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by City Manager's Office
Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

SUBJECT: BAY AREA COUNCIL-
YANGTZE COUNCIL
COLLABORATION

DATE: February 14, 2008

Approved

Christine F. Shupp

Date

2-19-08

INFORMATION

BACKGROUND

- Earlier in 2007, the Bay Area Council established a relationship with the Yangtze Council to promote economic collaboration between the Bay Area and the Shanghai region. The Yangtze Council is chaired by Mr. Vincent Lo, Chairman of Shui On Group, and includes business and government leaders from Shanghai, Hong Kong and other cities in the Yangtze economic region. This is likely the first region-to-region collaboration of its type. We will learn what high-quality, mutually beneficial international economic collaboration looks like.
- The week of Dec. 2, the Bay Area Council brought a 30-person delegation to Shanghai/Yangtze to learn about the region and identify specific ways the Bay Area could benefit from this relationship. The five-day itinerary included meetings in Shanghai, Hangzhou, and Suzhou. (Itinerary attached.)
- In addition to Sam Liccardo, Pat Dando, and Kim Walesh, the delegates from San Jose included Don Bell, Chairman & CEO, Bell Microproducts, and Jim Atwell, Audit Partner at Deloitte & Touche. Other Silicon Valley delegates included Mark MacLennan, Ash Lilani, and Ken Wilcox from Silicon Valley Bank; Kyung Yoon, Vice Chairman of Heidrick & Struggles; and Otto Lee, Mayor of Sunnyvale. (Delegation list attached.)
- A tangible first result of the collaboration was the announcement of the SVB Capital China Council Fund—a \$200 million venture fund seeded jointly by Silicon Valley Bank and Vincent Lo. The fund will assist Chinese business people and scientists in commercializing inventions, and will also assist U.S. entrepreneurs seeking commercial opportunity in China.

Relevant Facts About the Shanghai Region

- The Yangtze Region includes 16 cities, with a population totalling 83 million people. Shanghai alone has nearly 20 million people.
- The Bay Area has 7 million people, and a \$400 billion+ gross regional product. With 86 million people, the Yangtze River region has a gross regional product of about \$500 billion (the world's 16th largest economy). Yangtze is gradually adding more value, though, and importing substantially less than it used to. The wealth creation is unprecedented.
- Shanghai is a major economic, financial, and trade center. Shanghai has the third biggest port in the world and is the traffic hub for water, land, and increasingly air transportation into China.
- In the recent decade, more than RMB 110 billion (Chinese currency) has been invested in municipal infrastructure construction in Shanghai—bridges, sewers, roads, public transportation, airports, convention centers.
- 4 of the largest 8 companies in the world are Chinese. Increasingly, we will compete with the world's best companies (that are in China), rather than with China. If your company is not #1 or #2 in China, there is no way you can be #1 or #2 in the world.
- China has 130 cities with more than 1 million in population.
- For 18 of the last 20 centuries, China and India were the world's leading economies (i.e., until the 19th century Industrial Revolution).

Observations From San Jose Delegation

- The scale and rate of building and infrastructure development are extraordinary-- 'high-speed' economic development. Large-scale, detailed plans are implemented quickly by government. Example: Just built a convention center complex that is 14 times the size of Moscone Center. Are constructing a 200-station "BART" system in 10 years. Suzhou is developing 50 high- or super-high rise projects in five years.
- This kind of heavy government intervention will not be as effective for the 'softer side' of city-building and economic competition—for achieving outcomes in entrepreneurship, technology commercialization, innovation, creativity—but these themes are all expressed as important for the region's future.

- While Shanghai/Yangtze is making progress at putting the less-tangible components of a modern city in place— intellectual property protection; rule of law; greater transparency and accountability in public and private sectors; environmental/safety regulation and enforcement; capital markets; intellectual, artistic and political freedom—more progress is clearly needed for the region to be successful and for outside people/companies to be successful in the region.
- A strategic theme is to move from “Made in China” to “Created in China.” There is strong, growing emphasis on creativity and creating high-quality livable environments and retail/entertainment/environmental amenities to attract technical and creative talent.
- A one-hour drive from Shanghai, Suzhou already produces 2/3 of the world’s notebook computers and is further developing the Suzhou Industrial Park (which started as a joint venture with Singapore) and Suzhou International Science Park. The development is massive (projected population 1.2 million), and integrates high tech R&D/manufacturing (emphasizing software, semiconductors, digital entertainment), office space, housing, entertainment, and retail. 200 companies are there already, including Agile (San Jose-based), Plantronix, Bosch, Emerson, Infineon, and Flextronics.

Bay Area Priorities for Collaboration with Yangtze Council

At the close of its visit, the Bay Area delegation identified the following three follow-up priorities.

- *CleanTech*—There is opportunity for Bay Area/San Jose companies to serve the Chinese market, and for solutions to energy and environmental problems to come from China. There is opportunity to show Chinese government leaders how progressive policies and CleanTech innovation have resulted in both growing GDP per capita, and declining energy use per capita in the Bay Area. Through the collaboration with the Yangtze Council, the Bay Area Council will bring a Clean Tech Summit to Shanghai next year, along with Bay Area Clean Tech companies and experts.

Note: About 25% of the Bay Area’s particulate matter is attributable to air polluted in China. San Jose/Santa Clara County has the largest concentration of Clean Tech companies in California.

- *Landing Point for Chinese Investment*— More and more, Chinese companies and capital will flow to the United States. The Bay Area/San Jose can be the location of choice for Chinese companies that seek a presence in the United States. The Bay Area Council will create a ‘regional landing pad’ for Chinese companies coming to the Bay Area. Among other factors, San Jose offers the opportunity to be close to high-tech customers, competitors, and potential partners, a strong contingent of international companies and expats already in San José, and a local government that is helpful to international businesses.

- *Shanghai Landing Pad for Bay Area Companies*—Through the collaboration, the Bay Area will create a landing pad function in Shanghai for Bay Area companies.

Other Ways San Jose Can Benefit From this Relationship

- *Air Service Attraction*—Two Chinese airlines that fly internationally have roots in Shanghai—China Eastern (MU—already flies into SFO) and Shanghai Airlines (FM).

Note: San Jose metro now has the second largest concentration of Asian population in the U.S. (556,000) next to Los Angeles; SJ city's Asian population is larger than SF's (280,000 vs. 236,000).

- *Downtown Condo Sales*--There is an opportunity to attract investment from wealthy, globally oriented Asians, including Chinese, in San Jose Downtown condos. Several delegation members offered to serve as advisors about how to reach these individuals should San Jose want to pursue this strategy. This population values high-rise living and looking for investment/housing opportunities in the Bay Area; San Jose condo prices are very reasonable compared with those in more urbanized cities globally.
- *Relationship with Bay Area Council Leadership*-An important outcome of the trip was enhanced understanding on behalf of Bay Area Council leadership (staff, board) about San Jose—its distinctive characteristics and strategy. For example, during the trip the Council's CEO began using the key points from our city's "message architecture" in his public remarks, including the large size of San Jose, its role as Capital of Silicon Valley, and the importance of San Jose State University.
- *Contemporary/Digital Art*—Kim Walesh met with Shanghai Museum of Contemporary Art, which has had preliminary conversations with the San Jose Museum of Art about an exchange project. In addition, Shui On has expressed interest in tapping San Jose art experts at the City, SJ Museum of Art, and the 01SJ Festival to develop cutting-edge public art amenities at their Knowledge Innovation Community, a large mixed-use development designed to attract high-tech companies and people. There is opportunity for Shanghai/Yangtze-based artists and curators to participate in the 0SJ Festival and collaborate on projects between festivals.

City/Region Linkages for Economic Collaboration and Access

Competing regions from across North America, Europe, and Asia are increasing global connections and networks with other major economic regions.

- Chicago, for example, in 2007 opened an office in Shanghai, the Chicago China Economic Development Corporation. This office will help Chinese companies expand into Chicago and assist Chicago companies (small/medium, as well as large) in China.

Honorable Mayor and City Council

February 4, 2008

Subject: Yangtze Council Trip

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The CCEDC is a public—private, non-profit corporation chaired by Mayor Daley and overseen by a board of directors comprising Chicago business leaders.

A handwritten signature in black ink that reads "Paul Krutko". The signature is written in a cursive style with a long horizontal stroke at the end.

PAUL KRUTKO
Chief Development Officer

For questions please contact KIM WALESH, ASSISTANT DIRECTOR at (408) 535-8177.