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An awakened giant

China Special Edition
Spectacular growth

Ascending the podium: China’s GDP passed up that of France and the United Kingdom some years ago, and is now pulling ahead of Germany’s. Just months before the Olympic Games in Beijing, China has become the world’s third economic power after the United States and Japan.

Since the 1980s and the opening of its economy, China has experienced spectacular and uninterrupted economic growth. The country has progressively become “the world’s factory”, and finally also, with the transfer of sovereignty for Hong Kong in particular, a major global financial player.

It is in this context of sometimes unruly growth that Mazars opened its first office in Beijing in 1997, followed by a second in Shanghai and a third, more recently, in Guangzhou. We have also had a presence in Hong Kong since 1990. China thus appears as a priority area for our international growth, called on to play a pivotal role in strengthening the Group’s presence in Asia.
China therefore quite naturally, like India and Egypt before it, merits an appearance here between the covers of Nomad.

We would not presume to attempt the impossible by offering a full analysis of modern China in just a few pages. However, we hope the information provided here will help you to get a good sense of the country, and to better understand its importance within the Mazars partnership and, more broadly, in the global arena.
The metamorphosis of the Chinese economy

The People’s Republic of China has gone through major changes since its creation in 1949. Despite the apparent stability of the political regime – the PRC is still officially a socialist country – economic expansion over the past 25 years has led to profound cultural, social and demographic changes. An ideal for some, a counterexample for others, the Chinese system has nonetheless demonstrated its efficacy by making China the high-ranking economic power that it is today.

At the time of Deng Xiaoping’s accession to power after the death of Mao Zedong in 1976, China remained largely underdeveloped. The country was still a sleeping giant as an era of rising global competition began. There is no doubt that China’s demographic and military might – the People’s Liberation Army was one of the largest in the world, and had acquired nuclear capability by 1964 – made it a force to be reckoned with on the world stage. People’s Republic of China has held a permanent seat on the United Nations Security Council since 1971, and, as the leader of the non-aligned movement, served as a guide or model for many third-world countries during the decolonisation of the 1950s. In addition, Maoism has attracted numerous Western intellectuals seduced by the idea of an authentic people’s revolution. Still, China remained a marginal economic force at the start of the 1980s, closed to the rest of the world and with production capacities largely under state control. Things were destined to change very quickly, however, and between 1978 and 1989, following the new orders from state authorities – Get rich! –
the Chinese economy went through profound changes tending towards a new system of “market socialism”. Collectivist agricultural structures gave way to individual responsibility for land; small industrial companies with more autonomous management – the getü – made an appearance, and price controls were abolished, with the notable exception of basic necessities for the rural population. These reforms led to a rise in the number of small businesses and to the arrival of foreign investors, while China began to develop its reputation as the world’s workshop.

**The world’s largest exporter**

The Chinese economy’s metamorphosis accelerated further after 1992, receiving official designation as a “socialist market economy”. From then on, the economic machine was running full steam, with the private sector in control of 65% of industrial production, compared with less than 30% five years earlier. Personal wealth and consumption thus became motors for growth, which was also stimulated by progressively more professional management techniques aimed at improving productivity, and by the creation of tax-exempt Special Economic Zones (SEZ) all along the Chinese coastline. The country’s GDP quadrupled in less than thirty years. For the past ten years, the national economy has grown by more than 7% annually, and China has become the world’s largest exporter, 85% of the watches, toys and tractors sold worldwide are made in China, as are 55% of computers and cameras and 30% of televisions and washing machines. However, only 41% of Chinese exports originate from entirely Chinese companies. Today, 39% of exports from China come from companies which are 100% foreign-owned, and 20% from partnerships between foreign and Chinese companies.

Following the example of Shanghai, Chinese cities have become international finance and banking centres, as are Hong Kong and Macao, returned to Chinese sovereignty in the last decade.

Even the agricultural sector, in spite of its diminishing relative importance over the past 30 years, remains a strong pillar for the Chinese economy. In 2006, according to OECD figures, it accounted for 15% of GDP and 40% of employment – compared with 71% at the end of the 1970s. With over 800 million people living in rural zones, and over 300 million rural workers, agriculture, partially privatized, has also experienced a productivity boom. Largely based on the cultivation of rice – which made its first appearance 5000 years ago and is the basic local foodstuff – agriculture has resisted the diminishing availability of fertile land – 10% of the country’s land area nourishes close to 20% of the world’s population – and increased production by 90% over the last fifteen years. This agricultural production explosion has led to a significant increase in quality of life for the “peasant class”, whose revenues have risen by a factor of three since 1980. It is estimated that almost 400 million Chinese living in rural areas have risen out of poverty in the last 25 years.

**Demographic and environmental challenges**

However, the rise in agricultural revenue has not prevented a massive rural exodus, due to persistently difficult living conditions and the promise of easier work in urban areas, the Petri dishes for Chinese economic growth. It is currently estimated that 8 million rural dwellers emigrate to the cities each year, expanding the workforce available to the companies located there. This urban overpopulation is seen as a threat to sustainable development.

The Chinese economy’s demographic consequences have been dramatic. China has become the world’s largest exporter: 85% of the watches, toys and tractors sold worldwide are made in China, as are 55% of computers and cameras and 30% of televisions and washing machines.

China, a space power

When China launched its first satellite in 1970, the Dong Fang Hong I, it became the fifth world space power in chronological terms. Not until the launch of Project 921 in 1992 were new developments to be seen in the Chinese space programme. The first test carried out within the framework of this programme was the launch of the shuttle Shenzhou 1 in 1999, which was followed by three further test flights. In 2003, China became the third country to send a manned vehicle into space, when the Shenzhou 5 was launched with the taikonaut (from the Chinese taikong, space) Yang Liwei aboard. A second manned mission, Shenzhou 6, was successfully inaugurated on 12 October 2005.

**The impact of Confucianism**

Traditional Chinese culture is largely based on the values of orthodox Confucianism, which reached its apex during the Song dynasty, between 960 and 1279 A.D. Confucianism is a social ethic which seeks to guide individuals according to the following model:

- development of knowledge > sincere thinking > reform of the heart > cultivation of character > regulation of families > just government of States > happy and tranquil empire.

Those who would reform the State must first reform the family, and reforming the family first necessitates individual reformation.

A key element in acceding to Mandarin status, Confucianism has strongly influenced Chinese culture for centuries. Condemned by Maoism as a feudalist and anti-revolutionary doctrine, Confucianism has recently shown a rise in popularity which is tolerated by the authorities.
WIDE-ANGLE VIEW

Shanghai, fashion and luxury capital

Home to the Chinese movie industry before 1949, Shanghai today has become an international centre for luxury and fashion. Dior, Versace, Cartier, Hermès, Prada and many others are present and planning development in the new temples of luxury located around Plaza 66 or Xintiandi.

Mainly accessible to foreigners and wealthy locals (in a recent study, 300,000 Chinese were estimated to be "very rich"), these designer names create an image of a modern and westernised metropolis. Luxury boutiques located in the chic areas of Shanghai, although not necessarily profitable as yet, represent a significant portion of the brands’ total turnover; Dior couture, for example, registers 10% of its sales in China.

a threat to balanced growth in China. For several decades, authorities have applied the one-child policy for urban families, allowing two children in rural areas if the first is a girl. Population growth has fallen to 0.6% annually today, compared with almost 1.5% at the end of the 1980s. The Chinese government estimates that it has in this way prevented the birth of almost 400 million babies over the last three decades, which makes it possible, according to Zhang Weiqing, chairman of the State Commission for population and family planning, “to provide the Chinese people with a relatively comfortable life, a goal which would have been impossible if we had 400 million additional people.”

Authorities have also begun to recognise the environmental consequences of China’s growth. The economic explosion has led to massive oil and coal consumption – in 2006 alone, five new coal generators were built each week in China – and put pressure on non-renewable natural resources. As a result, China today rivals the United States for the unenviable title of the world’s greatest producer of greenhouse gases. Several large cities are permanently covered with a cloud of North American-style smog. The environment also suffers from damage which threatens the country’s traditional flora and fauna. It is no coincidence that the animal chosen to symbolise preservation efforts for endangered species worldwide is the panda, the traditional inhabitant of China’s south-western bamboo forests.

In response to these threats, the Chinese government has pledged a 20% reduction in energy consumption and a 10% decrease in gas emissions by 2010. Several reforesting and large natural habitat protection programmes have been implemented, and an urban project for environmental quality is also underway. China’s success in protecting the environment will depend in part on continued healthy economic growth, which should lead its GDP to rise above that of the United States within the next twenty to thirty years.
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In less than a year, on 8 August 2008, the Olympic Games in Beijing will open. Beyond the athletic competition, in which the Chinese intend to triumph (with a stated objective of 50 medals), the 2008 Olympic Games constitute a major construction project. Over 40 billion dollars have been spent on the construction and renovation of some fifty events venues, housing for athletes and spectators, impeccable transportation infrastructures and telecommunications networks, as well as for the “greening” of the Games. Chinese authorities have committed to providing athletes with “clean air”. With this goal in mind, almost 85,000 small businesses with negative environmental impact have been closed, thousands of buses and tens of thousands of older taxis have been removed from circulation and replaced with “cleaner” vehicles, and over 100,000 trees have been planted in Beijing over the past several years.

The Olympic events, which will attract some four billion television viewers, also represent a considerable financial boon. Television rights, merchandising (cumulative sales should bring in more than €225 million), advertising revenues, increased business for companies – including numerous local sports equipment manufacturers, who hope to use the Olympics to cultivate international recognition – are all sources of profit for the Chinese economy.

The impact on growth for the country as a whole is difficult to evaluate. Analysts suggest, however, with statistics to back it up, that the Olympic Games have already had a very marked positive effect on the morale of Chinese households, and, as a corollary, on consumption. Thus, for example, a rush of individual investment on the stock market in 2007: the Shanghai Stock Market has risen by 75% since January 2007. Consumer goods – automobiles in particular – and leisure activities have also benefited from the ambient optimism.
“One country, two systems”: Hong Kong and Macao

South of continental China, Hong Kong and Macao were, until the end of the previous century, British and Portuguese enclaves, respectively. Returned to the People’s Republic of China, today they are a source of significant revenue for the country.

Since its transfer of sovereignty to China a decade ago, Hong Kong has been one of the country’s two special administrative regions. Located on the coast of the South China Sea, the territory benefits from a certain legal, political and monetary autonomy, according to the terms of the 1997 Sino-British agreement. Hong Kong also has its own immigration laws. This “one country, two systems” policy will be in place at least until 2047, or 50 years from the transfer of sovereignty.

An international centre for trade and finance – services represent 86% of value produced in the city – Hong Kong is characterised by an extremely liberal economic system, virtually free of taxes. With a per capita GDP greater than $35,000, the city is also the wealthiest in Asia and one of the richest in the world. Briefly slowed by the appearance of SARS (avian flu) in 2002, economic growth has recovered in recent years, responding to growing demand, both external – the weakness of the Hong Kong dollar favours exports, in particular to China – and local, thanks to the rise in tourism from continental China. Like the People’s Republic, Hong Kong faces demographic challenges. The region is one of the most populous in the world, with an average density of 6700 inhabitants per square kilometre. Given that only around one-fifth of the land is constructible, urban population density reaches an average of more than 30,000 inhabitants/km². As a consequence, pollution levels are very high. According to a study by the investment bank Merrill Lynch, pollution is even becoming a barrier to Hong Kong’s competitiveness, as investors begin showing a preference for Singapore.

Officially a bilingual territory – Cantonese is the language of the streets, English that of business – Hong Kong also stands out for its cinematographic accomplishments. The actors Jackie Chan and Maggie Cheung and the directors John Woo and Wong Kar-Wai have acquired an international reputation; the latter has received awards from numerous festivals around the world.

Seventy kilometres to the south of Hong Kong, Macao is China’s other autonomous administrative
region. A former Portuguese enclave founded in 1557 by missionaries and traders, the territory benefits from its free port and its proximity to Guangdong province. The majority of its revenues, however, come from the gaming industry. Casinos generate more than 40% of local GDP, and make Macao one of the Asian continent’s most opulent cities.

From three million in 1981, the number of gaming tourists rose to more than 19 million in 2005. A 24-hour ferry service has been put into place to transport gamblers from Hong Kong. Since the territory’s return to Chinese sovereignty in 1999, the Chinese government has granted exclusive national rights for gaming rooms to Macao. As a result, hundreds of thousands of Chinese gamblers visit the local casinos, whose profits have exploded and are today counted in the billions of dollars. This exclusive license has led to numerous private casino construction projects, and by September 2006 Macao had passed up its American rival Las Vegas in terms of money spent on gambling. Grandiose projects continue to multiply, such as the five-square-kilometre zone known as Cotai which has been reclaimed from the sea and will be almost exclusively devoted to gambling, with the construction of several casinos and luxury hotels, as well as theatres and recreation centres. This frenetic construction raises the spectre of a real estate bubble, as well as that of an increase in population density, which already stands at more than 18,000 inhabitants per square kilometre.
Over ten years of uninterrupted development

Mazars’s Chinese adventure began at the end of the 1990s, in Beijing. Today, after ten years of experience in China, the organisation has four offices, all with strong growth, and employs more than 425 professionals.

The opening of the Chinese economy over the past twenty-five years has led to the creation of local businesses in huge numbers, and the equally massive arrival of international groups, attracted by the ease of implantation in the free areas of the coastline, the promise of the national market, and the abundant, qualified and inexpensive workforce. As more and more American and European companies invested in China, established industrial and sales subsidiaries, and derived a growing percentage of their turnover there, their need for accounting and auditing expertise, and for reliable financial information in general, also rose considerably. Today, as a member of the global economic and financial community, China must conform to international accounting standards and regulations. The country has seen a growing need over the past fifteen years for auditors and consultants who are well-versed in IFRS and American accounting standards.

It is in this context of radical transformation of the Chinese economy that Mazars opened its first office in Beijing, in 1997, followed by a second in Shanghai in 2002 and a third in 2006 in Guangzhou – Canton – in the Pearl River delta, at the heart of a region known as the workshop of the world. And in 2007, the Hong Kong office, previously held under a form of joint venture with Moores Rowland International, became a full member of the Mazars international partnership. The organisation now has extensive coverage of the Chinese coast, and can offer a complete range of auditing, accounting and tax advisory services to European and American firms operating in China. Mazars in China numbers many subsidiaries of large multinational groups among its clients, including Publicis, Air Liquide, Safran and Danone. The Chinese offices are also regularly called on for internal control and due diligence contracts, on behalf of foreign investors already operating or wishing to establish a presence in China. In response, and in order to offer our clients a service with high added value, several international desks have been established, particularly in Shanghai, managed by native speakers and directed at French, British, American, Spanish, Italian and German companies.

Mazars in Continental China

- Office: Beijing, Shanghai, Guangzhou
- Staff: 255 professionals
- Management: Thierry Labarre (Beijing), Julie Lauuls (Shanghai), Mazars partners
- Turnover: 3 M€
- Main clients: Air Liquide, Danone, France Télécom, GeoPost, Lesaffre, Pernod Ricard, Plastic Omnium, Publicis, Safran, Schneider, SEB, Thales, etc.

Mazars in Hong Kong

- Staff: 200 professionals
- Management: Kenneth Morrison, M.L. Man, Mazars partners
- Turnover: 12 M€
- Local ranking: 8th
- Main clients: Tingyi, Brilliance China Automotive, Jinhuai Holdings Company Limited, Pak Fah Yeow, Pernod Ricard, Publicis, Danone, Oberthur, Lj International Inc, etc.
Recruiting to keep up with demand

Faced with exponentially growing demand (the Chinese offices’ activity increases by almost 30% annually), Mazars in China has considerably expanded its workforce in recent years. Today the organisation numbers more than 225 professionals in continental China, and recruitment continues at a rapid rate. The newest arrivals are mostly graduates of the best local universities, with which Mazars has established close relations. Several former Big Four managers also recently moved to our Beijing, Shanghai and Guangzhou offices. By the end of 2007, Mazars’s three offices in continental China should total more than 200 employees. As a result of this growth, the Shanghai office has moved to a new and more spacious location.

In Hong Kong the trends are comparable. The arrival of new international clients, added to the local clientele, listed companies and SMEs which Mazars has been serving for a number of years, has led to an increase in recruitment, in particular in the Audit and Tax advisory departments. Today, the local team is made up of 250 professionals.

In continental China as well as in Hong Kong, the years to come appear rich with promise for Mazars. The rate of investment in China shows no sign of slowing, and should even increase with the Olympic Games in 2008. For Mazars, the major stakes lie in our ability to manage the growth of our activity and to train future managers in the region.
**Recommended reading**

**English**

*The rise of modern China*
Immanuel C.Y. Hsu
2000, Oxford University Press
A very timely analysis of China’s emergence as a regional and global superpower.

*Modern China, A History*
Edwin Moise
1995, Longman
Ideal for non-specialists who wish to familiarise themselves with the history and culture of a country of such importance today.

*Red Capitalists in China*
Bruce J. Dickson
2003, Cambridge University Press
Learn everything about the relationship between the Communist Party and the entrepreneurs who are propelling Chinese growth.

*History of China*
J.A.G. Roberts
2007, Palgrave Macmillan
From prehistoric to contemporary times; a considerable volume by a professor specialised in China.

*China Road*
Rob Gifford
2007, Random House
A journey into the future of a rising power

**French**

*Comprendre la Chine d’aujourd’hui*
Jean-Luc Domenach
2007, Perrin Asie
An analysis of the country’s metamorphoses by a major contemporary Sinologist.

*Quand la Chine change le monde*
Erik Izraëlewicz
2005, Grasset
...or how the emergence of Chinese power impacts our daily lives.

*La Chine vers la superpuissance*
Michel Aglietta - Yves Landry
2007, Economica
China’s growing weight in international finance.

*La description du Monde*
Marco Polo
1998, Livre de Poche
China in the 13th century, as described by the Venetian explorer.

**On the web**

  Official Chinese information site – in English.

  Countries/China/index.cfm
  Politics, economy, culture: all about China by the experts from The Economist – in English.

  Presentation of China on the website of the French Ministry for Foreign Affairs.

  Compiled and updated by the CIA. All economic, political and geographic information about China. Available for all countries in the world.

  The English version of the official site of the Beijing Olympic Games.