also offers a great quality of life.”

Sigal Atzmon, CEO of Medix Global, which has been providing medical case

CHINESE ETIQUETTE

● **Johnny Hon, chairman of the Global Group, offers his tips on local business customs**

Present and correct

Gift-giving has a long history in China, but be sure to offer only a small token – a fountain pen, perhaps.

Chatter matters

Engaging in small talk at the start of a meeting shows consideration. Speaking about family matters is fine.

Dignity intact

Preserving face is a key aspect of Chinese culture, so be sensitive when giving feedback. What may be taken as constructive criticism in the West can be seen as bad manners or worse in China.

Food for thought

When entertaining, it’s good practice to hire a private room in a restaurant. Everyone will have a set place at the table – if in doubt, seek guidance from a Chinese business partner or colleague.

Play your cards right

Bilingual business cards are vital if you’re planning to operate in China for the long term.

They should be presented with both hands and laid out in front of you throughout a meeting, arranged by seniority if possible.

For advice from IoD member Tom Higgins on setting up in China, visit director.co.uk

management services in China since 2011, agrees. “It truly feels as though anything is possible here, with hundreds of start-ups covering dozens of sectors opening their doors every day,” she says. “The Chinese are well known for their hardworking, service-orientated, can-do attitude, which lies at the heart of their nation’s entrepreneurial spirit. All this is underpinned by a world-class transport network, built to carry 27 million people daily; an education system that turns out brilliant minds; and a business-friendly provincial government.”

Tony Liu, a partner in M&C Saatchi’s joint venture with Chinese advertising agency aeiou, calls Shanghai “the most well-balanced East-meets-West cultural city in China”. Someone who wouldn’t disagree with that is Luke Nolan, co-founder and CEO of Student.com, an accommodation-finding service.

“Setting up in Shanghai was ideal, because it enabled us to test our business model in close proximity to our target users at the world’s largest and fastest-growing source of international students,” he says. “There are endless opportunities here to build connections with both up-and-coming and well-established businesses – from tech developers to super-creative marketing agencies – and also with support networks such as the China-Britain Business Council.”

Doreen Wang, head of brand equity ranking systems at Millward Brown, has some more good news for British SMEs considering a move to Shanghai. “People here are very open to niche, relatively small brands. They’re willing to surf the internet and find out about a new company’s heritage,” she says. “The big trend right now is premiumisation – they all want to upgrade their products.”

That said, David Roth, CEO of WPP’s retail practice The Store in Asia and EMEA, warns against seeing China as a cash cow. “Its consumers have gone from no choice to abundant choice in one giant leap,” he says. “They understand value propositions – they’ll know if there isn’t one. There was a time when you could come to China and succeed just because you were a foreign brand. But now the playing field for foreign and Chinese firms is level, so you really need to have clear points of difference.” >>



'If you don't have a WeChat strategy, you don't have a China strategy'

Unsurprisingly, red tape is near the top of the list of challenges for foreign firms operating in China, especially when they are just starting out. Edwards notes that those wishing to enter the market can in some cases do so “only if they are willing to accept a minority share in a joint venture (JV) or to sign over some of their existing or future intellectual property. Good relations with the government are crucial. Your local competitors have a built-in advantage over you in this respect, including access to contracts and funding.”

The great firewall of China

The internet is an entirely different beast here too – as Edwards points out: “If you don't have a WeChat strategy, you don't have a China strategy.” Ensuring compliance with stringent new laws on data protection and localisation is likely to prove costly for businesses of all kinds. But that may not even be the biggest headache, says Chris Townsley, EMEA sales director at CDNNetworks, a global online content distributor with a presence in Shanghai.

“The great firewall of China – an internet filtering system that blocks certain types of content and makes some websites inaccessible altogether – has a huge impact on website performance. Many businesses will find that their sites can take more than 30 seconds to load,” he says. “Also, the various licences required to launch websites in China differ depending on the type of site you operate. Global content delivery network providers can help you to achieve acceptable load times, but to tackle China they'll need to have established a presence in the country and formed relationships with the relevant agencies and authorities.”

Atzmon observes that the process of registering a firm can be “quite lengthy” in China. “Virtually all of the required documentation has to be translated and



Top: the terminus that serves Shanghai Hongqiao International Airport is Asia's largest railway station; Above: a hi-tech R&D joint venture between Suzhou Industrial Park and the University of Oxford is under development 50 miles west of Shanghai

submitted in 'simplified Chinese' – ie, Mandarin,” she says, adding that a newcomer's optimum corporate structure could be a JV, a wholly foreign-owned enterprise or a representative office, depending on the type of business.

Consulting Solutions is a British business that has recently set up offices in Shanghai and Dalian. In order to do this, it has dealt with a range of agencies and officials. Its founder and CEO, Simon Wardle, points out that Shanghai's government operates different tax regimes for foreign firms.

“It's important to understand which markets you're targeting and how best to optimise your costs. Get local help for this, as the rules change frequently,” he advises, noting that the competition for local talent is fierce. “Shanghai suffers from high wage

costs, which are rising steadily, while churn rates can also be alarmingly high. Training is key to maintaining loyalty.”

Hannes Ben stresses that understanding China's approach to commercial relationships is a must for incoming firms. “There's a huge expectation here that you become part of your client's team. You do everything you can to be supportive,” he says. “This means being contactable 24/7.”

Liu advises expats in China to “drop the 'we know best' attitude, be open-minded and embrace the cultural differences”. Nolan, meanwhile, cites an aphorism that sums up the potential that awaits in Shanghai. “In China nothing is easy”, he says, “but everything is possible.” **d.**



The IoD's forthcoming Open House event will feature a seminar about trading in China on 12 March at 10am. For more details visit iodopenhouse.com