

# **Emergence of New Business Mode In the Chinese Water Market – Hefei Wangxiaoying Wastewater TOT Project –**

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**Abstract**

The purpose of this research aims to evaluate the emergence of new business mode in the Chinese water market since the mid-2000s – Transfer-Operate-Transfer(TOT) Projects. The study pays special attention to the case of the Hefei Wangxiaoying Wastewater Treatment TOT Project, which was awarded to the consortium of Berlin Water International and its Chinese partner in late 2004. The consortium secured an exclusive operating right for 23 years on the basis of a TOT scheme and would take responsibility of all the profits and losses in the operation of the plant. The total investment for the transfer amounted to RMB 491 million(US\$70 million). The price was more than 288% of the original value, RMB 170 million (US\$24 million). The project can be regarded as a successful case because of the following three causes. First, the Hefei government followed a series of standardized procedures in the international bidding, which ignited best-performed international players' competition for the project. Second, the project will bring in cutting-edge operation skills and management know-how. Third, the government succeeded in raising public asset values, and thanks to this, the government is able to consider other similar projects not only in the water sector but also other sectors in public utility services.

Nevertheless, Berlin Water's point of view, there are several challenges. First, the company took a risk to pay such a large amount of cash to the Hefei government. Although such premium can be recouped in the operation period of 23 years, whether or not the company would be able to recover the initial investment and realize profits is in question due to an uncertainty of socio-political circumstances in China. Second, Berlin Water should expect a steep rise of water tariffs over the contract period in order to get the investment back. Water pricing is still a sensible matter to Chinese authorities, and therefore, it is uncertain if such rise of water tariffs would be possible. Third, the TOT mode leads to creation of a large amount of cash to government officials, which might have caused corruption between those who are involved in TOT deals. Then, the final contract fee would soar, which often results in the burden of normal customers.

As discussed, the TOT mode has drawn much attention of foreign investors as a new alternative to enter into the Chinese water market. But it is important to note that foreign investors should be aware of possible risks in water TOT projects, which reflects some features of the Chinese political economy landscape and social norms. The Hefei case indicates that benefits can overshadow risks in TOT projects, which will continue to attract foreign investors that are dedicated to establishing their strongholds in the Chinese water market.

**Keywords : Hefei, Wangxiaoying, Wastewater Treatment, Transfer Operate Transfer(TOT), Chinese Water Market**

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