



CLIENTS | PEOPLE | PERFORMANCE

# Infrastructure Development in China

## *Opportunities and Challenges for Australian Firms*

Peter Wood & Jin Zhang Zou





CLIENTS | PEOPLE | PERFORMANCE

# Agenda

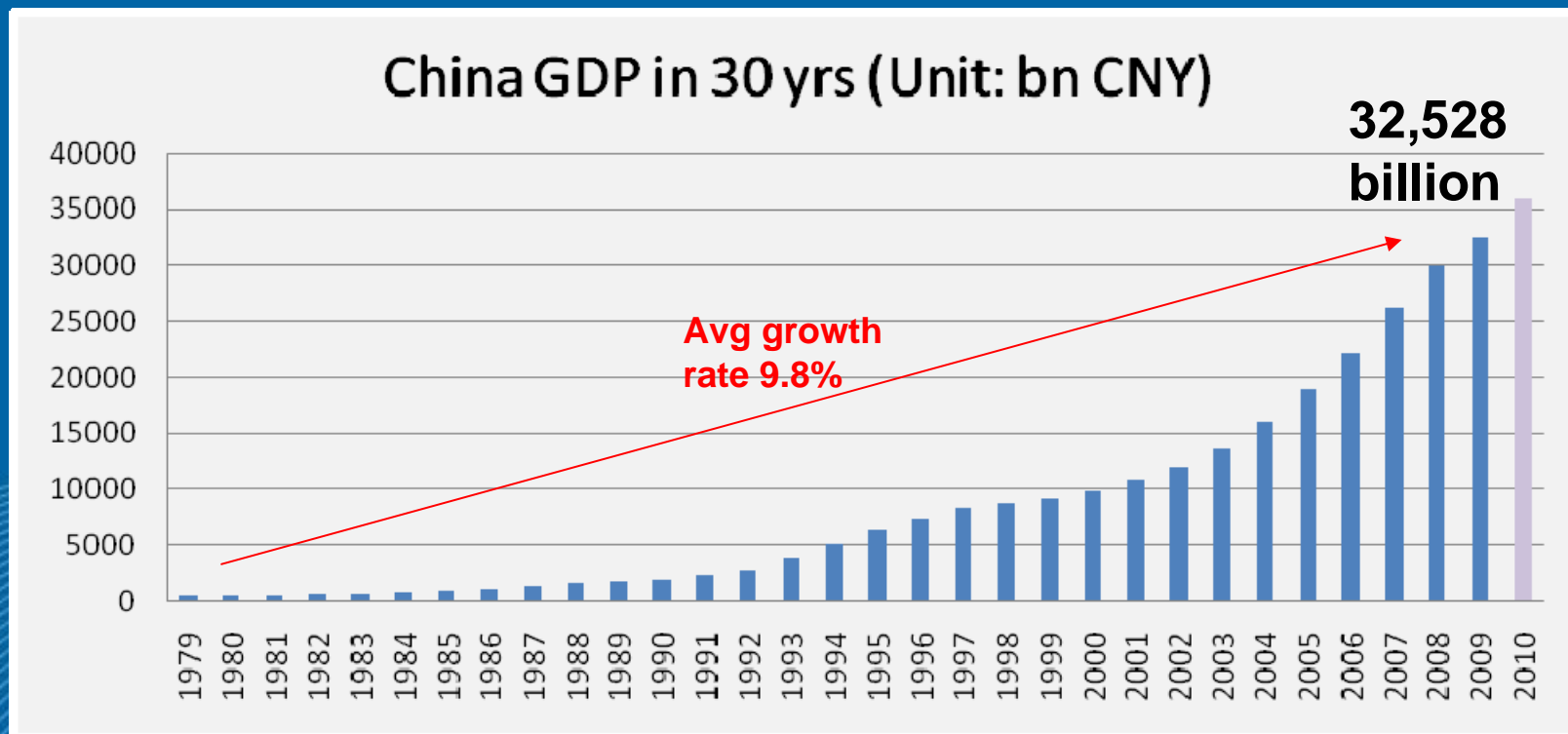
- China's Economic Development
- Investment in Infrastructure
- Opportunities
- Challenges
- Lessons Learnt



CLIENTS | PEOPLE | PERFORMANCE

# China's GDP Growth

GDP at 32.53 trillion RMB (US \$4.65 trillion)





## Five-Year Plans

The Tenth Five-year Plan (2000-2005):

- Industrial-based and driven economy
- High speed development

The Eleventh Five-Year Plan (2006-2010),

- Slow down
- Social development
- Eco-friendly policies
- Prudent resource management

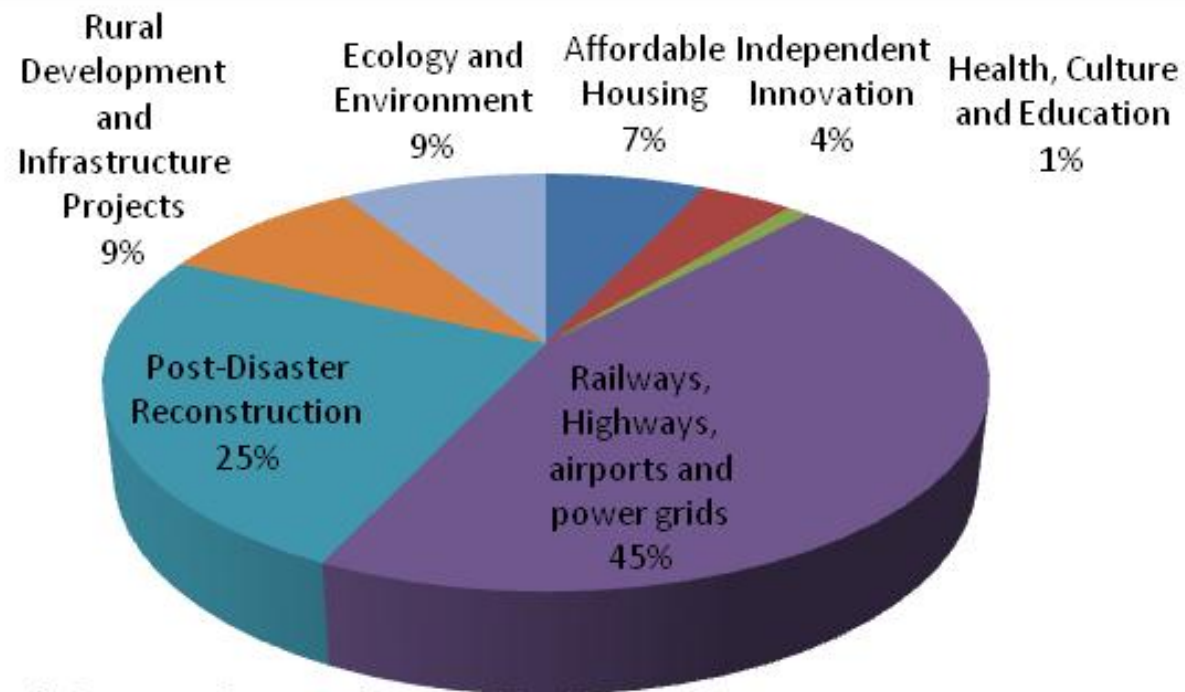
The Twelveth Five-Year Plan (2011-2016):

- Sustaining economic performance
- Green development
- Inclusive growth



# Stimulus Plan

A large fiscal stimulus totaling US\$586 billion

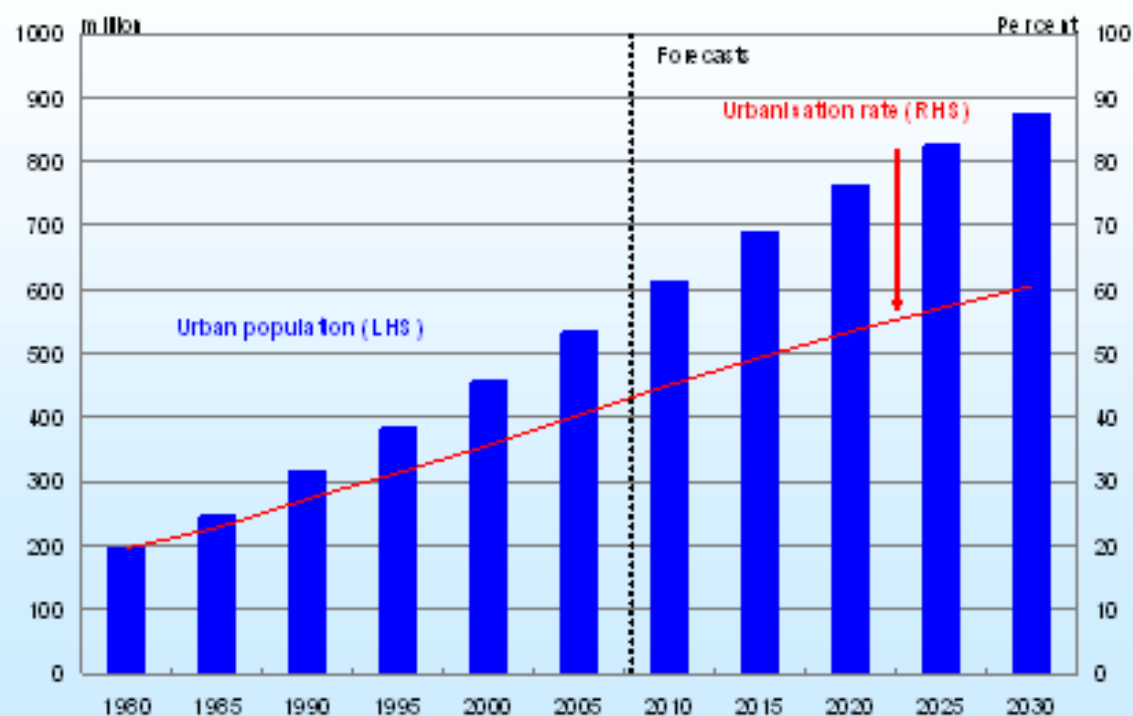


Breakdown of Stimulus



# Urbanization

## China: urban population



Source: UN



# Urban Development & Building

350 mn

- over 350mn people over the next 15-20 years will be added in urban population

5000

- China plan to create 5000 new satellite cities.

40bn sqm

- -5 million buildings will be buit with 40 billion square meters of floor space.

50,000

- -50,000 of these buildings could be skyscrapers

50%

- The annual building outputs are 1.8-2 bn sqare meters in China, equal to half of global annual outputs.

Sustainable  
Development

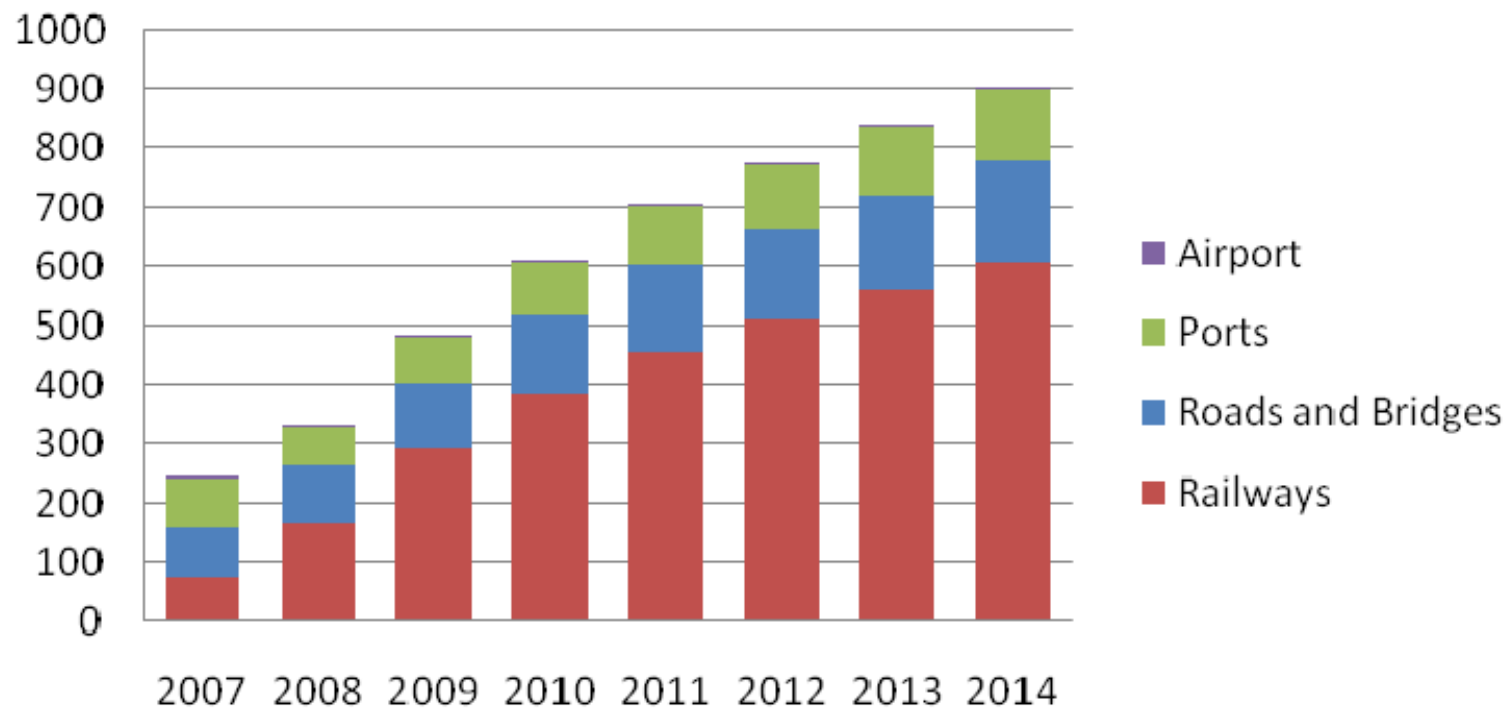
- Needs for sustainable urban development & green buildings



CLIENTS | PEOPLE | PERFORMANCE

# Transportation

Transport Infrastructure by Sub-sector  
CNYbn



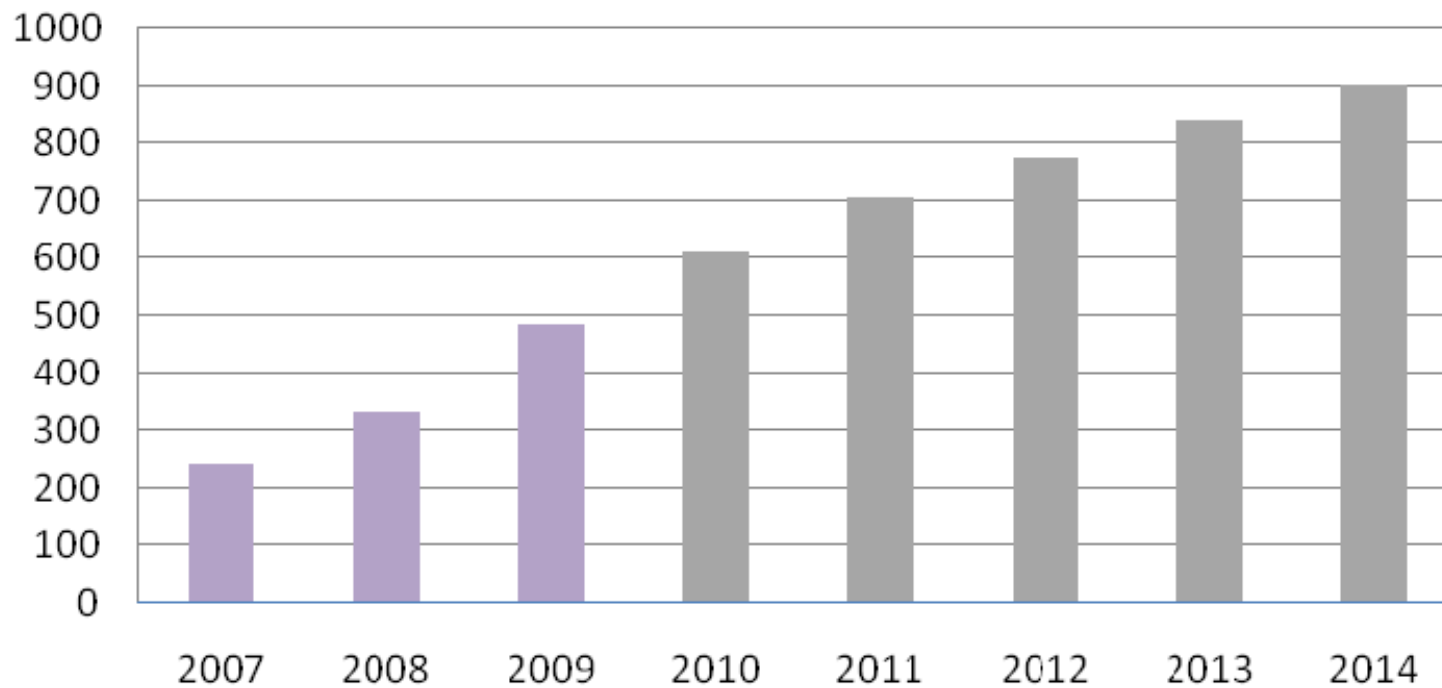




CLIENTS | PEOPLE | PERFORMANCE

# Energy and Utilities

**Energy and Utilities Infrastructure**  
**CNYbn**

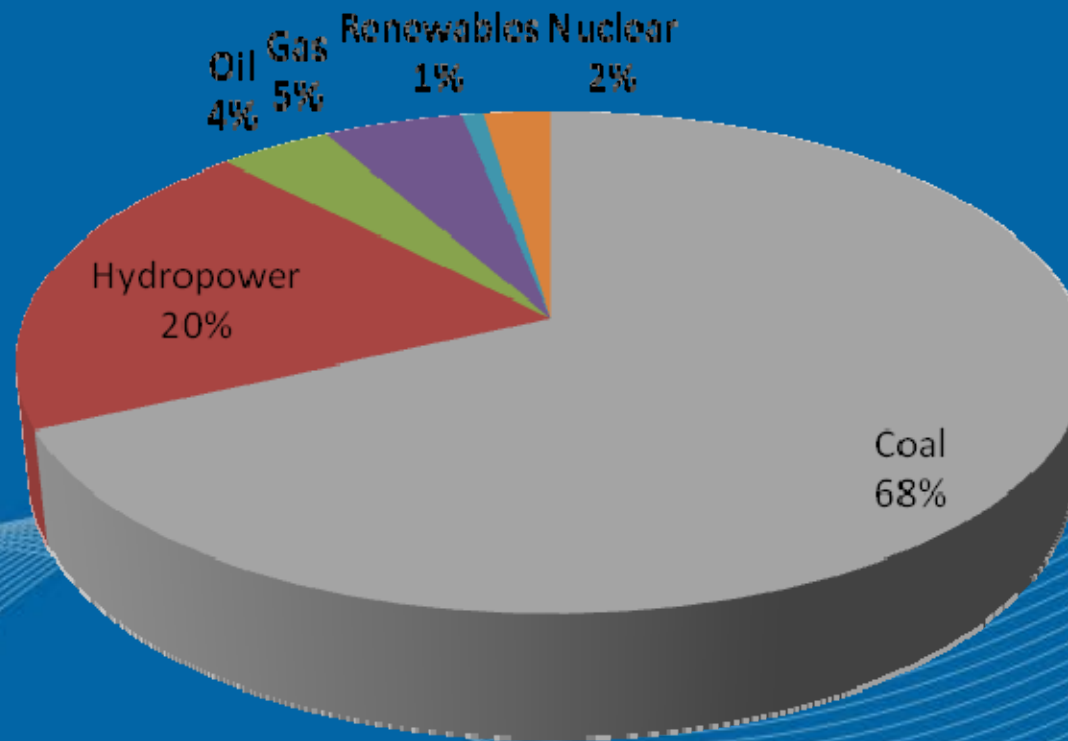




CLIENTS | PEOPLE | PERFORMANCE

# Energy and Utilities

## Sources as percentage of electricity generation





CLIENTS | PEOPLE | PERFORMANCE

# Mining

- World's largest producer of coal, copper, aluminium and gold.
- Demand for iron ore, uranium and other metals.
- Investment in mining assets overseas, including in Australia



# Water

- Shortage of water resources in China (20% of world population and 7 % of water resources)
- Declining water quality and degradation of ecological environments
- Total investment for water sector in next 5 years is to be over RMB1 trillion (US\$150 billion)







CLIENTS | PEOPLE | PERFORMANCE

# Environment Pressures & Awareness





CLIENTS | PEOPLE | PERFORMANCE

# Sustainable Development



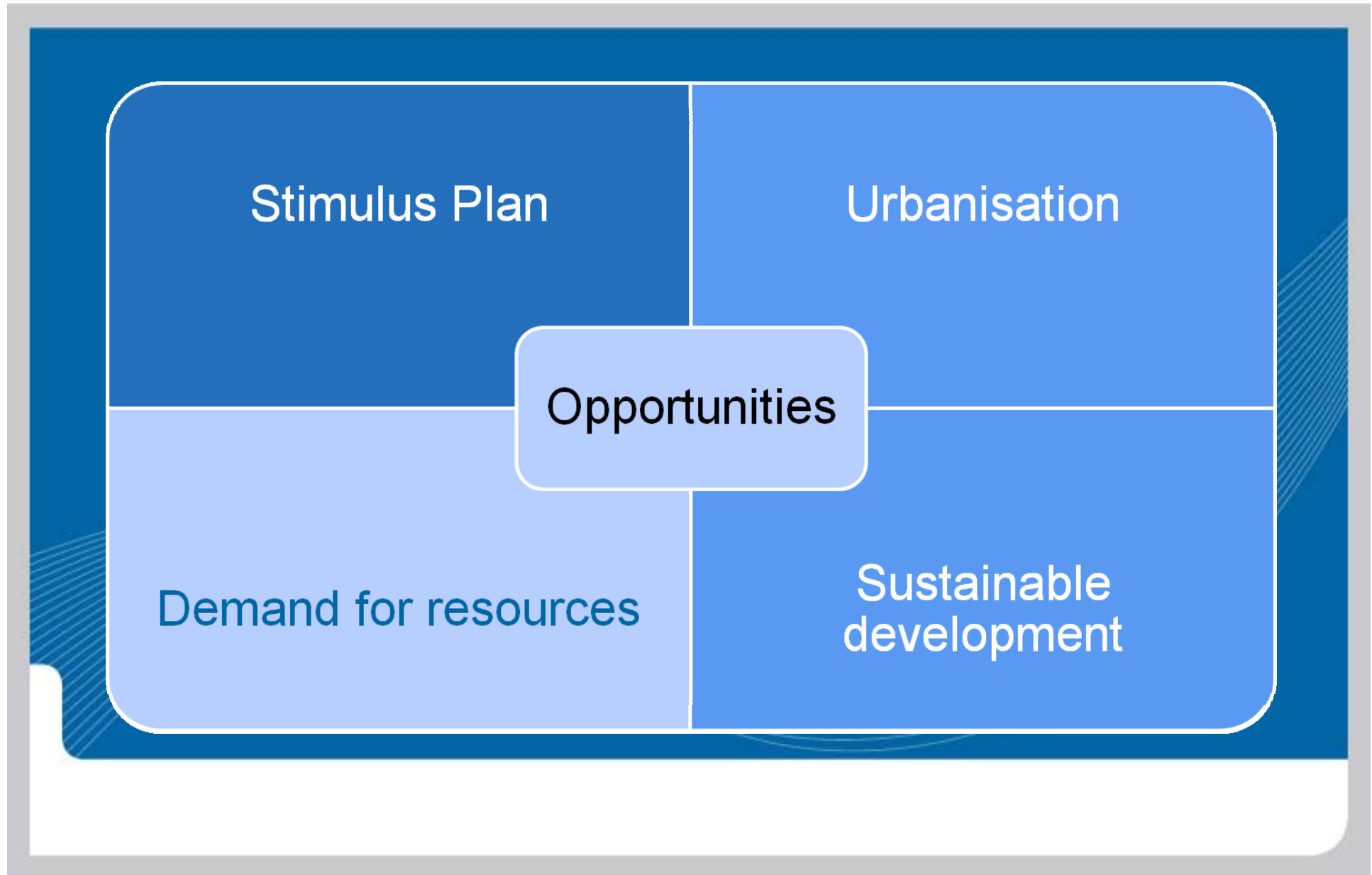
China can and must achieve sustainable growth.





CLIENTS | PEOPLE | PERFORMANCE

# WHAT DOES THIS MEAN





CLIENTS | PEOPLE | PERFORMANCE

# Opportunities

- Sustainable urban development
- Green buildings
- Integrated transportation network
- Integrated water management
- Waste management
- Clean coal technology
- Mining technologies & equipments
- Health & safety
- Environmental management





CLIENTS | PEOPLE | PERFORMANCE

# Challenges

Pitfalls

...and a few lessons learnt



CLIENTS | PEOPLE | PERFORMANCE

# Lesson 1

## Truly understand your business plan

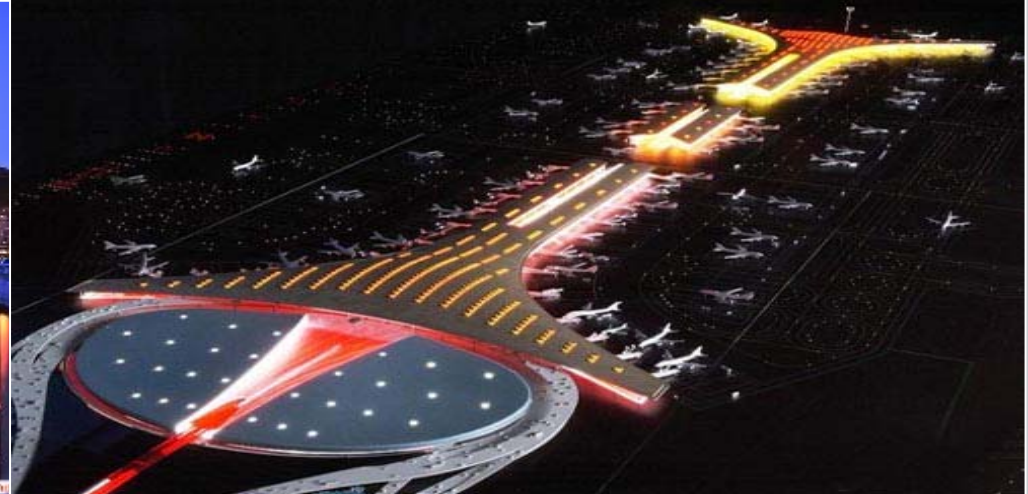
- Why are we engaging with China?
- What do we want to get out of it?





CLIENTS | PEOPLE | PERFORMANCE

# Beijing Airport Terminal 3

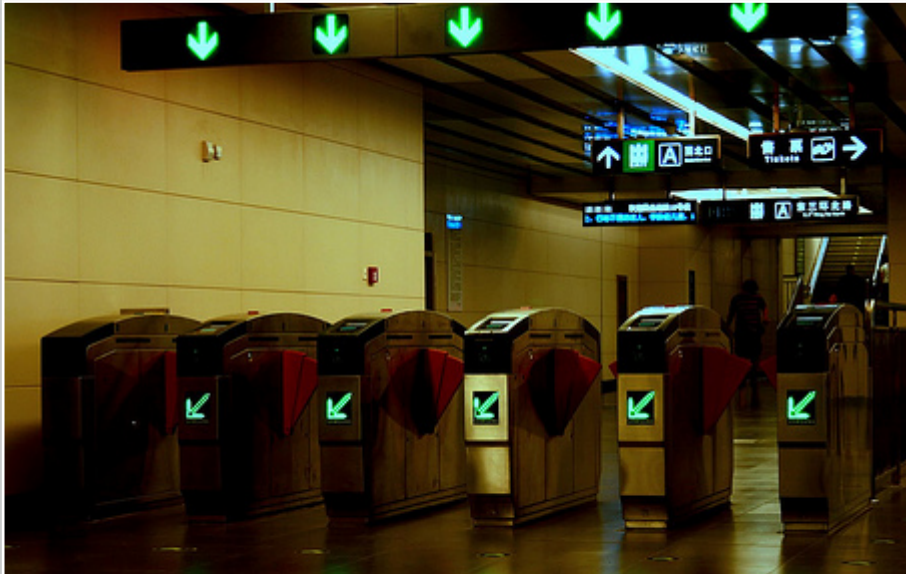




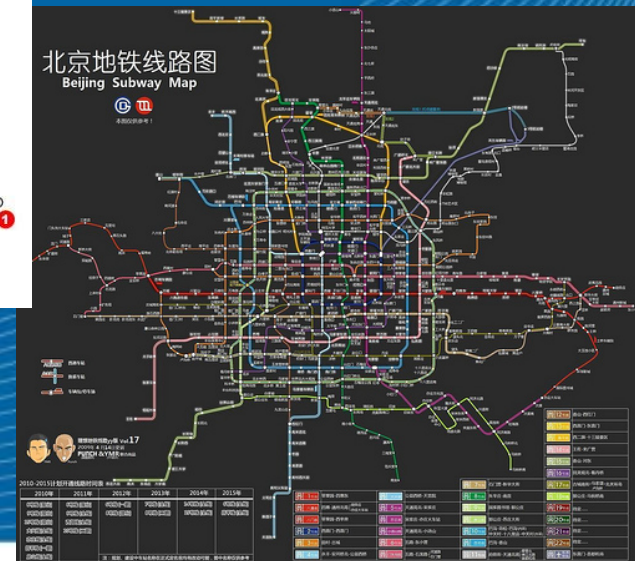


CLIENTS | PEOPLE | PERFORMANCE

# Beijing Subway









CLIENTS | PEOPLE | PERFORMANCE

# High Speed Train







CLIENTS | PEOPLE | PERFORMANCE

# Three Gorges Dam





CLIENTS | PEOPLE | PERFORMANCE

# Map of South-North Canal

## South-to-North Water Transfer Project







CLIENTS | PEOPLE | PERFORMANCE

# GHD China



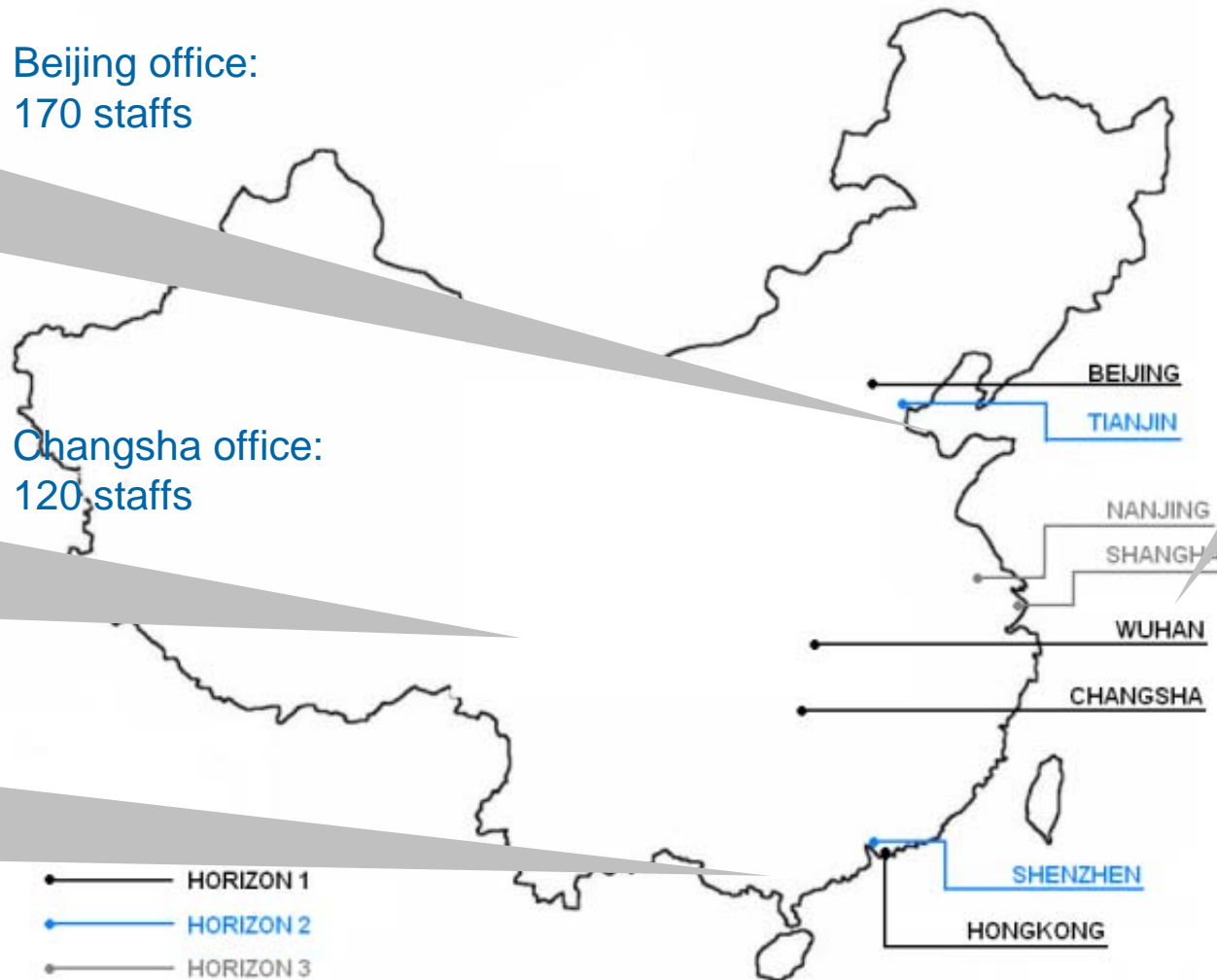
Beijing office:  
170 staffs



Changsha office:  
120 staffs



HK office:  
30 staffs



Wuhan  
office:  
30 staffs



CLIENTS | PEOPLE | PERFORMANCE

## Lesson 2

### Build up productive relationship

- What does work?
- What doesn't work?





CLIENTS | PEOPLE | PERFORMANCE

## Lesson 3

### Select the right people for your business

- Cultural affinity
- Empathy
- Adaptability

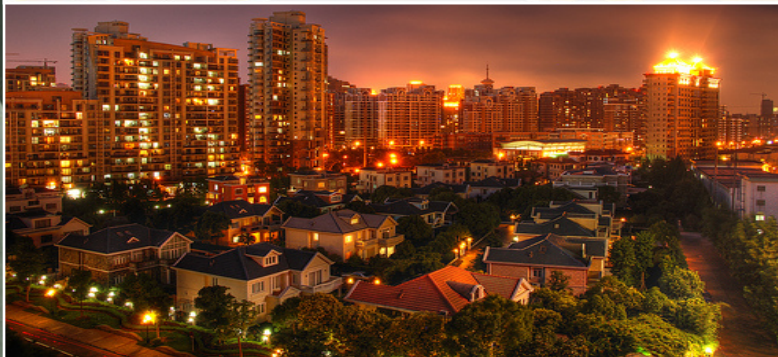
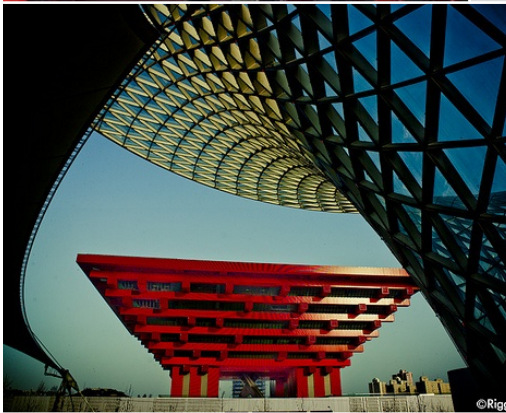


CLIENTS | PEOPLE | PERFORMANCE

# Partnership









Thank you



# INFRASTRUCTURE DEVELOPMENT IN CHINA OPPORTUNITIES AND CHALLENGES

## AUSTRALIA CHINA BUSINESS COUNCIL

Presented by Peter Wood and Jin Zhang Zou

25 February 2010

### **SLIDE 1 – (Challenges and pitfalls)**

Jin Zhang spoke at length about the considerable ongoing investment in infrastructure in China, and hence the opportunities for Australian firms to take part. It is undoubtedly the global region spending the most on infrastructure, and probably will be for many years to come.

The big question of course, for firms such as ourselves involved in feasibility, design, construction or project management is HOW DO WE GET INVOLVED? I'm going to spend the next 10 minutes relating some thoughts on the challenges, the pitfalls, and also a few strategies that you might find useful if you are serious about engaging with China. These thoughts are based on personal experience and a few observations. Of course I will use the GHD experience in part to illustrate the points.

I'm also conscious that this room is full of seasoned and successful campaigners so I hope that my remarks at least stimulate some comment or debate later in the program.

I had 4 points to share with you. However, as the number 4 is not particularly popular in China, I have combined two points to now have 3.

The FIRST is quite fundamental.

## SLIDE 2 – (Lesson 1)

It is simply to have a very clear understanding of our business plan....

WHY ARE WE ENGAGING WITH CHINA?

WHAT DO WE WANT OUT OF IT?

This may seem so obvious you might ask why I even raise it. Well, in my view, the number of failed attempts by Australian and other western firms to establish in China does come down to this question.

A little background to help explain what I mean.....

We first started to explore the China market in 1993. At that time, Jin Zhang, myself and David Chu went on a two week reconnaissance trip, visiting four of China's larger cities and meeting countless potential clients and partners. At that time we were not with GHD, we had a much smaller firm with very large ambitions. That firm has since merged with GHD, essentially starting GHD's adventure in this market, but that merger is a story for another day.

The point is that 17 years ago, a small firm with a few specialist skills set out hoping (maybe expecting) that Chinese clients would quickly embrace us, pay good Australian \$ for our skills, and help us to capture a nice little piece of their market. Naïve on our part? Probably. A common attitude by western firms? Most definitely!

Which brings me to, in my view, the most common fatal mistake made by Australian and other businesses trying to enter the Chinese market. That is, too often we go there believing we have all their answers, that China desperately needs our technology and our skills, and hence they will pay handsomely for the privilege of buying our expertise.

Let me show you a few slides that illustrate how absurd this attitude is in practice...



### **SLIDE 3 – (Beijing Airport)**

#### **Beijing Capital Airport**

A remarkable structure. 4 years from start of design to an operating airport. Now one of the busiest airports in the world. Admittedly it can be a bit of a journey from the arrival gate to the baggage claim, but don't be surprised if your luggage beats you there. I contrast that with my regular experience here in Melbourne.

### **SLIDE 4 – (Beijing Subway)**

#### **Beijing Subway**

200km and expanding by the month. Will be 570km by 2015. Virtually all trains are less than 2 years old.

### **SLIDE 5 – (Beijing Subway Map)**

I commute from my home in Dongzhimen to our office in Xizhimen – about 8km and with 5 stops. I never wait more than 1 minute for a train, and the trip never takes more than 15 minutes. A simple swipe of my plastic card deducts two yuan per trip. Compare that to.....no perhaps I had better not go there!

### **SLIDE 6 – (High Speed Rail)**

#### **High Speed Rail**

The Wuhan to Guangzhou high speed line opened recently. 1069km in 2 hours 50 minutes, traveling at around 350kph! Soon to open the Beijing to Shanghai line. China is legitimately claiming world leadership in high speed rail transport.

Admittedly China has bought certain technology from elsewhere to help it on its way, just as Australia regularly buys technology from Japan, Europe or the US. But essentially they have most of the skills they need in house. So they don't NEED us.

That said, if you have a world class niche technology or skill, there may well be opportunity for you. For most of us however we need to think longer term, we need to think PARTNERSHIP and we need a more global perspective when engaging with China. Let me try to illustrate this with a bit of GHD experience. After that first trip in 1993 we did a number of things:

### **SLIDE 7 – (3 Gorges Dam)**

- We did negotiate a small role, using our specialist skills, on some notable projects such as the Three Gorges Dam (where we did some modeling on the ship lock design) and the South North Canal (where again we did some early work on the channel lining and SCADA control systems).

### **SLIDE 8 – (South North Canal)**

- In 1995 we established two 50:50 joint ventures – one with the Changjiang Water Resources Commission and the other with the, then, Coal Ministry.
- Through these we delivered local projects in the local market. To be honest, we did not make much money out of this work but it was a low risk approach.
- What this did however was buy us experience and credibility in the Chinese market.
- Based on that credibility we began to win a growing share of work funded by agencies such as the World Bank, AusAID and the Asian Development Bank. This was a sector that did demand international involvement.

Through the 90s and early 2000s our involvement in the China market grew further on the back of these strategies, slowly but steadily. Our knowledge and experience grew in parallel. Most importantly however our relationships grew. Through our joint ventures and through our projects we built trust and respect – both ways – with our Chinese partners. Our success today would not exist without that initial “investment” with our partners.

## SLIDE 9 – (GHD China)

In the past 6 years we've built further on that foundation. We've established our own foreign entity (WFOE), we've merged four local businesses into GHD, and we now have around 350 staff working from four offices. The local mergers have also helped us to gain a number of design licences which permit us to offer a full range of services in the local market, for both local and international clients. These services range from transport planning to major urban planning, green building design, water resource studies, hydropower and dam design and a range of related environmental, civil and architectural services.

Now having a substantial presence in both China and Australia, GHD is able to serve local clients in China, Australian clients who are investing in China and Chinese clients who are investing in Australia. Indeed these latter opportunities involving international investment are becoming the fastest growing sectors within GHD.

The logic of course is quite simple. Any company investing in a foreign country is faced with a multitude of risks due to different political, legal, financial, environmental, social and cultural frameworks. These companies commonly seek the help of partners such as ourselves who can cross some of these hurdles.

Which brings me back to the central point – know your business plan and what you are setting out to achieve.

GHD has progressed from a small provider of niche skills, to a joint provider with local partners, to now a fully fledged, fully licensed business in the Chinese market that also supports investors into, and out of, China. As a further bonus, our Chinese professionals are fully linked into the GHD global network and thus support GHD projects around the world due to their own particular skills.

Thus, our business plan involves a large Chinese based operation, mostly staffed by Chinese professionals, who are fully engaged with GHD's global network.



I said I would have 3 points.

The first was to really know why you're doing business with China and not to fall into the trap of assuming they desperately need you.

My second point is more specific....

## **SLIDE 10 – (Lesson 2)**

....and that is to carefully think through how you want to be legally structured in China, and how to forge productive relationships. In the 90s the only legal option in our industry was a joint venture (with a maximum ownership of 50%). Today there is little restriction on wholly owned entities.

With an emphasis on relationships one might think a 50:50 joint venture is the ideal structure. I would caution strongly against that, just as I typically would here in Australia. No matter how strong the relationship, it is a rare situation where two parties' objectives fully align indefinitely. Most commonly, and for very legitimate reasons, they will diverge. A joint venture structure can then become a constraint on both parties, yet difficult and time consuming to unwind.

Partnerships in China survive on personal trust, not on legal constructions. If you want the formal joint venture agreement (or similar) to underpin your relationship then you are destined to fail. On the other hand, if you have a genuine trusted association, with a track record of success, you can expect the relationship to be long lasting and mutually rewarding. I think it's this characteristic of doing business in China that I find personally most appealing.

The importance of relationships in China is almost a cliché these days. However it's commonly still not understood in the west. The same goes for the concept of "face". Always aim for an outcome that is a win for both parties. If you score a victory over your partner in a negotiation, you may win that battle, but you will surely lose the war!

This second point about establishing strong, trusted relationships leads directly to my third point.

### **SLIDE 11 – (Lesson 3)**

Be sure to employ the right people to lead your business in China. I make this point most obviously from the perspective of an Australian doing business with Chinese people. But it's important the other way as well. There are significant cultural differences between the countries and your people must be adaptable as well as respectful of both cultures.

I've made various comments about "trust" in terms of relationships. Clearly you will never get to a "trusted relationship" unless both parties respect each other and are willing to adapt.

Which brings me to another key lesson learnt from 17 years in China. Your best business manager in Australia may not be your best manager in China. Those somewhat intangible qualities of culture, empathy, adaptability, outweigh some of our traditional management qualities in a purely western environment. Of course you still need someone who can lead a team and deliver results, manage your output and so on. Hence you are likely to find that you have a very short "short list" of candidates who are suited to the role.

To sum up, we've learnt some of the lessons for effective engagement with China. I know we have many more to learn. Indeed, GHD is on a never-ending journey with an increasing number of Chinese partners. I choose the word PARTNERS quite deliberately.

### **SLIDE 12 – (Partnership)**

It's important, from a western viewpoint, that we think of our Chinese clients as partners. This is the same if we're talking about large property developers in China's burgeoning second tier cities, if we're referring to Shenhua developing a new coal field in New South Wales, or if we're undertaking a water resource study for China's Ministry of Water Resources. In all cases we're working together to achieve a result, and there's a mutual expectation that all parties will benefit.

My three key observations were therefore:

1. Truly know your business model and what you're out to achieve, and do not start from the perspective that China is in desperate need of your skills.
2. Work diligently at trusted relationships and put far more effort into building the trust than wordsmithing a legal agreement, and
3. Very carefully choose your people – they must be able to communicate across cultures, they must be adaptable and they must genuinely enjoy the experience of working with Chinese people.

From my own perspective, this latter point is very easy to achieve.

## **SLIDE 13**

Thank you.