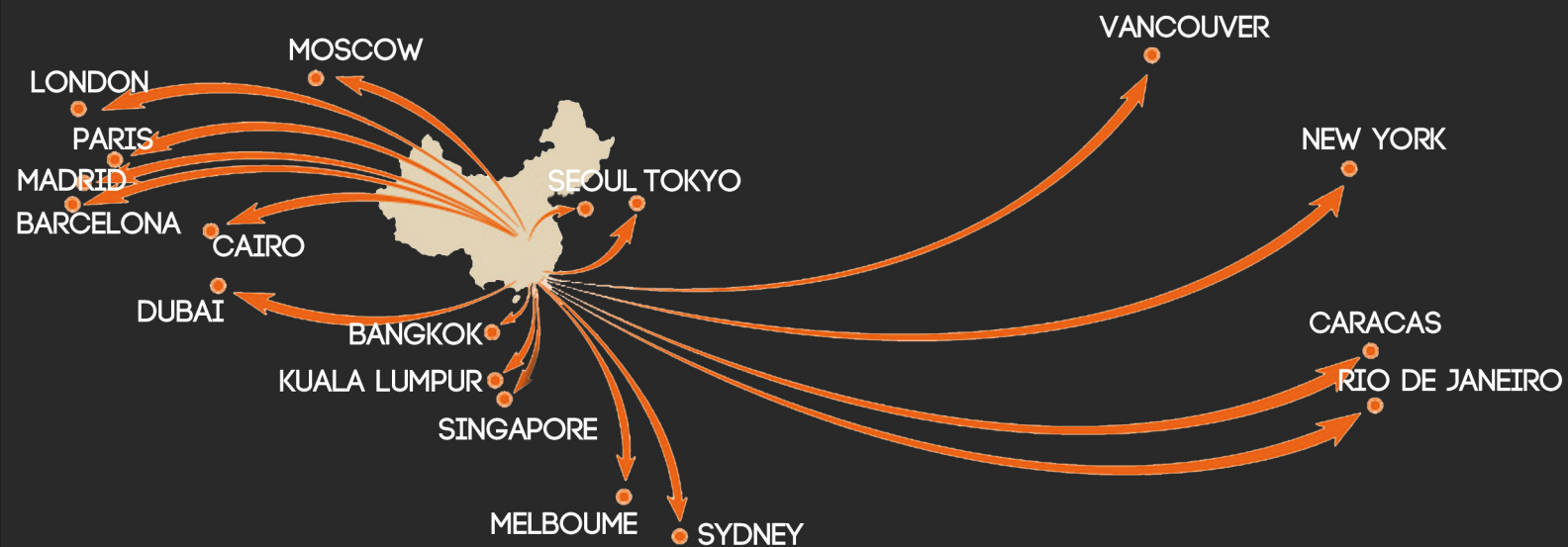


A STUDY ON RECENT CHINA PLANNING INSTITUTES REFORM



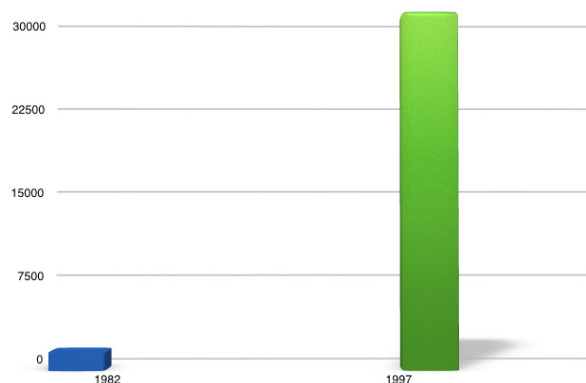
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I. Background knowledge

According to the data from Nation Bureau Statics in 1982,there are about 1500 staffs in the entire planning industry in China. As of 1997, the number has reached 30,000. The total number of planning institutes in China has also increased to more than 1000. Speaking of today, there are more than 2000 planning institutes with 146 Class A qualified planning institutions and 2115 units of Class B Class C planning institutions in China.

China has also established 40 planning research centers across the states. Nowadays, China has about 50,000 staff and experts working actively in the planning industry.



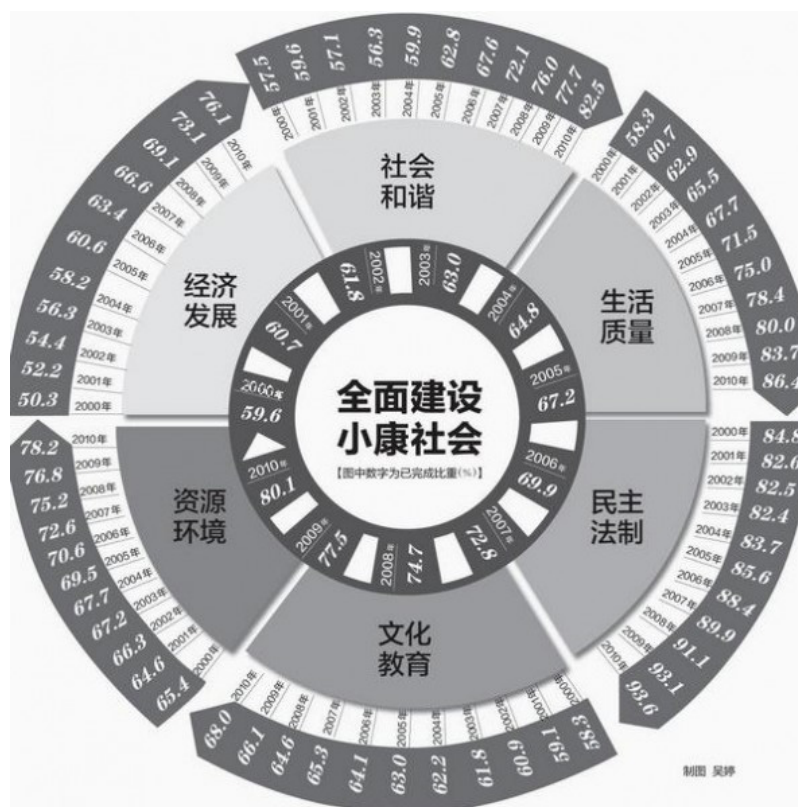
Date back to 1979 when Chinese communist party leader Deng Xiaoping first introduced the term “Xiao Kang 小康” society as the eventual goal of Chinese modernization. “XiaoKang” is interpreted as a well-off society in an all-round way.

Today, Chinese society has entered into a crucial time frame. This is because the central planning committee has committed to reach the goal of “XiaoKang” by 2020.

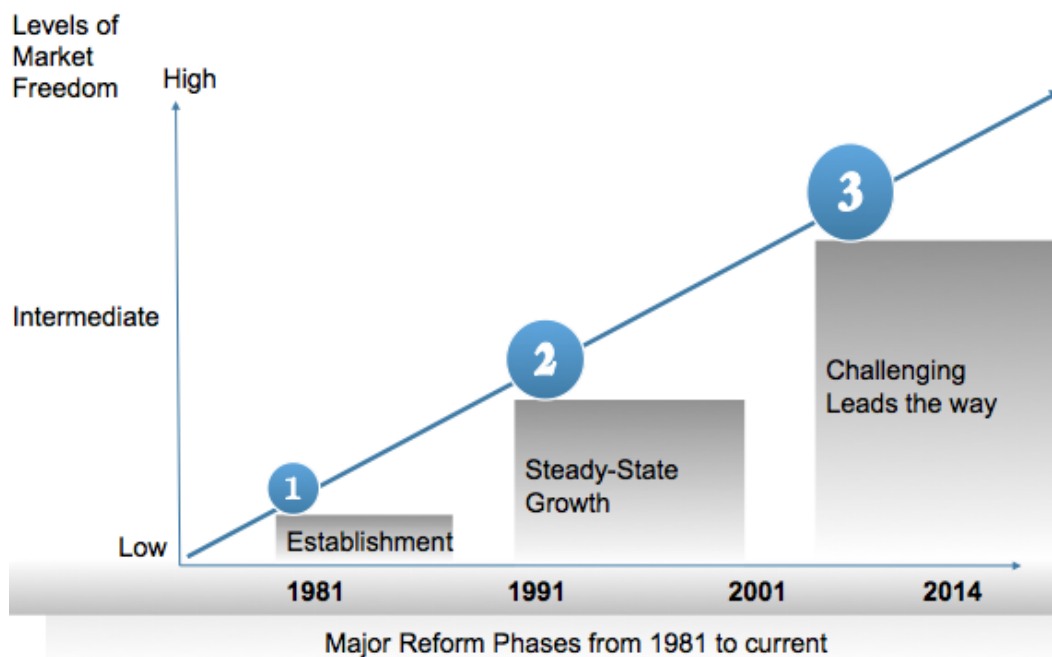
Given the fact of reaching the goal by 2020, urbanization has been escalated as priority by the central government. Local design institutes including planning institutes have to keep up with the urbanization phase through reform.

Planning institutes are functioning as part of the public institutes under the old system. They are not permitted to allocate funds independently. In another world, planning institutes serve as a technology arm within the planning bureaus. The ultimate goal for the reform is to separate planning institutions from bureaus. Independency of funds allocation is a signal of post-reform planning institutes.

After the reform was accomplished, we will be expecting the planning institutions re-registered to different company followed by ,Ltd (a private company limited by shares incorporated under the laws) or other forms of private business such as technology group.



II. Reform phases



Phase 1

(1981-1990)

The rise of planning industry

China's national reform gives rise to planning institutes

Phase 2

(1991-2000)

Steady –state growth period

The establishment of “City Planning Law of the People's Republic of China” “ Urban Planning Formulation” begin to server as a bench mark for planning institutions. China is proposing to join WTO, meanwhile LDIs are preparing for the next phase reform.

Phase 3

(2001-current)

Challenging leads the way ahead

Law enforcement such as zoning and other planning regulations became more important in decisions making process. Planning institutions privatization became priority. The pressure from competition rises as more foreign companies entering into the market after China signed WTO agreement.

III. Reform Challenges at Current phase

Based on the current situation for planning industry in China, we listed three major factors behinds the challenges;

- Regulation enforcement
- Administrative management
- Global competition

1.Regulation Enforcement.

Zoning system in China is still under developing. Some of the Zoning rules and approval process are under the influence of central planning ideology. Current Zoning regulation in China has not yet functioning as a effective guidance for planners.

This can be explained by 3 reasons;

- Legal rights for Zoning regulation hasn't been well defined
- Discretionary decisions very often occurred in forming the Zoning rules.
- Some of the mandatory Zoning rules are lack of law enforcement for the reason of legal process being delayed.

2.Administrative Management

Planning bureaus in China are in charge with supervision and approval process for planning projects. Planning bureaus mainly conducting their duties by following

«Administrative License Law of The People's Republic of China» which was initiated in 2003.

However, with fast-paced urbanizing process in China and free market liberalization, many of the planning bureaus are facing big challenges. The problem often occurs in approval process and decision-making. To be more specific, the mechanism of urban planning approval process is unsound. The transparency of approval process and decision-making are being questioned. Planning bureaus are ignoring the voices from the Public. In general, more regulations should be enforced on supervising planning bureaus as the reforming process moves forward.

3. Global Competition

Pressure from global competitions continues to rise as more competitive international design companies landed in China. Since 2008, among the top 200 designing and engineering consulting firms, 74% of them have set up offices in China. As China market becomes more liberalized, the old organizational structure in planning industry will be reshaped.

IV. Implementation of the Reform

The Implementation of the reform follows from “Main Streets to Wall Street.”

Planning institutions in China are divided into four tiers;

National Level—— China Academy of Urban Planning and Design.

State Level—— each state has one State level planning institution.

City Level——each city has one City level planning institution.

County level——County level institutions are normally less regulated. It varies from small planning studios to mid-size planning institution.

The 16th National People’s Congress of Communist Party of China has released an overall plan to accelerate the reform phase. Planning institutions reform will start with 4th tier County level and ended up with National level. Each local government is responsible for reform plan at its own region. We can summarize the plans into 4 major categories.

1. Restructure into NGO

Some government restructured local planning institutions into “Institutional organization” which is equivalent to Non-profit NGOs in U.S.

Those type of planning institutions are normally inactive 4th tier planning institutes.

RESTRUCTURE



NGO

2. Time Line Driven Plan

Governors from certain regions of China have structured a strict time line for reform. State leaders impose various penalties for the planning institutions that don't meet the time line. Objectively, under the current condition of China local planning institutes, transforming to Private Enterprise Corporation usually take longer than the given time frame.

3. Restructure Practice Area.

Some planning institutions follow the “too big to fail” policy. This type of institutions has been given more time to finish the reform process. In order to smooth the reform shocks, large planning institutes started to restructure practice area. Some of the large planning institutes have already terminated their engineering design practice wing.

4. Temporary Last Resort.

Some City local institutes are seeking for the last resort to prevent from being reformed. They are setting up a new branch within the organization usually named as “ City Research Center of Urban Planning”. The new branch meets the requirement of private enterprise corporate. However, the institution is still operating in the old way. This temporary resort is weakening as the reform being escalated from the center of communist party.



V. Influences & Strategic Advises

1. Influences

Based on the fact that the reform is a first attempt by the government, problems resulted from the reform process are inevitable. According to national bureau of statistics, there are 1.3 millions registered public intuitions in China. Planning institute is a major component among all. Reform shock will continue changing the industrial chain from designing firms to real estate industry.

Influences by the reform can be shown as;

- Panic from being restructured into NGO.
- Unrealistic reform timing caused many resignations from senior designers.
- Years of “solid client relationships” have been challenged as old client acquisition mechanism has been changed.
- Documenting a uniformed “Urban Planning & Design Market Regulation as law enforcement has been escalated.
- Planning institution puts more efforts on promoting high-type designers and planners by introducing compensation incentive and better career ladder.

2. Strategic advices

Archicity Consulting Corp has been following up with the Chinese architectural and urban design market for 15 years since 1999. Our R&D team and strategic advisors from major LDI executives and senior bureau officials provides in-depth analysis on international designing firm 's practice in China. Archicity solutions came out from direct source such as primary research, workshops and seminars. We believe today's architecture & planning industry in China is experiencing a transitioning period. Potential risk and opportunities will rise when shock took place. Given the certain situation we suggest U.S designing firms to have a "big picture" perspective for the changes. Meanwhile, we suggest the project operations should apply to some local business disciplines.

ARCHICITY



Advice 1

Screening

China's "Market Access System" hasn't been completed yet. U.S planning firms will need to partner with local design institutes in order to take on projects in China.

Potential risk for U.S designing firms occurs when information is asymmetric between two parties. Examples are project withdrawal and bad debt losses such as unable to claim for balance due.

This is because of the market is lacking a unified sound authority to regulate and supervise the market. Each State has different version of "Urban Planning & Design Market Regulation". The version various and are not in favor of the free market mechanism. Moral Hazard and adverse selection problems are not rare in the market.

Taking this fact into account, some U.S design firms are limiting their projects in China even though they market is flourishing.

We all understand that yields should be compensate by the risk, however, companies should focus more on the risk rather than pre-calculate the profits. One thing in common among all the fortune 100 company CEOs is they know exactly what their risks are. Chinese architectural & planning market is sophisticated and the reform is like adding fuel to the fire.

A simple solution for analyzing risk and minimizing risk is through screening. Screening the potential clients and LDI partners by performing

1. Background check.
2. Financial due diligence.



Advice 2

Positioning

Before we talk more about positioning, let's first take an example using the Game Theory methods; Company A is a U.S design firms trying to make a good decision entering the Chinese market. In order for the principles to make the right decisions, company A should know what B (clients, partners, competitors) is thinking, but more important, company A should also be prepared that B already knows A knows what B is thinking.

Among all the workshops we've been coordinated in U.S with Chinese delegates, there are some most frequent asked questions from U.S design companies;

1.What is LDIs view on us?

2.What do they want from us? Design techniques or ideology?

After gathering all the answers from Chinese delegates we use demographic analysis and to answer the questions;

1.First-tier LDIs are proactive to find collaboration opportunities with U.S designing firms.

2.First-tier cities are favorable to collaborate with U.S design firms with expertise on designing schools, hospitals and technology innovation centers. Sustainability has been treated as priority among Beijing, Shanghai, Guangzhou and Shen Zhen

1.Second-tier city planning bureaus are proactive for outsourcing projects to U.S design companies.

2.Planning bureaus decision makers prefers designing projects with magnificent structure and iconic image. Stadiums, central squares are wildly seen. U.S designing firms find it quite challenging to transmit their design ideology into the projects.

1. Third and Forth –tier city are growing their interest to outsourcing projects to U.S design companies.

2. Designing techniques from U.S companies are more favorable than ideology.

Using demographic analysis could not fully explain the sophisticated demand from various groups. We also introduced another method by segregate different communities;

Pros

The demand of outsourcing projects to U.S design firms continue to rise for Real estate developers among all regions in China.

This is due to the positive public image from foreign designers. Clients have more tendencies to buy properties that are designed by foreign firms. Even though the residential real estate market in china is slowing down, the commercial real estate market is still growing in a fast pace.

Cons

Small local design workshops, studios and art centers in China seeing U.S design firm as major competitors. We can find many articles from major conservative organizations these days writing about “western culture invasions.”

Given the fact of current situation, we are suggesting;

- Signal more images for sustainable projects in First- tier cities.
- Be aware of the recent plans announced by Communist Party official for an offensive against “bizarre architecture” in Beijing.
- Avoid being targeted as “ culture invasion” by implementing more green strategy
- Build and maintain a long-lasting relationship with Chinese real estate developers with a focus on commercial real estate projects.
- Get involve into third and forth tier city development at the early stage. Reforming process is accelerating and soon Monopoly structure will be came to an end.

Appendix

This report is edited base on primary research and case study.

The research is contributed by interview from China planning bureaus and local planning institutes.

Case study was supported by China Association of City Planning.

About the Editor

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Specially thank to all participants evolving into the study and taking the time for an interview.

END OF THE REPORT THANK YOU

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