

Driving development in China and Europe through harmony and cooperation

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Contrary to popular Western belief, China's leaders are strongly convinced that the further development of their country must take place in harmony with the rest of the world - a golden opportunity for Europe in particular to build strong social, cultural, political and economic links with the country in order to stimulate China's development whilst at the same time boosting its own economy.



In an article in the Dutch financial magazine FD Outlook, Gerard Kleisterlee, President and CEO of Royal Philips Electronics, gives his views on China's economic development and the challenges and opportunities this creates for European businesses and economies. This publication is a translation of the article.



Shanghai Science and Technology Museum lit by Philips

The more highly developed Western economies tend to regard China's emergence with suspicion, or even view it as a threat. The country's enormous reservoir of cheap labour, the droves of students graduating from its universities each year and the sizeable investments being made by foreign parties are often seen as factors that are bound to endanger Western jobs and threaten our economy. Concern is also expressed about the investments Chinese parties are making in our economy - yet more worrying signs of expansion!

I'm familiar with these views, but I do not share them. They are based on the zero-sum game theory, whereby it is assumed that the growth of the Chinese economy will inevitably lead to shrinkage elsewhere. This presents an inaccurate picture. China's integration into the global economy has resulted in huge growth in international investments and trade, giving rise to new opportunities for everyone. The excitement lies in seeing who gets which slice of the pie. An expanding Chinese economy is just as beneficial to us as is a flourishing American economy,

but for some reason the former is seen as a threat, whereas we embrace the latter as an anchor point for a healthy global economy. And when Chinese banks and other financial institutions choose to invest their excess capital in Europe, we should be glad - they are providing Europe with the means to achieve further growth, in exactly the same way that foreign investments in China help boost the Chinese economy.

Sustainable development

What it does mean is different opportunities for Europe - opportunities for the innovative industry, for trade and for the service sector; job opportunities - not only for highly-qualified people in R&D, marketing and finance but also for those in support sectors, such as childcare, healthcare, education, leisure and wellness. On my visits to China, I often converse with heads of government, local government officials and other public officers. The greatest challenge facing Chinese leaders is to see the country develop further in a stable and sustainable manner. The challenges linked to the growth of the country are not to be underestimated, and the risk of

instability is never far away. Large sections of the country are still agrarian, so the discrepancies in prosperity between the various sections of society are increasing rapidly. Also, China (just like Europe) is home to a wide range of population groups, each with its own ethnic background, language and culture. China's rapid growth has meant a huge demand for raw materials, which in turn is placing ever-greater pressure on national and international markets. The ecological consequences of growth are also a source of increasing concern. Chinese leaders are fully aware of these problems, and are moving step by step towards the identification and application of appropriate solutions.

China is also well aware that the best way to develop the country is to do so as part of - and in harmony with - the rest of the world. By opening itself up to other nations, the country is attempting to create the right conditions for further economic growth without wishing to bend the rest of the world to its will. In my view, that is not just rhetoric, it's the strategy that the country has chosen to apply - and with consistency.

Many similarities

True, China wishes to follow its own agenda. It is happy to receive advice, but always draws its own conclusions in the end. Just like Europe, China has to contend with broad internal diversity in terms of language, culture and levels of development, and, like Europe, it attaches great importance to social cohesion. In this regard, China has more in common with Europe than, say, the United States. China is showing considerable interest in the European approach to social, governmental and economic integration. When it comes to issues relating to the environment and sustainability, again Europe is being looked to as a leader from whom lessons can be learned.

Of course there is some justification for the criticisms levelled by those who feel that when it comes to democracy, human rights and the environment, developments are not taking place fast enough. However, we need to take care not to measure China by Western standards unthinkingly. Chinese society has its own history, culture and dynamic, and sometimes it needs different solutions from the ones that work

for us. It is important, in any case, for us to recognise the substantial progress the country and its people have made in recent decades - and indeed are still making. China is eager to embrace forms of collaboration that will help it achieve further development and modernisation. This presents opportunities for Europe's governments, institutions and companies to make a positive contribution and facilitate the further development of China into a modern, sustainable society that is able to participate fully in the global community.

Change achieved

There are many positive examples. Take, say, the way Philips lobbied long and hard for stricter adherence to intellectual property legislation. During our initial years of involvement in China, many of our products were copied, or our technologies were used without the appropriate licensing fees being paid. We managed to persuade Chinese leaders that an adequate patenting system would actually be in China's own interest, both because it is a prerequisite for foreign companies contemplating innovative investment in



Philips Healthcare is among the top 3 market leaders in China, leading in many areas

China and because, as the Chinese economy develops further, Chinese industry will start coming up with its own inventions that will need protecting. Philips then set up an IP academy in collaboration with Chinese universities to prepare people for the expert task of composing and refining the Chinese patenting system.

Philips has had its own lessons to learn regarding the business-related differences between China and the West. Whilst our advanced medical scanners are in great demand in the United States and Europe, the market in China is limited. Instead, China's main interest is in slightly simpler equipment that can be used to bring



Philips Simplicity Event held in Hong Kong

about a rapid improvement in the care hospitals are able to provide. Together with our Chinese partner Neusoft, we are now manufacturing mid-range products especially for the Chinese market.

In contrast, in the field of urban and street lighting, the Chinese are often among the first to adopt new, low-energy technology, especially in those areas where there is no existing infrastructure.

Not a free ride

There are clearly plenty of opportunities in the Chinese market, including the chance for Europe to export high-quality products and systems. But it is not a source of easy money. Chinese companies have long since progressed from pure manufacture to an increasing focus on innovation. They have a huge domestic market whose needs they understand

completely, and they have access to government support in the form of cheap loans, access to technology, etc. What is more, the Chinese are exceptionally pragmatic, rational and ambitious entrepreneurs who are determined to make the most of every opportunity. It is in this dynamic market that we must hold our ground by continuously working to maintain and improve our competitive position and offering added value.

That means focusing on areas in which we have a head start, which necessarily entails a stronger emphasis on knowledge and innovation. This does not mean that there is no future for the manufacturing industry in Europe. Every healthy economy has a making industry, although the form it takes will not always be the same. The situation within Philips is that 40% of our industrial operations are still Europe-based - a percentage roughly equivalent to Europe's share in our sales. In Europe, we manufacture high-quality products with high added value. Such products require advanced manufacturing methods and a network of top-quality suppliers. At this point in

time, Europe is the best place for us to conduct such operations. A significant percentage of the medical equipment and advanced lighting systems that we produce in, say, Best, Hamburg or Turnhout is exported, also to China.

Enabling conditions are key

These high-quality industries flourish in an environment that can provide well-trained staff and the accumulation of knowledge and experience within a network of producers, suppliers and public and private knowledge institutes. It is not easy to transfer all that to a different location. These are the very prerequisites that determine to a large degree the competitive strength of a modern economy. The availability of a well-trained workforce, but also a good, stable business climate, a positive attitude to entrepreneurship, favourable market conditions, the acquisition and dissemination of knowledge and access to risk-bearing capital are the factors that together determine how beneficial an environment is for the establishment of innovative and entrepreneurial operations.

Europe is still in a good position in this regard compared to some other regions. The top 20 list in the IMD World Competitiveness Yearbook 2008 features 10 European countries. But in a world that is changing fast, Europe is not doing enough, sadly, to maintain and reinforce a positive climate.

A recent report published by the European Round Table of Industrialists (an independent forum comprising the CEOs of 45 of Europe's largest multinationals) revealed that we are still failing to take adequate concrete steps towards creating a strongly integrated European economy based on knowledge and innovation.

No Single Market yet

In many respects, the realisation of a uniform European market is still a long way off. Many countries still have their own anomalous legislative rules or requirements, especially in the service sector. That makes it difficult - and expensive - to provide cross-border services, and makes for a situation in which an increase in scale barely pays.

As a result, the European service sector in particular remains fragmented and is too heavily shielded from competition (and is therefore underdeveloped), whilst it ought to be making an important contribution to the competitive edge that will enable European industry to hold its ground in the global economic arena.

There is a similar lack of vigour in the stimulation of innovation, as a result of which European R&D investments are lagging far behind the targets laid down in the Lisbon Agenda. Another issue that requires more attention is the translation of knowledge into practical commercial applications. As things stand, knowledge is not always put to use, sometimes because the links between the academic world and industry are weak or non-existent. There are local initiatives that have certainly made a positive contribution, such as the innovation vouchers introduced by the last Innovation Platform and public-private partnerships such as the CTMM (the Eindhoven-based centre for translational molecular medicine), but more needs to happen at European level.



Suzhou Science and Cultural Art Center lit by Philips

Governments can do much to create the right climate by, for example, being the first to deploy innovative solutions in public spaces. The sad fact is that the rules surrounding open tenders - in Europe in particular - stand in the way of such advances.

What the industry can do

Many issues require a political solution. But industry itself can do much to improve the environment in which it operates.

In my view, the concept of 'open innovation' is an important principle that could help Europe to increase its lead in this area. Whereas R&D used to take place behind closed doors, we now realise that collaboration with the right partners can be hugely advantageous. It allows each party to focus on its own areas of expertise, so that R&D can produce better results more quickly and at less expense. Different projects require different partners. This results in the rapid creation

of a self-strengthening network that will, in its turn, attract top suppliers, customers and knowledge workers.

Philips has long been a pioneer in this field. It was the open innovation concept that changed the High-Tech Campus in Eindhoven from a closed private research centre to a flourishing setting for innovative networks and partnerships with a broad regional impact. As a result, Southeast Brabant is one of the most innovative regions in Europe.

Innovative partnership will also help us to find solutions to major social problems such as care, the environment and energy. No single company or government has all the answers. The key to an affordable care system for the future lies in the wise application of a combination of new technologies, methods and legislation.

This presents Europe with new opportunities to export knowledge and applications and the chance to flex its innovation muscle.

Need to adjust to new demands

With this agenda, Europe has every chance to remain competitive in a rapidly changing and aggressive global market. Improving Europe's competitive strength is absolutely vital to the preservation of our standard of living and our social model. The emergence of China offers us great opportunities to further the growth of the European economy, provided that we are willing to adjust to the demands and challenges inherent in the market. So far, I'm sorry to say, China seems to me to have been taking a bolder and more pragmatic approach than we Europeans have. We need to change our tune - and fast.

Philips in China

Philips has been one of the largest multinationals in China since the start of the economic reforms initiated there in the eighties. Over 15,000 Philips people are currently based there. In 2007, China was Philips' fourth-largest market in terms of turnover, after the United States, Germany and France. Philips has 13 R&D centres in China and is also involved in an extensive range of innovative collaboration projects with top universities and research institutes. The Philips brand is as much of a household name in China as it is in the Netherlands.

Philips enjoys positive relations with the Chinese authorities at every level, and is regularly consulted on issues to do with the economic developments currently taking place in China. In his role as international advisor, Gerard Kleisterlee maintains particularly close ties with certain institutions and regions, including the prestigious Tsinghua University (Beijing) and Jiangsu province.

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