



Newsletter February 2006



Welcome from the Chairman

Chairman Nils Foss introduces DCBF's first newsletter.

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The Chinese Economic Heavyweights - 8 Most Progressive Provinces/Areas

China's economic development is lead by 8 most progressive provinces/areas on the eastern coast. Indicators show impressive economic achievements.

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Welcome from the Chairman

Chairman Nils Foss introduces DCBF's first newsletter.

Dear members,

Kong Hei Fat Choi – Happy New Year.

It is my pleasure to welcome you to the first issue of our newsletter from Danish-Chinese Business Forum and I hope that you will find the content interesting.

With the recently published growth numbers for the Chinese economy of 9.9 % it is evident that there is a need for DCBF. In less than ten years, the Chinese economy will be of the same size as the US Economy measured in GDP (with the US accounting for 20% and China for 20% of the world GDP).

Our executive networking forum has been off to a good start since it was founded on August 29th 2005. We have now reached 50 members and had our first successful event of 2006 on the 26th of January when the Minister of Economic and Business Affairs Bendt Bendtsen spoke to more than 30 of our members about the government's globalization policy in relation to China. The event was hosted by the Ministry of Foreign Affairs and the Members were very active in asking questions to the Minister. The Minister on the other hand encouraged feedback from DCBF Members inviting suggestions to what the Government can do to help improve the position of Danish companies in China. Your thoughts and feedback on this would be highly appreciated.

2006 will be an eventful year for DCBF. On the 8th of February, one of our founders, Thorkil Kristensen of Novo, will host our first major company seminar and in addition we already have a number of interesting events lined up as you can see below. Please make a note of the dates.

- 10 February from 12.00 to 13.30 – Chinese New Year Reception at the Chinese Embassy
- 30 March from 12.00 to 13.30 – Deloitte: Cultural Do's and Don't's – Corporate Social Responsibility and Ethics.
- May - The Minister of Foreign Affairs trip to China – Focus on health and environment.
- 8 May from 16.00 to 18.00 – Foss: From representation office to WFOE.
- 29 May from 16.00 to 18.00 – A.P.Møller-Maersk – Tom B.

Sørensen – Business Strategy.

- 13 June - Grundfos – Sales & Distribution in China as well as transfer of profit, fees etc. to Denmark.
- August – Ambassador Lauritz Michaelsen, Beijing
- 4 September at 17.00 – Kopenhagen Fur: Why NOT China? Followed by a Fashion Show and Dinner – Spouses are welcome!
- 28 September – Zacco – IPR
- 30 October – Vestas – Production in China – Requirements for local production of 70%

All events will have interesting outside speakers and we hope to see you all. In addition there will be other ad hoc events in connection with Chinese official visits and delegations.

DCBF was founded as an executive network for the top management of Danish and Chinese companies. It is crucial for the future success of our forum that this level is maintained and preserved and I would therefore like to take this opportunity to urge our members to participate in the events personally and be active. If you are unable to participate please send another member of the Management Group. Only through maintaining this network at an executive level will we be able to create value for you and keep the strong support from official Danish and Chinese side.

Nils Foss
Chairman



Establishment in China - The initial choices: Joint Venture or Wholly Foreign Owned Entity? Location?

The Novo Case By Thorkil Kastberg Christensen, Chief Financial Officer Novo A/S

Background

In the early 1990's when the Novo Group made its due diligence on future establishment in China it was not a group. It was one company with the name Novo Nordisk, comprising of an industrial enzyme division and a health care division. These two business divisions decided more or less simultaneously in 1992 that it was time to prepare for serious investments in China to be able to take part in the future growth opportunities.

As it turned out, the foundation for our future in China had really been laid in the previous decades, the 1970's and 80's, when many trips to China by scientists and technical experts from both divisions created many valuable contacts and friendships in Chinese institutions. In some government offices and in a number of state owned enterprises the Novo Nordisk name was well known when we started a systematic search for prospective partners and locations.

Novo Nordisk wanted its first large investment in China to be an enzyme factory of strategic size, i.e. to supply China as well as other markets. The enzymes division therefore naturally took the "Big Brother role" in the establishment phase. However, when it came to important negotiations and decisions for the common future, the enzymes and health care divisions stuck together in a "one for all and all for one" bondage, a strategy which proved highly valuable.

The due diligence process and the choice between J/V and WFOE

At the outset of the due diligence process we felt that a joint venture would be the preferred way of establishment. It was what was advised by many other companies who had already established themselves in China, and we were unsure whether our capabilities alone would suffice to make a successful entry. Furthermore, J/V was in those days in principle the only model the Chinese government would accept for some types of businesses, one being pharmaceuticals.

As a consequence our energy focused in the beginning on the search for a suitable J/V partner. We did identify one and got

quite far in the negotiations before three things dawned on us: 1. The location was less than optimal. 2. The massive investments ahead of us would have to be borne mostly by ourselves, and 3. The many contacts we had ourselves created during the preceding years proved to be at least as useful as those of the prospective partner. Thus, we decided to try on our own. The focus changed from search for a J/V partner to search for the best location.

Location

We quickly learned that investing in one of the special economic zones brought some tangible advantages, the most obvious examples being better infra structure and closeness to local and central authorities at the same time. Having visited and analysed several zones we decided for Tianjin Economic Development Area (TEDA). It is well placed for air, sea, and land transport. It has very good relations to the central government. With a USD 200 million program we would be a very large investor in TEDA and thus could expect a high level of attention. It is close to Beijing, where we for other reasons had decided to place our administrative headquarters and research center. And last, but not least the professionalism and attitudes of the TEDA management felt good in our stomachs.

The first five years in China

Having received our business licenses within a couple of months after submitting our feasibility study we immediately embarked on the most important: Finding the right people. We strongly believe we did. Building factories, organisations, and market positions on time and up to ambitious plans would not have succeeded otherwise.

In our medium term financial plans we had promised to reach break even after about five years, and we just made it.

... and the next five

In the year 2000 the company was split in two: Novo Nordisk and Novozymes, world wide and thus also in China. Organisationally it meant little as the two former divisions were already fully independent in their business management, and with respect to physical facilities it also meant little as we had already started to gradually move apart due to space constraints. During the next five years the growth of particularly the insulin market and our share of it grew beyond our initial plans and to

this day maintains remarkable growth rates.

Status after 10 years

In 2004 Novo Nordisk and Novozymes celebrated 10 years anniversary in China.

Unlike in the beginning, when Novozymes was the biggest organisation and business in China it is now more a case of equal brothers and sisters.

Novozymes China has consolidated its position as market leader and has built a very large strategic production site which supplies the world with certain enzymes. Novozymes China has 650 employees, production sites in Tianjin, and Suzhou, headquarters and an R&D center in Beijing, plus three regional offices.

Novo Nordisk China has grown to be the market leader in its major field diabetes care. Production was initially established to meet the local demand, a task in itself as the insulin market has grown by a factor 5 or more over the past decade. This has meant that capacity has been expanded several times. Presently production is being established to supply the world with NovoPen3®. Novo Nordisk China today has 700 employees, people on the ground in all 31 provinces, production in Tianjin, headquarter and R&D center in Beijing, plus five regional offices.

In conclusion we have never regretted our choices of WFOE status or of locations. We believe we made the right choices for our case. It is, however, fair to say that J/V may be the right way of establishment for other companies in different circumstances.

The choice of location has perhaps become less critical over time as infra structure develops rapidly in many parts of China. Proximity to the skills and talents you need weigh heavily. If our learnings were to be condensed into one line it would be:

**PREPARE - DEFINE WHAT YOU WANT – FIGHT FOR IT – AND
FIND THE RIGHT PEOPLE.**

The Ministry of Foreign Affairs intensifies Danish efforts for the environment in China

New interesting programs for Danish companies with activities in China.

For several years Denmark has assisted Danish companies with their environment export to China through soft loans. This has enabled the Danish environmental technology to access a Chinese market where the environment is not usually a very high priority. With the introduction of 'scientific development' in 2005 as a new mantra for China's economic development, more emphasis will now be put on values other than economic growth. Now it seems there will be room to make an effort for the environment.

In view of this, the Ministry of Foreign Affairs got its timing right when it launched its CDM program in 2005 followed by the wind energy program and the partnership program in February 2006 focusing on the environmental sector.

The CDM program (Clean Development Mechanism) is already running and aims to acquire CO2 credits to Denmark in order to fulfil Denmark's climate obligation. The first agreements are already on the way. Furthermore the CDM program is intended to help build Chinese capacity among companies as well as with authorities to prepare and develop CDM projects.

The Wind Energy Development program has been set up to help three north-eastern provinces (Heilongjiang, Jilin og Liaoning) prepare themselves to take part in the Chinese Government's ambitions plans for an extended build-up of wind power. The aim of the Chinese government is to establish a wind mill capacity of 30GW-installed effect by 2020. The program will also assist the central institutions in Beijing in a number of areas which together will reinforce the Chinese goals. Among these will be training and education in a number of technical fields as well as integration of wind power on the overall distribution net; planning and placement of wind mill parks, expropriation policies and general energy planning with a view to central and local competences and areas of responsibility. More concretely the program can also assist with specific wind measurements for potential wind mill parks. However, the program does not provide investment support for actual energy installations. The program has DKK 45 mio available over a three year period and to a large extent it will be coordinated with an even larger program in the wind energy sector financed by the World Bank.

Finally it should be mentioned that a partnership facility will be launched which is similar to the program previously available in Thailand and Malaysia. In practice the partnership facility is a parallel to the Private Sector program of the Danish Foreign Ministry but only provides financial assistance to technology transfer from a Danish to a Chinese company within the environment sector. The program consists of a number of elements for which 75% grants* can be given.

For example, a Danish company can receive financial assistance for a visit to a potential Chinese partner. Or a Danish company can receive financial assistance to a pilot project where a certain technology is tested in a Chinese context or to a feasibility study. Both of these elements can lead to the third and last program

element: the actual project implementation which for the most part consists of training and education of the Chinese partner. The aim is to establish a more permanent cooperation between the Danish company and the Chinese company. In this connection it could be relevant to also include IFU.

Please contact the Danish embassy in Beijing for further information about the programs.

*NB. Until approx. 1 May, 2006 the program will be administered under the 'old' guidelines according to which the maximum level of subsidy is 90%.

Quick News

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- Innovation – Key to Progress in China!

President Hu Jintao presented a national strategy to focus on innovation through technological developments. Hu stressed the need for increased governmental efforts on education, IPR and embracing advantages of other cultures.

China Daily, Jan. 10th

- Privacy – a slow process in China.

Despite reduction of central planning and yielding to the market allowing for increasing privacy, public surveillance is still enforced to monitor and battle political resistance – particularly much criticized on-line monitoring and censorship of anti-political blogs with the help of e.g. Yahoo and Google.

Economist Asia, Jan 12th

- Henan – Major construction to create new metropolis.

Major construction including a huge central business district, one of China's largest exhibition centres, big hotels, etc. is being undertaken to create a new business hub.

Economist Asia, Jan 5th

- Is Shanghai property market hitting a bubble?

Despite rumours of a bubble in Shanghai, the property market seems to merely be cooling down and demand is still strong from foreign investing companies.

Forbes Asia, Jan 25th

- China is surpassing Japan as largest foreign currency holder.

China is continuously keeping the Yuan artificially low by increasing foreign currency depots. How long can China withstand international pressure?

Time Magazine, Jan 18th

- Mergers and acquisitions on the rise in China.

With new company legislation allowing strategic foreign investor ownership of more than 10% of A shares of Chinese listed companies, M&A is set to increase.

FT Asia, Jan 30th

- Organic produce – the new Chinese agriculture?

With virtually no growth in prices of farm products, organic produce could be a way to increase prices, create jobs and alleviate poverty in rural areas. However, technological, intellectual and cultural barriers have to be overcome.

Asia Times, Jan 30th

- Major increase in number of mobile phone users in China.

In 2006 33 % of the Chinese population will have mobile phones.

Asia Times (Xinhua News Agency), Jan 31st

- World Bank will work with Chinese Government to revitalize Northern provinces.

The World Bank will work with the Chinese government to increase foreign investment in industry and transportation in the Northern provinces of China.

Asia Times (Xinhua News Agency), Jan 31st

- World Economic Forum in Davos – China steals the spotlight.

80 % of CEO's at a global CEO survey declared China the most significant market opportunity.

Xinhua News Agency, Jan 30th

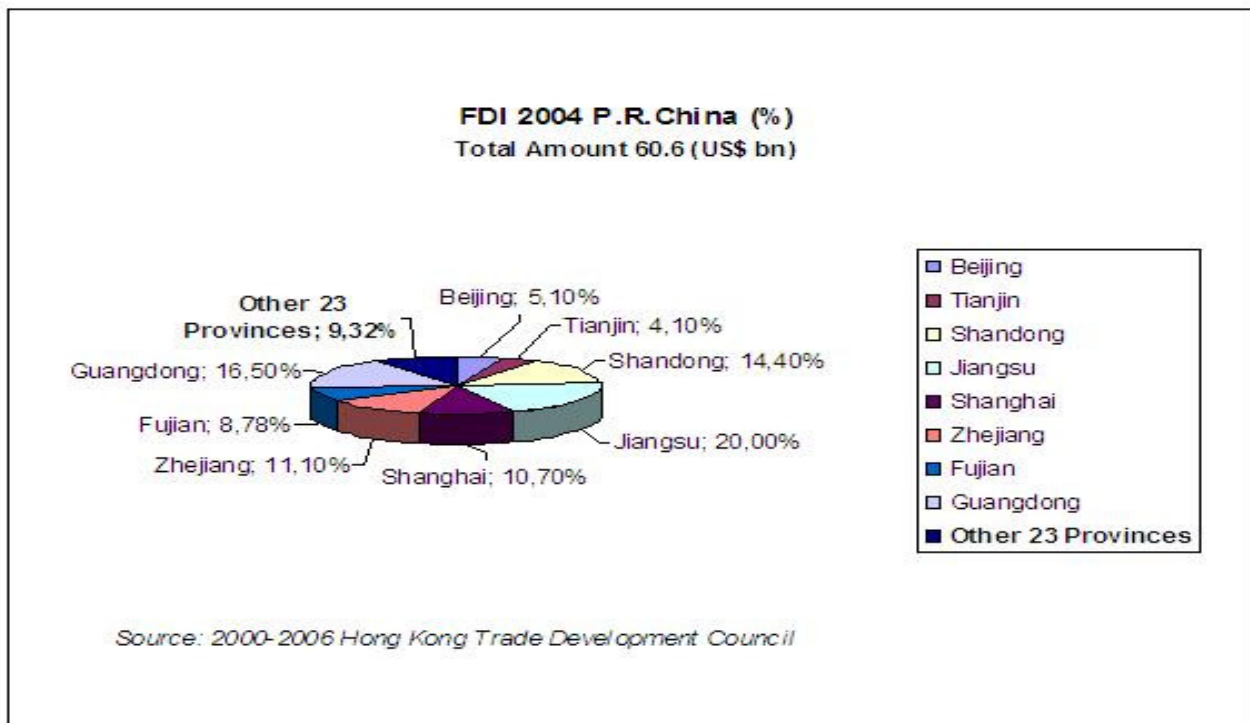
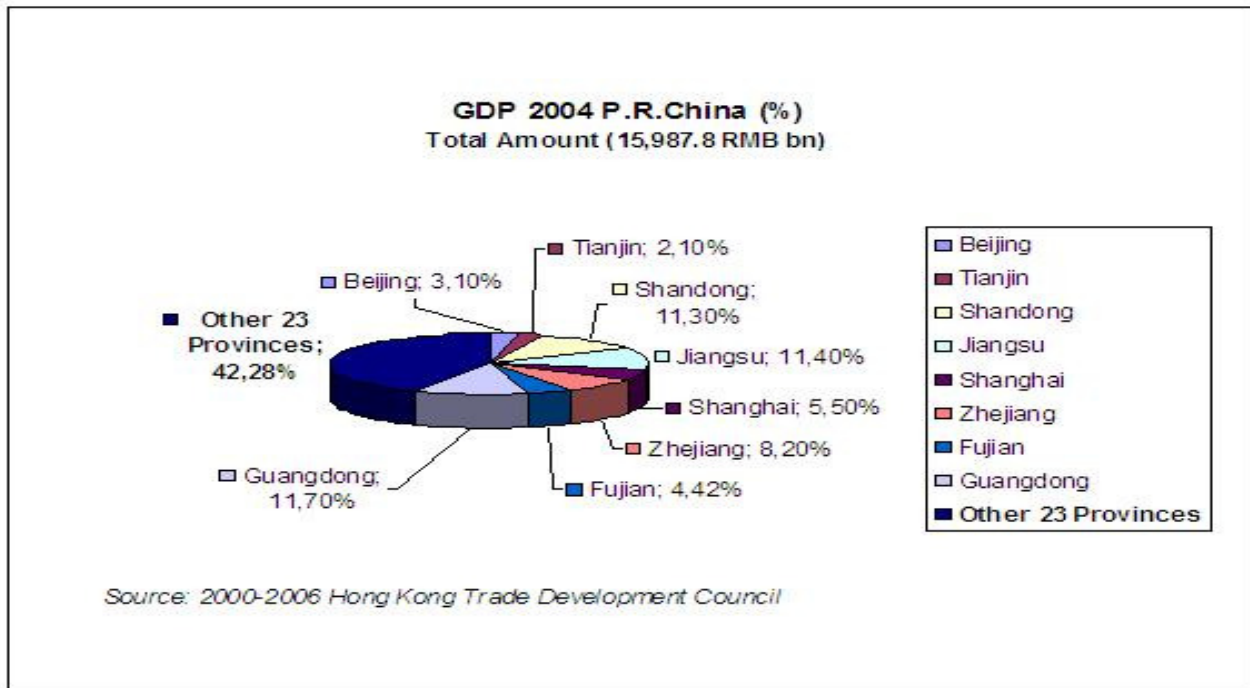
- Guangdong the largest economy in China.

The Guangdong province presented GDP growth numbers of 12 % from 2004 – 2005 to reach 2.17 trillion. Yuan – making the province the largest economy in China.

China.org, Jan 28th

The Chinese Economic Heavyweights - 8 Most Progressive Provinces/Areas

China's economic development is lead by 8 most progressive provinces/areas on the eastern coast. Indicators show impressive economic achievements.



Comments: Areas (8) represent 30% of the total population of China. These eight areas account for 58% of the total GDP of China and 91% of the total FDI.