

China Thoughtware

Staying One Step Ahead – Hot Topics on Investing in China. [Download here](#)

Keeping Pace with China 24/7 – One-Stop Resource Toolkit. [Download here](#)

China Publications

China M&A Digest – Weekly round-up of China-related activity appearing in the English-language press worldwide. [Subscribe here](#)

China Tax Law Commentary – Learn about recent tax updates and their impact on how you do business in China. [Subscribe here](#)

China Issues Briefs Webcasts

China Tax & Regulatory Update
(11:00 AM EST, Oct 8, 2009, featuring Lili Zheng). [Register here](#)

Managing Cross-Border Risk: The Evolving Role of the CFO
(11:00AM EST, Nov 12, 2009, featuring Clarence Kwan). [Register here](#)

Upcoming China-relevant Events

Global marketplace — Eye on China: Roundtable series in Milwaukee & Chicago

Milwaukee, Oct 22, 3PM CST, featuring Phil Schneider & Lillian Xiao. [Register here](#)

Partnering with Chinese Provinces – Why the Timing is Right



China issues: Monthly commentary on cross-border investment with China

Clarence Kwan
National Managing Partner
U.S. Chinese Services Group (CSG)

The Chinese Services Group of Deloitte LLP provides a monthly commentary on cross-border investment with China reflecting on key trends in the marketplace. For further information or to explore the broader implications, please contact us at uscsg@deloitte.com or visit www.deloitte.com/us/csg.

Back in February, as part of our on-going discussion about leveraging the right partners in support of corporate expansion strategies in China, we identified provincial governments as especially promising. After noting the proliferation of memorandums of understanding (MOUs) between provincial governments and foreign investors, we suggested that the basis for their appeal stemmed from the critical role that provincial officials have come to play vis-à-vis Chinese industry – as *owner/managers* of large state-owned enterprises (SOEs), as *regulators* of local economies and as *investors* in key enablers of industry competitiveness, including infrastructure and human capital. Recent developments, including the delegation of approvals for most foreign-invested projects under US\$100 million to provincial-level authorities, seem to underline the growing importance of provincial governments to foreign investors.

In this month's commentary, we consider why the timing may be particularly good today for approaching provincial governments about collaboration. We will also address the challenge of identifying which among China's 31 provincial-level governments - 22 provinces, five autonomous regions and four provincial-level municipalities - may be most receptive to your investment strategies.

As China has yet to allocate most central-level funding associated with its US\$586 billion stimulus plan, competition among provinces for project approval is intensifying. At the end of the day, provincial governments face the same constraint on their investment goals as foreign investors – all projects must be

fully aligned with central-level development goals while still generating sufficient economic return. Throughout 2009, project scrutiny has intensified and more are being rejected due to flawed or incomplete feasibility studies. Since central-level financing was never meant to provide more than seed capital for provincial projects, the onus is also on the provinces to come up with projects that are strong enough to attract additional sources of funding.

For U.S. executives, the current climate therefore presents some interesting opportunities. Provincial officials may be highly receptive to a proposal to join in a project of mutual interest if it can enhance or differentiate their sales pitch to Beijing. By providing a commercial endorsement to a project and strengthening prospects for implementation, a foreign investor wins key allies and lays the foundations for a longer-term partnership. These relationships can also come in handy as planning for the 12th Five-Year (2011-2015) period gets under way across China next year.

This still leaves open the question of how to identify which province or provinces to approach. Here, U.S. executives have some surprisingly robust tools at their disposal. As noted above, every province in China draws up its own Five-Year Plan, designed to translate China's national goals into local objectives. These documents lay out general investment objectives but usually also contain detailed information regarding specific targeted industries, including goals for consolidation, plans to develop industry clusters, strategies for boosting competitiveness, even the role expected of foreign investors. In addition, many provinces have put industry-specific policies in place. A review of these policies is critical, not just for understanding a province's competitive position today, but to understand where it wants to be tomorrow – a key insight into its potential as a strategic partner.

Henan province, for example, is one of China's top grain producers and a leading base for the non-ferrous metals sector. The province is not well-known for its automotive industry, and in fact, ranked among the bottom third of provinces last year by some industry measures, including vehicle output. Yet Henan's current Five-Year Plan (2006-2010) clearly expresses the province's intention to emerge as one of China's leading automotive economies. Earlier this month, the province released new industry guidance that explicitly welcomes foreign cooperation in achieving the province's objectives for its auto sector. So in addition to looking at provinces traditionally strong in your industry, consider others where your global strengths may be especially valued.

Once a suitable province has been identified, many foreign investors have found it advantageous to execute a MOU with the provincial government as a first step. Our research has shown that while the agreements themselves can often be vague, they can be an effective way to tap into the multiple roles that provincial governments can play in an investment strategy (as owner/managers, regulators and investors). They can recast your plans as a priority for leadership and help exert downward pressure for collaboration across sprawling organizations, including local SOEs. Potentially, they might anchor more complex partnerships, drawing in multiple stakeholders including SOEs, financial investors, and even neighboring provinces. After signing a MOU, however, companies must take the initiative. They must be quick to follow up with implementation plans and then monitor their progress closely if they are to extract full value.



About the Chinese Services Group

Deloitte's Chinese Services Group (CSG) co-ordinates with the Deloitte Touche Tohmatsu member firm in China and the appropriate subsidiary of Deloitte LLP to assist U.S. companies investing and operating in China. Whether contemplating market entry, M&A or optimization of existing operations, the CSG, in collaboration with the member firm in China, can help U.S. companies implement cross-border investment strategies and navigate the associated risks.

The CSG also co-ordinates with the China Member firm and the appropriate subsidiary of Deloitte LLP to assist Chinese companies seeking to access U.S. markets – expanding operations, raising capital and/or engaging in M&A. Our national network of bilingual professionals works closely with colleagues in China to deliver seamless service to globalizing Chinese companies.

About Deloitte

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries.

[Home](#) | [Security](#) | [Legal](#) | [Privacy](#)

1633 Broadway
New York, NY 10019 – 6754
United States

Copyright © 2009 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu

 [Deloitte RSS feeds](#)

[Unsubscribe](#)