

A VIEW OF the Wujin Economic Zone area. (Courtesy)



Complementary interests

China's Wujin economic zone is wooing Israeli investors and innovation

CHANGZHOU, China – The complementary forces of yin and yang play a cardinal role in Chinese philosophy, so perhaps it shouldn't come as a surprise to hear Israel and China – despite the huge disparity in size between the two countries – described as two partners coming together to form a bigger whole.

"Israel is a state full of innovation," noted Lu Qiuming, the Communist Party secretary-general of the Wujin Economic Zone (WEZ) in the city of Changzhou, speaking to a group of Israeli journalists at a recent press conference here. "We realize that Israeli companies lack the capacity for mass production due to the small size of the country, but are very strong at innovation. China certainly has the mass but, at the moment, we lack the spirit of innovation."

Or, as Jiang Pengui, the deputy chairman of the Changzhou's Science and Technology Bureau put it, "We think we need more innovation and Israel needs to export innovation, so we have a complementary interest."

And so the WEZ is actively looking for Israeli companies to join the eight that are already active in this area, setting up a joint investment initiative between Changzhou

and a number of Israeli investors – the Catalyst private equity fund, the Cukierman and Co. Investment House and the PT L Group – specifically designed to attract Israeli companies to Changzhou, a city of 4.59 million people, and its economic zone in the Wujin district of the city.

Situated in the Jiangsu province at the Yangtze River Delta, Changzhou is located midway between Shanghai (160 kilometers to the east) and Nanjing to the west. In the past it was famous for its textile industry, but is now looking to move away from old, traditional industries – hence the establishment in 1996 of the Wujin Economic Zone.

As part of its technology drive, the city set up the Changzhou Science and Education Town in Wujin, and within a decade this cluster of one university and five vocational colleges has grown to comprise 76,000 students and 89 R&D institutes, incubating some 594 hi-tech enterprises.

One Israeli company about to begin work on the campus is the Chinese branch of the John Bryce IT training company, owned by the Matrix Group, one of Israel's leading IT companies, and the PTL Group.

With \$4 million in funding from the

Changzhou authorities (one third of the company's four-year budget), the aim of this center is to train local Chinese students so that they can become IT engineers at the Matrix Global Software Development Center in Changzhou, where Matrix can outsource some of its IT work.

The students will be trained for one year by John Bryce, with guaranteed employment at Matrix Global for successful students. The attraction for the students is that if they stay at the Matrix Global development center for four years, the cost of their training will be borne by Changzhou, which is looking to find a way to attract talented local IT workers to remain in the city rather than move to Shanghai.

"The larger vision," noted Zvi Shalgo, managing director of the PTL Group and chairman of the Israeli Chamber of Commerce in Shanghai, "is to help with the professional training of local engineers so that more Israeli hi-tech companies can set themselves up in China with an already-prepared pool of employees who understand their needs."

BUT ISRAELI interests in Changzhou are not just restricted to hi-tech. At CI3 –

Changzhou Industrial Incubator Initiative – another PTL Group initiative, along with Elan Industries, companies such as Beit Shemesh's Tuttnauer, which makes sterilization and infection control products for hospitals, universities, research institutes, clinics and laboratories, are setting up a production line to make their first steps in producing "made in China" goods for the Chinese market.

"We're giving these companies a chance to set up a production line here in China, on a small scale, to see how it goes," said Ilan Maimon, general manager of CI3 and its joint owner, along with the PTL Group. "If after two years, [if] it's not working, they can walk away without having invested too much. If they succeed, they can go on to build their own factory."

One company that has recently built its own factory in Changzhou is Lycored, a subsidiary of Makhteshim Agan Industries, which makes food additives for major international conglomerates.

The idea behind CI3 is that if small- to mid-sized Israeli companies (with revenues of between \$10m. and \$200m.) want to penetrate the huge Chinese market, then they need to establish their own Chinese entity and make their products locally. But rather than send over a management team

from Israel to build a factory from scratch, CI3 offers to help incubate the project, taking advantage of their knowledge of the Chinese business world.

"We help in terms of how to manage a company in China, not how to produce. We have a lot of experience in running companies in China, how to protect company intellectual property and how to recruit and keep workers," said Maimon, who has helped establish 10 factories in China, including Lycored's. In return for a management fee and, at a later stage, a percentage of the sales, CI3 takes on full responsibility for the general management of the company, handling local recruitment and back-office functions such as finance and legal issues as well as providing extra services such as a reception area, meeting rooms and so on.

This initiative also has the backing of the WEZ, with a \$150m. fund established to help attract Israeli and other foreign companies to the area. The local authority is providing exemptions on company tax and reductions in municipal tax as well as stumping up 5 percent of the cost of equipment invested by the company.

THIS IDEA of outsourcing management in China is the core business of the PTL Group, which Israeli businessman Shalgo set up over a decade ago. With 45 projects currently on the go and a staff of 120, the company seeks to help Western (not just Israeli) companies looking to establish a Chinese entity in order to penetrate the local market.

"If you're not making stuff in China, it's hard to compete with local companies who now have the same technology – import duties and so on are making it more expensive," Shalgo said in his Shanghai headquarters. "Today, to succeed in China, you need to establish your brand, your pre-sales and post-sales operations, you can't just sell here."

To do so, the PTL Group offers assistance in logistics, finance matters, human resources and marketing, providing foreign companies with the local knowledge vital for the smooth running of any company.

"Here in China, you have to be able to expect the unexpected," Shalgo stated. "Government regulations and market dynamics change very rapidly and you need a management team who are able to handle this. You can't expect a sales guy on his own to deal with this." Business in China, he added, depends on connections and understanding what areas local administrations such as Changzhou are looking to invest in – which is where the expertise of the PTL Group comes into play, alongside its provision of back-office management functions.

If Shalgo has one piece of advice for Israeli companies seeking to set up in China, it's this: Think long-term. "Most companies come here wanting to make their next sale; they're not thinking about their long-term strategy," he said. "The first two years should be about building confidence to do business in China, not making sales. Take small steps, make small sales, which will then lead up to the big sales."

The writer visited Changzhou and Shanghai as a guest of the Wujin Economic Zone.

BUSINESS

• By JEFF BARAK

ECONOMY

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achieve the two main goals that we promised the citizens of Israel. First, we strengthened security, and this during a period in which a difficult and dangerous upheaval has raged around us in the Middle East.

"And second," he continued, "we strengthened the economy during another upheaval, a continuing global economic crisis that has led to the collapse of key economies in Europe and to mass unemployment there."

First he mentioned investing heavily in the Iron Dome anti-missile batteries and building the security fence along the Egyptian border, and only then creating a "record number 330,000 jobs." First security, then economy.

Those trying to reverse that order are running in the face of history – no election in this country has ever been decided on economic issues – and the country's steady right-wing gravitational pull, a pull drawn by two major events of the past 12 years.

The first was the outbreak of the second intifada in September 2000 and its years of mind-numbing terrorism that impacted everyone. The second was the 2005 withdrawal from Gaza and seven ensuing years of unending Kassam and rocket attacks.

Those looking on from the outside, and even some of those commenting from the inside, underestimate at their own peril the impact those two events have had on the Israeli psyche.

A decade ago, in December 2002, *Haaretz* columnist Ari Shavit penned a piece called "Lessons of the blood curve." In it Shavit divided the 16 years going back to 1986 and the first intifada into four distinct periods.

"Between 1986 and 1991, when the peace process was in a state of utter stagnation, an average of about 29 Israelis were killed each year in hostile actions," he wrote.

"From 1992 to 1996, the years of the Oslo paradigm, about 86 Israelis were killed each year," he continued. "From 1997 to the middle of 2000 – the three-and-a-half years during which former prime ministers Benjamin Netanyahu and Ehud Barak tried to carry out various revisions in the Oslo

process – about 40 Israelis were killed each year. Since the withdrawal from Lebanon and since the Camp David and Taba concessions were offered to the Palestinians, nearly 300 people a year have been killed in hostile actions."

Shavit wrote that the significance of those figures was clear: "An Israeli withdrawal or a promise of a withdrawal does not lead to an end of the bloodshed. On the contrary, every time Israel withdraws, the hostilities increase. Every time Israel promises a withdrawal, the killing curve rises," he wrote. "Thus, in the given Middle Eastern reality, handing over territory does not bring peace. Nor does it bring tranquility. On the contrary – handing over territory costs human lives."

And that, by the way, was written when there was a degree of stability in the Middle East, something that has since gone out the window

Shavit did not conclude that Israel should not withdraw from the territories – he wrote that it ultimately had no choice but to do so – but rather that the Israeli public understood the "blood curve" and voted accordingly, and that it wanted its leaders to build and radiate strength. The ultimate question, he said, was "how to withdraw and stay alive."

Netanyahu understands the Israeli public well, and the strength and determination it wants its leaders to radiate. This is why he went to the UN in September and gave a strong speech in perfect English using a red marker and a graphic of a bomb that – while it may have been mocked in the blogosphere abroad – radiated strength and fortitude back home. *Haaretz's* political reporter, Yossi Verter, attributed a 15% positive swing in Netanyahu's approval rating over the past two weeks partly to that speech.

Since 2002, Shavit's chilling blood curve can be extended even further and is open to many different interpretations. One is that from 2003 to early 2009, before Netanyahu was reelected, an average of 95 Israelis were killed a year in hostile actions, and from his reelection in 2009 until today that average stands at nine a year.

People might not know those figures, they might not have crunched the grisly numbers, but they can feel what they represent. This enhanced sense of security

from terrorism – even as the region is reeling and, yes, even as rockets continue to rain down on the South from Gaza – is something Netanyahu will be running on and something that is likely to trump even the high prices of gas and bread.

The importance of security issues in the Israeli psyche helps explain the continued dominance of the right bloc, a dominance that was evident in both *Ma'ariv* and *Haaretz* polls on Thursday, with the *Haaretz* poll giving the right bloc a 68-to-52 seat advantage over the Center-Left.

All those challenging Netanyahu would do well to keep in mind that in this country – with its distinctive geography and unique psychological make-up – it is not the economy, stupid. At least not when it comes to national elections.

ERDOGAN

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The opposition Republic People's Party (CHP) has already begun to make political capital out of the situation. The party argues that Erdogan's high-profile aid to the rebels has created problems for Turkey by incurring the anger and enmity of the Assad regime while achieving little of note.

And then there are the Kurds. Should Turkey intervene into Syria, it is likely that the Kurdish guerrilla group would step up its campaign against Ankara, in line with its apparent de facto rapprochement with Damascus.

So Erdogan is faced with a series of unattractive alternatives. He can make a bold move against Assad in the event of continued Syrian shelling; But this will mean entering the Syrian quagmire with no meaningful Western support, with widespread public skepticism at home and with the prospect that such a move will trigger a fearsome renewed PKK paramilitary campaign.

Or he can continue to soak up Syrian insults and risk being exposed as a hapless and indecisive leader whose bark is worse than his bite.

As of now, the Turkish government appears keen to fudge the issue. The government sought and approved parliamentary approval for possible intervention. But its spokesmen then hastened to make clear

that this approval did not necessarily mean that intervention was imminent.

The Turks have now forced a Syrian passenger airliner to land, on suspicion that it was carrying "illegal cargo."

This is a calculated humiliation for the Syrians. But unless Damascus chooses to further up the ante, gestures of this type will probably form the extent of the Turkish response at this time.

Parliamentary mandate in hand, the Turkish prime minister now presumably hopes that the tit-for-tat fire across the border can be brought to a messy and inconclusive end.

The apparent rudderlessness of Turkish policy on Syria is itself a product of the more general Western confusion.

It was always highly optimistic to suppose that the partial aid of Turkey, Saudi Arabia and Qatar to the Syrian rebellion would be sufficient to defeat a regime backed by Russia, Iran and China.

The West remains resolutely determined to stay out of further involvement in Syria. Turkey wants to support the rebels, but without direct engagement. The result is that Ankara looks likely to accept the "rules of the game" on the border, which will mean a tit-for-tat Turkish response to Syrian shelling, rather than anything more decisive, for as long as large-scale loss of life among Turkish citizens is avoided.

MORSI

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austerity measures and wants to cut subsidies on essentials.

All the president is interested in, according to *El-Wafiq*, is what they call the "Ikhwanization" – from "Ikhwan," "Brothers, of all state apparatus – the education system, governors of the provinces, judges, ministries and even NGO such as the Organization for Human Rights. Last week, the president replaced the head of the Central Agency for Organization and Administration, the country's administrative watchdog. Last but not least he pardoned 26 Islamic militants judged and sentenced by the former regime for terrorist operations such as the Luxor massacre in 1997, when 62 people, mostly tourists, were killed.

There is a growing sense of dissatisfaction.

A year ago, people voted massively for the Brotherhood, the only organized political force. By the time the presidential election was held, enthusiasm had begun to wane and Morsi was elected with 25% of the votes – but with abstention at a record 50%.

Educated Egyptians know only too well that the Brotherhood's ultimate goal is to impose Islamic law – the Shari'a – and to prepare the restoration of the caliphate. As for the army that ruled the country from the fall of Mubarak to the presidential election, it is quite likely that it had concluded a secret deal with the Brotherhood, perceived as the only force able to prevent anarchy. Whatever the case, there is today a painful awakening.

One of the leaders of the Organization for Human Rights, Nagad Burai, a lawyer, said: "It is still too early after only three months to judge accurately actions undertaken by Morsi. However, it is obvious that he has no vision and that his decisions are taken haphazardly with no overall planning."

Alaa Al Aswany, the popular author whose *The Yacoubian Building* brought him international recognition, demands that Morsi be confronted with what is happening: Police officers are still routinely abusing detainees, independent papers and media are being made to close down, while the pro-government press hails the leader. "It is as if nothing had changed, in Egypt after the revolution bar the name of the president: Mubarak is gone, now we have Morsi," he says.

Not that the president cares. He is diverting his energy to foreign policy where success is easier to come by. Foreign trips and carefully crafted speeches have resulted in very good press coverage and allow him to claim he has restored Egypt to its rightful place. He condemns Bashar Assad in Syria and supports the rebels there (mostly Muslim Brothers and Salafis), works hard to create an Islamic bloc (so far he is not doing too well) and boasts that Egypt is the undisputed leader of the Arab world. What he tends to forget is that by distancing himself from the United States and from Israel, he is jeopardizing his hopes of getting the massive international assistance his country desperately needs to get out of the abyss.

The writer, a fellow of *The Jerusalem Center for Public Affairs*, is a former ambassador to Romania, Egypt and Sweden.