AmCham China

QUARTERLY

Issue 1
2019

Executive insights, interviews, and intelligence for business in China

All-Star Access:

Breaking Barriers in Culture and Commerce

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QUARTERLY

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The American Chamber of Commerce in the People's Republic of China

AmCham China Leadership

AmCham China's success is rooted in the vision, hard work, and dedication of its members. Through their efforts, these volunteer leaders make it possible to provide the information and intelligence, business services, networking opportunities, and events that benefit all members and the advocacy initiatives that help shape the business environment in China. At AmCham China's national level, the chairman, two vice chairs and 10 governors comprise the organization's Board of Governors. Additionally, AmCham China's three Chapters each have their own local executive committee to ensure they are responsive to the needs of local AmCham China members.

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Trust Before Trade

As we near the end of the first quarter, we face a business environment very similar to the one we faced last year: an environment clouded by uncertainty over the future of US-China trade relations.

But we have been here before.

I was honored to serve as your Chairman at another pivotal time in US-China relations, back when China was pressing to enter the WTO in 2000 and 2001; we are now at an equally important crossroads in the bilateral relationship.

Foreign businesses in China face an increasingly challenging and uncertain policy environment. Despite the commercial success enjoyed over the past 40 years, American companies are no longer serving with the same level of enthusiasm as the reliable anchor in US-China relations that they once were.

Our members have long been concerned about challenges facing the US business community in China related to market access, intellectual property (IP) protection, regulatory transparency, uneven enforcement of Chinese laws and regulations, and industrial policies that favor domestic companies at the expense of foreign-invested enterprises. Added now to these concerns are new pressures and uncertainties stemming from the ongoing trade conflict and the tariffs imposed by both countries in 2018.

Trust between both sides has reached a low point, as each country questions the goals and motivations of the other. Nevertheless, it is imperative that China and the US find ways to resume and continue productive cooperation as bilateral partners. Indeed, a healthy, fair, and reciprocal trade relationship is critical for achieving optimal and sustainable economic growth for both countries.

As we continue to advocate on behalf of our 3,300 members from 900 member companies, our focus this year is on policies that promote such cooperation.

First, we must restore trust – not just through dialogue but also through concrete actions that lead to greater transparency, predictability, and evenhandedness in regulatory processes.

According to our recently released *China Business Climate Survey* (about which you can read more on pages 16-18), inconsistent or unclear regulations and uneven enforcement remain the number one challenge for AmCham China members for the fourth consecutive year. The stability and predictability provided by a transparent and evenhanded regulatory environment will be important for the continued growth of the Chinese economy, boosting the confidence of both domestic and foreign investors that their businesses will enjoy the impartial protection of law, and also aiding the government in its fight against corruption.

Second, we want to promote development through policies of national treatment and competitive neutrality. Policies that emphasize national treatment can benefit all private enterprises – both domestic and foreign – and drive greater innovation and growth throughout the Chinese economy.

Third, we want to see innovation in China enhanced through implementation of policies that promote global cooperation and IP protection. More than half of our members tell us that innovation is a top-three priority, but barriers to cross-border collaboration and a lack of sufficient IP protection hinder their efforts to promote innovation in China.

We will continue to solicit your input as we provide recommendations to both governments on how to effectively pursue these three goals. In particular, we hope you will participate in the "flash surveys" that we will conduct throughout the year to gauge the views of our members and compile concrete data to support policy-making by both US and Chinese officials.

In the meantime, I'm proud to announce the launch of the *AmCham China Quarterly* magazine, which we hope will provide valuable content to all our members. Filled with interviews and insights from some of the top executives from across our broad community, there's something for everyone – enjoy the read!

Tim Stratford
AmCham China Chairman

AmCham China Chairman's Circle

AmCham China Chairman's Circle is a select group of premium membership holders that provide the chamber with exceptional support and leadership. The current Circle members are:

What the Future Holds in US-China Relations

Amidst the tense US-China bilateral environment, Rhodium group is lighting the way with insightful analysis on impacts for the private sector and the direction of reforms from Beijing. As one of the largest independent private China research groups, Rhodium supports clients in anticipating macroeconomic, political, and financial regulatory changes. For 20 years, they have turned geostrategic insights into sector-specific insights for decision-makers.

Co-Founder of Rhodium and leader of the China, India, and Asia research advisory team, **Dan Rosen** has received wide recognition for his expertise on the US-China relationship. He sat down with AmCham China to share his expertise on the future of bilateral relations and what's in store for the Chinese economic trajectory, Chinese FDI in the US, and American business in China.

As China has moved increasingly deeper into a state-led industrial policy, what would force China to change or soften that approach?

Dan Rosen: China's reliance on state-led industrial policy strategies is definitely not a new phenomenon. After all, that was the overwhelming approach that China took just a few decades ago. What concerns us today is not just the major elements of state planning at work, but the question mark hanging over whether China is still intent on making room for the market. The many indications of ambivalence about that mix of planning and marketization give us pause today. A reason to be optimistic is that this reversion of planning is not really working. By most practical, on-the-ground indications, the Chinese economy is not doing great right now. This attempt to administer the performance system is not really paying dividends. I think it is inevitable that Beijing will be circling back again toward tried and true market solutions to basic economic efficiency. What is getting in the way is that any such transition is going to entail some instability, and there's a tremendous allergy to dealing with that period of instability on the road to a more sustainable future.

Any kind of indication about how near or far that trajectory might be?

Dan Rosen: China could choose to deal immediately with these economic policy problems and challenges, try to bite the bullet so as to get to a more sustainable future faster. However, there has been a revealed tendency over the past couple of years to draw the process out in hopes that some of the problems will just go away. Of these two options, getting to reform faster but having to deal with the near-term consequences immediately versus trying to defer reform but ultimately paying a higher price is a political decision that Beijing will have to make.

Recently, you listed three priorities for China – making the financial system commercially-oriented, protecting intellectual property rights, and aligning policy to protect consumers, not producers. Is one of these the key or are all three equally important?

Dan Rosen: Those three things are acid tests. They are each critical – they *have* to be in the mix. Definitely, that's not a comprehensive list of all the reform work that China needs. Unfortunately, the reality is that China needs to deal with all three pretty much simultaneously today. Financial intermediation is nearing a crisis point. We see bankruptcies, peer-to-peer financing failures, the urgent need for deleveraging showing up as an immediate priority throughout the country. In terms of intellectual property, not only have the weaknesses in IPR protection caused an acute amount of stress with other nations around the world, but it's also anecdotally causing Chinese innovation investors to think twice about whether they want to put new activity in China. As for shifting from ensuring producers are strong to ensuring they are happy, I think the 2018 results underscore that. We saw some profit recovery, especially for state firms. That tells us once again that extraordinary efforts are being made to keep the big industrial companies solvent.

You have also said, "Success cannot mean winning or losing for either side," referring to both countries needing to feel that they are winning for a mutually agreeable solution. Do you

think that either side actually feels that way?

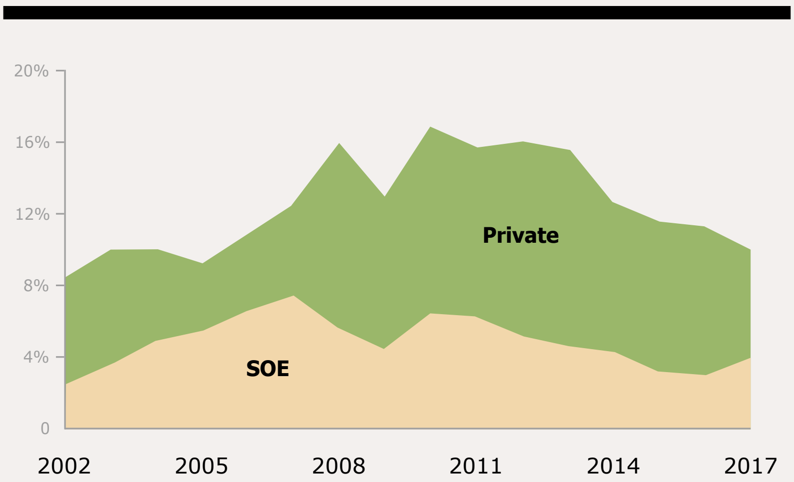
Dan Rosen: I think the problem today is that economists understand that any kind of productive resolution of the current tensions has to be more than zero-sum – both sides have to benefit from an outcome. Politicians even understand that. You don't ultimately get what you want by preventing your negotiating counterpart from being able to report some success back to their own constituencies. The art of the deal entails making it possible for both sides to gain some benefits. Where that proposition is not so intuitive is in the security community, where win-win is not part of the normal construct that those managing military and strategic security affairs bring to the table. I think the signature change in how we think about the relationship over the past two years has been an elevation of the security mindset, relative to looking at the economic benefits, or just the long-term political nature of the relationship. It will have to do with understanding that change and who is at the table. It's going to be important for the political and economic communities to step back into the fray with a message of what will be constructive for the long-term.

What should companies be doing right now? What contingency plans do they have to be looking at in a worst-case scenario?

Dan Rosen: The reality is that the American business community in China has hundreds of billions of dollars of fixed assets that have been built up painstakingly over decades, and there is no easy way to moth-ball those. There is a need for companies involved in manufacturing most connected to new national security concerns to make sure there are production chain options not vulnerable to the most pessimistic projections. I'm thinking about telecommunications, computing, technology and equipment.

For the most part, consumer-oriented products should not be caught up in the net of national security concern currently being debated. Nonetheless, if China doesn't get its reform plans in order, the underlying GDP growth of the Chinese economy will be softer. There are multiple pieces to this equation. There needs to be an analysis of where there are national security concerns

Return on assets of industrial enterprises by ownership



Source: National Bureau of Statistics, Rhodium Group

and bifurcation of production chains, and that's likely to weigh on a company's existing assets and footprint.

Rhodium has been building up scenarios to monitor where the two sides will in fact disengage from each other. What would that entail, and what would it mean for the world?

Dan Rosen: The first thing to understand is that engagement is not an all-or-nothing proposition, that you have economies that are maximally-engaged with one another, say Australia and New Zealand, and you have pairs that are completely disengaged, but the vast majority of pairs around the world have always been somewhere in the middle of those two extremes. Whatever the future holds for China and the US, it will be in the middle as well. Second, two nations which are not converging on the same basic ideas about how the economy is run and organized cannot be as engaged as two like-minded economies. The convergence the US and China have enjoyed over the better part of the past 40 years has underwritten the logic of deepening engagement between the two sides.

Throughout my career, I was able to identify and point to a preponderance of effort in Beijing to become more market-oriented. In the past six to 10 years, the momentum toward market orientation has slowed down. When Xi Jinping came to power, he put on the table a very broad and comprehensive plan that, for the most part, was designed to make the market more decisive. But after five or six major efforts to implement that liberalization impulse – fixing the interbank marketing system, opening up the equity markets, and currency internationalization – each turned into a mini crisis. The challenges involved in those reforms were going to be much harder than leadership expected. That led Beijing to fall back on more state-based second-best or third-best options for keeping the economy from stalling. The clarity of China's long-term movement in a market-oriented direction just isn't there anymore, triggering this discussion about how much disengagement might be necessary.

There has already been a significant amount of disengagement between the two sides just over the past two years. Rhodium has identified a two-year fall of 95% of Chinese direct investment into the United States, for example. There are a lot of shadows cast over the investment and trade environment right now, so we don't do ourselves or our counterparts any favors by pretending this isn't a possibility. The responsible thing to do is diagnose it properly, understand the nature of it, and try to keep the ultimate amount that takes place as limited and partial as practically possible.

Is there a way that ground can be regained, or do you think that it's a

fundamental restructuring of the Chinese-US investment environment?

Dan Rosen: I think it's absolutely reversible. Almost every other advanced economy is taking a similar track with regard to Chinese investment. Throughout the OECD world, nations are asking themselves whether they need to modify or upgrade their screening mechanisms and processes. But we could quadruple our security screening diligence and there would still be room for expansive growth and inflows to our economies from Chinese companies and investors. The vast majority of fall-off in Chinese FDI in the US over the past two years is in sectors like real estate and movie theaters, completely non-national security sensitive sectors. We would gladly see Chinese companies come in and make tens of billions in investment in American real estate, which for the most part would not be problematic. That limitation on Chinese investment did not come from the US; it came from Beijing's concern about the motives of private investors taking investment out of the country. We can put that back into gear in fairly short order, provided we have a basic level of trust and goodwill between the two sides.

Given all of China's economic priorities domestically, where does the US fit into them? Does it just happen to be big right now because of the deadline?

Dan Rosen: When we look at GDP growth from China in 2019, the official target will be something like 6.2 or 6.4% from the areas of business investment, then household consumption, government spending, and then net exports. Analysis of how much US tariffs would reduce China's net exports growth globally would suggest that even a nasty trade war is not going to take the legs out of China's economy, just take a nasty bite.

However, the reduced prospect for China to be able to serve US demand in the future also has an effect on business investment inside China. Consumer household spending and the more internationally-facing parts of urban China are unsure of how serious the breakdown in China's global standing is and can start to differ from other discretionary spending. It's not the trade war directly, but its indirect effects that starts to weigh on domestic investment and domestic consumption inside China.

> "There are going to be opportunities where America does still truly have comparative advantage, not just based on scale but on savvy, agility, creativity."

How are you feeling today about the Chinese economy?

Dan Rosen: It is not going to be a strong year for China. It could be a very steep downturn. But what's important is not whether this one-year demand growth picture is really sour; what's important is what China does about it. If the response to that reality from leadership is to surprise us with a pretty bold package of the kind of reforms that Xi Jinping put on the table in 2013, I would be more optimistic than I've been in years. I think, ironically, the dark clouds now hanging over the outlook might be the most important trigger for getting a return to a more reform-and-opening, as we used to know it, policy outlook.

What sectors are looking best for success in China moving forward?

Dan Rosen: The kind of reform we just talked about would create opportunities for American companies virtually across the board. I can't think of a sector where US companies haven't already had to live through the difficult adjustments that are tomorrow's challenge for China, learning to operate in a more tightly-regulated market place. We're just 50 years or more ahead of the Chinese marketplace, in that regard. There are going to be areas of high-tech, especially in telecom, which I think are going to continue to be somewhat disengaged. But in vast areas of high-tech, there are going to be opportunities there where America does still truly have comparative advantage, not just based on scale but on savvy, agility, creativity, and a multicultural way of looking at market opportunities and solutions to problems.

I think that China is going to step up in consumer orientation as opposed to the more industrial side of the economy. China's overcapacity in virtually all industrial segments is undercapacity in almost all consumer-oriented ways, like in healthcare or entertainment. Also, there are very limited opportunities today for foreign financial services firms to operate on a level playing field in China. If that is leveled out with US or European standards of market access, there will be a huge opportunity for American financialists to play a great role and benefit both Chinese customers and Chinese companies who are ready for globally-competitive financial services.

There was a Rhodium report that Chinese firms had added just 7,400 US employees to their payrolls in 2017. Do you think that downwards trends will continue, or will they need more outside expertise?

Dan Rosen: It's hard to imagine things going anywhere but up after 2018. The level of Chinese investment into the US and employment activity got so beaten down by uncertainty that it was really just a trickle. Even a modest resolution to the state of economic melancholy hanging over the relationship right now would probably open up room for some bounce back of two-way investment flow. Americans aren't thinking about job-creating too much right now, with unemployment this low. But that's a tax-break phenomenon that will not last forever, and globalization can sustain employment gains and dynamism for the long term.

Rosen was talking to AmCham China following an exclusive Policy Plus event. For more details on Policy Plus, please see page 11 or email policyplus@amchamchina.org

Bottling Lightning

By Jordan Papolos

The world's flourishing startup ecosystem is one marked by innovation, business acumen, and hundreds of billions of investment dollars. But, in a landscape embodied by such high investment and even higher hopes, what stands out most notably is one defining feature: failure. A 67-page analysis produced by UC Berkley and Stanford, *The Startup Genome Report Extra on Premature Scaling*, shows that more than 90% of startups end in failure. But despite these odds, the ecosystem continues to grow. Through mid-October 2018, American startups raised $91.6 billion in venture capital funding, with Chinese startups raising $93.8 billion – year-on-year increases of 14% and 76%, respectively.

With such exorbitant amounts of money on the line and the terrifying potential for loss of investment, venture capitalists (VCs) investing in today's entrepreneurs are doing much more than simply rolling the dice on high potential individuals with good ideas; they cultivate, nurture, and guide the tech leaders of tomorrow through carefully planned, stage-gated processes designed for success. These VCs don't wait for lightning to strike, they actively seek to manufacture it, incubating once-in-a-lifetime ideas by employing their years of experience and expertise accrued in the trenches of the tech industry.

Entering the Play

Armed with experience and ambition, today's VCs are pumping money into technology startups at record-setting rates, and they do so with the primary goal of finding and developing the world's next unicorn – a privately held startup company valued at more than $1 billion. In 2018, China spawned 97 unicorns with a combined valuation of $178 billion, while the US birthed 53. Some visionaries, however, aren't satisfied by just a single unicorn. These investment elites look to create unicorns on a grand scale, and with replicable processes that allow for long-term success and a growing portfolio of innovative businesses. These enterprising few go far beyond waiting for the right opportunities, meticulously vetting and manufacturing the proper environment, circumstances, and liquidity necessary for a shot at leading an entrepreneur's idea to unicorn status.

One industrial investor who has found great success with his incisive investments is Saeed Amidi, CEO of Plug and Play, the largest network startup accelerator and corporate innovation platform in the world. With an unlikely entry to Silicon Valley's tech scene in the early '90s, Amidi has since grown his accelerator empire into one that has accelerated nearly 10,000 startups, has over 300 corporate partnerships and 280 VC partners, and portfolio companies that raise $2 billion per year.

A serial entrepreneur, Amidi got his start in Silicon Valley with his first venture, American Liquid Packaging Systems (ALPS), a world leader in the five-gallon bottled water direct delivery business. ALPS was originally based out of the now-historic location of 165

Saeed Amidi is the CEO and Founder of Plug and Play, a network startup accelerator and corporate innovation platform. A serial entrepreneur and a seasoned executive with over 28 years of experience in founding, operating, and growing successful companies, he has successfully started and grown businesses both nationally, as well as internationally, in countries including Spain, Germany, France, and Austria. Saeed also holds the position of General Partner in Amidzad. The fund has been investing in technology companies for over 15 years and holds successful investments in over 1,000 technology companies, some of which are PayPal, Powerset, Danger, Bix, Powerset, DropBox, Lending Club, and Zoosk.

University Ave – just down the road from Stanford University and perfectly situated at the heart of Silicon Valley. Despite the location, says Amidi, living in Silicon Valley and not working in the technology sector in those days was a difficult path. "Especially during the first dot-com boom, when people used to ask me what I did, I would say I do packaging and bottled water. And quite frankly, they laughed. They thought I was joking," says Amidi. "After many laughs, I decided to get involved in technology a little bit."

"A little bit" was an understatement. With Amidi's first forays into angel investment in Silicon Valley's burgeoning tech startup ecosystem, he was a pivotal influencer in the development and success of some of today's biggest names in technology. "We started investing in startups, mostly as an angel investor," Amidi explains. "One of our first ever investments was in PayPal with Peter Thiel." Not a bad first investment: today, PayPal's market cap is nearing the $100 billion mark, and is set to surpass that of Goldman Sachs. Though some could claim this was beginner's luck, Amidi's reputation in Silicon Valley would only grow from this point.

Location, Location, Location

PayPal was just the first of the big names that Amidi partnered with in the early days at 165 University Ave. He was also instrumental in the funding of some of the globe's most recognizable and profitable companies, his office housing the likes of Google, PayPal, and Andy Rubin, who later developed Android. Rubin, while working in Amidi's office, was even responsible for creating the first smartphone – the SideKick.

Amidi, a very humble man, chalks up much of this early success in Silicon Valley to the location of his first office. He notes that in cases like this, it is better to be lucky than good, underscoring that, "When opportunity knocks, you have to ask yourself if you're ready and capable of taking advantage of opening the door. At that time, I was smart enough to open the door and let opportunity walk right in."

Amidi claims his greatest stroke of luck was to be in the epicenter of innovation where opportunities like PayPal and Dropbox came across his radar. Dropbox, one of the world's first and leading file-hosting services, now valued at over $12 billion – and yet another of Amidi's first investments – illustrates key aspects of his "luck", his strengths, and the high level of startups he has invested in.

"We met DropBox at Y Combinator, an acceleration program invented to help great entrepreneurs realize their dreams in a batch system," explains Amidi. "We met a number of our other investments at Y Combinator. And, because we are business people and not technologists, we usually depended on our VC friends to help us do due diligence on the startups, and then we would co-invest with these friends."

Through these early days of angel investments, Amidi would lay the foundation for what would become the fundamental business principles of Plug and Play – tapping into his own network to leverage the core competencies of his friends and colleagues for mutual benefit. Amidi describes that, "Whenever we looked at a startup, I used to call my friend, the CTO of AT&T, or friends at Cisco and ask them to look into a technology startup in which I wanted to do an angel investment."

Despite geographical advantages, Amidi's ability to translate his initial success into continued business growth is undeniable – his next venture, Plug and Play, being a testament to his ability to identify great ideas and leverage his own talent for nurturing business growth using the strength of his team and his network. After several successful angel investments, in 2006, Amidi officially opened Plug and Play.

The Playhouse

In order to see his new vision through and accommodate an accelerator and innovation platform of such magnitude, Amidi needed to leave 165 University Ave behind and find a bigger boat. "The building where we started Plug and Play is 17,000 square meters and it's the old headquarters of Phillips electronics," says Amidi. "When we wanted to start Plug and Play and we purchased the building, it was a little bit bigger than I had anticipated. But quite frankly, it has been fantastic to be able to have investors in the building. We house, at any given time, 400+ startups, and nowadays we have 40 of what we call innovation offices." Having experienced Silicon Valley and internalized what such an environment brings to technology innovation, Amidi has demonstrated that, more than just recreating these conditions, you can institutionalize them.

Today, Plug and Play's network continues to strengthen and grow around the world, with offices in the US, Mexico, France, the Netherlands, Germany, the UAE, Japan, China, Indonesia, and Singapore. Throughout the global offices, Plug and Play hosts a litany of startups from a variety of sectors such as fintech, insurtech, Internet of Things, brand & retail, mobility, health, supply chain & logistics, and much more. Their global innovation program runs 50+ accelerator programs, including more than 600 events a year designed to showcase their startups to their VC and corporate partner network.

The Plug and Play events and programs are geared towards identifying and developing batches of promising startups and bringing them onto the global stage. "Today, we have an Internet of Things, real estate, and insurance tech event. We usually show a technology or

Top:
A VR-AR startup exhibits their developing technology and industry applications.

Bottom:
VC partners take a look at a new facial recognition startup at the Plug and Play summit.

startup to 10 VCs and 20 corporations and jointly evaluate the technology." Going back to Plug and Play's roots, Amidi describes their innovation platform as being "like judo." He explains that the idea is to "take advantage of your opponent's weight to accomplish something. We have turned a weakness – that we are not engineers or technologists – into a competitive advantage by doing our due diligence together with venture capitalists and corporations."

Herein lies the genius of Plug and Play and of Amidi's vision: the transformation of a weakness into a truly formidable advantage, leveraging the would-be opponents – namely other investors – into allies in the pursuit of intelligent and collaborative investment. Through this strategy, Plug and Play has been able to grow at scale. And by creating and utilizing this advantage, Amidi has created a powerhouse that quickly surpassed its humble beginnings at 165 University Ave.

Innovation vs. Regulation

Across the world, innovators are in a constant battle with the regulatory environments within which they work. For Amidi and Plug and Play, this reality takes a variety of forms as the regulatory challenges he faces in China, the US, or Germany can be wholly different, if not in total opposition.

"Quite frankly the technology is moving so fast around the world that regulation is following. And this has happened to us twice," says Amidi. "PayPal did money transfers and took deposits first, and then went back and got their licenses. This also happened to us with Lending Club. Lending Club did peer-to-peer lending, and then the regulators said they need a banking license to do peer-to-peer or any type of lending."

Innovation in China presents an entirely different landscape, making investment an even more slippery proposition when it comes to valuable and emerging intellectual property. "In China, talking about protecting IP, I can recall 50 years ago, the Japanese economy used to do copy-cat stuff. Then, they mastered the processes and manufacturing, and now they are the leader of building incredible cars, equipment, and electronics," says Amidi. "I would say the Chinese had copycat mindsets. But today, I predict that China is going to lead in innovation. The quality of the startups I have seen in the last five days in artificial intelligence and machine learning, if it is not better than Silicon Valley, it's at the same standard. I believe the Chinese government will embrace intellectual property protection because it will be good for the entrepreneurs and corporations in China."

China at Play

With 23 offices worldwide, eight of which are in mainland China, Plug and Play is a global force. And with such an emphasis on China, Amidi has identified the Middle Kingdom as a paragon of innovation that will undoubtedly define our world in the coming years. "We felt China is incredibly innovative. I could borrow the slogan from Nike: the Chinese 'just do it,'" Amidi says with a chuckle. "We talk about electric cars, autonomous cars in the US, specifically in Detroit. Silicon Valley is a little faster, but the Chinese just implement." Amidi explains. "Quite frankly, we feel in a lot of areas like electrification of cars, connected cars, autonomous cars, China will leapfrog the US and the rest of the world."

"When we decided to come to China, we realized Beijing is important, Shanghai is important, but there are so many other exciting cities that we knew we had to go to China in a big way. Right now we have eight offices, and we are expanding each office to a greater physical unit, but also multiple verticals like insurtech, real estate, and so on," says Amidi.

> "We really feel that entrepreneurs, be they in China or Germany, if they dream big and dream global, we can be a positive part of their journey to make it happen."

The World as a Playground

While China has proven itself in innovation globally, Plug and Play hasn't discounted the historical or potential strengths of other parts of the world. Amidi notes that, "We also felt Germany has incredible potential with education, money, and technology. So in Germany, we are active in four cities: Berlin, Frankfurt, Stuttgart, and Munich."

When asked in regards to the growth and global footprint of Plug and Play whether bigger is better, Amidi responds that, "We help close to 1,000 entrepreneurs around the world per year. 600 in the US, 200 in China, and 200 in the rest of the world. It has been challenging to transfer the culture, transfer the knowledge to Beijing, Shanghai, and Munich. But now that it is developed, we really can take a startup in insurtech and implement their technology in China, in Munich with Allianz and Munich Re, and in Silicon Valley with the American insurance companies."

At its heart, Plug and Play's global offices represent exactly what Amidi set out to accomplish – exporting the magic, the potential, and the opportunity he found himself surrounded by at 165 University Ave. "We have a new slogan," says Amidi. "We say innovation should be open anywhere to anybody. We really feel that entrepreneurs, be they in China or Germany, if they dream big and dream global, we can be a positive part of their journey to make it happen."

Jordan Papolos *is the Editor of the AmCham China Quarterly and can be contacted at jpapolos@amchamchina.org*

2019 Business Climate Survey

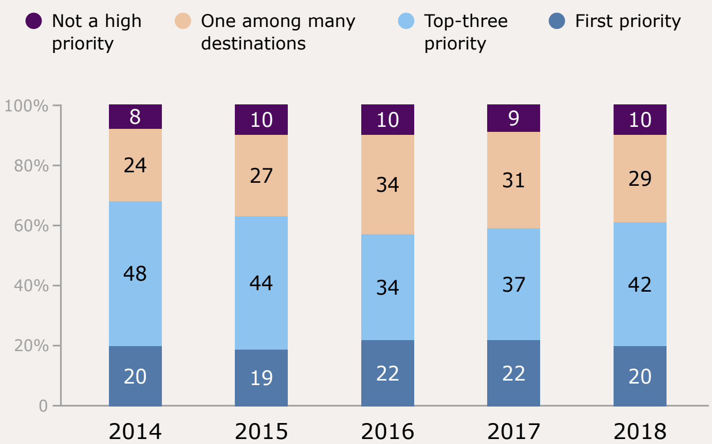
This is the 21st year that AmCham China has surveyed its members on the business environment in China, and the first year it has partnered with Deloitte for data collection and in-depth analysis. This survey was conducted between November 13 and Dec. 16, 2018, and was sent to 771 member company representatives, of which 314 completed a significant portion.

2018 was marked by heightened uncertainty in the global political and economic environment, due in large part to escalating US-China trade tensions and concerns about a slowing China economy. This year's *China Business Climate Survey Report* captures changes in business sentiment during this turbulent period. While member experiences as always vary by sector, the differences this year are particularly notable.

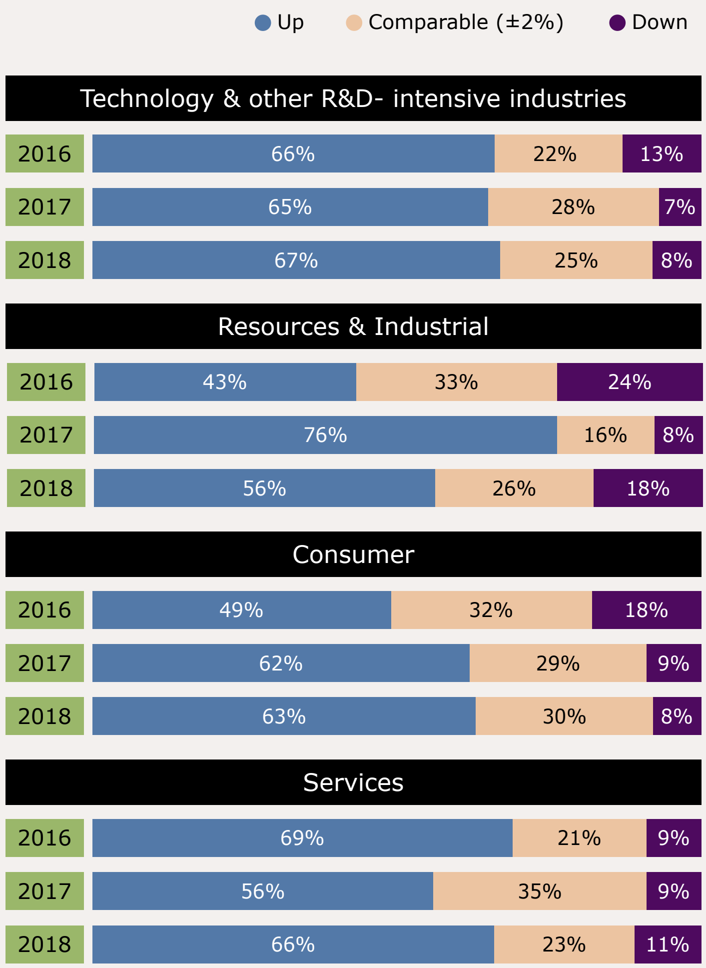
Overall, most companies continued to see revenue growth and maintained breakeven or profitable results; however, financial performance was softer than in previous years and varied considerably by sector. Despite the trade tensions, China remains a high priority market for the majority of companies, although many appear to be tempering their investment plans.

Members' outlook appears to be shifting from cautious optimism to cautious pessimism, as many longstanding concerns – such as inconsistent regulations and uneven enforcement – persist, even as new challenges – namely bilateral US-China tensions and fears that economic deceleration will continue – are taking center stage. Furthermore, survey results suggest that we are yet to see the full impact of the tariffs: some companies appear to be maintaining a "wait and see" attitude, and at the same time taking proactive steps to manage their

How does China rank in your company's near-term global investment plans?



How does the estimated 2018 revenue of your China operations compare with 2017 results?



financial performance.

In light of these concerns, our members are clear on actions that can be taken by both the Chinese and US governments to improve China's business environment and encourage new investments. Substantial improvements in market access, intellectual property rights (IPR) protection and regulatory transparency are all cited by members as critical to their continued success. Additionally, members are asking the US government to advocate even more strongly for a level playing field, pursue investment reciprocity and engage in results-oriented inter-governmental dialogues.

Despite tempered growth and investment expectations, China remains an important market

Did 2018 mark a negative turning point for American businesses in China? Not necessarily. More than 80% of our member companies expect positive industry growth in 2019. That said, over half of respondents expect their industry to grow at no more than 5%, below many private estimates and the Chinese government's forecasted GDP growth rate for 2019 of 6.3%. Close to 28% of R&I companies forecast no or negative growth in 2019.

Despite concerns over the economy and tempered investment plans, members are clear that China remains a top priority for all sectors' near-term global investment plans. Even with stronger domestic competition, rising costs and profitability pressures, future prospects for at least moderate market growth in priority sectors and the rise of an increasingly sizeable and affluent middle class continue to generate optimism for business opportunities.

Long-standing business challenges persist

"Inconsistent regulatory interpretation and unclear laws and enforcement" remain the top business challenge for companies in all sectors except Consumer. Only slightly more than half of our members believe policies are enforced equally between foreign and domestic companies. Not surprisingly, members also said that improvements in regulatory transparency and predictability would encourage them to invest further.

Innovation continues to be important for members' success in China, but a range of barriers such as "insufficient protection of IPR", the "increased restrictiveness of cybersecurity-related policies" and "requirements to comply with unique Chinese standards" inhibit innovation and disincentivize investments. In fact, one-third of respondents report that they limit China investment because of IP protection concerns alone, rising to nearly one-half of companies in the Technology and R&I sectors. However, the majority of respondents acknowledge China's efforts to improve the way in which IPR laws are written and enforced, especially with respect to trademark and brand protection.

Bilateral tensions: a ticking time bomb for business operations in China?

Member companies continue to view the US-China relationship as important for their success in China. However, nearly three-fourths expect bilateral relations to deteriorate or – at best – stay the same in 2019. When members were asked to rank their top business challenges, "bilateral tensions" — a new survey option — ranked as a top challenge for businesses in China regardless of sector, just behind rising labor costs, and inconsistent regulations and unclear laws and enforcement.

Of course, a key aspect of these tensions are the bilateral tariffs, which continue to hurt our member companies. Consistent with views expressed during our survey (in partnership with AmCham Shanghai) on the impact of tariffs conducted in September 2018, tariffs impact business operations in many ways, including higher manufacturing costs, lower customer demand and pressures on profitability.

Implications for business leaders

While it is difficult to predict whether the US and China will choose cooperation, confrontation, or some combination of both, it is clear that the tensions between the two countries are increasingly driven by fundamental differences in their economic systems and other areas, rather than just trade imbalances. Based on our discussions with business executives over the past year, a growing number of companies are hedging their bets through flexible contingency planning, supply chain diversification, and delayed investment decisions.

Implications for policymakers

Although the majority of our member companies remain optimistic that China will further open its markets, they are clear that improvements in

Please rank your top five business challenges in China

Technology & other R&D-intensive industries	Resources & Industrial	Consumer	Services	
Inconsistent regulatory interpretation and unclear laws & enforcement (55%)	Inconsistent regulatory interpretation and unclear laws & enforcement (56%)	Rising labor costs (56%)	Inconsistent regulatory interpretation and unclear laws & enforcement (56%)	1
Rising tensions in US-China relations (46%)	Rising labor costs (50%)	Inconsistent regulatory interpretation and unclear laws & enforcement (50%)	Rising tensions in US-China relations (51%)	2
Increased competition from privately owned Chinese companies (36%)	Rising tensions in US-China relations (46%)	Rising tensions in US-China relations (43%)	Rising labor costs (51%)	3
Chinese tariffs on US goods (34%)	Chinese tariffs on US goods (42%)	Shortage of qualified employees (38%)	Shortage of qualified employees (38%)	4
Rising labor costs (33%)	Industry overcapacity (32%)	Difficulty obtaining required licenses (33%)	Regulatory compliance risks, including insufficient lead-time to comply with new regulations (34%)	5

regulatory transparency and improved market access would have the greatest impact on investment decisions.

Ultimately, our survey results underpin the widely held view that positive bilateral relations are an important foundation to the success of US companies in China. Finding a comprehensive and enduring resolution to the current trade frictions is critical to create a more positive, predictable environment for companies, which in turn will benefit the citizens of both countries, and indeed the world.

Scan here to read the full report:

A Transforming Hotel Industry

By Theresa Colston

*With the Asia Pacific region accounting for more than 60% of the world's population, hotels are increasingly directing their strategy towards Asian tourists – and Chinese in particular. Under the direction of **Peggy Fang Roe**, Chief Sales and Marketing Officer of Marriott Asia Pacific, the Marriott group is successfully innovating to localize their global campaigns and effectively capture this rapidly-growing market.*

Above:
Roe speaking at Marriott's Asia Pacific Brand, Marketing, Sales, and Consumer Services (BMSC) Conference in Shanghai in March 2019.

Chinese people don't run in the morning – something that Peggy Fang Roe found out the hard way.

As part of the Westin's Move Well campaign – focused on global wellness and centered around eating well, sleeping well, and moving well – Roe's job was to make healthy living habits resonate with a Chinese audience. Advertising for the campaign referenced how people that wake up for a morning run stay fit and how Westin helps facilitate that lifestyle – a routine that is well established in the west, particularly among business travelers. But when focus groups in China tested this campaign, thoughts included, "Well, I definitely don't run in the morning – that's when the pollution is worse" and, "Who gets up in the morning to run?"

Roe and her team responded by transforming the campaign to highlight a group of night-runners they found in China, something that connected more deeply with a population that prefers running at night, limiting pollution risks. But it was an important learning experience for Roe about the difference between eastern and western consumers.

Prior to moving to Hong Kong to take up her current position, Roe spent 10 years at Marriott's corporate headquarters working on innovation and brand marketing. Before that, she gained experience in process management at General Electric's credit card and insurance divisions. After an MBA at Harvard Business School, she also spent time in small companies, traveling to Silicon Valley to join the startup Homestead.com, where she helped launch a paid website-building tool, later acquired by Intuit.

During her time at GE, she earned her black belt certification in Six Sigma, a set of techniques applied to improve process management. "Six Sigma training was probably some of the most intense and best training I've had in business," she says. "It taught me a lot about the methodology in solving process problems with the customer in mind first, and that's something that has stuck with me in everything I do."

At Marriott, Roe is responsible for the front-end business operations: brand, marketing, sales, digital, pricing, communications, and revenue management. She brings all aspects of sales and marketing together, overseeing a broad organization across all of these functions. Her tasks vary widely, but she describes her role as primarily guiding her leadership team. Roe outlines four goals for her team: building Marriott's customer base in China, localizing the brands to be compelling for customers in Asia, managing channels where customers want to buy such as mobile and web experiences, and managing pricing and segment strategy for the whole organization.

A New Clientele

With over 700 hotels in Asia Pacific and new properties opening up every week, Roe's team works to ensure that strategy infrastructure is able to execute and drive the highest performance. In such a massive market, her challenge is deciding precisely where and how to target consumers.

The team focuses on five major markets: Greater China, Japan, Korea, Australia, and India. They begin with localizing for these major source markets while also catering to customers in close to 30 different countries in Asia. While she was in the US, her role was to evolve the brand on a global scale. In Asia, she finds the biggest difference to be the diversity of customers, languages, platforms, and nuances around culture and the way they sell.

Roe explains, "When I came in to this role, what we would do was roll something out or build a website for consumers broadly, first in English, and then we would translate it into Chinese." Although this still occurs occasionally, Marriott has recognized over the last five years that the Chinese consumer is its largest and fastest growing population of future travelers. As a result, her dedicated team of brand and digital leaders are working in China to execute with maximum customization and localization.

Early on in her position, she began working with the global team to build campaigns from a different perspective. Rather than simple translation, she initiated a push to see if they could make a truly global campaign. Many times Roe found that, "Particularly for China, no matter what we did, you can't just put Chinese people in, or you can't just put a mix of races and cultures and then the campaign becomes global – it still doesn't resonate."

Some campaigns highlighted striking differences, but Roe says most distinctions are more subtle, such as with the new Marriott Bonvoy loyalty program rebrand. In this case, Roe convinced the corporate team that a new name was needed for marketing to China, knowing that a reference to the French phrase "bon voyage" would not connect with people emotionally in China. According to Roe, "Five years ago we would have never made the change, and I see our company evolving quite a bit as a result of all the education we have been able to do in bringing the customers to the forefront of the company."

Marriott is also rolling out innovative technology to engage Asian markets. One such innovation is testing facial recognition for automatically checking-in Chinese travelers domestically, which is already active in a number of China Marriott hotels. Along with technical innovation, Roe's team is implementing changes on the marketing side, now advertising on WeChat.

Marriott has also been localizing through partnerships with domestic businesses in China. In the past year, they committed to a joint venture with Alibaba to leverage local knowledge to better serve customers in the region. Together, they have already collaborated to build a storefront site, integrate payment functions, and more – localization initiatives that Roe believes would not have been possible on a global platform.

Catering to Chinese Tastes

Roe has said that good food and a good deal are the two keys to success in the Asian market, something she says still holds true today, especially in China. When it comes to food, Marriott's reputation in Asia is boosted whenever its hotels put on a successful event, host a celebrity wedding, have Michelin star restaurants, or get a good culinary review. This is unlike the US experience, where most people do not eat in the hotel restaurants.

With the rise of free delivery services throughout China, especially where bikes can navigate through traffic faster, culinary competition is fierce.

Left:
Roe talks with associates during an "Ask Me Anything" breakout session during Marriott's recent BMSC Conference in Shanghai.

Right:
Roe thanks the organizing team at the same conference.

"My message to people is always to not let anyone else define for you what your work-life balance should be. Don't let anyone else set that bar for you."

As a result, Roe and her team launched a loyalty member spending program in which all members receive a meal discount that rises as their membership deepens.

Besides domestic marketing in Asia, Marriott is now optimizing the experience for their newest customer base: Chinese travelers abroad. In collaboration with Alibaba, they have created an end-to-end system tailored to Chinese customers, Li Yu, which launched in 2016 and is continuously evolving.

As part of Li Yu, the online booking platform – Marriott Storefront on Alibaba – sells products to Chinese travelers the way they want to buy. When Chinese customers book travel, they normally first decide whether they want to stay in China or venture abroad. This is largely uncommon for Americans, and Roe's team is tasked with discovering and generating solutions for these nuances. Additionally, the payment options allow Chinese consumers to pay after the visit, rather than at the time of booking, since most do not have a credit card. This system has now been enabled in 1,000 hotels worldwide.

Explaining Asia to Global HQ

While at corporate, Roe remembers thinking that her colleagues in Asia were going "rogue." When she joined them, however, it didn't take long to understand how differently things operated overseas. Although communication to global headquarters can always be a challenge, she maintains, "I never blame people on either side, but it's so hard to see what we see here living in Bethesda, Maryland, while we live it every day here."

Now, she hires people with the patience and ability to excel in that environment. Additionally, she looks for the ability to create a business case rooted in customer insight, because, she asserts, "That's how you can make the global company work." She attributes her effectiveness today partially to her 10 years at headquarters where she learned how to build relationships at all levels. One of her main day-to-day tasks is to unblock barriers for her team so that they can execute more effectively at the local level.

Work-Life Balance in Asia

Roe sees gender diversity initiatives as stemming from two sources: either leadership, or individuals within the company who are passionate about elevating women. "I see success at Marriott [in this area] because you've got both," she says. "The CEO has put together a leadership team that is half women, the Board is half women, and the global workforce at the property level is almost half women." Roe says she still sees areas for improvement, such as more females at the general manager level, but is pleased to know that the company is actively working on closing the gap.

While preparing to move to Asia, she was somewhat apprehensive about managing her own work-life balance, moving two kids, age three and five, to a new continent. She was pleasantly surprised to find that she retained a level of flexibility around her working hours or when she needed to take time to be with her children. Roe credits that mostly to Marriott's corporate culture.

When she was younger, she often thought she could not maintain her career path and have a family. She delayed having children, but on reflection now realizes that she was capable of taking on the challenge. "You just have to dive in and see how you react to it," she urges. And she has one piece of advice to the next generation of women as they grapple with their own work-life dilemma. "My message to people is always to not let anyone else define for you what your work-life balance should be. Don't let anyone else set that bar for you."

Theresa Colston *is a writer for the AmCham China Quarterly and can be contacted at tcolston@amchamchina.org*

- **Manager**, Island Creek Coal / 1986 – 1989 / Shanxi, China
- **Chief Representative**, SSM / 1989 – 1992 / Beijing, China
- **Chief Representative**, SHV / 1992 – 1996 / Beijing, China
- **VP China Operations**, US-China Business Council / 1999 – 2005 / Beijing, China
- **Vice President**, Mundoro Capital Inc. / 2006 – 2007 / Beijing and Liaoning, China
- **VP Corporate Affairs**, Cargill China / 2009 – 2010 / Beijing, China
- **Senior Adviser**, Applus / 2011 – 2013 / Beijing, China
- **Director of Government Affairs**, Greater China, Rockwell Automation / 2014 – Present / Beijing, China

Powers Play

By Theresa Colston

Moving to China more than thirty years ago to work in a coal mine, Pat Powers hasn't exactly followed a traditional career path. But three decades later, he's one of the foremost Government Affairs experts working in the country today and has shared much of his rich experience with the community through serving on the AmCham China Board of Governors.

Patrick Powers' tenure with international businesses in China has involved overcoming challenging odds to solve problems and led him to his current position as the Head of Government Affairs for Rockwell Automation Greater China. After 30 years of experience in international commerce, government relations, and trade policy across Asia, Powers has already leveraged his business development skills and Chinese government expertise on the Board of Governors for AmCham China to catalyze projects and policy amendments that benefit both American business and China.

His China-focused career path began as a "student" in Taiwan, where he picked up the language primarily as a musician in clubs. His language skills brought him to Bechtel, where he was part of the China business development team, and then Occidental Petroleum, where he worked at the Antaibao coal mine, the largest joint venture in China in the 1980s. Following that, SHV, a global Dutch private firm recruited Powers, during which time he successfully got the first foreign national license for big box retail (SHV Makro) signed off by the Standing Committee when it was technically illegal for foreign firms to enter the retail market. After running a consumer goods distribution company in Vietnam and freelancing in Singapore, he returned to Beijing to serve as the Vice President for China Operations for the US-China Business Council.

His career in government affairs was somewhat accidental. According to Powers, during the years he was doing business development, companies never wanted to expend resources on hiring a government affairs staff member, so he ended up doing that work out of necessity. After being hired to resolve an insurmountable problem for a Canadian gold mining company, he was on contract to Cargill to provide senior-level government affairs support, and after spending time in mining services in Mongolia, he was hired for his first "official" government affairs job. He explains, "All my jobs have come through personal networks, and for the government relations part, it was mostly through folks who decided that having someone with multiple skill sets was important." Eventually, this path led him to his position at Rockwell Automation.

At Rockwell, Powers handles government affairs, public affairs, and works closely with the sales and business development teams. According to Powers, "Foreigners who are government affairs specialists are rare in China now." He added, "It's a very unusual government affairs job because, unlike virtually all my peers, I never worked for the government. I'm a commercial person who does government affairs, and I use the government as a tool to facilitate growth of the business."

The Three Ps of Success: Persistence, Patience, and Personality

To be successful in government affairs, Powers says, requires studying and understanding government structure, function, and how agencies interact with each other. Besides that, "if you know how to talk to senior level corporate people, talking to a government is not much different." Most importantly, you need the three Ps: persistence, patience, and personality.

Below:
Powers (far right) below a promotional poster for his band *Back Door* in Ulaanbaatar, Mongolia, in June 1991.

With regards to the last P – personality – Powers stresses that, while government relations is not for introverts, even though it might sound like it's all about long, serious meetings, it's crucial to have fun with your work. "If you feel confident enough to talk to government officials and tell a few jokes, have a few laughs," he explains, "It's much easier to have an actual relationship with them when they understand that you're trying to help them do their jobs better."

Powers continues, "There's a lot of people, especially junior level government affairs staff, whose idea of government affairs is to go to an event, collect some business cards, get some photos and say 'That's government affairs, because I met so-and-so'. The best advice I ever got from a Chinese government official was when he said, 'It's not whether you know me, it's whether I remember you. If I don't remember you, I don't know you or what your company does.'"

According to Powers, it is important to remember that government officials have their own internal KPIs just like anyone in a company. If what you are requesting is vastly different from their KPIs, he says, then they are largely limited even if they do want to help you. Much like using a Venn diagram, Powers says a government affairs professional should determine interests, research where interests overlap, and work within those spaces. "If you're not adaptable," Powers emphasizes, "You're doomed because government officials change all the time, so you have to understand what the job title needs, not necessarily the person. I call it the 'Venn Diagram of Mutual Interests.'"

Powers has countless examples of using his personality to open doors. At the Canadian gold mining company, he took a full year to develop the relationships required to determine where the friction lay between the company and the local government. "I came into the project very late and quickly learned that the previous management was radioactive, and no one wanted to talk to us. So it was very, very difficult to navigate the provincial and local governments, but persistence and some imaginative ruses paid off."

He also had a bit of entertainment while at SHV Makro. While trying to obtain a then non-existent foreign national retail license, he explains, "The fun part was the local partner and I had to go around and lobby every ministry trying to get approval." Finally, facing only rejection in the Ministry of Internal Trade's office, his partner's constant talking for three hours straight caused the official to fold. "He said he would approve the project if she would stop talking. She asked for it in writing on the spot and he gave her a memo. That's persistence," he said. "She wore everybody down."

Powers recalled that in the early days of Americans doing business in China, everything depended on being able to have an actual conversation with someone. Without cellphones or email, "You're dealing with people. You had to rely on your own wits." He recounted once that when at Antaibao, in northern Shanxi, the telex machines stopped working at the mine site. He drove over 20km to find a telex machine, knowing that there had to be one somewhere nearby based on his knowledge of Chinese postal and telecom systems. Sure enough, after a couple hours of driving around and talking to villagers in the area, he found one in a small dilapidated hut. "It was like being in the middle of a war zone in WWII where you found the only field telephone working, and amazingly, the guy could read English, and sent all the messages out really fast. Even our Chinese partner didn't know it existed."

Keys to Organizational Success

For organizational success as a whole in China, Powers gives another essential set of three Ps: preparation, process, and people. You can prepare well and begin the process, he says, but if you employ the wrong people, you are sure to fail. For example, there was a telecom components supplier that called him in to help with an urgent problem. He explained, "They'd been on a flight up from Singapore and one of their engineers happened to be sitting next to someone from the same industry and exchanged name cards. The other person said, 'Congratulations, I heard you're selling your factory.'" Apparently, the company had hired a local project manager – but had failed to do even a rudimentary background check. They learned that day, unfortunately, because they had given him full legal authority, "He was selling the factory out from under their noses and the deal was going to happen that week."

Powers' advice to the firm was to hire professional security, back up everything on the computers in the office, and then brick them immediately, but *not* to show up onsite in person without professional backup. However, the American business owners decided to ignore his advice and went to the factory to try and reason with the employee. But as soon as the man realized they had arrived, he barricaded himself in with the computers and downloaded everything. The situation went on for months, involved multiple police districts and senior city officials and became so tense, Powers said, "It's a miracle they weren't kidnapped."

Where the company went wrong, according to Powers, was they wanted to be the heroes. He emphasizes the need for heeding professional advice, instead of thinking you know better yourself. "Americans think they're like John Wayne and they can ride in and save the day. That's not what you do. You hire professionals to go in and handle it for you." In the end, the company had to sell the factory at a 50% loss.

Top:
Powers (right), with then AmCham China Chairman Emory Williams, Jr. (left) and California Governor Arnold Schwarnegger in Beijing in 2006.

Bottom:
Powers speaking at a recent AmCham China event in Beijing.

"The Venn Diagram of Mutual Interests"

Powers has also brought his experience and expertise into his active membership on AmCham's Board of Governors, where he's served for the past four years, including in the role of Vice Chair. Powers said of his role as a board member, "The way I view the board is as a service position to the rest of the membership. This year's board, in particular, is exceptionally strong in policy, but a chamber of commerce is not only about policy. It's about providing the members value and keeping them engaged."

Over the years, Powers has been especially active on US-China relations and visa policies. One initiative that Powers led was persuading

"Nobody likes tariffs, but at the same time, it's got China's attention and there's nothing wrong with having a frank dialogue."

immigration to use e-channel processing at the Beijing Capital International Airport. The e-channel passenger clearance system was initially introduced in 2004 to speed up border immigration between Hong Kong and Macao, and mainland China, but in Beijing the airport had the e-channel equipment sitting unused for many years.

Being tired of standing in line himself, Powers saw an opportunity for helping both foreign businesspeople, who often found themselves in immigration queues of 800 people at the airport. Using the 'Venn Diagram of Mutual Interests' approach, the pitch to officials was that their immigration people were totally overworked, and that since they had all the necessary equipment sitting around, why didn't they put it to use like airports in other parts of Asia? A couple of months later, the airport began e-channel operations. Once again, Powers' strategy was to "help them help us." He said, "I'd like to think we gave them a little bit of a nudge, because it was pitched in a way that was very respectful and supportive of what they were already doing." Once they agreed, he added, AmCham China thanked them for their positive support. This kind of government relations work is exactly what Powers likes about being an AmCham China board member. Rather than pointing out blame, the initiative was positive for both sides.

This year there was another mutual success. Powers said, "Last fall we identified one of the more confusing issues related to the new Individual Income Tax (IIT) rules which was the five-year rule, and how would that be implemented. Rebecca Wang from Deloitte and I worked with the relevant authorities, again using the 'Venn Diagram of Mutual Interests' to point out that AmCham China supports full tax compliance, and that already overworked tax officials would be far better utilized prioritizing compliance rather than trying to figure out when hundreds of thousands of foreigners were last out of China for 30 days. The closing pitch was, since they had just come out with new IIT rules, why not just reset the clock from January 1st and have mandatory compliance going forward?" That was approved by the Ministry of Finance in March this year.

Trading Places

In the context of the trade dispute, Powers has also been looking into supply chain diversity issues with AmCham China. As companies adapt to tariffs, he predicts three basic kinds of businesses may well emerge: a) Export only manufacturing, b) Made in China for China, and c) Made in China for China, plus some percentage of export. He believes it will be interesting to watch how companies reduce over-reliance on China's manufacturing base. "China did a great job of building manufacturing infrastructure, but a combination of rising costs, labor issues, and companies realizing they are overweight in China is forcing companies to look at medium to long-term options, particularly export oriented firms." If you are completely reliant on one supply chain base and a crisis occurs, "You have big issues, because you may not have flexibility to relocate manufacturing, as we learned American companies were caught off-guard during the SARS epidemic and had no backup plan," he warned. "Japanese and Korean companies are superior at planning for China supply chain disruptions because they learned the hard way."

He also recognizes the influence of AmCham China when it comes to policy. "Since we have a very high-quality policy team, our opinion matters," he said. In the run up to the US-China trade dispute, AmCham China crafted talking points aimed at supporting free trade and market access during a "Doorknock" in Washington DC. The push was for reciprocity in terms of fair market access, not tit-for-tat necessarily. The White House effectively used those same talking points for a considerable amount of time, but he noted that "certain figures weaponized some of those." As a result, the team had to modulate language the following year so as not to take such an aggressive position. Powers sees the situation somewhat optimistically, saying, "Nobody likes tariffs, but at the same time, it's got China's attention and there's nothing wrong with having a frank dialogue." Overall, he says he appreciates being able to influence current events and the future direction of US-China relations as a private sector individual.

Powers says AmCham China must look to stay relevant through focusing on the members. The Chamber's Long-Term Strategy Plan, among other things, is addressing how to keep tailoring services to an evolving membership without compromising the primary goals of the Chamber. Looking towards the future, Powers says, "A Chamber of Commerce is all about building and supporting a community, not just policy, so we have to do a better job of that."

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Profile

Creating Access: On the Court and Off

By Jordan Papolos

Stephon Marbury was recognized as the AmCham China 2018 Pioneer Award winner for his significant contributions to the US-China relationship, both through exemplary leadership on the basketball court, and through a range of entrepreneurial and philanthropic ventures off it. With AmCham China's vision to strengthen cooperation and understanding between the US and China, the individuals selected to receive this award are usually those who have demonstrated visible contributions in promoting people-to-people relations between the two countries, something that Marbury has done continually over the past decade.

With US-China relations embroiled in a protracted dispute over intellectual property and open market access, the collective focus is framed around those butting heads and those who stand to lose in the fight for free trade. But, while representatives on either side battle for their nation's best interests, there are those who, despite the geopolitical environment, strive to make progress and create access for both sides.

One such person is former NBA and CBA star Stephon Marbury – winner of the 2018 AmCham China Pioneer Award – who has successfully bridged the US-China divide, creating added value for both sides through a search for commonality, collaboration, and mutual benefit. On and off the court Marbury has found success with his Chinese counterparts both in basketball and in business, acting as platform for access, and as a conduit for cultural understanding.

Marbury, a 1996 first round NBA draft pick and two-time NBA All-Star, first came to China in 2010 after leaving the Boston Celtics. Coming to a foreign land with language and cultural barriers that for most people would have been wildly prohibitive, Marbury instead saw new horizons in the unknown. "When I first came to China, I didn't know how long it was going to last," explains Marbury. "But when I came here, I pretty much said that I was coming to try something brand new. To do something different."

Finding Home

What Marbury found on his arrival to China was certainly something the NBA star had never experienced before. First touching down in Shanxi Province to join the Shanxi Zhongyu Brave Dragons, Marbury was greeted by the two extremes of the China experience. "It was hard – the weather, the pollution. That was all tough. And I had no idea it was going to be a long-term thing," says Marbury. But despite some of the more challenging aspects of living in China, what drew him in – and what ultimately kept him in China – was the same thing that drives him in all his endeavors: people and love, two things of which China has an abundance of when it comes to a person like Stephon Marbury.

Without knowing what to expect and before even dribbling a basketball in China, Marbury received what can only be described as a hero's welcome on the tarmac of Shanxi International Airport. Marbury explains, "When I first got to China, I landed to 5,000 smiling, screaming faces."

For Marbury, this outpouring of love was a breath of fresh air in the wake of his final stint in the US and in the NBA. Amidst personal tragedies and highly publicized conflicts between himself and former New York Knicks head coaches Larry Brown and Isiah Thomas, Marbury's reception in Shanxi was surely a welcome one. "I went from a place where everything was bad and negative to people who were smiling and laughing and happy to see me. It was like a new beginning."

With such a resounding reception, it is no surprise that Marbury would go on to accomplish so much in China. From the start, however, Marbury had a grand plan for the Middle Kingdom that went far beyond the court. Though he had little knowledge of what was in store for him on arrival and for his CBA career, what Marbury looked for in China, what he could not find at home, was opportunity. "My idea in coming to China," says Marbury, "wasn't just to play basketball. I was coming here to build my brand, and to build a bridge."

A CBA Slam Dunk

To do so, Marbury would first need to solidify his place in Chinese culture and with the people of China. With his first stop in Shanxi, playing with the Brave Dragons, Marbury had a great impact on the team's season. He was named the MVP of the 2010 CBA All-Star Game and consistently put up impressive numbers. Marbury next found himself playing in the starting five of the Foshan Dralions. It was in Foshan where he would lay the foundation for his meteoric rise to fame – not only in the CBA, but in all of China.

"It wasn't until I got to Foshan that I really started to get my game back and get back in the realm of playing to the best of my capabilities. That whole year was so needed," says Marbury. "I got to Foshan and I had an amazing experience: I got the chance to play

NBA Teams

Minnesota Timberwolves

New Jersey Nets

Phoenix Suns

New York Knicks

Boston Celtics

CBA Teams

Shanxi Brave Dragons

Foshan Dralions

Beijing Ducks

Beijing Fly Dragons

NBA All-Star

2001

2003

CBA Title

2012

2014

2015

with a group of guys that were leaving from one province to another." In 2010, the Shanxi Kylins moved to Foshan, newly rebranded as the Foshan Dralions.

For Marbury, this was an immense opportunity. Moving from Shanxi to Foshan meant the organization would need to completely rebuild its image and reputation, attract new fans, and prove themselves on the court in their new home. Marbury jumped at this opportunity, leading the Dralions in points scored in their inaugural season in Foshan, but more importantly, he was central to the team's rebrand as they looked to establish a new identity.

"I got to be the face of the organization for that year. I was there because they needed that face," says Marbury. "I fit perfectly into what they were doing and how everything was being orchestrated for them to move from Shanxi." In the end, this perfect fit paid dividends for Marbury and his team. For the second year in a row, Marbury played in the starting five of the CBA All-Star Game, gaining even more traction in the CBA, and raising his profile throughout China. Surprisingly, while Marbury found such great success in Foshan, his teammates held differing views about his future as a Dralion.

"After I got to Foshan I thought, 'This situation isn't so bad.' So, I talked to management about staying in Foshan. But my game had returned to the level of my NBA days, and my team said to me, 'You're not staying here. You're going to Beijing.'" Selflessly, the Foshan Dralions saw Marbury's potential and, rather than keep him in Foshan, they pushed him to go to the big city to become a champion. Marbury's ability to build bridges and collaborate with the Chinese people had already taken root.

Despite having relished his time in Foshan, Marbury heeded the words of his teammates and signed with the Beijing Ducks. Marbury lived up to his former teammates' dreams, and with his new Beijing Ducks teammates, brought home the 2011–2012 CBA championship. In doing so, Marbury cemented his career in the CBA, himself in Beijing, and his place in Chinese sporting history.

Ever the overachiever, Marbury did not stop with just one championship. In total, he would win three CBA championships, and receive two larger-than-life statues of himself and his team in Beijing. In Beijing today, Marbury is a hero and the love he feels is unrivaled.

Doing the Right Thing

With his legacy in China cemented and the foundation of his bridge firmly in place, Marbury has set his sights on other ways in which he can marry his ties in China to his aspirations of helping those back home – a dream to create access for those who have none.

"I feel like we all should have a social conscience and sense of responsibility to help our fellow man," says Marbury. "This is the only way, because not everyone is privileged. Not everyone can create for themselves. We know that because it exists, and it continues. We talk about what people should do. But they're not doing it."

Coming from an underprivileged home himself, Marbury sees an opportunity to do for others what wasn't done for him. "For me growing up in the projects, we didn't have a lot of money. But, we had a lot of love," says Marbury. "We always had food. All my siblings went to college. Four of them played Division 1 Basketball. Most people would look at a family coming from the projects and they would visualize them differently," explains Marbury. The projects, Marbury says, are not the problem.

"It's the attitude of the projects. It's not the projects themselves. And it's getting people living in the projects to reform their thinking – which is what I aim to do," says Marbury. This is where Marbury seeks to make his biggest impact, creating access where little exists.

Enter Starbury: Marbury's signature brand of basketball shoes and apparel. Though there is nothing new about an athlete creating or endorsing their own basketball shoes, Starbury is wildly different in one major aspect – the price. With most basketball shoes seen on NBA courts costing upwards of $150, Marbury sees an opportunity where a vacuum of morality now resides. He sees an injustice and a disservice being done to the kids and families of America, supported by those who used to be in the same position. The three-time CBA champion has publicly admonished other athletes such as Lebron James and Dwyane Wade for creating and endorsing exorbitantly priced sneakers that are so expensive and sought after that an estimated 1,200 people a year die as result of sneaker-related crime.

"I know that it doesn't cost that much money to make all these products. So why would I charge human beings an astronomical price for one item when they could buy a multitude of different shoes, clothes, and a variety of different things that they need for basketball, or to walk around?" asks Marbury.

Unlike most brands, Starbury provides an option for affordable, NBA-ready shoes and apparel. "I created shoes that you can buy for $15 that you can play with on an NBA court. Clothes that are under $15. $10 sneakers. $10 jeans. $6 shirts. I'm creating access," says Marbury. "And that was part of the plan, because I didn't have the access to be able to buy stuff like that. My mom couldn't do that."

Starbury Beginnings

Originally launched in 2006, it was imperative that Marbury find the right business partner that was willing to pursue a socially conscious brand that was functional, stylish, and available to everybody. Marbury found this partner in clothing retailer

Top: Marbury playing with kids at one of his "Stronger Me" basketball camps.

Bottom: Marbury (center) holding the 2018 AmCham China Pioneer Award, with Board Member Eric Hirsch (left) and 2017 Pioneer Award winner Scott Kronick.

Steve & Barry. Using funds from playing with the Knicks, Marbury and Steve & Barry began manufacturing their shoes in China and sold them in Steve & Barry stores. The initial Starbury product line included The Starbury One ($14.98), Starbury Crossovers, Starbury Cyclones, and the Starbury SXM (all $9.98).

The first Starbury basketball shoes definitively accomplished their goal of affordability, but more than that, they delivered on their promise of being equal in quality to $150+ brands like Air Jordan's. In March of 2007, Starburys were featured on ABC's 20/20 for a segment hosted by John Stossel entitled, "Enough!" On the show, Marbury made the claim that if you cut a Starbury One down the middle and compared it to any basketball shoe over $150, they would look the same. Stossel took this challenge and brought the Starbury Ones to Parsons The New School for Design's shoe design department to put Marbury's words to the test, bisecting the Starbury Ones and a pair of Air Jordans for comparison. The Parson's expert unequivocally proclaimed, "They're constructed the same way."

Despite having science on his side, Marbury would not be satisfied unless he truly walked the walk. And, when Marbury said his shoes could be worn on an NBA court, he meant it. On November 1, 2006, Marbury wore his Starbury Ones in an NBA game, and with great success. He continued to wear the Starbury Ones in every game that season and even garnered the support of fellow teammates, such as Steve Francis, who donned the sneakers in several games. As a result, Starbury's sales were strong, selling over 4 million pairs. Unfortunately, when the 2008 financial crisis hit, Starbury manufacturing and distribution partner, Steve & Barry, was one of the victims. In 2009, Steve & Barry was forced to shut down, closing a chapter on Marbury's sneaker and clothing line.

Starbury 2.0 – "I'm Vertical"

This would not be the end for Starbury and Marbury's dream to create access. Now a hero in China and a perennial business man who had worked on a variety of projects while playing in the CBA, Marbury is set to leverage his ties in China to revive Starbury. This time around, Marbury will not be beholden to partners like Steve & Barry. Instead, he is going straight to the source.

Having created the means for such an incredible opportunity through his CBA achievements and connection to the Chinese people, Starbury has all the infrastructure necessary to come through on Marbury's great ambition. "Coming to China, building out this portal, I can walk into factories and have conversations where we can try and do a light asset deal where they put up the capital for the product and we do a 59/41 split deal. Once they recoup all the money they spent for production, we split the profit. So basically, they're not doing anything besides putting a logo on for me. They already make those shoes. They're going to make them anyway," Marbury explains. "So now, with me being my own company, being able to make my own decisions, these are some of the bridges that I want to set up."

Marbury sees the opportunity, and moreover, the responsibility he has to create access. And, he's doing so to help those who can't help themselves. Marbury explains that he'll become "the pillar for all of those people at the bottom of the pyramid. That's what inspired [him] to come here. [He] came to China to try to establish the factories and establish the partnerships with companies that want to do good business like this." Marbury goes on to explain that, "I'm trying to do factory deals as oppose to doing a big deal with a company. I already have a distribution portal in America. I have my own brand. I'm vertical – I have everything already set up so that I can do business for the people."

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Playing Around the World

Founded by Josh Harris and David Blitzer, Harris Blitzer Sports and Entertainment (HBSE) own the Philadelphia 76ers in the NBA, the New Jersey Devils in the NHL, and run the Prudential Center in New York City, the eighth busiest arena in the world in terms of concerts and family shows, in addition to an esports franchise, a sports tech venture fund, an innovation lab and various other properties.

Scott O'Neil is the CEO of HBSE, a position he's held since 2013. A former President of Madison Square Garden Sports, O'Neil also spent seven years as the Senior Vice President of the NBA's Team Marketing and Business Operations group, and was previously President of HoopsTV.com, served as Vice President of Sales for the Philadelphia Eagles and began his career with the New Jersey Nets.

He is also the Co-Managing Partner and Founding Board Member of Elevate Sports Ventures, a sports and entertainment consultancy founded in partnership between HBSE, the San Francisco 49ers, Live Nation, Ticketmaster, and Oak View Group.

What are the keys to your company's success?

Scott O'Neil: We're pretty straightforward folks. Generally, our philosophy is to set out to create the greatest place to work in the world. You recruit, develop, and retain the best talent in the world and you create an environment and a culture that is based and driven by accountability, results, and a little bit of fun sprinkled in. We have about 450 employees so far and growing. Our headquarters are in Camden, New Jersey, right outside of Philadelphia. Our office is an incredible place to work. It's just inspiring. Of course, we have the early stage entrepreneurs, our innovation lab and that provides a special kind of energy, but it's just young, and fun, and full of hope and enthusiasm. It's the most fun place I've ever worked.

That sounds great from the employees' side of things, but as an employer what qualities are you looking to find in someone to see if they will be a good fit?

Scott O'Neil: You have to have technical excellence, of course, whatever the job is, but we don't think there's any substitute for hard work. It's the one thing you can absolutely control outside of your attitude. Next, we look for extraordinary teammates. We think our special sauce is how we work together. The third thing is a little unique, I think, in that one of our big focuses is on intellectual curiosity. The world is being disrupted and technology is a great kind of fuel to put on that fire. I don't think it's any different in sports and we are making sure that this organization is lean, nimble, and curious.

With so many different parts to the business, how do you as a CEO balance all your priorities and make sure that everything gets just the right amount of attention?

Scott O'Neil: I have two really supportive bosses and an incredible board that provide the resources that we need in terms of creating a world class organization. I have plenty of my own limitations, so I supplement those limitations with incredible talent and people. Our senior leadership team meets and agrees on what the priorities are, and we build plans around them. I don't want to over simplify it, but from my perspective, you hire the best people in the world, encourage them to build an incredible organization under them, make sure that they're recruiting talent and putting emphasis into training and development, and then, you hold folks accountable to what the objectives are.

As you start to think more about the Chinese market, what are you looking to achieve in this part of the world?

Scott O'Neil: We think the 76ers brand in particular has some tremendous global appeal. Of our five starters, four hail from different continents. Joel Embiid from Africa, Ben Simmons from Australia, Dario Saric from Croatia, and then,

Top: Philadelphia 76er Joel Embiid during the 2018 NBA China Games.

Bottom: Sixers fans wait for their heroes outside a hotel in Shanghai.

of course, two Americans. That gives us a different lens and we'd like to be one of the world's most dominant global sports brands. With an objective, aim, and target that we have, you don't have to look far to understand the power, influence, size, and scope of the Chinese market. The amount of people who watched our preseason game against the Dallas Mavericks is staggering. They have an infrastructure with CCTV and Tencent which drives interest in the game. [NBA China head] Derek Chang and the incredible leadership of NBA China has been pretty amazing, and I think gives us a big platform.

If you had to pick one of your properties, which one do you think has the most unrealized potential in China?

Scott O'Neil: Well, the good news is I don't have to pick one! Dignitas and esports we think there will be opportunity to be in that market. I was with R&G in Beijing and saw the arena they built, met the CEO there and was blown away by the power and appeal of esports in China. From our perspective, I think the Sixers will have the most impact the quickest. They are our crown jewel given just the sheer number of people who are playing basketball. However, with the Winter Olympics coming up and the commitment by the Chinese government to engage in winter Olympic sports, I think hockey is a pretty interesting opportunity too. Then, of course, there's our venture fund – we're looking for business all around the world. I wake up every day and I get excited about what we have in front of us, but I'm also excited about what we have in our pockets. There's just so much opportunity and fun.

You had several trips here over the last few months and your team is regularly following up. Can you give some specifics of what they're looking at in terms of initiatives, partnerships, and brand building?

Scott O'Neil: We have very much a long-term view, not unlike David Stern had when he put the first office in China in the 1980s. I worked for Commissioner Stern for almost eight years and learned from him that often times success doesn't happen overnight. Initially, our outreach is literally to go and connect and to meet people and to get people to know us and understand who we are and what we're about. Part of that is Tencent and Alibaba and the companies that I think are effectively changing the world and how we do it. Another part is being marketing partners. We did some marketing partnership deals which were fantastic. But for us it's about long-term relationships with the right people and building a sustainable business.

I think that comes in two forms, firstly in the form of confidence and then with marketing partnerships. We've been working with NBA China trying to get more games distributed. Our team has captured the hearts and minds of basketball fans around the world and I think we would like our media partners in China to put us on more. I think that the country will fall in love with Joel Embiid and Ben Simmons. Now, we've got to do our part here back in the United States and we've got to create compelling content that people want to see.

Above: A selection of shots from the 2018 NBA China Games, which featured the Philadelphia 76ers and the Dallas Mavericks.

In terms of producing that content, do you have someone who takes care of Chinese social media? Do the stars themselves have people who put out things on their own behalf?

Scott O'Neil: The players, through their agents and their marketing teams, certainly do some content. We have a Chinese-born, Mandarin-speaking employee who is absolutely outstanding that does a lot of content for us. We're looking to increase that number dramatically over the next several months. I think that our focus on content in the China market will multiply.

Are you potentially looking to buy a team in China, or would you focus more on giving advice and working with partners?

Scott O'Neil: Unfortunately, we're restricted from buying a basketball or hockey team just given the rules and regulations of the league. But, one of the reasons we started Elevate is to be a consultant for teams and owners who are building stadiums or arenas to operate more effectively, and to be able to take some of the best practices we've seen over the last 25 years in the NBA and the NHL and see if we might be able to help somebody along the way. We've had some pretty good successes so far. We have no deals yet in China, but I have a feeling that that's a market in which Elevate will spend quite a bit of time.

When it comes to hockey, what kind of initiatives are you looking at, and why do you think they could work in China?

Scott O'Neil: I understand that there's an initiative in China to have 300 million people involved in winter Olympic sports at the recreational level. Those numbers are inconceivable by a US standard. Even if you take a small sliver of that number and you put that into hockey – to the extent that the New Jersey Devils can provide some help to coaches or whether that's our players engaging in content on social media, or whether we'll finally have an opportunity for our team to come play some games in China, that's something that we're really excited about. The international rights for American sports are controlled by the leagues. So, it's incumbent upon us to make sure that the leagues know that we want to play in China, both for the New Jersey Devils and the Philadelphia 76ers, and as you can imagine we've made that pretty clear.

We had that opportunity in the NBA and hope to have that opportunity in the NHL soon. But hockey is more of a niche sport in North America than basketball and certainly that will apply in China, too, just because of the cost of playing and how hard it is to get ice time. That applies in the US as well as in China, but I think there are more obstacles in China. But I will tell you that there's nothing quite like the game of hockey watched live, and to the extent that we can bring some of that to China so that Chinese fans experience the best game on ice, the better off it will be.

Ideally, you want to engage more in China, but as a team, how do you evaluate the pros and cons with all that travel and disruption fairly soon before the season starts versus being able to engage in the Chinese market?

Scott O'Neil: Our coaches, our general managers, and our players have really embraced international travel. Our hockey team was in Switzerland and in Sweden this year and they would opt in again to do the same thing. I think when you have a job like mine you want to make sure that the general manager, the coaches, and the players understand that we're trying to drive value but that it's also an incredible opportunity for the players both to build their brand internationally and to have a great life experience. I think our players realize that. On our trip, the food was spectacular, the accommodations amazing, the fans and people of China embraced us with open arms, and our players came back humbled and appreciative of our experience.

The Bird's Nest Stadium has seen sold-out esports events in the past, so it's already huge here. What kind of gaming initiatives are you looking at, and would that be through the Dignitas team or maybe partnering with existing Chinese teams?

Scott O'Neil: We've fallen in love with the esports infrastructure and ecosystem. One small part of that is the team business. If one of the teams in China were interested in exploring opportunities in the North American market, we'd be really good partners and we've had some of those preliminary conversations. But generally, I think the bigger opportunity is the fact that there's so much entrepreneurship and innovation going on in esports and in China. Our venture fund is making some investments in esports, as is our innovation lab.

We have a company called U.GG and they help amateurs players in Fortnite and League of Legends become better players. They match their style up against the best players in the world and help them get better. The company is a year old and it's doing 1.7 million page views a day. It's crazy and we haven't really explored the Chinese market yet. But that's an example of a type of investment that we have made and what might be to come.

How China Is Responding to the US-China Trade Dispute

By Ines Liu

Amid ongoing trade negotiations, Beijing is taking steps to soften both the blows to its economy and tensions with Washington. With mutual tariffs deterring importers on both sides, the government has sought to diversify trade to countries such as India and Japan. But China's new Foreign Investment Law and Patent Law also appear to signal a willingness to appease international concerns over forced technology transfer and intellectual property protection. Meanwhile, additional tax incentives and calls for investment act as short-term fixes, but may not be enough to bring back business already leaking out of the country.

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As the calendar turns to 2019, the trade war between the US and China appears far from reaching a resolution. While Chinese President Xi Jinping and US President Donald Trump found some common ground at the G20 summit, significant gaps between the two sides remain.

Yet, despite the US tariffs on China taking their toll – the country's biggest economic challenge since the 2008 global financial crisis – the Chinese response has been characterized by relative restraint.

Rather than pour in billions in financial stimulus, as it did a decade ago, the government has introduced several targeted measures to reduce costs for businesses and consumers, and, more crucially, advance and expedite its broader reform agenda.

Here, we look at how China is bolstering its economy to mitigate the impacts of the trade war.

Diversifying Trade and Free Trade Agreements

Chinese exporters are staring at heightened tariffs when selling to the US, while importers of US goods have been hit with China's own retaliatory tariffs.

Since the trade war erupted, China has slapped additional tariffs ranging from five to 25% on $110 billion worth of US exports. This has meant that Chinese consumers and businesses face extra costs for importing almost any product from the US.

The extra tariffs are becoming a significant deterrent to Chinese importers: in November, China's imports from the US declined by 25% year-on-year. The dramatic decline partly reflects China's efforts to deepen relationships with alternative trade partners.

For example, beginning July 1, 2018, China cut tariffs for imports originating from India, South Korea, Bangladesh, Laos, and Sri Lanka. Among the products affected by these cuts were soybeans – a product that China imported $13.9 billion worth of from the US in 2017.

More recently, in its ongoing attempts to broaden trade partnerships, China pledged to import more agricultural products from India. Mutual interest in hedging against US trade actions even led to a rapprochement between China and Japan, who are traditionally regional competitors. Prime Minister Shinzo Abe paid his first visit to China – the first official visit by a Japanese leader in seven years – and said the two countries were shifting from competition to cooperation.

Further Opening-up

Chinese President Xi Jinping delivered a keynote speech at the Boao Forum in April of 2018 and announced certain major initiatives will be introduced in expanding reform and opening up.

Earlier this year, China announced a new Foreign Investment Law, which indicates the government's willingness to further open up its markets to foreign businesses and address complaints that have been prevalent among foreign investors.

It is significant that it has been released while China and the US have been engaged in a serious trade dispute and can be expected to alleviate some of the outstanding issues.

China's new Foreign Investment Law

Key points from the new Foreign Investment Law include:

- Government officials are prohibited from using administrative means to force foreign businesses to transfer their technology;
- Foreign investors enjoy equal treatment and market access with domestic counterparts in China, except in excluded sectors specified in the government's negative list; and
- China reserves the right to retaliate against countries that discriminate against Chinese investment with "corresponding measures".

China's Patent Law

China has even made moves to improve its intellectual property (IP) rights, which is an issue on the forefront of US complaints of China. Developments in this regard include the establishment of a dedicated national-level IP court and stricter IP violation punishments.

The recent published amendment to the Patent Law loosens up the current situation regarding the Chinese government's attitude towards foreign investment coming into the country.

Key points from the draft Patent Law include:

- Higher penalties for patent infringement;
- The term of patents extended to 15 years, up from 10 years currently; and
- Clarifying a shift of the burden of proof to the defendant under a duty to cooperate in providing relevant information.

Other Concessions to Ease Foreign Investment Restrictions

The new draft Foreign Investment Law is not the only concession China is making to ease foreign investment restrictions. It has recently relaxed regulations in its bonded zones and will permit domestic sales from such zones into the local market.

China has also cut tariffs for a large number of products, effective from the beginning of this year. Additionally, the new 2019 Negative List, which despite its name actually clarifies industrial sectors of China open to foreign investors, has also been released and has further expanded areas open to foreign investment.

Finally, as concerns the US-China trade dispute, our understanding is that it is likely the United States and China will reach an agreement. That, coupled with the easing of FDI rules and regulations in China, should ease the current question marks over the long-term viability of China-based export manufacturing firms, and buy them some time to adapt to alternative supply chains.

Simultaneous Tariff Cuts and Tax Reforms

In addition to deepening links with alternative trade partners, China has cut costs for both businesses and consumers to cushion the impact of the trade war.

On July 6 2018, the same day as the first round of US tariffs went into effect, China's tariff cuts on 1,449 categories of goods came into force. This lowered tariffs on consumer products like apparel, cosmetics, and home appliances.

Then, on November 1, China cut tariffs on a further 1,585 taxable items. This round largely targeted industrial products and materials used for manufacturing, such as electronic equipment, textiles, building materials, and paper.

To ease the strain on China-based exporters – who are among the hardest hit by tariffs – China first increased export tax rebates for 397 products, and then later increased export tax rebate rates more broadly.

For companies struggling under trade war pressure and considering downsizing, China recently announced incentives that would enable them to lower their unemployment insurance obligations.

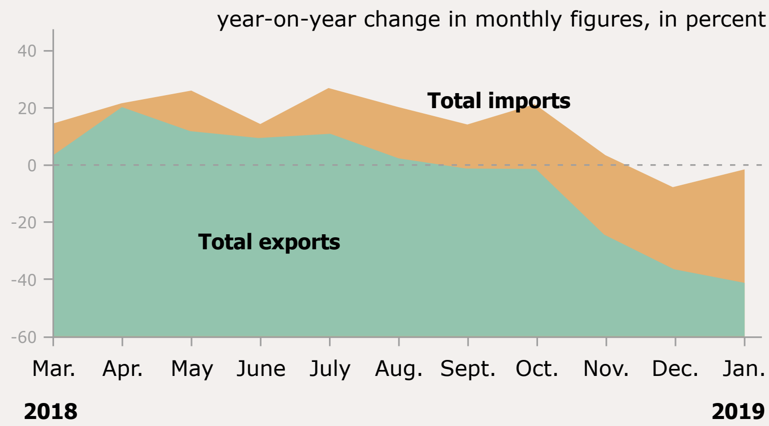
Moreover, China has expedited its individual income tax (IIT) reform to lessen the burden on low- and middle-income earners and encourage consumption. The new tax brackets took effect on October 1 – only a month after the law was passed – while the rest of the provisions came into force on January 1, 2019.

China's Corporate Income Tax (CIT) Incentives

China will cut RMB 200 billion ($29.43 billion) worth of taxes for small and micro firms, as the government seeks to stabilize the economy and stave off unemployment amidst a protracted trade war with the US.

The tax cuts, which were initially announced by China's State Council on January 9, 2019, expand the scope of preferential policies to apply to more firms and offer targeted support for high-tech investments. They apply to taxes paid from January 1, 2019 and will be in place for three years.

China's trade with the US has slumped due to tariffs



Source: China's General Administration of Customs

Pursuant to the Notice on Implementing the Policy of Inclusive Tax Relief for Small and Micro Enterprises, released by the Ministry of Finance on January 17, China will expand existing preferential policies for small and low-profit enterprises to apply to a wider range of companies.

According to the government, the preferential CIT rates will apply to 95% of corporate taxpayers and lower the total tax burden for qualified enterprises by five to 10%.

China's Value Added Tax (VAT) Incentives

In addition to expanded CIT incentives, the tax cuts offer value-added tax (VAT) exemptions for small-scale VAT taxpayers and other incentives have been introduced.

As well, regional governments are permitted to cut local tax items for small-scale taxpayers by up to 50%, and authorities will expand tax breaks for venture capital firms and angel investors that invest in high-tech startups.

According to recently released government statistics, China's GDP growth clocked in at 6.6% in 2018, hitting the official growth target of "around 6.5%" but the lowest rate since 1990. However, several regional economies such as Guangzhou and Shenzhen failed to reach their growth targets, and structural changes in the economy, an ongoing financial de-risking campaign, and the impacts of US-China tariffs have created further uncertainty about the health of the Chinese economy.

Broader tax cuts were announced at the annual Two Sessions meetings in March, where China's leadership announces its agenda for the year. Last year, Chinese Premier Li Keqiang announced that China would cut up to RMB 800 billion ($126 billion) in taxes in 2018.

Attracting Investment to Counter Trade War Effects – Streamlining Procedures

China has made great strides in improving its business environment over the past year, with the trade war speeding up forecasted improvements.

Most of China's improvements have come as a series of small but impactful measures to cut red tape and streamline business administration. This continues to be the case with new policies pushing for greater investment and trade facilitation, such as streamlined customs procedures.

Moreover, in 2018 the government further revised the policies for applying for CIT incentives. Now, if a taxpayer determines that they are eligible for preferential CIT policies, they may simply make the relevant tax declarations, without the need for record-filing with the tax bureau before or after. However, as the onus of determining eligibility is now on the taxpayer, they must accurately assess their status and comply with relevant regulations. Failure to do so could result in taxpayers having to pay back their full tax liabilities and could also expose them to potential fines.

China's State Administration of Taxation (SAT) issued the Circular about Further Optimizing Tax Deregistration Procedures for Enterprises in the last quarter of 2018. The notice introduces tax clearance certificate exemption, optimizes the tax deregistration service, and simplifies the documentation required and procedure for tax deregistration. The simplified deregistration procedures are aimed at accelerating deregistration procedures for certain qualified enterprises including foreign invested enterprises, or FIEs.

Speeding up Domestic Reforms

More than half a year into the trade war with the US, China's efforts to bolster its economy are relatively targeted and restrained.

Some measures, like export tax rebates and incentives to avoid layoffs, are clearly designed as interim relief measures for firms impacted by tariffs and trade friction.

Many other measures, however, appear to be speeding up the government's pre-existing reform agenda. RCEP, tariff and tax cuts, and the IIT reform are among policies that were already planned, but likely fast-tracked due to the trade war.

Nevertheless, China's strategy could be beneficial to the country's economic outlook beyond the trade situation. Moving forward with the structural transition towards domestic consumption and high-tech innovation will pay high dividends in the mid- to long-term. However, as the trade war continues and its impact intensifies, shorter-term emergency measures could quickly climb to the top of the agenda.

Corporations, Startups, and Open Innovation in China

By Daniel Hsu

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Corporate innovation expert Daniel Hsu breaks down how companies in China are engaging startups to maintain industry leadership in a rapidly-changing environment by analyzing their motivations and methods, and presenting a map of open innovation today in China.

In Ernest Hemingway's 1926 novel The Sun Also Rises, a character is asked how he went bankrupt. He simply responds, "Two ways. Gradually, then suddenly."

More recently, this quote has been used to describe how former incumbent corporations have been disrupted by innovative startups. Famous examples include Blockbuster, Blackberry, and Barnes & Noble. Once industry leaders, each has been felled — gradually, then suddenly — by upstarts Netflix, Apple, and Amazon, respectively. This disruption continues today and at an increasing pace. The average company lifespan has dropped from 90 years in the 1920s to 60 years in the 1950s to 17 years in 2018.

But this is old news.

A less recognized "gradually, then suddenly" phenomenon is that of corporations proactively working with external startups. The term "open innovation" refers to a company inviting or seeking new ideas from outside its own organization. At first, only a few large companies had formal programs to engage external entrepreneurs, but now, many companies are running experiments with outside startups. Gradually, then suddenly, all large corporations will soon practice open innovation as a basic requirement of staying competitive.

With regard to open innovation, the three questions firms most frequently ask are:

- Why work with startups?
- How can my company engage startups?
- Which corporations are already doing what in China?

Let's look at each of these three questions in turn, in order to put together an overview of the state of open innovation today in China.

Why corporations work with startups

Corporations have many reasons to launch open innovation initiatives, but these are the four most common drivers:

- **Early awareness**
  Corporations work with startups to be aware of innovation happening outside their organizations. Having a direct line to the entrepreneurs shaping the future gives corporations an early warning of emerging innovations that may disrupt their business models. Whereas market research reports rely on past data and are thus inherently backwards-looking, startup founders necessarily look to the future. Open innovation programs offer this critical forward insight, which is especially important in a fast-paced market like China.

- **Access to options**
  Once aware of potential disruptions, corporations can take action. But rather than rely on internal R&D divisions not suited for rapid response to external changes, firms may choose to work with the external innovators themselves. Early engagement with startups enables a corporation to potentially ride the impending wave of change, rather than be inevitably crushed by it. And engaging multiple startups via an open innovation program diversifies risk among several solutions, as opposed to committing resources to developing one in-house solution which may or may not succeed.

- **Talent development**
  A less appreciated motivation for engaging startups is talent recruitment and retention. For certain functions (e.g. product management, innovation), startup founders and their teams constitute a unique pool of talent. More immediately, joint activities with external startups can provide existing employees with new ideas and perspectives. This is particularly apparent in open innovation efforts that engage very early-stage startups. While these young teams lack any scale meaningful to corporations, they can catalyze the cross-pollination of ideas and even provide connections to future talent.

- **Organizational support**
  A very tactical, yet real, reason to launch individual open innovation projects is to build support for larger projects in the future. When open innovation practitioners are asked what their biggest challenge is, the most common response is internal buy-in. Innovation leaders frequently need to coordinate budgets, approvals, and competing interests within their own organizations. Given how new this practice is, many first efforts at open innovation are not ideal in scale or design but are instead launched as "stepping stones" to gradually garner organizational support for more strategic efforts down the line.

Whether listed above or not, a corporation's open innovation goals—and their relative priority—influence how it designs its initiatives with startups.

Three corporate models for engaging startups

Corporations work with startups in many ways. In theory, the only restriction is that a collaboration must benefit both the corporation and the startup. In practice, open innovation activities generally fall into one of three general models, each with its own pros and cons:

A. One-Off Activities: Fast & flexible

The first model of open innovation is the single, non-recurring event. Sometimes this can be a series of events, but the key difference from other activities is that the activity is finite. Hackathons (e.g. Mars' Redefining Retail Hackathon), startup challenges (e.g. Pernod Ricard's Ask Jerry Challenge), or other innovation sourcing activities (e.g. Sodexo's Open Innovation Day) are examples of this model.

The advantage of model A is that it does not require long-term resource commitments and is thus relatively easy to launch, especially if local partners are hired to manage implementation. Corporations often utilize this model in their first foray into open innovation for rapid learning, before settling on a more long-term direction. A possible drawback of such "light touch" activities is that they may not be as attractive to more mature startups.

B. Ongoing Programs: Diverse benefits

The second model is the ongoing program for startups. This can take the form of a recurring accelerator program (e.g. Microsoft's Accelerator, Merck's China Accelerator), a repeating startup competition (e.g. Bayer's Grants4Apps), or even a physical innovation hub from which to engage the startup community year-round (e.g. Li & Fung Explorium).

Model B is perhaps the most well-rounded, contributing to early awareness, access to options, talent development, and organizational support goals all at once. Importantly, its recurring nature can attract a higher caliber of entrepreneur. The flip side of being a continuous activity is the ongoing resource requirement for headcount, real estate, and other direct program expenses.

C. Committed Funds: Long-term investment

The final open innovation model involves committing investment funds for long

36x

Increase in CVC funding to Chinese startups 2013-2018, equivalent to a doubling every year for last five years

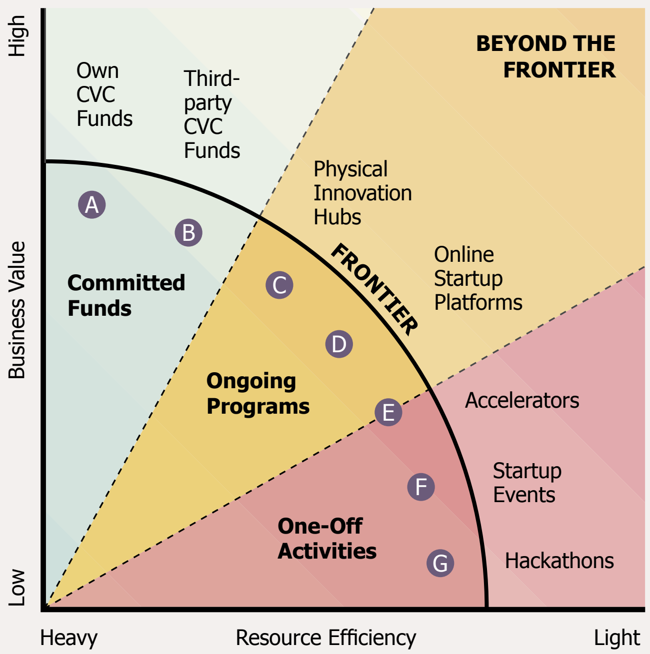
Source:
CB Insights

40%

Fortune 500 companies that will become irrelevant in the next 10 years unless they partner with startups, according to John Chambers, ex-CEO of Cisco Systems

Source:
Bloomberg

The State of Open Innovation in China



Notes:

1. Plotted on the x-axis is "resource efficiency," the amount of budget, time, and bandwidth required.
2. Plotted on the y-axis is "business value," the long-term impact on the company's competitiveness and success.
3. "Open innovation" here is defined as only corporate activities engaging external startups. Thus, not included are:
   a. Internal innovation initiatives (e.g. Intel Ideas2Reality, SAP Labs China, Mars Global Digital Innovation Center)
   b. Innovation service providers (e.g. Plug and Play, Chinaccelerator, XNode)
   c. University collaborations (Covestro-Tongji Innovation Academy)
   d. Conventional M&A

Data sourced from public information (e.g. websites, news articles, social media). This map is not exhaustive but presented as a framework with examples to make sense of open innovation activities in China.

Committed Funds		Ongoing Programs			One-Off Activities		
A	B	C	D	E	E	F	G
Own CVC Funds	**Third-party CVC Funds**	**Physical Innovation Hubs**	**Online Startup Platforms**	**Accelerators**	**Accelerators**	**Startup Events**	**Hackathons**
BASF	Alliance Ventures	Li & Fung	Bayer	Microsoft	Pernod Ricard	Sodexo	JLL
Baidu	China Materiala	Airbus	Walmart	ARM	GSK	Lego	Mars
Tencent		Johnson & Johnson	Singapore Airlines	Daimler	Coca Cola SCMC	Orange	CCB
Alibaba		PwC	Nestlé	Tencent			
Shell		Sanofi		JD.com			
				Philips			

periods of time. In these cases, corporations set aside funds for investing in startups, either by joining other limited partners in a specialized investment fund (e.g. Alliance Ventures) or establishing their own corporate venture capital (CVC) fund (e.g. BASF Ventures). In China, disclosed capital investment from these vehicles has grown 36-fold over the last five years.

The advantages of Model C stem from signaling long-term commitment to investing financially in startups. This attracts later-stage startups more able to work with a large company at scale. In turn, becoming an early investor into a startup can provide an especially deep insider's view into future trends, not to mention potential financial return. The disadvantage of this approach is its resource intensity. Besides multi-year fund lifetimes being well beyond the horizon for most executives, the legal set up of such funds can be tricky for multinational corporations, particularly given China's capital controls.

These three categories do not perfectly represent all possible open innovation approaches, but they do capture the majority of open innovation initiatives in China today.

A snapshot of open innovation in China

To illustrate this in practice, here is a selection of corporations with recent open innovation activities in China mapped out, as of early 2019.

The x-axis and y-axis represent resource efficiency and business value, respectively. Resource efficiency is the inverse of budget, time, and bandwidth required. Business value is the long-term impact on the company's competitiveness and success.

The ideal open innovation activity is infinitely efficient and infinitely valuable. Graphically, this perfect activity lies in the far upper right-hand corner. In reality, this is not possible. Instead, the curved line represents the "frontier" of what is possible with current open innovation approaches.

"Corporations are engaging startups not only for early awareness, but also for future options, talent development, and organizational support."

The three models described lie on different parts of the frontier. One-Off Activities (Model A) are resource-light, but have limited business value; they lie closest to the lower right-hand corner. Conversely, Committed Funds (Model C) create the most value over time, but are resource-heavy, so they lie closest to the upper left-hand corner. Meanwhile, Ongoing Programs (Model B) lie in between these two extremes, in the middle part of the frontier.

To be clear, "open innovation" here is defined as engaging external actors, startups or otherwise. Corporate innovation strategies that do not involve outside startups are not dealt with in this article. For example, activities not included on the map are internal innovation initiatives (e.g. Intel's Ideas2Reality, SAP's Labs China, Mars' Global Digital Innovation Center); innovation service providers (e.g. Plug and Play, Chinaccelerator, XNode); university collaborations (Covestro-Tongji Innovation Academy); and conventional M&A of large companies. These are each valid innovation strategies in their own right.

Beyond the frontier

More and more corporations are engaging startups. They do this not only for early awareness of innovations coming their way, but also for future options, talent development, and organizational support. Most efforts fall into one of three general models: One-Off Activities, Ongoing Programs, and Committed Funds. The resulting map of open innovation in China helps to make sense of which companies are currently doing what in China.

This framework, while simplistic, enables useful discussion around open innovation strategy. For example:

- **Picking a position**
  Given our goals, where do we want to be on the frontier? Do we value flexibility or can we commit for the long haul? Who else is in a similar position, and how do we collaborate or compete for startups?

- **Path to position**
  Can we go straight to our desired position? Or do we need to build organizational support via One-Off Activities first and then "climb the hill" to Ongoing Programs or Long-term Investment?

- **Optimizing position**
  How do we implement our activities to be on the frontier, rather than at some sub-optimal point short of the frontier? What resources—internal and/or external—can we align to maximize resource efficiency and business impact?

- **Pushing the boundaries**
  Once in position on the frontier, what can we do to go beyond the frontier? What better ways to work with startups might we invent to further reduce resource requirements and/or increase business value?

It's worth noting just how many companies, of all shapes and sizes, are already engaging startups in China and adopting open innovation practices. In Hemingway's quote, we seem well past "gradually" and much closer to "suddenly." Working with external startups will soon be the new normal for corporate innovation. Then, competitiveness may come from creating better partnership models to solve problems together with startups; not merely operating at the frontier, but expanding it.

Can We Rely on Machines for In-person Interpretation?

By Greg Eiselt

The man versus machine debate has been running for years, with various predictions made about when humans might become obsolete in certain industries. More specifically, when it comes to the area of translation, machines can already replace humans in some situations thanks to advancements in artificial intelligence (AI) and neuro-linguistic programming (NLP), but people are still preferable at other times.

Fifty years ago, in 1968, the US first began certifying certain combinations of planes and pilots to land using a machine. Today, planes don't always land themselves, but as a society, we've become comfortable enough with so-called "autoland" to trust our lives to the programmatic logic built into the machinery of an airplane. In 2019, we are often confronted with a similar "man vs. machine" dilemma: would you trust a machine to translate (or, more precisely, interpret) a live event?

The debate is especially acute since the human-powered solution can cost thousands of dollars for a one-hour meeting versus machines costing pennies in the form of API calls. Humans are almost always better quality, but are they worth a 1000x cost differential versus machines?

This question is too often answered in extremes. Those with careers in data science or natural language processing typically believe some variation of "all events can use machines for live interpretation." Practitioners of the interpretation and translation industries, on the other hand, often think that "machines will never outperform humans." The most thoughtful commentaries on this issue are essentially that "machines will not wholly replace translators, but translators who use machines will replace translators that do not."

Most executives do not have a one-size-fits-all approach to this question of "man vs. machine." They want a more nuanced way of assessing which solutions are best for a given situation. If a CEO is attending his daughter's "take your parent to school day" and having to give an example of what he does in another language, he's probably okay relying on his phone's Google Translate app to convey the message. If later that day, the same CEO has to address a group of international journalists to explain why his company's products accidentally killed users, he'll probably want a human interpreter.

But what about less extreme situations? As technology gets better, when does the scale tip in favor of machines? In a society that allows our planes to land themselves, when will we let machines translate speech independently?

Misfires and Repercussions

The following analysis judges live interpreted events and business meetings using a dual-pronged set of criteria:

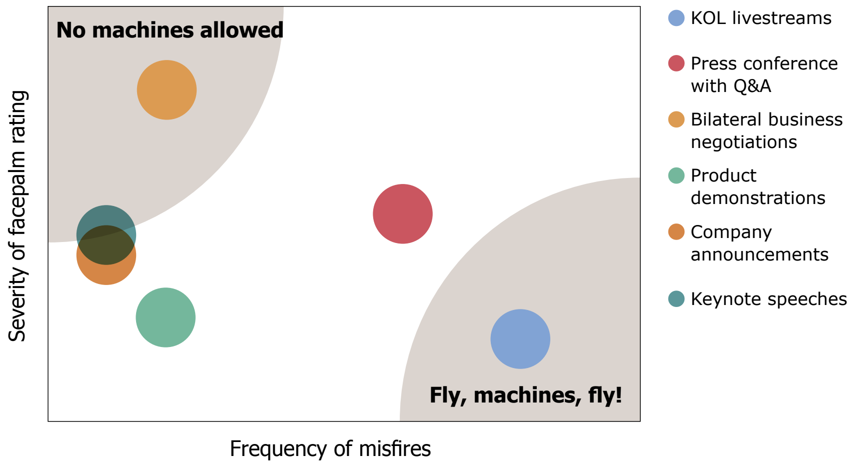
Misfires: How frequently do errors occur in interpretation?

Repercussions: How severe are the consequences of a misinterpretation?

The first question can be quantitatively answered. These are dubbed "misfires" because machines and humans are simply taking inputs and generating outputs. The key issue here is that any misfire, big or small, will distract the focus of a listener. Every time there is cognitive interruption, the whole event suffers. Our brains fix the interpretation quickly, but it pulls us out of the meeting, however briefly.

"Repercussions" cannot be measured quantitatively but can be assessed through broad generalizations here that will help us determine the risk factor of a given event. A key rule of this framework: all participants know if a human or a machine is behind the interpretation. This is not a rigorous scientific approach but intended only to provoke conversation through the following examples.

Risk analysis of events needing interpretation



Press Conferences with Q&A

Whether it's to announce a new product launch or address a major scandal, multinational companies are hiring translators to reach a larger audience and maximize their company's press coverage. As a result, translators are in high demand. The US Bureau of Labor Statistics estimates an 18% growth in the job market for interpreters and translators from 2016 to 2026.

Misfires: infrequent. Questions asked by the press during these sessions can be unpredictable, but company and government representatives tend to speak clearly and deliberately.

Repercussions: significant. Depending on the subject of the press conference, potential ramifications of Q&A misfires could range from some light social media skewering to substantial PR damage control.

Bilateral Business Negotiations

Senior executives walking into high-stakes business meetings want every advantage available to them. The ability to perfectly capture their messaging in their native language is one such advantage. Multinational companies wanting to expand their international business need business-savvy and accurate translations combined with knowledge of cultural differences in key meetings.

Misfires: infrequent. Representatives of both sides of a high-level business meeting will be polished speakers, but communication beyond words, such as nuance, tone, and humor, are still at risk of misinterpretation.

Repercussions: devastating. Misfires can lead to severe misunderstandings between partners, or even the collapse of a partnership as a whole. This is definitely a situation where the pilot, or human interpreter, should be "landing the aircraft."

Company Announcements

Like press conferences, a corporation's global launch of a new product or campaign will need translators to expand its reach. Software such as *Translate Your Conference* can simultaneously translate your event into up to 40 languages. The program offers voice-to-subtitle, voice-to-voice, and interactive translation to allow the audience to ask questions.

Misfires: practically non-existent. A prepared company announcement is highly predictable and carries little risk. The corresponding interpretation of the announcement is often prepared in advance.

Repercussions: manageable. Mistakes in company announcements are embarrassing but, like press Q&A sessions, are correctable and most likely won't have a lasting impact on the company or brand.

Planning for Your Event

There are dozens of options for events in the "no machines allowed" zone. It is important to find one that hires interpreters not just for their interpretation prowess, but for their industry knowledge and business savvy. Using professional business interpreters not only helps you to get your message across, expand your business and form firm business relationships, it also shows your will to communicate and work with your foreign partners.

For the "fly, machines, fly" zone, a few solutions exist on the market and have been deployed for events in Beijing. One is iFlyTek, whose 听见 (tingjian) product empowers event organizers with an on-site solution to display machine-generated captions on a screen. The smart device translates between four different Mandarin accents and over 33 other languages. A startup, Akkadu, is a hybrid model with AI assisting humans remotely to translate events.

Deciding whether to use machines or humans for live business events requires understanding of the industry nuances. Every year, the gap between misfires of machines and humans will close. Some events will remain forever out of the purview of machines, while other events may be overtaken by innovations in technology.

***Greg Eiselt** is the Marketing Director at Cadence Translate, a leading provider of language services to the global business and investment community. Through a combination of humans and technology, Cadence empowers clients to conduct better meetings, easily engage new markets, and glean greater insight from research and due diligence interactions.*

Evolution in Aviation

By Jordan Papolos

In 2016, the world's largest aerospace company and leading manufacturer of commercial jetliners, Boeing, celebrated its 100-year anniversary. Entering its second century, the aviation giant has placed great importance on its China operations, looking to leverage the domestic expertise and opportunities of the Middle Kingdom as a key driver in the company's continued growth and global expansion. In China, the firm's Vice President of Boeing Research & Technology, Elisabeth Martin, is one of the leaders helping to push forward the company's aerospace and organizational initiatives, increasing both innovation and diversity.

In her 28 years at Boeing, Martin has overseen Boeing's 10 years of R&D in China, as well as the launch of products such as the 787 Dreamliner. Now, her team, in partnership with Chinese firms and universities, is leveraging Artificial Intelligence (AI) and Internet of Things (IoT) technology to solve aviation problems in China, develop solutions applicable around the world, and ultimately improve customer experience.

Built at Boeing

As a veteran of the aerospace leader, Martin has traveled the world and worked her way up through the ranks of Boeing, spearheading impactful projects and overseeing the development of flagship products. She first got her start as an aerospace engineering graduate assigned to the 777 program during the eminent airliner's inception. Notably, the 777 program was an exemplification of Boeing's storied penchant for innovation, both technologically and organizationally. The 777 was Boeing's first computer-assisted control aircraft, with the first fully computerized cabin, as well as the first airplane ever designed using 3D computer-aided design (CAD) systems – before this, all airplanes were designed with 2D drawings.

Following her work on the 777, Martin underwent a unique transition within the company. "I went over to a completely different engineering position, a material review board engineering role, which is essentially a structural design and repair engineering position," Martin explains. This transition found Martin working on the production of the 767, dealing with new solutions for how to better interface between the designers planning the aircraft on paper and the machinists building them in the hangar. Her experience in this role would prove to be a formative one, influencing much of her future trajectory at Boeing. "I became fascinated with how people and processes affect our ability to be effective in our product design and builds," says Martin. "After that, I went back to school for a master's degree in whole systems design, looking at the integration of people and tools, and the processes that go into creating something."

Elisabeth Martin is currently the Vice President of Boeing Research & Technology China, overseeing overall functions. Her main responsibilities include formulating and implementing Boeing's R&D strategy in China, establishing and supervising research project portfolios with the aim of delivering mutual benefits for Boeing and China through innovation.

On April 10, Elisabeth Martin will be one of AmCham China's speakers at the 2019 Women's Economy Summit, the largest gathering of women leaders in the AmCham China community, with a mission to raise awareness of the key role women play in global economic development.

With her master's in hand, Martin then took her first managerial role at Boeing. "From that first management position I had a couple of other roles that centered around delivering aircrafts. Following these jobs, I ended up moving on to what was then our newest airplane, the 787 Dreamliner," says Martin. "On the 787 Dreamliner, I was the safety and certification leader. This led to me being offered the opportunity to become the deputy to the chief program engineer, responsible for the integrity and safety of our products."

It would be this role that inevitably led Martin to China, and to her current position as Vice President of Boeing Research & Technology in China. "During my time on the 787, I ended up spending a fair amount of time visiting China. And then, a job opportunity came up to come and live in China and focus on our airplane certification activities in Beijing," Martin explains. "That was a very interesting problem because it was really looking at the complexity of China and their interest in developing their own domestic airplane manufacturing business, as well as their curiosity about the certification of our products."

Boeing China Today

Martin says there is no such thing as a typical day's work for her at Boeing China. "My job varies greatly, which I really enjoy. I'd say that we have more of an average annual experience or an average year," says Martin. "Over the course of the year, I focus on identifying meaningful projects that deliver mutual benefit to China and to Boeing, working on three main areas. At the beginning of last year my team identified these areas and they continue to be relevant moving forward."

Through an in-depth analytical process, Martin and her team established the areas that her business unit would give priority to in order to support Boeing following its 100th year milestone, and to allow Boeing's China operations to flourish in its second decade. "We went through a vision and mission refresh," she explains. "The first area we've identified is innovating to solve aviation problems. The second area is partnering with universities and institutions to build a talented aviation community in China. And third is strengthening Boeing's competitive advantage by creating value for China and focusing on sustainable aviation growth with our partners in China such as COMAC, China's domestic airline manufacturer."

Martin and her team now work to address these three areas for the China market such that the resulting solutions can be applied globally. "I think some of the aviation problems that we look to solve are problems that are specific to Boeing, and some are specific to China, and some are specific to our customers," says Martin. "If you look at the aviation industry in China, one of the areas that is mutually beneficial to China and to Boeing is being able to access data and information about the Chinese airliner fleet. This can help our customers to better understand how to maintain their aircraft, allowing them to focus on the specific areas

"Most companies don't get to be around for 100 years, and we want to make sure that we're around for another 100 years. We've really been focusing a lot on the rise of technology, on the ability to process data, artificial intelligence, and on urban mobility."

777

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11

Boeing Research and Technology China is one of 11 R&D centers belonging to Boeing worldwide. There are 5 centers in the US and 6 more around the world.

50

Boeing was ranked a top 50 company for diversity in 2018.

"D&I is part of our enduring values. It is a part of who we are, and how we do business."

where their aircraft need more attention, and consequently be prepared with parts ready to address any situation."

Innovation in Aviation

In its continuing effort to serve both the Chinese and global markets, Boeing China is leveraging the expertise of local academic institutions through partnerships to solve specific pain points in the aviation industry. "We have a number of projects working directly with universities and institutes. Largely, our scientists in house at Boeing work together with their counterparts at the institutions, identifying meaningful research that we can pursue together. Then, we tap into the capabilities available in China," says Martin. "We identify the right talent to be able to support a project, and then we develop a statement of work and partnership. That way, we can achieve the objectives we're looking for. We've got a number of partners that we've been working with for a number of years. There's an incredible amount of talent in the universities in China."

In addition to partnerships and collaborations, Boeing China also puts great effort into innovating from within. "There's a lot of disruption going on in aviation and we actually have a group in Boeing called HorizonX that is looking into what's going on in the startup ecosystem," says Martin. "I'm sure we're not the only company that's saying we are looking to disrupt ourselves before we get disrupted, but the way that we're doing that is by paying attention to what's going on around us and identifying where there's opportunity, such as investing in startups so that we can learn with them."

A recent example of Boeing's investment in startups is a virtual and augmented reality company called Upskill. Martin describes how Upskill delivers a greater experience in both manufacturing and production. "Upskill uses augmented reality and virtual reality glasses to improve production flow time, as well as the production employee experience." Upskill, through its proprietary Skylight platform, allows workers to interact with a simple and intuitive software interface, directly in their line of sight through smart glasses and a range of other smart devices. For Boeing, Martin explains, "Upskill is developing applications which use these glasses to free up the workers hands, and free them from having to go back and forth between complex parts that they're building and the guidebook or laptop that they're using to build those parts."

Serving as more than just a head-up display, or HUD, the integration of this technology provides even more comprehensive benefits to workers. "Just looking at the part and using these glasses, they're able to verbally give instructions to the glasses to provide information directly in their line of sight to assist them in the buildup of the part," explains Martin. "So, for example, in the area of wire harnesses, which are these very complex length of multiple wires that connect together and are integral to the correct construction of an aircraft, this is an area where Internet of Things technology is really going to be of benefit to Boeing, and I'm sure to many other industries as well."

This type of focus and investment in innovation is, Martin says, a pivotal strategy for Boeing and Boeing China as they deal with the pressures of being at the top of the aviation sector, and their intention to stay in that primary position. "It's actually a big time for Boeing. We celebrated our 100th anniversary in 2016. We're now in our second century as a manufacturing company. But we're very aware of the fact that we don't get to just keep existing simply because we've existed this long," she describes.

"Most companies don't get to be around for 100 years, and we want to make sure that we're around for another 100 years. We really have been focusing a lot on the rise of technology, on the ability to process data, artificial intelligence, and on urban mobility, which is a huge area of opportunity for Boeing. We are looking very closely at this phase and have a number of activities to think about and develop products for this phase."

Diversity and Inclusion at Boeing

Martin has worked for nearly three decades in what has traditionally been a male-dominated industry. And while her success at Boeing is undeniable, it has not come without its challenges. "One of the major difficulties for anybody that looks different from their peers is that you tend to have fewer leaders that you might model yourself after," Martin

Above:
Martin speaking at a recent Women in STEM event in Beijing.

describes. "As a woman, if you have a lot of male leaders that might be your models, then you face the well-documented issue where some behaviors that are accepted in male leaders are not accepted in female leaders. You end up having to create your own model of leadership. It's a bit more of a challenge when you're not necessarily able to see yourself in the leaders around you."

Martin also notes the issues she has faced in meetings in which she's had to navigate an environment where few female voices exist. "I do think that it can be harder for a woman's voice to be heard in a meeting room which is mostly populated by men," says Martin. "I would say that's true for any minority person in a room of people that are different from them. It becomes a challenge that you've got to work through." But while Martin notes that though you can't always be the first to speak up at meetings, you can bring added value to a conversation based on your own unique strengths. "I tend to be the person that does a lot of listening before speaking. As such, I start noticing connections between things which others in the room may not have noticed, which can bring valuable insight to the discussion. I don't worry too much about being heard in areas where I'm not bringing a unique perspective. If there's something that others are saying in the room that I'm also thinking, then I'm happy for them to be the ones to say it."

Despite having faced these issues previously, Martin has witnessed a landscape at Boeing that has changed immensely over the years, with leadership looking to set new standards by placing great focus on diversity and inclusion (D&I). "Our CEO, Dennis Muilenburg, is very focused on D&I for our company's future, and that probably has to do with the fact that going into our second century, we know that talent is an extremely important element of our strategy – diversity of thought and inclusion are a key factor in ensuring we are fully harnessing the contributions and capability of our talented work force," says Martin. "You can see the changes reflected in our executive council. The last three years since he stepped into the role of CEO, the executive council has gone from including one woman to being 50% female and/or minority. That has been very encouraging to see the direction that the leadership of our company is taking and the example that they are setting at the top."

Boeing leadership not only sets a great example from the top, but also ensures through various initiatives and groups that diversity and inclusion are a systematic philosophy, such as through the Boeing Women in Leadership Association (BWIL). "Boeing has established a number of business resource groups where employees share a common interest such as ethnicity or race or sexual orientation, and then they come together to advance inclusion and enable business results," Martin says. "BWIL in China was actually just formed last year as part of the focus that Boeing has on shifting towards being a more global company and advancing their attention to inclusion of all of their employees around the world."

Boeing sees D&I as a significant factor in its future. The firm has made clear that every person must be able to come to work and be able to be their best selves, which can only happen when each person feels safe and comfortable at work. Martin continues, "Dennis and our executive council really see that people are the strength of our company. I had the opportunity to go to the Boeing leadership meeting at the beginning of this year and was able to personally witness the significance that is being given to this topic at the highest levels of Boeing. We have priorities which are set for all of our senior leadership that hold them accountable for promoting inclusion in the workplace."

The importance of D&I to Boeing is even further underscored by their D&I council, which sits at the executive council level and is responsible for setting the company's diversity and inclusion strategies, reviewing progress on a regular basis. "D&I is part of our enduring values. It is a part of who we are, and how we do business," says Martin. "We also have been recognized on multiple external benchmarks for our D&I achievements, including being ranked a top 50 company for diversity in 2018. From my own point of view as a leader, for an R&D team which is outside of the United States, I see it on an everyday basis. The value of the work that is being done in our organization can only be leveraged if the R&D team that we have in China is included by the other R&D departments and product teams that we have around the world. If we're not leveraging the value of our talent in that way, we're really missing out. So, as we become a more global company, it becomes more important that we continue to build on a culture of inclusion so that we can benefit from our global talent."

AmCham China Forums and Committees

AmCham China's Forums and Committees are the lifeblood of our advocacy, industry relations, and community development. We have Forums and Committees focusing on industry sectors, corporate functions, and special issue-based interests that well represent American businesses operating in China as well as the active membership of our community. Forums and Committees allow members to:

- Use AmCham China as a platform to drive foreign companies and industry-based advocacy efforts
- Hold dialogues with regulators and industry stakeholders to influence the business environment
- Share information and ideas specific to their industries
- Meet like-minded people for professional development
- Generate contacts for business development

If you are interested in joining any of our **Forums and Committees**, please contact the corresponding member of staff listed below.

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Juhui Huang, BRF China
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Automotive Forum [1]

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Business Sustainability Committee *

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Jasmine Tian, Coca-Cola
Lluvia Wu, UPS

Chinese Government Affairs Committee [2]

Bing Zhou, Dell
Elizabeth Pei, Disney
Dennis Zhang, Honeywell
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Compliance Committee [3]

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Susan Munro, Steptoe & Johnson

Cosmetics and Nutrition Forum [1]

Jun Zhang, Mary Kay
Edison Chen, Johnson & Johnson
Jane Yan, Amway

Customs & Trade Forum [3]

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Annie Wang, Bayer
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Wei Ding, Oracle
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Training Forum [10]

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Exploring Changes to the IIT Law

By Yongmao Guo

AmCham China scored an advocacy win earlier this year after successfully lobbying the government to "reset the clock" – effective as of January 1, 2019 – for the new six-year rule under which non-China domiciled individuals would not be subject to IIT on their worldwide income if they either spent 183 days or more outside of the mainland in each of the previous six calendar years or had spent more than 30 consecutive days outside of the mainland during that same timeframe. This article outlines that change and others made to the IIT Law.

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In order to implement the Individual Income Tax (IIT) Law revised in 2018, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) released the Exposure Draft of the Revised Implementation Regulations (IRs) for the IIT Law, and the Exposure Draft of the Interim Measures for Special Additional Deductions (SAD) for IIT on October 20, 2018. Recently, the finalized Revised Implementation Regulations for the IIT Law (2018 IRs) and the finalized Interim Measures for SAD for IIT (IMSAD) were released. Both have taken effect as of January 1, 2019. The 2018 IRs explains in detail the:

- Residence time standard
- Scope of income
- Deduction items

These changes will have substantial impact on foreigners living in China as they impose a more stringent test and a lower threshold period for tax resident classification.

Other changes affect how income sources are classified inside and outside of China and how deductions are determined around different types of investments. One of the aims of the new law is to ease the burden on low- and middle-income earners while getting tough on foreign and high-income workers.

While some aspects of implementation have yet to be determined, the changes require exploration of the hard specifics that will affect foreigners and foreign businesses in China this year.

Increasing Residence Rule to Six Years

The new IIT Law has changed the residence time standard of "resident individuals", replacing the "1 year" standard with a "183 days" standard, making it easier for overseas individuals to become "resident individuals" of China.

Nevertheless, in order to attract and retain overseas talents, the Exposure Draft of the IRs increases the previous "five-year rule" to a "six-year rule", which reserves tax relief treatment for foreign individuals who do not have a domicile in China.

If overseas individuals stay cumulatively for 183 days per year in China for no less than six consecutive such years, they shall pay PRC IIT on their global income starting from the seventh year.

Meanwhile, for overseas individuals who become PRC tax residents only because they meet this standard, if they leave China for more than 30 days in a single trip in any year during which they become a tax resident, the consecutive year count restarts. Although this has made it easier for overseas individuals to become "resident individuals" of China, people can reasonably reduce their risks of being subject to PRC IIT by applying the "six-year rule" and planning a "non-temporary trip out of China".

Adjusting the Scope of Income

The Revision adds the clause "unless otherwise stipulated by the State Council's fiscal and taxation departments" to the source of income judgment criteria. The fiscal and taxation departments can exclude certain circumstances stipulated in this Article from being regarded as income sourced from China, but they are not allowed to create other circumstances outside those stipulated in this Article.

In the Exposure Draft of the 2018 IRs, it stipulated that business operation income, equity capital gains, and author's remuneration/contingent income paid/borne within China shall also be deemed as income sourced from China regardless of whether the place of payment is in China.

However, in the officially promulgated 2018 IRs, these three types of income are excluded from this provision. Additionally, the phrase "properties such as buildings, land use rights" is changed to "properties such as immovable property," expanding the scope of the "payment-place-regardless provision".

In the 2018 IRs, the scope of "business operation income" has been adjusted compared to the Exposure Draft of the IRs. For example, the 2018 IRs no longer requires "holding a license" for the income derived from engaging in educational, medical, consulting, and other compensated services.

In comparison to the 2011 IRs, the provision "income derived by an individual engaged in contracted operations and leasing operations as well as subcontracting and sub-leasing operations" in the 2018 IRs no longer includes "income of wages and salaries derived by individuals on a monthly basis or for each project" as a part of "business operation income".

Additionally, the Revision includes a legislative confirmation that transfer of property in partnership operations is taxable. Further, "news" and "broadcasting" are deleted from the list of "income generated from personal services". However, this does not mean that individuals engaged in these industries are not allowed to obtain "income generated from personal services".

Another change is that interpretation power is recalled to the highest-level tax department of the PRC. The Revision stipulates, "If the specific category of taxable income derived by individuals is difficult to be classified, it shall be determined by the State Council's taxation department." In comparison, the 2011 IRs and the Exposure Draft of the IRs gave the power of determination to "tax bureaus in charge".

Not Adopted: Deemed Transfer of Properties

The Exposure Draft of the IRs drew on relevant provisions of the Implementation Regulations for the Enterprise Income Tax ("EIT") Law and introduced the concept of "deemed as sales" into the IIT field, meaning certain activities will be "deemed as transfer of taxable properties" and "transferor is deemed to obtain income generated from the transfer". However, in the 2018 IRs, such provision is not adopted.

Prior to the Revision, tax treatments regarding donation are not consistent in many aspects. For example, taxpayers are deemed as transferors (donors) or transferees (recipients), applicable taxable income items regarding transfer of shares, houses, gifts from enterprises, red envelopes issued online and so on are categorized differently, and taxation regulations in different provinces are also different in technical positions. Below are some examples:

- If an individual transfers his/her house without getting compensation, the recipient may need to pay IIT as per "other taxable income". This regulation was cancelled in the 2018 Law.

- If individuals distribute cash red envelopes online between each other, such income of the recipient is not IIT taxable income and the recipient shall not be subject to IIT. However, if an individual obtains cash red envelopes online from an enterprise, the recipient may need to pay IIT as per "accidental income".
- If an individual transfers equity shares without getting compensation, the tax authority might adjust the transferor's income and the transferor shall pay IIT as per "income generated from transfer of properties".

Stipulating the Scope of Deduction Items

Before the revision of IIT Law and its implementation regulations, the MOF, the SAT, and other departments of the State Council issued relevant policies stating that expenses for paying or purchasing enterprise annuities/occupational annuities, business health insurance, and tax-deferred commercial pension insurance can be deducted for IIT purposes.

However, some of them stipulate deduction under a certain ratio, some stipulate deduction under a certain threshold amount, and some apply to specific pilot areas with an ending date. The 2018 IRs, conversely, does not stipulate any specific provisions regarding the limitations, applicable areas, and applicable time period of relevant expense deductions. Therefore, previously issued regulations are subject to adjustments in accordance with the 2018 IRs.

Releasing Separate Regulation to Stipulate the "SAD"

The SAD items are further deductible items besides the basic standard deduction (60,000 RMB/year) and special deductions such as basic pension insurance, basic medical insurance, unemployment insurance, and other social insurance premiums detailed in IMSAD. SAD includes six deduction items for expenses of:

- Children's education
- Continuing education
- Medical treatment for major illness
- Housing loan interests
- Housing rental
- Elderly supporting

The State Council may adjust its scope and standards according to changes of people's expenses of education, medical care, housing, pensions, and other livelihood expenses.

IMSAD states that when taxpayers enjoy SAD treatment for the first time, they shall submit the relevant information to withholding agents or tax authorities. If that information changes, they must inform the authorities. The submission, storage and confidentiality of this relevant information will likely require more resources and attention from taxpayers and withholding agents.

The document also stipulates that relevant government departments and units bear responsibility and obligation to provide SAD information to tax authorities, but if they fail to do this, the person-in-charge and related personnel bear responsibility. The materials will then be retained for five years in case of future inspection.

According to the Notice on the Effect Linkage of Preferential Policies after the Revision of IIT Law issued by the MOF and the SAT, during the period from January 1, 2019 to December 31, 2021, if an overseas individual meets the conditions of tax resident, the individual may choose to receive SAD treatments or to receive preferential IIT treatments for foreigners, but not both simultaneously. Once the choice is made, it may not change within a tax year. Starting from January 1, 2022, overseas individuals will no longer be able to choose the IIT exemptions and can only claim SAD.

Other Revisions Relating to Deduction Items

The 2018 IRs stipulates that "where an individual who derives business operation income does not have consolidated income, when computing his/her taxable income of each tax year, expenses of 60,000 RMB/year, special deductions, SAD and other deductions determined shall be deducted" ("Specific Deductible Items", the "SDI"). The Revision resolves previous inconsistencies on how to calculate business operation income and by adding the SAD deduction gives preferential treatment to business operators.

On the other hand, the 2018 IRs states that if the relevant business operator "has consolidated incomes", then the SDI can only be deducted when calculating the business operator's taxable income amount of the consolidated income, and not when calculating the business operation income. That is to say, if the amount of consolidated income is not large enough, in certain circumstances, the loss of SDI tax benefits when calculating business operation taxable income will be larger than the SDI tax benefit savings when calculating the consolidated income tax payable amount. In order to avoid the "passive negative impacts in tax benefits" under specific circumstances, new tax regulations may need to be issued to clarify the meaning of these provisions.

Additionally, the 2018 IRs deleted from the 2011 IRs provisions about "additional deductible amount" (1,300 RMB/month) that can be claimed by "taxpayers who do not have a domicile in China but receive income of wages and salaries in China or taxpayers who have a domicile in China but receive income of wages and salaries outside China."

Although the full implications of the changes in the 2018 Version of the IIT Law remain to be realized, they certainly tighten tax burdens on foreigners and foreign businesses in China. Therefore, foreigners and foreign businesses operating in China will find reviewing the changes to be an imperative. Stay tuned as more specific guidelines are released in the coming months as Beijing determines how to effectively implement the new policy.

***Yongmao Guo** is a partner of Haiwen Law Firm, focusing on general tax advisory, tax dispute resolution support, and tax structuring. This article was produced in partnership with LexisNexis, a leading global provider of legal content and technology solutions.*


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