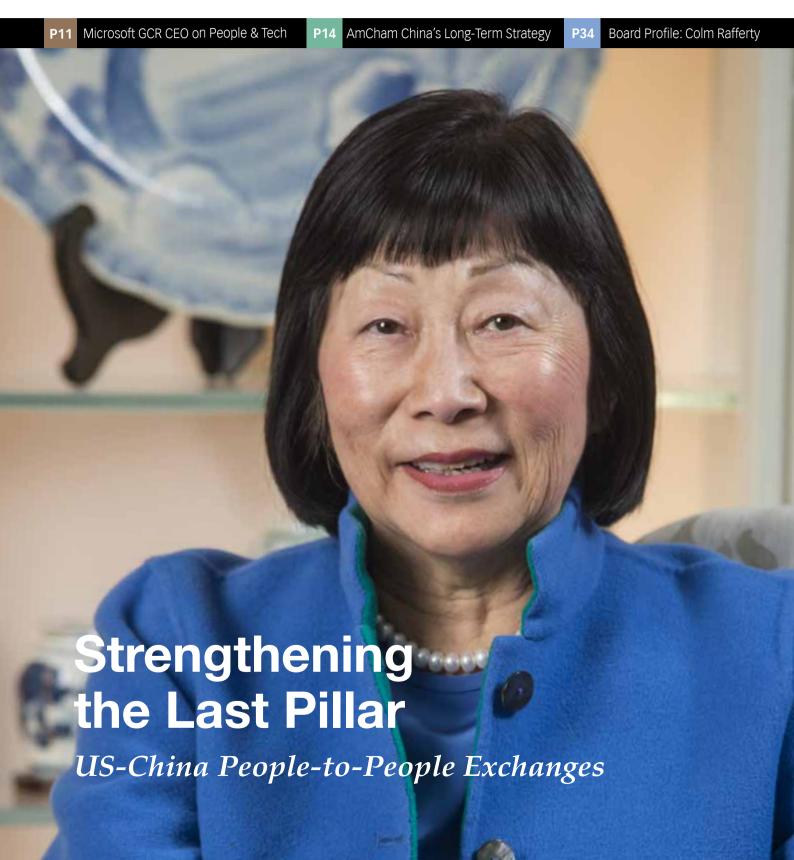
## **AmCham China**

## QUARTERLY

Issue 4 **2019** 

Executive insights, interviews, and intelligence for business in China



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## **QUARTERLY**

## Editorial

Director of Marketing and Communications

Mark Drever

**Magazine Editor** 

Jordan Papolos

Designers

Jin Peng Zhang Hui

Cover Image

US-China Education Trust

## Contributors

Tim Stratford

Tu Le

Enoch Li

Erla Magnusdottir

Lexis Nexis China

Pierre Wong

## Sponsorship

## Please contact Connie Zhao at

- 🕝 (86 10) 8519-0861 or
- czhao@amchamchina.org

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## Contents



## Strengthening the Last Pillar

## Policy

P.8

AmCham China 2019 Pioneer Award Winner **Elizabeth Knup** discusses US-China relations

P.50

Some notable FCPA cases in China, and how to make sure you are in compliance with the law

## Technology

P.11

It takes more than technology to digital transform. **Microsoft** GCR CEO **Alain Crozier** explains why people will always come first in any business

P.20

**Tu Le** from **Sino Auto Insights** breaks down how all business will need to transform through the lens of the auto industry

P.24

**Boeing Tianjin Composites** Chairman **Ian Chang** recounts his two decades in the aviation industry

P.42

**CDP's** HR SaaS platform's 360 solution to managing human capital

## Business

P.14

After a year-long process, AmCham China is proud to announce the results of the Chamber's Long-Term Strategy Project

P.17

**Fernando Vallina**, **ExxonMobil China** Chairman and CEO, describes the keys to

chairman and CEO, describes the keys to identifying opportunities in China as the leader of an MNC

P.22

Winner of the 2019 CSIA award for Empowerment of Women, **Bespoke Travel Company** explains to AmCham China what it truly means to have empowerment as a core value

P.36

Mental health may be one of the key indicators of your company's long-term success

P.39

Healthcare expert **William Stockley** details how Western drug companies face new competition in China

P 44

In-depth legal insights into cases of trade secret disputes

## Profile

P.31

**Scott Zhang** explains how **Honeywell China** is part of the journey to lead the advancement of technology

P.34

Long-time AmCham China Board Memory **Colm Rafferty** recounts his history with the Chamber and work on the Long-Term Strategy Project











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## 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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## AmCham China Corporate Partners

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The AmCham China Corporate Partner Program provides exclusive visibility in chamber activities and communications across our numerous platforms. The current partners are:















## Closing Out a Momentous Year

As we close out the 100th year since the Chamber was first founded, I'd like to share thoughts on what has been an extremely eventful year.

Given the hugely significant inflection point we are experiencing in bilateral relations, AmCham China has stepped up to meet these challenges in a manner worthy of the American business community in China.

In Washington, DC this year, we met with one fifth of all Senators, as well as important members of the Trump Administration – including some of the most senior officials involved in the trade negotiations – and co-hosted the 10th China Business Conference. In Beijing, we've had countless meetings with senior Chinese government officials, published the *Business Climate Survey* and *White Paper*, helped members through the tariff exclusion process, and led two Business Investment Outreach (BIO) trips.

We've also helped to shape the messaging during this important transition with impactful and timely statements on the latest developments in the trade dispute, and a record number of mentions in both domestic and international media outlets.

Through it all, our industry-focused Forums and Committees have collectively held over 150 events, analyzing pressing issues, securing important advocacy wins, and sharing best practices. Our nine Signature Events included the 20th editions of both our HR Conference and the recently concluded Appreciation Dinner attended by Vice Premier Hu Chunhua and Ambassador Branstad.

New this year, we began a series of Public Diplomacy Programs funded by the US Embassy on a variety of topics. Meanwhile, we have welcomed 150 new member

companies this year, as we pivot to a more segment-focused model of interaction with our members.

Both because of our history in conducting periodical refreshes of the Chamber's purpose and because of recent issues in the bilateral relationship, 2019 was also the perfect time for us to complete a Long-Term Strategy Project, about which you can read more on pages 14-16.

This year-long process included commissioning two consultancies, conducting more than 100 interviews, benchmarking peer organizations, developing four financial models for possible alternative macro-environment scenarios, and two board-level reviews. As a result, we have refreshed both our Vision and Mission, devised a strategy based around four key dimensions, and outlined both a three-year roadmap and the Chamber's key upcoming priorities.

I would like to recognize the extraordinary contributions made this year by the officers, the Board, and the Chamber staff, all of whom have shown remarkable commitment in overcoming some large obstacles. After serving on over a dozen AmCham China Boards spanning three decades, I am stepping down at the end of this year after my third term as Chair, but still hope to support the next Board by working on some significant projects as Chairman Emeritus.

Thank you for the very meaningful opportunity I have had to serve together with and get to know many of you. **Q** 

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:

















# Driving Social Change

At the 2019 Annual General Meeting, the Chamber's prestigious Pioneer Award, which recognizes those who have made significant contributions to the US-China relationship, was given to Elizabeth Knup. Based in China for more than two decades, she has been head of the Ford Foundation's China office since 2013, responsible for the Foundation's strategy in China and overseeing all grantmaking in the country. Previously she served as Chief Representative of Pearson PLC, one of the world's foremost education and publishing companies. Having started out at the National Committee on US-China Relations, she also served as the American co-director of the Hopkins-Nanjing Center for Chinese and American Studies, and was an AmCham China Board Member from 2006-08 and Co-Chair of the Chamber's CSR Committee from 2005-07.

"I am deeply honored to be recognized by the American business community here in China," Knup said. "Since the earliest days of my career, I have focused on strengthening the fabric of US-China relations across business, academic, and civil society sectors. Now, more than ever, we need to work together, across sectors, to shape a workable framework to guide the US-China relationship for the coming decades. AmCham China is critical to that effort. And, I plan to be working on it, too."



Photo courtesy of Elizabeth Knup

Below is an abbreviated version of her remarks at the AGM, followed by a Q&A between Knup and the AmCham China Quarterly.

Laura Ingalls Wilder was my childhood hero. I still occasionally imagine myself in a sod hut on the prairie, twisting dried corn husks into fuel to feed a dying fire in the midst of a wild winter storm. Laura was enterprising and optimistic, and almost everything turned out fine in the end - Pa rescued her before she froze to death.

In my real life, my career in US-China relations followed a path that had been blazed by others. There were well-worn ruts across the prairie and through the woods of language study, academic research, and the world of work.

I was privileged to study and learn from true pioneers - John Berninghausen taught me to speak Chinese with half-way decent tones and after two years studying with Harriet Mills at the University of Michigan, long phrases of Communist rhetoric could fly off my tongue. Jan Berris and Mike Lampton at the National Committee on US-China Relations introduced me to the world of US-China relations and the fundamental importance of dialogue and peopleto-people exchange. At the Hopkins-Nanjing Center, I learned the value and power of young people. And then Ginny Kamsky moved me to Beijing and introduced me to the world of business. Now, at the Ford Foundation I can build on work initiated by many who preceded me.

Not only was I fortunate to learn from others, I was also fortunate because my journey traced the dual arc of China's astonishing period of reform and opening, and the blossoming and promise of stronger US-China relations.

Today, we find ourselves at a challenging moment in US-China relations. You might say we are in the midst of a wild winter storm and we need to keep the fire burning so we don't freeze to death. We need pioneers for this new phase of US-China relations. We need people who are clear-eyed about the reality of a risen China, people with knowledge and insight about both countries, people who can find a way to balance both the shared and divergent interests on both sides, and people who are willing to do the hard work to forge a new path forward.

I followed earlier pioneers, and have walked beside many amazing people on my journey. Now I look forward to joining the next group of trailblazers to ensure that China and the United States find a way to lead together in a world where our challenges are complex and demand cooperation to find solutions.

You talked in your speech about Laura Ingalls Wilder. Explain a little bit about who she is and why she was your childhood hero.

Elizabeth Knup: Laura Ingalls Wilder was an actual person who wrote the Little House on the Prairie series of books for young adults, focusing on her childhood in a family that was pioneering in the US and opening up new areas in the American westward expansion. In the stories, she talks about all sorts of different challenges that she and her family face - snowstorms, floods, and so on – as they make their way across the United States. But they overcome all the challenges, and it's very positive and uplifting.

When I read the books, I was about the same age as the character, 10 or 12 years old. She was brave, she had the ability to be creative in finding solutions, and she always managed to get out of some uncertain situations. In all those ways, I identified with her and found a hero in her.

Which other heroes have you had in your career and how have you sought to emulate them? What kind of legacy would you like to leave for others?

Elizabeth Knup: A lot of heroes that I have are the people who I mentioned in my speech, those who went before me and who I sought to follow in my career. Those people have all played a role in inspiring me towards the career that I have had, and supported me along the way. Julia Chang Bloch (see pages 28-30) is a perfect example of a true pioneer, who has devoted her life to this same idea of understanding the US-China relationship by engaging people through important and difficult discussions. She provides the same kind of inspiration that it is possible through quite determined efforts to make a difference.

The legacy that I would want to leave is, what can I do to help inspire and support other young women who are seeking a career with which mine might resonate? China is at a new stage of openness and US-China relations are in a different place today, and so the opportunities for people now are different than the ones that were there for me. But the legacy I would like to leave is being open to possibilities, being willing to shift what you're doing to new areas, being open and curious, and being an inspiration for that future.

## What China-related achievements have you been most proud of to date?

Elizabeth Knup: The thing I'm most proud of is the time I spent at the Hopkins-Nanjing Center for Chinese and American studies. The project was the education and awareness building of a cohort of students every year to be as bicultural as possible and reach a deeper level of mutual understanding than we normally get. That project is incredibly successful. It's really hard and you have to be thinking creatively all the time about how you engage young people in a positive and constructive way to face hard issues together and to get to the other side, which is where the real mutual understanding comes from. The fruits of that work are everywhere. The students that have left the Center are all doing amazing things, with a higher level of awareness of other people that I think is desperately needed in the world today.

You were an AmCham China Board Member from 2006-08 and you've also been an active member of AmCham China for many years. Talk about some of the activities you've been involved with.

Elizabeth Knup: When I first came to Beijing from Nanjing in 2001, I started to work for Kamsky Associates and I was really interested in the intersection of my old NGO academic life and my new corporate life. That was also when AmCham's CSR Committee [now the Business Sustainability Committee] was first formed. I became a co-chair of that Committee, alongside Andy Andreasen.

It was great time, because US companies hadn't yet developed their CSR approaches towards China, so it was a time of experimentation. We published a book that showcased all the member companies' CSR projects to share best practices about how to engage in CSR activities in China.

My time on the Board was also a really meaningful period for me, being among the leadership of AmCham China, and thinking about the kinds of issues that were important. Having a community that you can share with and learn from has always been an important part of the AmCham experience.

One of AmCham's new goals is to become a Track II type organization. What kind of advice would you give in terms of how it can help with the future of the US-China relationship?

Elizabeth Knup: I was really interested when Tim Stratford mentioned [at the AGM] this idea of moving into the Track II area. There are a lot of Track IIs, so that's something to be aware of, and to see where an AmCham-driven Track II can fill a gap that isn't already being filled by think tanks and others. The gap is around issues related to business, trade, IPR, and other core issues relevant to AmCham members - the intersection between the interests of members with gaps in the US-China discourse. That's the sweet spot and where the opportunity lies.

You talked in your speech about the "freezing winter" in US-China relations. How optimistic or otherwise are you about the future?

Elizabeth Knup: Obviously I was trying to be cute in my speech! But I have to say, I am an optimist by nature, just as Laura Ingalls Wilder was. I've also been around long enough to know that nothing ever stays the same.

I also believe the US and China really must figure how to govern big areas of global governance together and with other stakeholders or the whole world will be at risk. I do believe we will get to a place where the two sides reach some sort of equilibrium



### Above:

Elizabeth Knup delivers her acceptance speech after receiving the 2019 AmCham China Pioneer Award

Photo courtesy of AmCham China

"We are in a very turbulent period of uncertainty where one way of engagement is unraveling and a new one hasn't been woven together yet. A lot of the difficulty of transition is managing that turbulent part in the middle."

that allows for a high degree of cooperation in areas where we can - and should - cooperate, as well as more acute areas of competition where our interests are less aligned.

We're going from a place where everything's good to a place where we're much more realistic about where we can collaborate and really be powerful together, and where we need to be less collaborative but not let those pieces override the other areas where we can work together for global positive development. I'm not sure when that is going to come, but I am quite confident that it will. It has to.

We are in a very turbulent period of uncertainty where one way of engagement is unraveling and a new one hasn't been woven together yet. A lot of the difficulty of transition is managing that turbulent part in the middle. That's why it feels so cold right now. Q

## Software, Services, and **Cultural Shifts**



Alain Crozier is Corporate Vice President, Chairman, and Chief **Executive Officer of Microsoft** Greater China Region (GCR). In his current capacity, he is responsible for strategic and operational leadership covering all of Microsoft's product, services, and support offerings across Greater China, and for advancing Microsoft's position as an innovative industry leader, and a socially responsible enterprise that embraces diversity and inclusion. His leadership is in support of the company's vision of enabling digital transformation for the era of an intelligent cloud and an intelligent edge.

Microsoft Greater China Region CEO Alain Crozier discusses his history in Microsoft, the future of business, and the implications for the global community.

At the 2019 AmCham China Technology and Innovation Summit, you led your keynote address with the statement, "The world runs on software". Can you elaborate on that, and why it's such an important message for businesses to understand today?

Alain Crozier: Today computing is everywhere. It's in our pockets and on our wrists, it's in our cars and even our appliances. Advertising, entertainment, finance, manufacturing, and frankly every industry is relying more and more on computing. Whether it's fixed computers, or sensors and other "edge" devices, industries everywhere are relying on distributed computing to collect data and then derive insight.

There will be more than 50 billion of these devices in the world by next year. That's all made possible because of cloud computing and its capability to absorb and reason over massive data sets, anywhere and everywhere. That ability to reason is thanks to advances in AI - which itself is becoming infused in every experience mediating our experiences and distilling knowledge from all of these interactions. The interaction model between humans and computing is no longer so much about a specific device, but instead it's about all of the devices in our lives.

The ability of all of those devices to work together, the AI algorithms, and the capabilities that create those adaptable experiences are all derived from the underlying engineering and the code - the software. So that's why we say the world

now runs on software.

It's important for businesses to understand this for several reasons, not the least of which being that the old model of having an IT department solely in charge of decision-making and procurement surrounding technology is simply no longer practical. Technology is everywhere now, and every leader needs to have it top-ofmind for core strategic decision making about where the company is going and how it can best invest in technology.

How does an understanding of "the world running on software" impact how businesses should look at digital transformation strategically and from an implementation/execution perspective?

Alain Crozier: In a world that runs on software, every company will become a software company. Whether that's building an app to better engage your customers, implementing IoT to optimize the factory floor, or creating algorithms to streamline procurement decisions, companies will be creating new value, and their own IP, with software. This is digital transformation. Becoming a software company is about leading a fundamental change in your company, creating conditions where technology becomes part of the fabric of your business.

But it's not entirely about technology. Perhaps the greatest mistake that we see time and again is people try to create new value by looking at technology

for the answer. There is an idea that "if we just use more technology, we'll see things improve".

Our view is that digital transformation is first, and foremost, a people story. People plus technology. Technology is just a tool to help people do more, to solve bigger problems to create more rewarding experiences, and to create more value. So, there are a few things that companies that succeed in digital transformation do to empower their people.

The first is mission and vision. Change starts at the top and so the vision is perhaps the most important. It's what directs your people towards a single north star. The vision needs to be articulated as a strategic mission - a mission that tells everyone in and surrounding the organization what they are truly working towards.

Culture goes hand-in-hand with mission. You want people inside the organization to be unified and working with shared values and ideas that always put customer success front and center. You want a culture where teams are connected and elastic enough to respond to changes as they come up. You want to encourage risk-taking, a testing and learning orientation, and management that leans into collaboration and coaching. Organizations with cultures that continually invite change - and accept the diversity of personalities, ideas, and approaches required to drive an organization forward – are those that do best with transformation. That's certainly been the case with Microsoft.

Of course, to unlock the potential of your people and achieve these transformations, organizations that do best are continually developing a wide range of capabilities. But especially their human capabilities – do they have the right people with the right skills, and are they helping them grow with constant upskilling initiatives? Do they have a solid pipeline of talent and partnerships with an ecosystem of talent?

In a world that runs on software, leaders have a lot on their plate, but the opportunities are tremendous and the alternatives to transforming to survive and thrive, frankly, are few.

## Can you provide examples of Microsoft's transformation relative to the above-mentioned concepts?

Alain Crozier: More than half of the Fortune 500 companies listed in 2000 no longer exist today because of their failure to adapt and transform. Microsoft saw major forces and innovations in the technology space like the internet, mobile, cloud computing, open source, OS diversity, and business model shifts like free, ad-supported services. We knew we had to stay agile and transform quickly so that we could best serve our customers. The reality is that our customers were experiencing significant disruptions too. So, what did we do?



We changed our mission in a way that was both true to our original aim to put a computer on every desk and in every home, and yet more reflective of the impact of our work and the world we saw around us. That new mission is to empower every person and every organization on the planet to achieve more. It's a big and bold mission that really frames everything else that we set out to do.

That leads to our worldview (that continues to evolve) of an Intelligent Cloud and Intelligent Edge, based on the idea that computing is everywhere - from smart devices and sensors that can speak, listen, and take action with the power of AI, all the way to computer-enabling remote parts of the globe - without requiring "always on" connectivity to the cloud to make real-time, context-aware decisions. We believe this intelligent edge will define the next wave of innovation.

In our case, you can see that culture could not just be words on paper or a topic we like to talk about - it had to be the legitimate foundation for action around all this change. At the end of the day, transformation is challenging, it is a journey, and it needs a culture that is committed to change.

We believe potential is nurtured and not pre-determined. We should always be learning and curious. We should try things and not be afraid to fail. We identified four attributes that allow growth mindset to flourish and vice versa: obsessing over what matters to our customers, becoming more diverse and inclusive in everything we do and create, operating as one company instead of multiple siloed businesses and lastly, making a difference in the lives of each other, our customers, and the world around us.

We've moved from prioritizing transactional relationships to prioritizing quality engagement and quality consumption. Most of our new products are sold as subscriptions or based on consumption of services. This shift means that the deal is fluid and

## Left

Alain Crozier speaks to AmCham China's Digital Circle members at the Microsoft and AmCham China co-hosted CXO roundtable event.

## Photo courtesy of **AmCham China**

## Right

Alain Crozier delivers a keynote speech at AmCham China's 2019 Tech and Innovation Summit.

Photo courtesy of **AmCham China** 



"[Our] new mission is to empower every person and every organization on the planet to achieve more. It's a big and bold mission that really frames everything else that we set out to do."

> ensures that customers are getting the best use out of their products.

In the past, our strategic decisions were based on building and contributing to the Windows ecosystem. Now we make sure that consumers of Microsoft services have the best experiences, no matter what platform they're using.

Rather than thinking of partners as resellers, we think of them as thought leaders in their domains and we work with them to design and implement the best experiences for customers.

Lastly, and maybe most importantly, we think of customers differently. They are not just customers they are partners. We work with them to build their own platforms, their own capabilities to become technology companies.

How do you view the AI race between the US and China? Where does either side have competitive advantages? Will it always be competitive or is there room for collaboration?

Alain Crozier: I think the framing of a race for some sort of winner-take-all AI supremacy is not terribly accurate, though I understand the appeal of that simple lens. The fact is, there are and will remain to be many interdependencies between AI development in the two countries; artificial intelligence is not developed on isolated tracks.

Chinese companies have invested billions in US firms involved in AI, and US companies rely on Chinese manufacturing and other industrial technologies that will be increasingly important for them as AI is deployed in more and more things like robots and drones.

Knowledge also flows across borders. Researchers between China and the United States share data, co-author papers, and generally work on similar problems. And all the big companies involved in developing AI are also collaborating in certain respects. Baidu belongs to the Partnership for AI, a consortium Microsoft helped form, which is focused on safe AI development.

AI is not a zero-sum game either. AI applications in areas like healthcare—systems that improve cancer prediction, for example - could greatly improve outcomes and quality of life in both nations.

Microsoft has long served as an academic, technological, and cultural bridge between China and the US, with a history of collaboration to advance the state of knowledge in IT, including around AI. Our largest R&D facility outside of North America is in Beijing, at Microsoft Research Asia, where we employ nearly 3,000 scientists and researchers. An example of this bridgework is the Global Innovation Exchange (GIX). Microsoft was the first corporate partner with Tsinghua University and the University of Washington (UW) to create GIX which now has a campus in the Puget Sound region where students and innovators from around the world come together to conduct research and get practical training in skills urgently needed for the future global economy. These multicultural teams help solve real-world global business challenges, innovate new business models and more, all firmly anchored in the digital world.

We are optimistic and open, but we're not naïve. Each nation has its own national security interests around some technologies, for example, with equities that we need to address ourselves and among all our partners and co-developers. Issues around data governance, IP protection, and the like remain challenging at times. Microsoft has a core set of principles that guide our work with AI and we are constantly pushing our industry and governments to adopt policies that embody them. AI must be designed to augment human capabilities. It needs to be transparent, maximize efficiency while protecting human dignity, provide intelligent privacy and accountability for the unexpected, and guard against biases. Q

## AmCham China's Five-Year Strategy

Revealed for the first time at the Annual General Meetina in November. the following pages lay out the key highlights resulting from the Chamber's Long-Term Strategy Project.

The current nature of the US-China economic relationship has created unprecedented challenges for many AmCham China members, yet significant market opportunities for others. Just as China has its five-year plans, AmCham China embarked on a year-long journey to prepare its own five-year strategy to provide a roadmap to success for its members.

Overseen by the 2019 Board of Governors, the project encompassed all major aspects of AmCham China - from the vision and mission, membership, programs and services, government affairs and policy, marketing and communications, organization and culture, and information technology. The project incorporated peer organization benchmarking, a membership survey, over 100 interviews, financial scenario analyses, board workshops, and two full board-level reviews.

AmCham China commissioned two consultancies to perform market research, conduct a membership survey, and provide analyses and recommendations. Colm Rafferty (Vice Chair and head of the Long-Term Strategy Task Force), Alan Beebe (President) and Henri Tan (Sr. Director, Member Operations) led strategy development, with support from the Board of Governors and staff.

Each of our four Cooperative Programs (covering aviation, agriculture, energy, and healthcare) have also prepared three-year strategic plans to position themselves for maximum success in the years ahead. Further, most dimensions of the strategy involve partnership, support, or services related to the Cooperative Programs.

AmCham China Vision, Mission, and **Principles of Conduct** 



## **Vision**

We are a member-driven organization dedicated to improving the business environment in China and promoting constructive and sustainable US-China economic relations



## **Mission**

Helping American companies to succeed in China by providing advocacy support, networking opportunities, insights and business support services



## **Principles of Conduct**

How we conduct ourselves is an important driver in our ability to achieve our vision and mission. We will:

- Represent the common interests of members in advocacy efforts with US and China governments
- Advocate based on principles of objectivity, facts, and serving the interests of member companies
- Stay in our lane focused on the business environment and US-China economic relations
- Put people our members, colleagues and stakeholders first, based on respect and teamwork
- Exercise transparency and openness in our communications with sincerity and professionalism
- Manage the Chamber as a world-class professional services organization serving members
- Foster a professional environment where staff and members can learn and grow
- Operate at the highest level of integrity and excellence in all we do

There are four dimensions to the strategy, namely Membership; Programs and Services; Government Affairs and Policy; and Infrastructure. These four dimensions are synergistic and based on the overall guiding principle of member-centricity in all that we do, and a need to

continuously evolve the value proposition to all members, especially in today's new environment. Each of these four strategy dimensions is summarized below.

Chapter strategy and provincial advocacy efforts are naturally integrated across all four strategy dimensions. The strategy

includes a three-year strategic roadmap incorporating prioritized strategic initiatives for each dimension of the strategy to be implemented incrementally, in a manner that considers interdependencies between them. Watch out for all the changes to come in the months ahead!

## AmCham China Strategy (2020-2024)

	Membership	Programs and Services	GA and Policy	Infrastructure
1	Further strengthen member service-oriented culture	Broaden segment- oriented Forum and Committee programs	Transform to a powerful "Track II" business organization organized around industry segments	Information Technology: Adopt the latest technology solutions to enable strategies and maintain cutting-edge Chamber operations
2	Adopt new segment- oriented approach to ensure value for members	Refine value proposition for SME member companies	Build a robust L9 Chamber's platform to enhance synergies and impact amongst foreign chambers	Marketing and Communications: Broaden our reach and impact with members, stakeholders, and influencers
3	Improve AmCham engagement with members through the use of technology and key performance metrics	Focus training programs to address future business needs	Strengthen local government partnerships as part of a "go local" effort	Organizational Excellence: Build a world-class professional services organization, focused on core competencies
4	Strengthen support for large corporates, while serving SMEs	Enhance value for members and other customers through broader sponsorship services	Boost capabilities for research products and services	
5	Expand Chinese private company engagement for the benefit of members	Introduce new services that provide better value for members	Broaden platform to communicate social impact and contributions of members	

## Chapters and Geographic Regions

Integrate strategies with Chapters, provincial advocacy, and local relationship building

## **External Macro Environment Scenarios**

Adjust strategies if/when scenarios change to ensure long-term financial vibrancy of Chamber

## Long-Term Strategy Project Timeline



Selection of Consulting Firms and Approval from Board of Governors

Jan 2019 Project Kick-off with 2019 Board of Governors **Full-Day Workshop on Consultancy Findings and** Recommendations Jun 2019 Jul - Aug 2019 Aug - Sept 2019 Feb - May 2019 **Further Board Board Review and Comments on Market Research and Analysis and** Strategy and Roadmap **Interim Progress Reports Decisions for Key Areas of Strategy** Oct 2019 Final Approval of Strategy and Roadmap by Board **Officers** 2020 Strengthen Foundation Three-year Roadmap 2021 2020 Strengthen Foundation

## Strengthen Foundation

Put priority focus on Infrastructure Strategy — especially Information Technology — while, in parallel, further strengthen the Chamber's member-services oriented culture, pilot end-to-end member segmentation strategy across Membership, Programs and Services, GA and Policy, and Marketing for key segments, measure and manage engagement for members , and refine value proposition for SMEs. Update Constitution and By-Laws where necessary.

## **2021** Focus on Impact

Roll-out new technology solutions offering highest impact across the Chamber. In parallel, expand number of large corporate members within scope of end-to-end member segmentation strategy, expand ability to measure and manage engagement for members, and implement the mid-priority initiatives of each strategy dimension.

## 2022 Scale Strategy

Further expand number of large corporate members within scope of end-to-end member segmentation strategy, maximize and measure engagement for all members, and finalize implementation of remaining initiatives of each strategy dimension.

**Focus on Impact** 

2022

Scale Strategy

## Fit for Success

By Jordan Papolos

Fernando Vallina, Chairman and CEO of ExxonMobil China, joined ExxonMobil in 1987. Throughout his 33-year career at ExxonMobil, Vallina has worked around the world and across functions, gaining the global perspective and acumen that brought him to his role today, leading the energy giant in one of the world's largest markets, China. Starting in Spain, then to Belgium, Hong Kong, Saudi Arabia, the United States, and now in Beijing, Vallina is responsible for redesigning ExxonMobil's China footprint as global tides shift and business models are forced to change.

While only in his third year as Chairman and CEO of ExxonMobil China, Fernando Vallina is no stranger to the Middle Kingdom. Vallina has been working in China over the past two decades through numerous roles with ExxonMobil, the result of which has provided him with not only a storied career, but also a unique perspective on China's historic growth and insights into ExxonMobil's worldwide operations. Through many years of experience and cross functional leadership, Vallina has gained a deft hand at spotting the strategic opportunities for MNCs in the market - both historically and now, as the world adjusts to China's rapid expansion and as China seeks a new space on the global stage.

"I first came to China in 1997, to Hong Kong specifically, where I stayed for four years," says Vallina, "I arrived literally two weeks after The Handover of Hong Kong. At the time, I was building up a small business unit that oversaw specialty assets and alcohols within one of Exxon-Mobil's chemical companies. I did that for a relatively short period of time – about a year and a half. Then I spent three more years as the regional sales manager for one of our other chemical businesses."

Thanks in part to his first China visit, Vallina has a particular insight into the

meteoric growth of China's economy, infrastructure, and technological capacity. Comparing the China he was welcomed by in 1997 to the China of today, Vallina describes the two as, "totally different universes".

"The China that I first visited in the late '90s and the early 2000s was, obviously, incredibly promising and was growing at a very fast pace. There were years when you had 10%-15% and above growth in the economy," Vallina explains. "But it was not developed nearly to the point where it is today. It was not mature. Opportunities were there, but from a technology point of view, in many areas, a lot of technologies were imported from outside of China."

However, this is no longer the case, says Vallina. China's efforts to build up capacity in indigenous technology, innovation, and infrastructure have created a completely different environment which has fundamentally altered the dynamics of domestic and international business. "Today, there is very good in-country development. As well, the infrastructure, the processes, the overall maturity of the industry has progressed significantly. It has moved so fast. It has increased so much in capability over the last 15-20 years. It really is like talking about a different universe."



Born in Spain, Fernando Vallina is a graduate of the Autonomous University of Madrid, where he earned a Bachelor of Science degree in chemistry. He also holds a Master of Business Administration degree from Instituto de Empresa (IE), Spain.

Vallina joined ExxonMobil Chemical in 1987. He has held a wide range of management positions in sales, marketing, technology, planning, and supply chain and lived in North America, Europe, the Middle East, and Asia. Vallina was Asia Pacific sales and marketing manager, ExxonMobil Chemical Company, based in Hong Kong from 1997 to 2001. He was global logistics and distribution manager, ExxonMobil Chemical Company before assuming the position of Chairman, ExxonMobil (China) Investment Co., Ltd. on March 1, 2017.

## **ExxonMobil Around** the World

Vallina, having worked at ExxonMobil for over 30 years now describes how ExxonMobil's strong culture has kept him in the company for so many years through a diverse set of opportunities, and willingness to train and incentivize its employees. "It's actually not unusual for people in ExxonMobil to have very long careers," he says. "Typically, the business model for the company is to hire people very early in their careers, either straight out of college or in the first couple of years of their professional life, and offer them attractive development paths."

ExxonMobil, in comparison to many other employers, offers something different, something more valuable, according to Vallina. "We don't offer you a job. We offer you a career," Vallina says definitively. "It's true. If you look at the number of different activities, different areas of the business that employees are offered over the years within the company it keeps employees constantly developing."

ExxonMobil exemplifies its personifying qualities and diverse opportunities, as well as operational priorities and culture around the world. In Spain, Portugal, Germany, and China, ExxonMobil provides the same pursuit of excellence across its business and organization. "The culture is the same all over the world. It's a lot of focus on safety," says Vallina. "That's almost the only non-negotiable type of priority."

Vallina goes on to say, "But also, there is a lot of focus on discipline, controls, processes, standardization whenever it makes sense; localization whenever it helps you conduct your business. That doesn't change in any place around the world. We usually say that moving around the world with ExxonMobil is very simple because every ExxonMobil office looks a lot like any other ExxonMobil office."

## **ExxonMobil in China**

While ExxonMobil offices around the world share the same values and direction, and perhaps even the same color scheme, the China offices do feature what Vallina refers to as an air of "ExxonMobil with Chinese characteristics".

"A bit of it is, essentially, what I mentioned before," explains Vallina. "Things just move faster in China than they do in other parts of the world. This means that being flexible and nimble, and making sure that you don't abandon your discipline is particularly important when it comes to difficult business decisions." Vallina explains that, "It is also very important to make sure that you can use the same processes developed for China, understand the differing approaches, and adapt them when you need them, and be capable of running them faster than in other parts of the world."





The other thing that is different for ExxonMobil in China, Vallina explains, is a consequence of the fast growth of the economy and the opportunities that can be found here. "Your organization grows much faster than in other parts of the world. One of the biggest challenges that we face as a result is being able to develop our people fast enough, to make sure that they are ready for new challenges presented in China, and that when we add manufacturing facilities, technology centers, innovation areas, or new applications, that we as an organization are also ready to rise to the challenge," says Vallina.

To be able to do this effectively comes down to developing employees and giving them comprehensive insights into all areas of the business from an early stage. "A lot of it is moving people around early in their careers, throughout the different parts of the business," Vallina says. "In some cases, moving them out of the country, sending them to places like Singapore - where we have a much larger manufacturing base - or the US, or Europe, where we have

Fernando Vallina speaks on panel at AmCham China's 2019 Women Economy Summit.

## Photo courtesy of **AmCham China**

## **Bottom**

Fernando Vallina (middle) with AmCham China Board and Digital Circle members at AmCham China's 2019 Annual General Meeting.

Photo courtesy of **AmCham China** 

"I've always seen my job as trying to find the fit between what China wants, whatever their model is, and what my company can offer."

> regional headquarters in which they can take a look at the different ways of doing business."

> Through these regional and international experiences and opportunities, ExxonMobil employees are armed with the faculties, strengths, and understanding to be leaders of business in ExxonMobil offices around the world. "It's a big challenge," says Vallina, "Because we hire so many people, and our model is to develop people from within, it takes time for people to be ready for the next step. We have to be faster doing these things in China than we are in other countries around the world."

## The Right Fit: Opportunities in China

As part of his role in China, Vallina is tasked with bringing a robust list of China-centric, strategic opportunities and investments to ExxonMobil's headquarters. According to Vallina, the numerous offerings at hand in China, in concert with the clear roadmap for successful cooperative opportunities laid out by the Chinese government, means that the lists are often replete with promise.

"One of the things that is great about doing business in China is that, unlike many other places, the government priorities are very clearly spelled out," Vallina explains. "You have a five-year plan that gets translated into industry plans. All you have to do is read what the priorities are for China."

While Vallina may make it sound simple, the work that goes into analyzing government guidance and identifying the opportunities that align with a company's core competencies requires diligence, acumen, and agility. As Vallina describes, "We typically look at our future opportunities in China by first trying to understand where there is a priority, or there is guidance, from the government that indicates areas where growth and investment is needed. Then we try to match that guidance and those indications with our own strengths in terms of technology, product development, or manufacturing capability."

After matching those strengths with government indications, the next challenge for ExxonMobil simply becomes capturing the opportunities. "What we have to do is devote enough time to prioritizing and understanding where we have real advantages in China, where we can compete with other opportunities around the world, and bring only the best of those opportunities to our management committee. I always say that my challenge is to generate enough opportunities that HQ is uncomfortable having to choose between so many pursuable options. If we can achieve that, then I'm doing my job properly."

ExxonMobil and Vallina currently have an assortment of big-ticket projects in the pipeline that, if executed, will be substantial for not only ExxonMobil, but for China, as well. "Currently, our biggest opportunity from a capital investment point of view is a petrochemical complex that we are developing in Guangdong province," says Vallina. "This has already been admitted into the National Petrochemical Layout Plan. We have been working on this deal for about a year and a half. It's moving at, what we call, 'the China pace' - faster than it would in other countries around the world."

Vallina goes on to say, "There has not been a final investment decision made on this project yet, but we have made a whole lot of progress, with strong support from the authorities at all levels. The municipal level, the provincial level, all the way up to the governor and then the central government ministries. That's a big investment and a lot of support from all stakeholders."

With their petrochemical plant in Guangdong, and indeed, with all of ExxonMobil's investments and efforts in China, striving to fit into the overarching plan laid out by the Chinese government is a veritable key to success, according to Vallina. "Once you have that fit, when you've seen the list of priorities from China, it's actually very simple to pass on your message and to gather support," he explains. "That has always been our business model."

"I've never seen my role as looking for China to change and do things the way we do in other parts of the world," says Vallina. "I've always seen my job as trying to find the fit between what China wants, whatever their model is, and what my company can offer - finding those areas of commonality and finding investment opportunities in it."

Vallina defines the vision for his own role concretely, and with dutiful purpose. "I'm not here to advocate or change the way China behaves, I'm here to try to understand the priorities and try to find those fits. There will be areas where we are going to advocate for things to change; from a regulation point of view, from a level-playing field point of view. But I don't see that as the main part of my job," Vallina explains. "The main part of my job is to find the opportunities where there is already a fit, within the situation and the circumstances that we have today." Q



Sino Auto Insights is a Beijing, China based business intelligence and advisory firm that helps transportation and mobility related companies develop tech-focused, innovative and transformative products and services that will shape the future.

By Tu Le

Here are three key things to consider: all companies will become software companies; what's happening in Asia will influence what's happening in the rest of the world; and, chances are, you're not moving fast enough.

Within the last several years, due to advances in technology and the digitization of just about everything thanks to the Internet of Things (especially in China), we've seen an evolution in how people consume information, communicate, entertain themselves, purchase goods/services, and even physically move.

In the automotive space specifically, we have seen the increasing use and convenience of ride-hailing and "last mile" mobility services, the shift away from internal combustion engines (ICEs) to electric vehicles (EVs), and the ongoing progress in the development of autonomous vehicles. These shifts from the traditional models have attracted

new entrants from the tech space to the automotive sector.

## The Traditionals vs. The Upstarts

These new entrants want nothing more than to box out the traditional automakers and carve out a piece of the growing, and potentially, enormous pie (KPMG estimates the market for Mobility as a Service {MAAS} to grow to \$1 trillion by 2030) and dominate what was once the sole domain of brands like VW, GM, Ford, Daimler, and Toyota. The Traditionals have had a solid (over 100 years!) run without much external disruptive change to the sector - until now. Taken all together, companies around the globe from Tesla, Uber, Didi, and others (the Upstarts) are all looking to push the sector in different directions.

The emergence of social media and the shift to buying almost exclusively via mobile – already the predominant method in

China – has likely reached a tipping point in the US, too. These shifting habits and trends, driven by game-changing technologies and innovative, new service models, caught many of the Traditionals flatfooted.

## **An Untraditional Shift**

The Traditionals need to quickly reduce their reliance on car sales and shift revenue to more high margin services. That means that they'll need to "re-make" their companies so that they can quickly develop these new products and services in order to agilely adjust to the shifting tastes and emerging trends driven by technology, innovation, and the new entrants to the market that are pushing the envelope with new business, service, and revenue models. In order to be able to successfully compete against the Upstarts, upgrading the talents of current employees will be one of the most important responsibilities the management team has.

But how do companies assess which technical and business skills are necessary to succeed in today's "future"? Layoff and rehire people when demand is already exceeding supply? That's a non-starter for most companies unless they want to have a bidding war with each new college graduate coder/designer/digital marketer from a top school.

Massive layoffs could also hurt new employees' perception of a brand - the new employees that will lead their digital and service projects in the future. None of these approaches will lead to the necessary transformation to step into the future of business. Instead, the right approach is to right-size and retool – a combination of reducing staff to levels that make sense for a company to be nimble, affordable, and capable of taking on today's tasks in order to achieve tomorrow's goals. This is not easy. But make no mistake here: if you don't jump on this train soon, someone will take your seat.

## **Vehicle Interior Design**

The UI/UX of interiors will become a key differentiator, as consumers (particularly in China) want their car to be a "personal assistant" that can keep them connected, deliver information, and even accomplish tasks (like ordering dinner) on the go. Further, consumers want their vehicles to be able to seamlessly plug into their "online" life. Being able to design an interior without physical buttons, knobs, and handles in a way that makes sense to the user will go a

long way in establishing your brand in the customer's eyes.

## Mobility-as-a-Service

To stay competitive, the Traditionals need to find ways to become a platform - encouraging partnerships with tech teams to roll out new features via over-the-air software updates. This means that they need to up their employees' technical savviness, particularly for those who will be the project managers / product managers for these digital initiatives.

## **Shifting Sales Channels**

Automotive retail shops are morphing into "experience centers" - spaces to experience the brand and car model; this is done through interactive panels, 360 video, AR, and other digital solutions. To beat the Upstarts in this area, the Traditionals need to combine marketing skills with product development and digital design skills in their existing employees If retail shops are now experience centers, that means sales happen online. VW and Skoda are already selling on Tmall, and car sales apps like

BitAuto and Autohome are on the rise. To take advantage of these new mediums, not only do sales and marketing teams need new skills to build out attractive "digital counters", but also internal operations departments need new tech skills to work with digital finance systems.

## **Driving Operational Excellency**

Out of all digital transformation initiatives in automotive by 2025, 60% of impact is predicted to come from productivity gains and operation efficiency improvements. But to take full advantage of this new tech, brands need to equip their existing supply chain and support teams with the right data skills and digital literacy to make an impact on the cost.

What makes some of the largest market capitalized companies in the world so valuable? It's all about how to extract executable insights from data to aid in strategies and decision-making. The Traditionals are already rolling out new initiatives - the "Mercedes Me" of Mercedes-Benz or "OnStar" of GM are a step in the right direction by these automotive giants. But to really take part in the game, data skills across the organization will be invaluable.

## How to Close the Gap

Being able to quickly address the skills gap that get wider and wider each year is not the silver bullet for success in the future. That is still dependent on your team being able to understand your customers so that you can design, develop, and deliver products and services that fulfill their unmet needs. Upgrading your team's skillset will only be a distinct advantage to those who've not been able to quickly make these important decisions.

Whether you play in the automotive space or not, if you're one of the companies on the (digital) outside looking in, it's not too late to begin the transformation process. It'll be one of the most important moves your management team makes to ensure that your company will be able to compete in the future. Otherwise, as the world further embraces technology and new ways of doing business, you'll just be stuck in your analog world. **Q** 

A Changing Jobs Market		
Analog jobs	Digital jobs	
Marketing manager	Social media manager	
Sales / Territory Manager	Information architect	
Industrial Designer	front / back end developer	
Interior Designer	Digital Transformation Manager	
Release Engineer	Data / Business Intelligence (BI) Analyst	
Quality Engineer	Systems Analyst	
Mechanical Engineer	UI/UX Designer	
Electrical Engineer	Web / app developer	
Program Manager	E-commerce manager	
Dealer Ops Manager	Digital Media Manager	

## A Bespoke Work Environment

Bespoke Travel Company provides creative, customized tours for visitors to China: whether that's a group of students, a family of five, or a company president and its board. Bespoke's focus is always on helping people understand the country better through cultural immersion, natural interactions with locals, and inspiring, life-changing experiences that provide an authentic window into the middle kingdom.

At this year's China Social Impact Awards, companies big and small were recognized for an assortment of achievements in their pursuits of social impact in China's business environment. AmCham China member Bespoke Travel Company was one of this year's winners, taking home the award for Empowerment of Women in the Small-to-Medium sized enterprise category. The award recognizes the organization that has taken the greatest steps to empower women and address gender imbalance in society.

Following the China Social Impact Awards, AmCham China sat down with Bespoke's CEO and Founder, Sarah Keenlyside; Senior Guest Experience Manager, Jenny Jing; and Guest Experience Manager, Kirstine Spicer to hear about Bespoke's 2019 campaign to empower the women of the company, and its results.

## Sarah, tell us about the campaign to empower women that won Bespoke the CSIA award.

Sarah: Running a company has been a valuable experience for me; particularly when it comes to understanding the limitations I often place on myself. It requires daily practice to overcome some of the negative stereotypes we have absorbed over the years - whether that's asking for what we're worth when it comes to fees and pay, or not being assertive enough for fear of being labeled "too demanding".

This becomes even more obvious when managing a majority female team, which I've noticed regularly downplays its abilities. The confidence gap is a real issue, and a particularly tricky one to overcome.

We are currently trying to change this via two inhouse initiatives:

- 1) Encouraging new behaviors through a quarterly theme that holds team members accountable on a daily basis
- 2) Fortnightly One-on-Ones that focus on teaching managerial skills and sharing resources aimed at improving on-the-job and personal confidence

## How did this campaign relate to your core business? Why is this project important to your company?

**Sarah:** One of our stated core values at Bespoke is empowerment. We try hard to empower travelers and clients by offering things like transparent pricing and the chance to co-design their trips with us from scratch, rather than offering ready-made package tours. It's crucial that this theme runs through the entire organization.

As a female entrepreneur, I'm aware of the challenges we face in overcoming a well-worn narrative in society: that women should just show up and let men get on with being the stars of the show, or that we're somehow less naturally suited to leadership roles.

It's important to me that we work towards changing that perception among the female staff, and, more importantly, for them to get regular practice in behaving more confidently; it takes time and effort for mindsets to change. In our industry, women are too often foot soldiers rather than leaders, and we want to encourage the already-capable senior female staff to start seeing themselves as future managing directors.



## Above:

Bespoke team receives 2019 CSIA award for Empowerment of Women

Photo courtesy of British Chamber of Commerce in China

## Can you describe what kind of impact the campaign had?

Sarah: So far this campaign has had tangible results, though it is still a gradual process. At the end of last year for example, our most senior (female) Guest Experience Manager, Jenny Jing, was tasked with creating one of her own tours - what we call our "Signature Experiences" - from scratch. Until now, only senior management had done this. She did an amazing job entirely independently and the new tour is now among our most popular.

Another member of staff, Kirstine Spicer, was encouraged to be more confident/conversant on global affairs. Through a (daily) personal KPI reporting system, she was encouraged to read an article in The Economist once a day (her choice of publication, we provided the magazine access), and even chose to take a daily quiz in The Guardian to test her progress. Her confidence in this area has definitely improved.

## Jenny, how did you feel having the opportunity to design your own Signature Experience?

Jenny: Honestly, I felt nervous when I found out I was going to take the lead developing a new signature experience. I questioned myself and wondered If I could do it. But it was a great opportunity to challenge myself and prove I could do more than I previously thought. Also, I was happy to create a unique experience for our clients who want to learn about Chinese culture and language in an in-depth way. I am thankful for Sarah as she trusted me to make the right decisions, and this meant a lot to me.

As this was sort of a transformative opportunity - going from your previous responsibilities into more managerial tasks - how has this professional elevation changed your self-perception?

Jenny: Tours and communicating with clients was always what I was good at, and what I enjoyed - I know, and knew, I could do a good job in that area. But managing people, for me, was a difficult task because I believed I didn't have certain, necessary communication skills. However, I was given coaching materials in the form of podcasts, KPIs, and personal guidance, which has helped me a lot in my approach to management. When I actually started doing these things, I realized it wasn't as difficult as I thought. This process has given me more confidence, and it feels great.

## Kirstine, can you discuss the impact of your new KPI, either in the office or with clients?

Kirstine: We've had several KPIs since I started at Bespoke. One personal KPI of my own included things such as reading articles from The Economist. I think the main concept behind that was encouraging a broader perspective, helping me get outside of the travel industry bubble, and gaining insights into worldly events. By seeing the changes in global affairs that might impact the way the company works, it helped me to anticipate how global events might change our clients' perceptions.

It seems like you had a very nurturing and inclusive environment from the start. Would you say that having these organizational tools/instruments (KPIs) was still necessary for empowerment and professional growth?

Kirstine: Yes. KPIs give you focus. We generally are quite good at giving ourselves team goals. But it's good to really look at yourself for personal development to make you feel like you're getting something out of the day for yourself, and every time you leave the office you know you're taking something away.

## What advice and/or message would you give to employers on how important it is to provide opportunities and support such as Bespoke has?

**Kirstine:** I think it's so important to understand that diversity just brings so much more to the table. Men and women, whether we like it or not, are brought up in different ways in society, and there are so many strengths that can come from that. Being inclusive and focusing on diversity really does provide a more creative and more successful environment. It's extremely important, and It's a massive part of our company culture. Q



By Mark Dreyer

Ian Chang remembers the day he found out he'd be moving to China like it was yesterday. It was a typical rainy Seattle day in January, 2002 and he got a phone call from Boeing headquarters asking him to come into the office. Two senior VPs were waiting for him - adding to his sense of foreboding - but they told him he was being given a "global executive assignment" in China to set up Boeing Tianjin Composites (BTC), Boeing's first production joint venture there. Two months later, he was in Tianjin.

One year after that, the company began delivering components for a Boeing aircraft. Chang spent his time dealing with different stakeholders and managing cash flow issues in what he describes as "a typical startup company". But things went well: the company broke even by

2005, went through a major expansion in 2008-2009, and is currently going through another expansion.

## Corporate Responsibilities

After eight years in Tianjin, Chang moved to Beijing as a Corporate Vice President. He's now responsible for China operations and business development activity, including overseeing the supply chain and industrial cooperation, while also being involved in all of Boeing's joint ventures in China. Those operations include providing training for the manufacturers to improve their overall performance, ranging from upgrading skills to project management training and leadership programs.

It's an experience Chang calls "really humbling, and also rewarding", adding that he's still learning every day even after 18 years. Among his personal achievements in China, Chang lists receiving honorary citizenship in 2004, getting a green card in 2006, and receiving the Friendship Award in 2008. He also spends time teaching MBA and

EMBA students, whom he likens to "sponges" given their hunger for knowledge.

## **China's Aviation** Industry

The aviation industry has always, Chang says, been one of the key strategic items on China's domestic agenda. Boeing's suppliers, for example, are able to get the land and investments for new factories from local government authorities very easily, he says, because they create more jobs for the local area. "That's really helped them to grow much faster than any other country," Chang says.

In his two decades in China, Chang has seen local manufacturers progress from building small, simple parts to major assembly. That's enabled the growth of Chinese-made jets, some of whom hope to enter into service within the next few years. "You can see a huge change there in terms of capability and capacity", Chang says, "Due to the support from the central government, their policy and also down to municipal government, provincial government level, and local government



level. They're getting support from all these guys."

## **Leading the Way**

Under Chang's stewardship, BTC has grown to more than 1,100 dedicated staff, delivering more than 13,000 parts per month. The company received the Boeing Chairman Safety Award in 2014 due to its excellent safety performance, and recently celebrated 10 million safety hours in practice.

Chang puts much of the success down to the consistency of the organization, and the culture that has been fostered over time. "A couple of years ago, we had a ceremony to mark one million parts delivered," he explains. "The first parts were delivered in May 2002, and I asked all the employees who were there back then to come up on stage. 67 people came up. We talked about the difficult times we had endured together, sometimes working in freezing conditions, but never complaining. They all had tears their eyes, we all cried. I still get emotional just thinking about that time."

He also says he's immensely proud of the work that the entire team has done. "BTC is providing leadership to Chinese suppliers. They're teaching lean, they're benchmarking, program management, supply management, production management, technical support for many other critical areas for our Chinese suppliers. BTC is not a joint venture, just trying to make money. It's important to provide industry leadership to the Chinese aviation industry."

## Regulatory **Environment**

For Boeing, Chang explains, there is a unique sales approval process in China, because deals must go through not only the airlines, but also go through two government agency approvals; the Civil Aviation Administration of China (CAAC), then the National Development and Reform Commission (NDRC). Between them, they usually have several questions.

"Whenever we have a big sales campaign going on," Chang says, "They always ask us: 'We're buying a lot of aircraft from you - what are you going to do for us?" Industrial cooperation in China, he continues, means discussions on who's buying which parts from whom, what levels of investment are involved and from which sources, and so on - all of which requires coordination at multiple levels of government.

But despite that coordination leading, at times, to more obstacles than you might find in other countries, Chang is emphatic on why Boeing remains in China. "China needs over 8,000 airplanes for the next 20 years," he says. "That's about \$1.5 trillion. It's the biggest commercial market in the world. Why are we here? For the market. It's as simple as that."

But while the regulatory environment might prove challenging, there are other benefits not found elsewhere. China's predilection for five-year plans means that many different parts of the aviation industry are aligned despite different key objectives for different parts. "I wish I could do the same thing in the United States," Chang says. The Chinese are always thinking long-term, he says, which



Ian Chang is vice president of Boeing Commercial Airplanes (BCA), in charge of Supplier Management - China Operations and Business Development (BD). He has the overall responsibility of Chinese suppliers' manufacturing and fabrication activities for Boeing parts and components, which supports all Boeing commercial programs.

Prior to leading BCA China Operations, Ian was GM for Boeing Tianjin

Composites (BTC), a joint venture between The Boeing Company and **Aviation Industry Corporation of China** (AVIC).

He is also the Chairman of both BTC and Aerospace Composite Malaysia (ACM), and serves as Supervisor of the board at Boeing Shanghai Airplane Services (BSAS). Additionally, Chang is leading the Boeing 737 Completion and Delivery Center project in Zhoushan, China.



Left: Boeing Tianjin Composites celebrated the production of its one millionth part in 2017

Photo courtesy of Boeing Tianiin Composites

in turn allows him and others to make long-term plans, rather than have to deal with administration changes - and resulting changes in policy direction.

## The Pains of Progress

One of the noticeable changes Chang has witnessed during his years here has been the rising wages across the country. "I'm responsible for another joint venture in Malaysia. 18 years ago, China was cheaper than Malaysia in terms of direct labor costs. Now they're totally different. If you're really just looking for cheap labor, you've got to go someplace else." Another shift he's noticed is the change in philosophy, from the longstanding "Made in China" mindset to a "Made with China, made for China" strategy, a pivot he describes as "a really fundamental shift".

Over the past 60 years, Chang explains, China's aviation industry relied heavily on military programing, but it wasn't, he says, a "systematic way to building a supplier vertical capability" in China. All the state-owned enterprises involved typically have their own infrastructure, and keep everything inside, meaning that none of them are cost competitive (especially in commercial aviation business), nor do they focus on their core business, according to Chang.

Recent developments have seen a separation between the military and commercial aviation business, leading to a more conventional approach. Significant challenges remain for the stateowned aerospace manufacturer like the

Commercial Aircraft Corporation of China (COMAC) and others, but the global aviation industry is keeping a close eye on what might come next, especially with the pending launch of Chinese home-grown jetliners."COMAC is going through a really difficult time because they've never built an aircraft on that scale. But OEMs like Boeing, Airbus, and others are all going to watch very closely because this airplane could directly compete with Boeing's current or future models. CO-MAC's C919 model is their first project, but they're working with the Russians on another project, C929, which could turn into a pretty good airplane."

"Additionally, I think their supply strategy is very important," continues Chang. "I've known Mr. He Dongfeng, the chairman at COMAC, for the last 10 years. What they're trying to do is make sure anybody who worked for the C919 or C929 programs has a joint venture with a Chinese partner and must build a factory in China. They can really build their capability very quickly. Of course, Boeing is going to continue to be ahead, but with strong support by both the central and local government, [COMAC] will keep growing very fast."

## **Supply Chain Economics**

Building a strong, efficient, effective supplier ecosystem in China is a huge advantage, Chang says, given the size of the market. "Let's say Boeing has over \$100

billion revenue per year," he explains, "over 60% of our costs are supplier costs. That's why it's so critical to manage your supply chain."

## **Bilateral Distinctions**

Chang notes that he's often asked by his MBA students about the fundamental difference doing business in China versus elsewhere - and his answer is illuminating. "In North America," he says, "Everything relies on processes and systems. But in China, you still rely on people. That's a strength, but it could also be a bottleneck. For example, if the person in a government office who's responsible for an approval or license happens to be out of town, everything stops. You have to wait until they come back, because nobody has the delegation authority and power to make a decision for this person. In the West, you have a delegate authority. I think that's really a fundamental difference."

Another distinction Chang draws is the importance of patience in China. "In my job here," he says, "I go back to our headquarters regularly and, in a very diplomatic way, educate our people and our leadership to make sure they understand that something is not going to happen overnight. It's important to continue to communicate with head office about what's really happening here. Be flexible, be humble, be patient."

"People who visit here and people who live here are two different things," he continues. "We all know in China how important building a relationship is. But it takes time. I look at the new leaders and stakeholders, and I can see they are a different generation. A lot of them have been educated outside China, and I think they have a different mindset, they're more open, more willing to change, more flexible. To me, this trend is a really positive change."

But Chang stresses that visitors to the country - particularly those who come to work - also have to stay flexible, and be willing to learn, listen, and be patient. "I think it will be an awesome experience for these guys," he says. "When they go back to speak to decision makers for their companies, they can really contribute influence. But if they come here trying to change something overnight, they're going to get really frustrated because it's not going to happen." **Q** 



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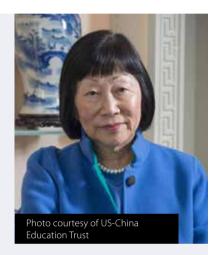
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## Strengthening the Last Pillar

With the US-China relationship currently moving in the wrong direction, Ambassador Bloch argues that people-to-people relations are increasingly important to provide stability to the relationship and prevent rising tensions.



Julia Chang Bloch is President of the US-China Education Trust, a nonprofit organization working in China to promote US-China relations through education. Ambassador Bloch, the first Asian American to hold such rank in US history, has had an extensive career in international affairs and government service, beginning as a Peace Corps Volunteer in Malaysia in 1964, and culminating as US Ambassador to Nepal in 1989.

After 25 years in government service, she moved to the corporate sector in 1993, becoming Group Executive Vice President at the Bank of America, then from 1996-1998, as President and CEO of the United States-Japan Foundation. A native of China, she grew up in San Francisco and has degrees from Berkeley and Harvard.

By Mark Dreyer

Julia Chang Bloch is concerned.

Educational and cultural exchange, she argues, form the fundamental pillar in the US-China relationship in terms of building mutual understanding and long-term relationships. The other pillars - government-to-government relations, trade, and so on - are in conflict, she says, and for the first time have started to affect the fundamental – or last – pillar of the relationship.

"The pillar hasn't as yet cracked, but it's nearing the cracking point," Bloch tells AmCham China in Beijing following a Chamber event to discuss how to rectify this most pressing of issues. "Usually, this sector is insulated, meaning government-to-government relations can fracture, but people-to-people relations endure. But the White House under this Administration even discussed the possibility of actually banning all student visas for Chinese students. That's pretty severe, even though it was not adopted."

In the STEM fields, visas for Chinese nationals have already been shortened from five years to one, and Bloch tells of anecdotal stories of students and scholars being stopped at the airport or not allowed back into the US after returning to China for a vacation. More worryingly for those who, like Ambassador Bloch, work to preserve the status of the last pillar, the FBI has used the term "whole of society" effort in reference to Chinese efforts to spy on the US and steal intellectual property, a stark departure from others who have used the term "whole of government".

The academic community in the US has been singled out for being too naïve, and leaving itself open to attack, but Bloch stresses the ties that still remain intact. "Granted, there certainly have been cases of what the FBI director was talking about," she says. "But at the US-China Education Trust, we have just finished at least half a dozen programs in Beijing. For those of us who work on day-to-day US-China relations, on educational and cultural exchanges, our relationships endure. We have open communications, and we see the benefit, particularly for the long term."

## 15-Billion Dollar **Industry Under Threat**

Many American universities now depend on full tuition-paying Chinese students. There are 360,000 Chinese students currently studying in the US, who fund a 15-billion dollar industry. But that situation, Bloch says, may be changing. "I think academia has woken up to the fact that they may be losing a significant number of Chinese students, which they cannot afford", she says. "Many small- and medium-sized American universities may have to shut down if they lose that number of Chinese students. The University of Illinois actually bought insurance to protect them from losing Chinese students."

Other schools tried, too, but found the premiums were too high. Meanwhile, there has so far been no decrease in the total number of Chinese students going to America, but the growth rate has declined from 8.1% in 2016 to 1.7% in 2018. Additionally, other English-speaking countries that host Chinese students - the UK, Canada, Australia, and others - sense an opportunity to attract a larger share of the same student pool.





## Top:

(from left to right): Julia Chang Bloch, President George W. Bush, President Hu Jintao, Laura Bush, Liu Yongqing, and Stuart Bloch.

## **Bottom:**

Julia Chang Bloch visiting a village in northern Nepal during her term as US Ambassador there in 1989-93.

Photos courtesy of **US-China Education** Trust

The US is stepping up legislation to prevent theft of R&D assets from universities, but the arrest - and subsequent release after being cleared of all charges of one physicist from Temple University, suggests the balance has gone too far, according to Bloch. "How do we guard against problems, but at the same time, make sure that normal everyday students and faculty don't get hurt?" she asks. "We have to find a balance. We need to deal with the problems, but let's not throw the baby out with the bath water. The academic community is beginning to seek solutions, but nobody has answers yet."

## **Declining R&D**

There has also been a tendency in some circles to use anti-China arguments as an explanation for declining US industry, with Bloch dismissing the fears over US-trained Chinese students returning home to set up companies which would compete with - and beat - US companies. "I thought free enterprise thrived on competition! What are all our anti-trust laws about,

if not to further competition? I don't think Americans - in business or otherwise - should be afraid of competition, but we do need to level the playing field with China."

She further contends that the US "absolutely" needs to focus more on its research capabilities. "We have been slipping. China now invests most in R&D. Government and the private sector also must invest. Business has a stake in education. Silicon Valley is in the Bay Area precisely because the universities are there. Without research, knowledge, new inventions, and new technology, where would business be? We're long past the horse and buggy stage when it was just about buying and selling."

## America's Best Brand

Slipping is one thing, but ceding the crown quite another, and Bloch argues that the educational value proposition from the US stills hold true today. "Higher education is America's best brand," she says. "Look at how it attracts. The students come to us, after they have done their due diligence. Parents want their child to have the best education possible so that they can have the best life possible. Education is the foundation for life. That's how you get the best jobs everywhere. So we don't have to do anything right now to attract 360,000 Chinese students to enroll in US universities."

But that stream of students from east to west could be under threat from both sides. In addition to the growing number of voices in the US to restrict Chinese students, the Ministry of Education (MOE) in China has ended more than 200 international educational partnerships in recent months, including 25 with American universities. The MOE's explanation was that there were too many "empty" international partnerships in the education arena and stressed that many of the big schools - including NYU, Stanford, Berkeley, and Duke - are still in China. The MOE, however, also issued an official warning to Chinese students about the dangers of studying in the US.

Bloch notes, "The question is how do we find the balance between national security interests and our academic and people-to-people interests, and not allow these problems to push this sector into the abyss?"

## AmCham China's Role

Of particular concern to the Ambassador is the fact that education, music, and sports have all historically been non-controversial areas of positive impact on the wider bilateral relationship. But with recent developments appearing to take a turn for the worse on this front, Bloch's reply to the question of what AmCham China can do is emphatic.

"Courage. AmCham China has a very important role. Money talks more than knowledge, certainly for the short term, and so AmCham China could

be a voice of reason. Your businesses have more interests than probably anybody else. How do your members protect their own positions here? As long as they're making money, they don't care. But businesses also have social responsibilities. Perhaps those sections of American businesses should support the broader framework of US-China relations, so that they can help to stabilize that relationship in the interests of their bottom line. You've got to make that connection."

She also has words of advice for the Chinese side, saying that the backlash against the NBA in China last fall was "really going too far". She adds, "I think those of us who have long-term relationships here in China, we've been telling the Chinese that was a very bad move on their part if they're interested in public diplomacy at all, because what they've shown to the world is that they want to restrict free speech not only in China, but also in the US and around the world."

Public diplomacy, she continues, is a field that has only officially existed in China for about six years, meaning that there is still a long way to go before China can hope to catch the US side. "But for how much longer will America still do better than China in public diplomacy?," she wonders.

## **Shifting US Attitudes Towards China**

Bloch says there's been a "paradigm shift" in US attitudes towards China in recent years, though stresses it's not - yet - permanent. "We have had an engagement policy since Nixon in 1972 really until the Trump Administration," she says. "But engagement with China is no longer accepted in Washington. I'm not sure we are yet at the point of China being an enemy, but we are nearing the tipping point."

So where is that shift happening? "For one, businesses are no longer the ballast in this relationship. They are no longer speaking up, or going to the well for the Chinese. Similarly, as much as the academic community wants the flow of Chinese students going to the US to continue, they acknowledge there is a problem. Meanwhile, official dialogues have stopped, and people are in tit-for-tat mode. The relationship has to be viewed in a more rational way."

But there is, she says, a divergence of policy opinion within China, too. "China is also not a monolith. There are different opinions here; not as many as in the United States, but still different. The US-China Education Trust has built relationships with many universities over a long term. We're still having very open and candid exchanges with them. There is continuing trust, and they want us to understand their point of view, just as they are trying to understand our point of view. Our long-term partners do not believe America is the enemy."



### Above:

Julia Chang Bloch (right) speaking at an AmCham China event in Beijing in October 2019

Photo courtesy of AmCham China

"US businesses should support the broader framework of US-China relations, to help stabilize that relationship in the interests of their bottom line. You've got to make that connection."

## **Protecting the Last Pillar**

The key, then, to protecting this "last pillar" of US-China exchange is threefold, Bloch contends. First, to keep America a destination of choice, and not to ruin America's reputation as the worldwide education standard; second, to reduce vulnerability to industrial and cyber espionage, but keep them consistent with American values; and third, to encourage the private sector to fund more R&D, training, and other assets to maintain American leadership.

"We need to keep the channels in education and culture open, so that we can continue the dialogue, and support those opinions for the sake of stability," she concludes. "We're talking about win-win, about mutual interests. We're not talking about the interests of one country against another. There's no way we will agree with China all the time, because our systems are too different. But I think we can still find common ground." Q

## Transforming the Way the World Works

Can you briefly describe your career to date and how you assumed your role at Honeywell Technology Solutions?

Scott Zhang: I started my career as an R&D engineer at Honeywell UOP in the US and moved to field services, support, sales support, sales, and then commercial roles with increasing responsibilities over 18 years. I moved to China in 2002, grew the UOP China business multifold, then became the VP and GM of Asia for Honeywell's Performance Materials and Technologies group in 2008.

I was appointed President of Honeywell Technology Solutions in 2015. HTS is a technology research and development arm of Honeywell, with close to 7,000 employees across its centers in India, China, Mexico, and the Czech Republic. My role is to combine my technology foundation with commercial experience to lead this technology organization to drive more innovation and enable business growth globally. In October 2019, I was appointed the President of Honeywell China where I am responsible for executing Honeywell's business objectives in our single largest country market outside the US.

Honeywell Technology Solutions has close to 7,000 employees across multiple countries, how do you conceptualize and implement corporate transformation in such a large and geographically distinct organization?

Scott Zhang: First, a set of goals embraced globally adds coherence. Those goals include strengthening the core



Scott Zhang, President of Honeywell China, has a long track record of highly effective leadership at Honeywell. He served as President of Honeywell Technology Solutions (HTS) for the past four years. He drove an internal innovation process along with external ecosystem partnerships to strengthen Honeywell's technological

leadership as a competitive advantage. He also leveraged the organization's diverse talent to enable global business growth and productivity. AmCham China caught up with Scott after his panel at the 2019 Tech and Innovation Summit to discuss how Honeywell is part of the journey to lead the advancement of technology.

technology, enabling business growth, innovating for local markets, and generating breakthrough ideas.

Then, we drive cultural change through cross business collaboration and synergy, innovation and entrepreneurship, speed, agility and efficiency, productive failures, and outcome-based success.

We adopt lean, agile tools, a zero-toone (from idea to first revenue) methodology across the board. As well, we establish a unified technical career path and a set of talent growth and development programs to support the transformation, set

technical role models such as Honeywell Fellows and Chiefs. Finally, we consistently measure in global new products (NPI) revenue, east-for-east and east-to-rest innovation revenue, vitality and productivity, and talent growth.

In what ways is Honeywell Technology Solutions adopting emerging technologies?

Scott Zhang: At Honeywell, we develop strategic plans that looks towards the

company's long-term growth. One of my high priorities in driving technology leadership is to establish an ecosystem, which includes external collaboration with governments, universities, non-profits, and large or small industrial players. Further, we set internal innovation mechanisms and have dedicated seed funds to support ideation, quick proof of concepts, fast prototyping, and in-house startup.

## Has HTS already felt the disruption of other companies and technologies?

Scott Zhang: Disruptive technologies are changing our lives and our industries, and Honeywell is part of this journey. For example, edge computing, digital twin, ubiquitous AI, and Quantum computing are rapidly reshaping our industries, business models, and even daily lives.

## Over your career, what has been the greatest change caused by technology and how did you adapt to that change?

Scott Zhang: I would say digital transformation, generally speaking. We are in the middle of a cyber revolution that will transform businesses in ways that not even been imagined yet. Honeywell is in a unique position to be very successful in this environment because of our strong technical expertise and extensive portfolio in automation and control, sensing, and data capture.

You're tasked with creating a unique and innovative portfolio that includes new product development, SaaS, and engineering solutions to meet the needs of Honeywell's global base. Has corporate transformation and innovation helped streamline these goals?

Scott Zhang: Honeywell's brand promise is transforming the way the world works, and solving our customers' toughest challenges through relentless innovation that is grounded in a heritage of invention. The crux of this lies in our unyielding focus on customers and our mandate to listen to customers, learn from them, solve their issues, and meet their demands and challenges. Honeywell's performance culture, based on integrity



Scott Zhang serving as a panelist during AmCham China's Startup Shark Tank at the 2019 Tech and Innovation Summit

## Photo courtesy of AmCham China

and compliance, diversity and inclusion and workplace respect, supports transformation towards software-industrial and making our brand promise to use technology to shape the future.

## From both a corporate transformation and operational perspective, what challenges have you found unique to China?

Scott Zhang: For the technology group, our assets as well as our challenges are all centered around talent. As we transform and drive innovation and technology leadership, we need to especially focus on three things for our Chinese talent: being assertive to raise their ideas; embrace fail-fast as a success, by overcoming the traditional definition of success in China; and aggressively lead change. China is the most dynamic marketplace in the world, with manufacturing, R&D and a thriving domestic market all in the same place, which can generate impact immediately.

## What drove Honeywell to join AmCham China's Digital Circle?

Scott Zhang: The Digital Circle provides a unique value proposition for members

to showcase their products and services empowered by disruptive technologies like AI, Blockchain, IoT, and Cloud Computing. AmCham China's Digital Circle is an important part of the technology ecosystem and I'm glad we are part of it. As part of the Digital Circle, we hope we can leverage the platform to exchange best practices in digital transformation with peer companies, explore the business opportunities in disruptive technologies, and grow together in the digital transformation era.

## Why are events like the T&I Summit important to member companies such as Honeywell and the Digital Circle?

Scott Zhang: The Technology and Innovation Summit brings together companies in varied industries to exchange new ideas and best practices in terms of the digital transformation. This is a very valuable platform for Honeywell to join in and learn from various business sectors how they are doing innovation, and how they drive growth opportunities via innovation in disruptive technologies in the digital age. This is in line with Honeywell's belief in leading the technology innovation via ecosystem partnership. **Q** 

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## Leading for the Long Term

In the latest in the series profiling current Board members, Colm Rafferty discusses his career, work with AmCham China, and the Chamber's Long-Term Strategy Project

## Please outline your career to date.

Colm Rafferty: I lead Vermeer Corporation's business across Asia and here in China. Vermeer is a global manufacturer of innovative solutions used to help connect people to the necessities of life, to help manage precious natural resources, and to help feed and fuel the world.

Vermeer products are used in a variety of applications from underground utility infrastructure development, to non-blast surface mining, solar field installation, waste material processing, and agricultural mechanization. Vermeer has been doing business in China for more than 30 years. The Vermeer business in China includes manufacturing, integrated supply chain operations, company-owned distribution, and dealer networks.

Vermeer is honored to be an active member of AmCham China. AmCham China, as in decades past, plays an important role in the US-China relationship by communicating the cumulative China experience and wisdom of our members, and by encouraging constructive engagement and improvement in the business environment between the two countries. Manufacturers like Vermeer currently represent one of the largest segments of the membership.

What are the most crucial aspects about the US-China business relationship?

Colm Rafferty: Economic ties form the cornerstone of the US-China business

relationship, with opportunities to create jobs and prosperity, an interest common to both countries. It is important for both countries to understand the perspective of the business community when adjusting the dynamics of the relationship.

American companies like Vermeer exemplify the benefits of business engagement between the two countries, by bringing global expertise and solutions to contribute to each country's development.

How does AmCham seek to contribute constructively to the ongoing dialog between the two countries? Throughout the course of a given year, AmCham China gathers and shares membership perspective with both governments through the annual White Paper, the annual Business Climate Survey, topical membership surveys, press releases, and various events and meetings.

Outside of AmCham's official stance on US-China trade relations, what do you believe is necessary for a mutually-beneficial relationship between the two nations?

Colm Rafferty: AmCham China was a strong advocate for China's entrance into the WTO in December 2001. Today, China is the world's second largest economy, and is a global market leader in various business sectors. These days both countries have been re-assessing the earlier assumptions. Change is never easy, but AmCham seeks to play a constructive role in helping both countries to achieve an optimal result.



Colm Rafferty is the Vice President - Asia Pacific for Vermeer Corporation and is Chairman of Vermeer China Limited. Vermeer is an equipment manufacturer from the Midwest of the United States, with products used for agricultural mechanization, environmental protection, infrastructure development, and non-blast surface mining.

Prior to joining Vermeer, Colm was Director of China Distribution Operations for Cummins, with both operational and P&L responsibility for the companyowned distributors. During his time with Cummins, Colm held a variety of leadership roles including Head of Emerging Markets Strategic Planning, where he oversaw the company's strategy & business development efforts in China, India, and Russia. Before joining Cummins, Colm worked for Alibaba Group, where he was employee #120, and Director of Business Development.



## Above:

Colm Rafferty makes a speech after receiving the Service Award at the 2019 AmCham China Annual General Meeting

Photo courtesy of **AmCham China** 

How long have you been connected to AmCham China, either as a member or board member?

Colm Rafferty: I have lived and worked in Beijing for more than 15 years and have been active member of the AmCham community since that time.

What are some of the ways in which you engage as a board member?

Colm Rafferty: I spent the past four years as a member of the Board of Governors, three as Vice Chair. This past year, I was honored to receive the Chairman's Service Award for the following contributions:

- Led the Long-Term Strategy Project Taskforce, to develop a strategic roadmap for AmCham China in these unpredictable times.
- Oversaw governance and support of our Regional Chapters, visiting each of them during the year to strengthen our relationship with key supporters.
- Initiated the idea of an L9 for Chambers to align with the L9 countries' embassy group for 9 like-minded countries; this included initiating the L9 Ambassador dinners concept attended by CEOs; dinners with Ambassadors and CEOs from Japan and the EU were completed in 2019.
- Initiated the idea of a C-Level roundtable for the manufacturing sector, which will be launched in
- Helped AmCham China establish deeper engagement with private Chinese companies in the technology sector.

Can you share any stories about how AmCham has been helpful to you in your own role in your company?

Colm Rafferty: As the leader for Vermeer's businesses across Asia, it is important to keep a pulse on the opportunities and challenges facing our business in China. Each year, our Vermeer China board of directors reviews AmCham's annual Business Climate *Survey.* We also closely review and participate in AmCham China's assessments of the various new local laws and regulations, especially those which have a direct impact on our China country strategy and business decision making. The amount of value that Vermeer derives from membership is directly related to our level of engagement with the Chamber, and so we have gotten increasingly involved.

Can you share any stories about how your involvement/leadership/guidance as an AmCham board member has directly helped one or more members?

Colm Rafferty: The last time AmCham completed a Long-Term Strategy Project was back in 2008, and much has changed since then. To prepare the Chamber and our membership for anticipated changes ahead, the 2019 Board of Governors formed a task force, which I led, to oversee a strategy project encompassing all major aspects of AmCham China - from the vision and mission, membership, programs and services, government affairs and policy, marketing and communications, organization and culture, and information technology. The project incorporated a wide range of inputs: Peer organization benchmarking, a membership survey, over 100 interviews, financial scenario analyses, a board deep dive workshop, and two full board-level reviews.

The updated long-term strategy includes four major strategic dimensions:

- 1. Membership
- 2. Programs and Services
- 3. Government Affairs and Policy
- 4. Infrastructure

These four dimensions are synergistic and based on the overall guiding principle of member-centricity in all that we do, and a need to continuously evolve the value proposition to all members, especially in today's new environment. Chapter strategy and provincial advocacy efforts are naturally integrated across all four strategy dimensions. The strategy includes a three-year strategic roadmap incorporating prioritized strategic initiatives for each dimension of the strategy to be implemented incrementally, in a manner that considers interdependencies between them. **Q** 

## No Productive Work without Mental Wellness at Work

Should your company shorten the work week to four days to increase productivity? And what are some of the other ways – and common mistakes to avoid – to ensure your employees are not only mentally well but firing on all cylinders, especially during an economic downturn?

We want a productive workforce, especially during an economic slowdown. But neglecting employee wellbeing at this crucial time can create backlash for companies' bottom line. Rather, focusing on a long term and sustainable mental health strategy could save millions of dollars - and retain employees who are productive, collaborative, and resilient.

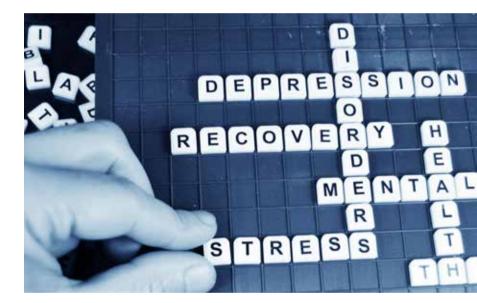
Burnout is now classified as an occupational phenomenon according to the World Health Organization (WHO), and globally more than 300 million people currently suffer from depression. In China, it is estimated that 173 million people have mental disorders, and the WHO estimated that 54 million people suffered from depression in 2017, costing China approximately \$7.8 billion every year.

The return on investment (ROI) into employee wellbeing and a mentally healthy workplace averages to \$4.20 for every \$1 spent across countries including Australia, Canada, the UK, and Japan. Moreover, businesses are increasingly required by governments and shareholders to undertake social responsibility, with mental health seen as one key area for many countries, including China.

## Stress, Depression, and Anxiety

A clinically depressed person may not be able to carry out basic daily tasks such as taking care of themselves, let alone having a sharp mind to solve problems and flourish in a social environment. This has a negative impact on team collaboration and interaction due to the individuals' changes in behaviour, causing misunderstandings or conflict. Severe cases can end in suicides.

In the workplace, depression can cause loss of productivity through increased absenteeism, such as sick leave. Depression can also affect the performance of workers who are present at work - presenteeism, defined as attending work while ill with poor mental health, and



working at reduced productivity levels. Burnout costs America \$500 billion every year according to the World Economic Forum. Meanwhile, Hong Kong employers lose as much as HKD 12.4 billion due to employees' mental ill health.

Photo courtesy of Shutterstock

## **Mental Health Reforms** in China

In recent years, China has invested heavily in mental health and made great progress. A significant milestone was the passing of the Mental Health Law that came into effect in May 2013. A stipulation that employers should note is Article 15:

Employers shall create a working environment conducive to the well-being of employees and be concerned about the psychological well-being of

# "...the WHO estimated that 54 million people suffered from depression in 2017, costing China approximately \$7.8 billion every year."

employees; relevant education about psychological well-being shall be provided to employees at certain stages in their careers and to employees in specific jobs.

In alignment with the Mental Health Law, the government initiated the National Plans for Mental Health 2015-2020, and specified mental health's importance in its Healthy China 2030 Plan. Additionally, coverage of treatment for people with severe mental illness has greatly increased, with more than 10,000 psychiatrists trained in recent years. China has committed to increasing treatment for psychotic disorders by 80% and for depressive disorders by 50% through its 2015-2020 National Mental Health Plans.

# Companies to Lead in **Reducing Stigma**

Stigma is strong, and due to the collective nature of the country, it affects not only the individual suffering but also their families. In China, people feel pressured to keep their depression or mental illness a secret for fear that they might not be employable or be able to marry, or even be ostracized. This makes help seeking more onerous than it should be.

However, attitudes might be slowly shifting. In a qualitative study in Shanghai, although most respondents were not open to seeking professional help for mental health problems themselves, they were open to others doing so, indicating perhaps a move in the right direction.

# Dos and Don'ts for Healthy Workplaces

Different companies will have different needs, and budgets. Below are some common areas decision-makers need to consider - and pitfalls to avoid - when implementing mental health strategies in the workplace.

#### 1. Talk to your employees first

When companies move forward to plan any mental health-related workshops without a

comprehensive dialogue with their employees on their concerns and expectations, the workshops conducted would likely be ineffective as any content delivered, however good, would not be targeted at the needs of employees. This wastes resources, time, and money.

We encourage companies to talk to their employees first, and not simply through annual online surveys, but through in-depth discussions and conversations facilitated by an external party so as to get an objective gauge of the common themes of concerns, needs, level of knowledge, and interest of employees.

#### 2. Discuss mental health head on

Corporate resilience training, stress management programs, or uplifting and motivational speeches at annual conferences and offsites are abundant. However, there are times when people just do not have the energy to be happy, plus focusing simply on these so-called "positive demeanors" is a way of denying or sweeping under the rug the existing challenges, especially for those wrought with mental health conditions. When one is clinically depressed or anxious, there simply is no energy to "be happy".

A more difficult, yet potentially productive, conversation is to help employees and managers understand what burnout and exhaustion looks like, what depression and anxiety looks like, and how stress, when not dealt with, can exacerbate other issues. It is pointing employees to these facts that can help them be aware of when they need to seek out more support before they spiral to dysfunctional states of mind and body. That is the prevention. And prevention is better than cure.

#### 3. Drive wellness initiatives locally

Typical workshops talk about coping with stress at work, how to be resilient, and to thrive in your performance. It is pertinent also to address the major sources of stress triggers that are particular to the locality, instead of a blanket one-size-fitsall solutions. Whilst work stress is cited to be the most significant cause in countries as the US and UK, it may not be necessarily so in China. With on the ground experience, we find that most



Enoch Li is the Managing Director of Bearapy, a social enterprise and organizational consultancy that helps companies create mentally healthy workplaces for productivity, leadership development, and team collaboration through wellness consulting, workshops, and training. She serves on the Country Executive Committee of the Global Mental Health Peer Network, representing China, and is the author of "Stress in the City: Playing My Way Out of Depression".



Erla Magnusdottir

is Bearapy's Director of Research. Previously, she was the Founder & Country Head of BasicNeeds China, an international NGO for mental health in developing countries. She has also worked on joint mental health research projects between **Peking University** Institute of Mental Health and Kings College London.

employees are more concerned about the stressors from family.

Mental health training in these cases, is often better angled at supporting employees in their non-work issues such as parenting, rather than loading them with hours of training on positive psychology. Maybe a parent support group or guiding executives how to play with their children would be more apt than a talk on resilience.

#### 4. Build psychological safety

The challenge of stigma, taboo, and the individual employees' biases and assumptions aside, are common challenges for many companies. Organizations do put effort in arranging training for employees, but it is hard to know who and how many would show up in the end. Many companies mistakenly blame internal publicity and communications, or inadequate preparation. An underlying issue we see is the lack of psychological safety.

Psychological safety is defined as "a shared belief held by team members that the team / organization is safe for interpersonal risk taking." To walk into the room to discuss psychological issues might be risky for some. They are afraid of repercussions even when in reality these repercussions may not exist. In these cases, the company needs to focus on building a sense of psychological safety amongst employees and teams, so that they feel at ease to learn and to share.

#### 5. Stamp mental wellness into organizational culture

Wellness - especially mental wellness - needs to sit firm and square on the company's map, transcending company culture, values, and business decisions. It is not just for Human Resources to brainstorm and implement, nor is it to be shoved into Diversity & Inclusion. Organizations who truly want to pioneer mental wellness for employees need to think beyond just providing medical insurance, employee assistance programmes, or workshops and lunch time yoga classes. Rather, they need to do deep introspection into the overall work culture they purport.

#### Do's and Dont's of Healthy Workplaces

#### Common pitfalls **Practical way forward** Wasted resources: low EAP utilization

rate, low attendance at mental wellness activities and workshops

Missing the target: only "feel good" activities does not sustain change in attitude or health

Cookie-cutter strategy: global wellness initia-tives provide the foundations but may not be directly applicable in China

Misalignment: management thinks they are supportive to wellbeing but employees are not interested; employees think they are supportive but scared that management may misunderstand them

On-the-surface solutions: oneoff workshops, lunch time talks, and ping pong tables may look good but not necessarily shift attitudes for sustainable changes

Consult employees: find out their priority mental wellness concerns and needs through in-depth discussions

**Sharpen focus:** educate employees on the whole spectrum of ill-health to wellness, with tools to help themselves and others

Strategize locally: adapt initiatives to address and encompass local culture, sensitivities, and priorities

Build psychological safety: ensure workplace environment gives space for different opin-ions and "difficult topics" to be discussed

Strengthen culture: include mental wellness perspectives in organizational culture so that productivity increases company-wide

Most of all, be creative and playful in any steps forward!

Companies need to create environments where different opinions could be heard, which also increases a sense of psychological safety. Leadership development offerings, team offsite days, and senior management strategy retreats all need to include elements of mental wellness, be it stress management, emotional awareness, resilience, or any other topics under the umbrella - and the budget needs to be generously allocated.

## **Healthy Workplaces for** a Healthy World

Mentally healthy workplaces support individuals in achieving their optimum productivity, functioning, creativity, and decision-making. This helps companies

save costs brought about by ill-health, and maximizes the bottom line with higher productivity.

Once knowledge reaches more employees, managers, and executives, a ripple effect can be created for them to pass on this knowledge and awareness to the generations before and after. And if the education can also potentially reach head or key decision-makers of families, the impact can be extensive. As the ripples enlarge, taboos slowly break down, and not only workplaces become mentally healthy, but so do team dynamics, relationships, and individual senses of self. Q

Parts of this article were adapted from "From treatment to prevention: the role of workplace psychoeducation for mental health in China" written by the same authors and published on Asia Dialogue.

# Cures for a Market?

As China's pharmaceutical market matures, traditional paths to profit are no longer so easy, meaning Western companies must engage and collaborate more to stay ahead of the game.

Can you talk about how government policy is impacting both Western and Chinese pharmaceutical companies?

William Stockley: One Chinese government objective is to accelerate local industry consolidation. They have many strategies to progress this aim, including the VBP [Volume-Based Procurement] program, which, together with GQCE [the Generic Quality Certification of local companies], will squeeze weaker companies into M&A or out of the market. China has perhaps 4,000 drug companies, many of which are long-sustained by market imperfections. Industry consolidation achieved like this already cuts prices and benefits patients. Strong local firms get stronger and government delivers more medicines for its budget.

The VBP/GQCE is also squeezing Western-branded generics. MNCs initially set a high standard, but for too long continued to sell generics at prices too high, enabled by the trust deficit and said "imperfections". The local industry is working to catch up, but its fragmentation and the market's imperfections make it hard. Strategies to accelerate supply-side consolidation, like raising GMP [Global Manufacturing Practice] and building trust in local products and procurement processes all help.

#### Where else do inefficiencies exist?

William Stockley: There is much inefficiency in drug delivery. There are still around 16,000 companies that claim to supply medicines, but there need be no more

than 500. Other observers say 100 or so, but you probably need at least one or two solid wholesalers per city.

Previously, doctors were not always prescribing the right medicines to the right patient for the right reasons. Hospitals were unduly incentivized to dispense higher cost - and so higher margin medicines for their hospital's income. The higher price-build that used to happen, as the product went around in circles, is eliminated by the two-invoice system and by hospitals not booking a gross margin on medicines dispensed. Enforcement of sound supply-side pricing, invoicing rules, and hospitals' procurement processes improve things greatly.

Chinese companies are reportedly catching up with Western pharmaceutical firms. In which areas does this hold most true? Where might Chinese firms pull ahead of Western competitors?

William Stockley: This depends on the catching up "area", whether it's in sales or innovation, business development, or research. A decade or so ago, Western industry was more about a pricing premium for their trusted generic brands; now, increasingly, it's about innovation. Western companies no longer sell the same generic medicines with their originator brands at higher prices; they've now also registered many new, different, higher-value medicines.

In terms of innovation, MNCs retain an edge in many treatment areas, especially



William Stockley has worked for 20 years in China from 1999 as **Commercial Director** then Managing Director of GlaxoWellcome China, then as General Manager of Glaxo SmithKline Pharmaceuticals, after the merger of GlaxoWellcome & SmithKline Beecham. In April 2005, William joined DKSH as China Managing Director with a brief to build the business at the same time as restructure central services for separate business units of the Swiss firm's China organization.

For the past 11 years, William Stockley has worked as a China Consultant, offering 'fractionalized' input working with clients' China management teams deciding their China objectives and strategy for the irreversible decisions the right business model, right partners, commercial agreements, and precommercialization steps.

pharmaceutical manufacturing companies in China



medical device and equipment manufacturing companies



largest pharmaceutical market in the world



total value of China's healthcare market

oncology and immunology, often with new antibodies and molecules that have a specific targeted immuno-therapeutic basis. But one area of medicine, where China is not just catching up but is pulling ahead, is CAR-T. There are more clinical trials in CAR-T being conducted in China than in the US: that is pulling ahead. For CAR-T therapies, we may see a reversal of previous trends, where technical know-how and manufacturing capability instead begins to flow from East to West. That is also pulling ahead.

#### Can you reflect a little on the differences between Western pharmaceutical firms and their Chinese counterparts?

William Stockley: Western companies are very good at drumming up interest in product, but comparatively weak at getting it to the right places for the right patients. They suffer from a lack of networks' reach. Even Western companies with several thousand employees across China cannot alone reach all the prescribers or dispensaries where their medicines may be welcomed.

Local companies are better at managing local networks and getting drugs to the right places, even if they are less strong on having the medicine well understood and wanted. So, local companies will get much more out of the tailend of a drug's life-cycle than a Western company can in China.

#### Given that China is pushing its population towards off-patent domestic drugs, what's the future for Western generics sold in China?

William Stockley: Generally speaking, it's not bright, which is why many Western firms have divested branded generic medicines, which did well in past decades. VBP & GQCE are great strategies for Chinese self-paying patients and for the healthcare budget. But there will still be opportunities for Western MNCs to run a successful - albeit a lower volume - branded B-List generics business outside VBP hospitals to loyal patients, particularly to those who present to doctors not dispensing medicines governed by centralized procurement.

There will still be Chinese patients who trust the Western product which has, say, long treated their hypertension or diabetes or respiratory condition. Brand loyalty in China is very high because of the enormous trust deficit that built up over decades past. A brand is a promise of a consistent quality and loyal Chinese patients reluctant to abandon them will seek out the places to procure that brand and pay the small premium.

#### Where else are there opportunities for Western pharma companies?

William Stockley: There are private healthcare delivery groups and private healthcare insurance companies that MNCs may link with to get their brands listed. Health insurers can offer policies for huge numbers of employees at certain companies or industries who will then have access to clinics dispensing the drugs when they are in need. Western companies must decide their channels and be nimble and creative to stay strong in the market.

#### How would you describe the current state of cooperation between Western and Chinese pharma firms?

William Stockley: Many of the early collaborations failed. Some still suffer. But much has been learnt from the growing pains. China is far too large for any firm to cover alone, even the largest MNCs. Only through commercial collaboration can a company's primary care medicine hope to achieve a pan-China reach.

We now see increasing cooperation, with MNCs teaming up with smaller Chinese firms both to divest mature products for the Chinese firm to sell instead, as well as to cover more of the country than their own team can reach. There is never stasis in a market, it continually evolves. Products grow and decline, so MNCs must continually re-focus their portfolios.

We also see some MNCs selling early molecules to a Chinese firm when they do not have the capacity or a sufficiently complementary range to warrant investing in marketing and training to develop further.

And we see examples - some more successful, others less so - where MNCs have taken a material stake in Chinese companies (mostly biotech) which may give them future access to innovative therapies. For the Chinese firm, such an arrangement can offer a possible gateway to the global market so the parties, as ever, aim to build a "win-win".

#### What causes collaborations to go wrong?

William Stockley: The most successful Western/ Chinese collaborations are those that focus on creating value not otherwise possible - those that invest in building a shared mutual trust and make the "win-win" work through constant close engagement across their entities' different cultures. This needs an assumption of positive intent, to sign up to embrace the others' strengths and weather their weaknesses. Collaborations still fail, despite early great intentions, because one or both parties are tempted to take more value than they find that

# "Western companies are very good at drumming up interest in product, but comparatively weak at getting it to the right places for the right patients."

their inputs can add to the venture, whether it is a separate commercial agreement or a formal joint venture.

Some of the large Western pharmaceutical groups have taken minority stakes in Chinese start-ups. What's the rationale behind these stakes?

William Stockley: There are many possible motivations. Mostly it will be a first step, a prelude to acquiring possibly a further stake and/or to an eventual acquisition. Nothing happens overnight in the development of new medicines. It takes time and investment to establish if a new medicine is simply a non-inferior alternative, or whether it will become a first line therapy in global guidelines, or even a socalled "blockbuster".

Unless there is an exceptional prospective new medicine or therapy in successful development by the Chinese start-up, an MNC is unlikely to jump right in, but will hedge its bets, move into the water slowly, and make incremental investments. If the prospective new medicine or treatment does poorly in clinical testing, then the MNC will likely have negotiated an option to withdraw.

It comes down to risk appetite, management interest, and organization culture compatibility. Mostly MNCs, being large, are motivated not to lose what they've already got; they are risk-averse, some over-cautious. Their headquarters may harbor lingering concerns over risking a first or "another China deal", especially if their perspective has been colored by earlier unrewarded or learning pain. The only answer in such a case is to walk towards the opportunity, draw dividend from the previous learning pains, and invest the firm's experts in the right collaboration for what may be an entirely different rewarding experience instead.

In the US, pharmaceutical advertising means that consumers often ask doctors to prescribe certain prescription drugs. Do you expect to see such a scenario in China?

William Stockley: The US is the exception in allowing public advertising of prescription medicines as if patients could make such value judgements for themselves. Perhaps it's good to put pressure on doctors to consider and explain to patients. But in most other

countries, Rx advertising [selling pharmaceutical products direct to consumers] is viewed by regulatory authorities and doctors as an odd practice, due to the massive asymmetry in knowledge between patient and doctor. I would be astonished if China ever allowed this.

If you imagine the Chinese pharmaceutical landscape 20 years from now, will it be dominated by local companies or will there be room for both foreign and local players?

William Stockley: It's worth repeating that China's market was always dominated by Chinese companies in terms of volume sales, perhaps by a ratio of 10 to 1, and, in value sales, perhaps 5 to 1. Chinese companies sell far more. And we should not forget traditional Chinese medicines (TCMs), which represent 15-20% of all treatments in the market. Many TCMs are recognized as highly appropriate for certain conditions, often as good as - or better - than a Western alternative. Canada and the UK have recently registered TCMs, and international success will give those products renewed local attention and success. But there are still too many small sub-optimal Chinese companies producing Western medicines and there is still probably too high a sales value enjoyed by Western companies of old generic medicines.

The MNCs' challenge is that the innovation space - for so long their exclusive R&D domain - will increasingly need collaboration in order to be successful in China. The winning MNCs will be those who survive the rapidly evolving scientific environment and fierce marketplace by collaborating in their areas of therapeutic expertise. They will focus on niche areas of treatments by innovative medicines. For a primary care medicine, they will need strong local partners, probably several.

As for the China market's landscape in 20 years' time, Chinese companies will dominate, absolutely. The strong Western MNCs in China will be those who choose the right partners, place the right bets, work well with their partners and then bring jointly researched new medicines to Chinese patients in niche segments. MNCs who don't engage, invest, and manage well will suffer attrition and in 20 years be working again with distributors or be clinging on by their fingernails. Q

This interview first appeared in AmCham Shanghai's Insight magazine.

# Human Capital in the Cloud

CDP Vice President Charlie Zhai recently delivered a keynote speech at AmCham China's 20th annual HR Conference. CDP views itself as an HR service provider with innovation engine embedded in its service model. Different from a traditional HR Service provider, CDP utilizes a digital platform and has a key advantage in the market. CDP was established 15 years ago in Shanghai with the goal of serving customers in the APAC region with a global perspective.

CDP is a human capital management (HCM) provider. The CDP EcoSaaS platform, an integrated software platform, provides comprehensive HCM services including payroll, tax and social security management, benefits programs, workforce management, insurance, and other HR applications. CDP has provided professional human capital management services to more than 1 million employees in 3,000+ enterprises worldwide, covering 35 service industries.

#### What are the biggest challenges for an enterprise under the Digital Economy?

Charlie Zhai: Right now, enterprises are facing a couple of challenges. With new business models arising, clients are facing the difficulties of consolidating their digitalized processes – what we call processed based infrastructure. The number and usage of digital applications has increased and most enterprises are using a whole host of disconnected applications, and as such it's hard for them to consolidate these applications into a single user experience.

This also presents another challenge: how do enterprises create the best experience? In the digital B2C era, everything can be done from mobile. But for HR professionals, they are employee-facing, and employees expect the same experience from their employers as they do from consumer-facing applications and it's very difficult to provide the same experience as is found in the market.

In the digital era, it comes down to three things:

How can we simplify this complicated process and consolidate all business processes into one simplified model? How do we convert all information into digitalized, usable information that can speed up HR management? How do we create a streamlined, best-in-breed ecosystem of applications to meet business needs?

Moreover, how do enterprises make their employees happy and deliver the best experience for their employees - how can an enterprise treat employees just as it treats customers? CDP can boost this experience and address these issues in a couple of ways.

#### What is the HR Transformation trend in the data technology era?

Charlie Zhai: Customers are transforming themselves towards more digitalized management and services. HR is changing by first making things faster and more efficient using digital platforms that are focused on HR processes and enable their core business. Usually they split up their core areas, talent compensation, and rewards - split up these processes and make them more streamlined. They use our HR end-to-end services to make this more efficient and more cost effective. Sometimes customers even have CDP workers run their processes for them.

Through our new concept, we offer customers our EcoSaaS platform that creates a digitalized ecosystem to face their employees. Enterprises can use this platform for payroll, onboarding and offboarding, and other time-consuming processes, and this provides a



#### Above:

CDP Vice President Charlie Zhai speaks at the 20th AmCham China HR Conference in Beiiina

#### Photo courtesy of AmCham China

better quality of services. HR professionals have greater demands these days and they want to run HR more efficiently, as well as transfer their workforce to more strategic roles rather than administrative work.

#### How should enterprises drive employee efficiency and empower development?

Charlie Zhai: Traditionally, performance management comes down to how to make employees perform better via performance measurement, KPIs, targets, etc. These are sort of traditional ways of performance management. But in the digital era, the workflow is transformed from a centralized to a decentralized work model.

Numbers can't measure everything. Enterprises need new ways to inspire employees. If they are global, they are looking for a better way to increase performance and efficiency. Some customers have been doing things to inspire employees, things that can't be measured with KPIs, by using the platform for real-time recognition to inspire employees for good behavior in ways that managers, colleagues, etc. can see this recognition. With a 360 view on the employee platform, employees can receive feedback on a real-time basis.

#### How does someone understand CDP's EcoSaaS service?

Charlie Zhai: CDP is a pioneer in HR service digitalization. Most of our clients are on their journey toward digital transformation. Our role is to help

them better transform from traditional models to a new, digital way. And we have different ways of accomplishing this.

First, from a process perspective, we help our clients to optimize their processes with digital optimization in order to increase speed. Second is the platform. Using digital EcoSaaS - a digitalized platform with services - our clients can utilize the platform to serve their employees, and fundamentally alter their employees' experiences for the better. Employees can be plugged into the platform, and in the future, it will serve as a fundamental layer of the organizational infrastructure.

Behind this infrastructure will be different applications that are consolidated into one platform to improve employee experience, e.g. onboarding - the entirety of the professional lifecycle can be realized on the platform. If an employer wants to provide flexible benefits, the employee can select what they want or need all in the platform. Insurance claims, health benefits, payroll - everything can be done within an ecosystem that integrates with applications in the market.

With key accounts and large-scale SMEs, EcoSaaS is ready to use and quickly put in place if we're using our standard framework. First, we evaluate the client to do a fit analysis. Enterprises will undergo a transformation – they need to transform from old ways to new ways which may take some time, usually two to three months to get in place for an SME. For large scale enterprises, it depends on areas they are looking to transform. However, our standard implementation time is much quicker than the market standard of six months to one year.

#### As an innovative leader in HCM services, could you please talk about CDP's business model?

Charlie Zhai: Our business model is designed to fit to any client and to adapt to the changing needs of dynamic markets. In the current business environment, change is always a hot topic. The advantage of our service model is that we can work with clients' changes. If business is up or down, based on our business model, we can fit to business changes.

In our current customer base, we have many customers that started working with us from when they were only in the early stages. But our model is built to scale with growing businesses. We have one client in which CDP was implemented from the beginning of their operations, that started from one employee and has since grown to 3,000. How did they adapt to their growth? Based on EcoSaaS, they were able to adapt their changing requirements to CDP's resources. This is the model we use, and it lends itself to customer retention. Mergers and acquisition happen with our customers a lot. Based on such a change, we can switch to another adaptable model to accommodate these types of fluctuations. **Q** 

# A Trend in Trade Secret Disputes **Arising from Employee** Turnover

An excerpt from the report A Legal Research Report on Cases of Trade Secret Disputes Arising from Employee Turnover (2015-2018) released by LexisNexis.

Among the cases of trade secret disputes which were concluded from 2015 to 2018, there were 202 cases arising from employee turnover, including 104 cases of first instance, 96 cases of second instance and two retrial cases. Year-wise, 48 cases were concluded in 2015, including 28 cases of first instance and 20 cases of second instance; 36 cases were concluded in 2016, including 15 cases of first instance, 19 cases of second instance and two retrial cases; 62 cases were concluded in 2017, including 33 cases of first instance and 29 cases of second instance; and 56 cases concluded in 2018, including 28 cases of first instance and 28 cases of second instance. Detailed information can be found in Figure 1.

## **Distribution of Cases** by Industry

The Report performs statistical analysis of the industries involved in the cases. As shown in Figure 3, the cases involved manufacturing, service, computer & Internet, education & training, biomedicine, trade, chemical engineering, wholesale & retail, construction engineering and others (including finance, advertising, mining, and energy & power, etc.).

Manufacturing is a field with frequent occurrence of trade secret disputes arising from employee turnover. This has something to do with the characteristics of the manufacturing industry and the current situation of China's economic development. China is a big manufacturing country, and manufacturing enterprises are one of the top enterprise categories in terms of numbers in the country.

Meanwhile, compared with other industries, manufacturing involves business information, while its production process also touches upon materials (formulae), equipment, processes and other technical secrets thus is more prone to the risk of infringement.

#### **Types of Cases**

The cases analyzed in this Report include 185 civil cases and 17 criminal cases.

What needs to be explained is that there are only a few criminal cases of trade secret disputes arising from employee turnover which can be publicly queried. This has something to do with the fact that it is more difficult to file a criminal case and the judicial adjudicative documents of some criminal cases are not yet in the public domain. Some civil judgments of the retrieved cases in the Report indicate that the cases also involved criminal cases, but most of the criminal judgments mentioned in the civil judgments cannot be accessed through public retrieval.

### **Types of Trade Secrets Involved**

Trade secrets can be divided into two types, namely business information and technical secrets. Most of the cases analyzed in this Report involved business information, while the number of cases involving technical secrets is relatively small. There are also some cases which involved both business information and technical secrets.

### Amount of Compensation **Awarded in Civil Cases**

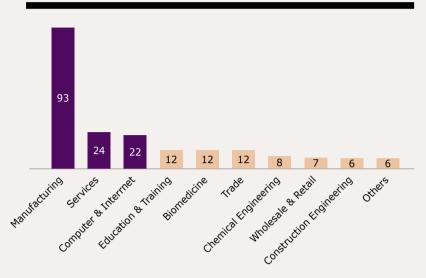
Among the 185 civil cases retrieved by the Report, there were a total of 88 cases in which infringement was established, accounting for 47.6%.

The Report performs statistical analysis of the amounts of compensation awarded in four ranges, namely less than CNY500,000, more than CNY500,000 but less than CNY1 million (inclusive), more than CNY1 million but less than CNY5 million (inclusive), and more than CNY5 million. According to the statistical results, the amount of compensation awarded in most of the civil cases where infringement was confirmed in the judgments was less than CNY500,000. Specific information is shown in Figure 7.

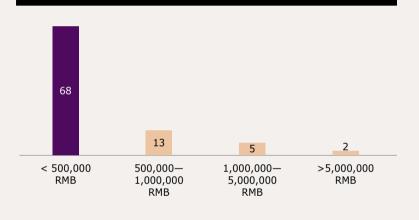
Summary of Analysis of Key Issues:

1. In the cases retrieved by the Report, the number of cases involving technical secrets is less than those concerning business information, and the majority of the cases involved such technical secrets as manufacturing processes, designs, technical parameters and technical information. Under the former legal framework, right holders were required to prove the foundation of rights and the infringement facts; considering the difficulties of evidence collection, right holders may obtain evidence by applying to the courts for investigation and evidence collection or evidence preservation, lodging complaints with the departments for market regulation,

#### Distribution of case by industry



#### Statistics on the Amounts of Compensation awarded in civil cases



reporting to the public security organs or taking other measures.

- 2. Most of the cases retrieved in this Report involved business information, and these business information-involving cases mostly concerned customer lists. The cases involving business information were mainly concentrated in three sectors: manufacturing, trade & finance, and education.
- 3. Jurisdiction over civil disputes over trade secrets arising from employee turnover is mainly based on the domiciles of the alleged infringers. There are few cases where jurisdiction

is based on the domiciles of the right holders. Regarding the jurisdiction issue, the Supreme People's Court has specified that the domicile of a right holder is not the place of the infringing act where the illegal use of trade secrets occurs and that the place where infringing products are sold is not the place where the infringement consequence of acts of illegal disclosure, use or allowing others to use occur. With the establishment of intellectual property courts and intellectual property tribunals in China, cross-region centralized jurisdiction will be achieved for more and more cases.

- 4. There are extremely few trade secret cases involving act injunctions in China at present. The courts are very strict about issuing act injunctions, usually giving comprehensive consideration to the likelihood of an applicant winning a lawsuit, existence of damage that is difficult to remedy, balancing of interests between the applicant and the respondent, and balancing between private and public interests, and other factors.
- 5. Among the 142 cases in which the right holders claimed that organizations and individuals should jointly assume the liabilities, 46% of the cases were supported by the courts, where organizations and individuals are required to jointly assume the civil liabilities. As for the pursuit of multiple liabilities, the infringers in 5 cases were judged to assume both civil and criminal liabilities, and the infringers in 10 cases were judged to assume both civil and administrative liabilities.
- 6. Acquittal cases accounted for 17.6% of the criminal cases. The main reasons for acquittal judgment included lack of constitutive elements of trade secrets, lack of constitution of a crime and the criminal amount being lower than the minimum standard for criminal prosecution. The determination of the criminal amount is the core and difficult point of criminal cases of trade secrets.
- 7. As for cases in which trade secrets were disclosed due to infringement, criminal procedures are the first choice for rights protection thanks to the fairly easy collection of evidence and the easier calculation of loss to right holders. Meanwhile, civil lawsuits of infringement and ownership are also effective ways to protect rights.
- 8. All the amended provisions of the Anti-Unfair Competition Law amended on April 23, 2019 are related to the protection of trade secrets, including the transfer of burden of proof, the intensification of compensation and penalties, and the expansion of the scope of accountability, and so on. Q

The data of this Report are from http:// wenshu.court.gov.cn/ and the official websites of the administrations for market regulation of Beijing, Shanghai and Shenzhen.

## 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.

#### Agriculture Forum 4

Michael Boddington, Asian Agribusiness Consulting

Yong Gao, Bayer Juhui Huang, BRF China Owen Ma, Cargill Investment

#### Automotive Forum 6

Albert Xie. General Motors Yan Leng, Daimler

#### **Business Sustainability Committee \***

Anke Schrader. The Conference Board Jasmine Tian, Coca-Cola

Wu Jing, UPS

#### Chinese Government Affairs Committee 2

Bing Zhou, Dell Elizabeth Pei, Disney Dennis Zhang, Carlyle Group Julia Zhu, Starbucks

#### Cosmetics and Nutrition Forum 6

Jun Zhang, Amore

Edison Chen, Johnson & Johnson

Jane Yan, Amway

#### Education Forum 1

Carol Li Rafferty, Yale Center Beijing

#### Election Committee 5

Chris Millward, USITO

#### **Entrepreneur Committee \*\***

Su Cheng Harris-Simpson, SCHS Asia Eric Schmidt, EventBank Abraham Sorock, Atlas

#### Financial Services and Insurance Forum \*\*

Gina Huang, JP Morgan Viki Huang, State Stree

Lester Ross, Wilmer Cutler Pickering Hale and Dorr

Gloria Wang, United Healthcare Insurance

#### Food & Beverage Forum 6

Rachel Yu, Coca-Cola Julia Zhu. Starbucks Sujing Wang, Pepsi

#### Healthcare Industry Forum 4

Roberta Lipson, Chindex Jeffrey Que, Johnson & Johnson Alice Xu, Boston Scientific

#### Human Resources Forum<sup>3</sup>

Charise Le, Schneider Annie Wang, Bayer Michelle Zhang, Pfizer Charles Shao, Korn Ferry

#### Visa Committee \*

Gary Chodorow, Chodorow Law Offices

#### ICT Forum ⁴

Wei Ding, Oracle Joanna Mao, United States Information Technology Office (USITO)

#### Legal Affairs Committee 4,6

Katharine Bostick, Microsoft Michael Liu. Hylands

Susan Munro, Steptoe & Johnson Scott Palmer, Perkins Coie

#### Manufacturing, Customs, Supply Chain and Sourcing Forum 4

Chuck Brown. Individual Fanny Chen, Abbott

Dwight Nordstrom, PRI Management Consultina

Wu Jing, UPS Yu Jiang, Emerson

#### Marketing, Advertising, and PR Forum 1

Olivia Ji, EventBank Yu Yue, Brunswick

#### Media and Entertainment Forum \*\*

Charles Shi, Universal Parks

#### Oil, Energy, and Power Forum \*\*

Yumin Yang, ConocoPhillips Maggie Jia. Cheniere

#### Outbound Investment Forum \*\*

Kenneth Zhou, Wilmer Cutler Pickering Hale and Dorr

#### Policy Committee 7

Lester Ross, Wilmer Cutler Pickering Hale

#### **Real Estate and Development** Forum 1

Eric Hirsch, Jones Lang LaSalle

#### Sports (including Golf) Committee 1

Bryan Bachner, Individual Su Cheng Harris-Simpson, SCHS Asia Randal Phillips, Mintz Group Eric Schmidt, EventBank

#### Tax Forum 6

Wendy Guo, PricewaterhouseCoopers Julie Zhang, Deloitte Touche Tohmatsu Abe Zhao, Baker & McKenzie

#### **US Government Relations** Committee 8

Randal Phillips, Mintz Group William Zarit, Cohen Group

#### Women Professionals Committee \*\*

Su Cheng Harris-Simpson, SCHS Asia Frances Yu, Amway Qian Liu, The Economist Group **Lin Gao**, Message Coach

#### Work Safety Committee \*

Mark Duval, Terex (China) Investment

#### Young Professionals Committee 1

Abraham Sorock Atlas

#### **Central China Chapter**

#### CGAC Committee 10

Helen Hu, GE China

#### Training Forum 10

Scott Shaw, LDi Training

#### **Northeast Chapter**

#### Human Resources Forum 11

Dorman Kwan, PwC (Dalian) Rochelle Mathias, TORLYS & Mother's Enalish

#### ICT Forum 11

Ladon Ghalili, Epoch International

#### Women Professionals Committee 11

Vacant

#### **Tianjin Chapter**

#### Manufacturing & Sustainability Committee 12

Nathan Dunbar, Caterpillar (Tianjin) Marcus Williams, Boeing Tianjin Composites Co., Ltd.

Alex Scilla, Tianjin Zhongyi Xianfeng Environmental Consulting Service Co.

#### Golf Committee 12

Jon Reed, Tianjin Custom Wood Processing

#### Real Estate Forum 12

Michael Hart

#### Women Professionals Committee 12

Vacant

#### Cooperation Programs

#### **US-China Aviation Cooperation** Program 13

Sherry Carbary, Boeing Nicole Didyk Wells, FAA Geoffrey Jackson, ACP

#### **US-China Energy Cooperation** Program 14

Ma Li, ECP

#### **US-China Healthcare Cooperation** Program 15

Shaojun Ma, HCP

#### **US-China Agriculture & Food** Partnership 16

Lorraine Hawley, ADM Zhinong Yan, Walmart Jennifer Lee, AFP

#### Export Compliance Working Group 6

Joanne Davis, Gulfstream Nic Cao, VMware

#### **Supporting Staff**

1. Tingting Liu tliu@amchamchina.org

2. Sijie Wang sijie.wang@amchamchina.org

3. Vacant

4. Li Lu lli@amchamchina.org

5. Henri Tan htan@amchamchina.org

6. Baojian Sui bsui@amchamchina.org

7. Andrew Scott ascott@amchamchina.org

8. Catherine Beck cbeck@amchamchina.org

10. Joan Zhu jzhu@amchamchina.org

11. Maddy di Tommaso

m.ditommaso@amchamchina.org

12. Amanda He amandahe@amchamchina.org

13. Sophie Ren sren@amchamchina.org

14. Lucinda Liu

ecpmembership@amchamchina.org

15. Nancy Zhang nzhang@amchamchina.org

**16. Abby Yang** ayang@amchamchina.org

\* In transformation

\*\* Vacant

# Annual General Meeting 2019







**Top:** The 2019 AmCham China Board of Governors

Far left: Colm Rafferty (left) receives the Service Award from AmCham China Chairman Tim Stratford

Near left: AmCham China President Alan Beebe opens the 2019 AGM

**Below left:** Prospective candidates for the 2020 Board of Governors make their stump speeches

Below right: Elizabeth Knup poses after receiving the Pioneer Award

Photos courtesy of AmCham China











A selection of photos from the AmCham China Tianjin Chapter Annual General Meeting

Photos courtesy of AmCham China Tianjin Chapter

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# Guidance of FCPA compliance in China

By Pierre Wong

China has, in the past, rarely punished bribe-givers for commercial bribery, instead focusing on state officials accepting bribes, even though the Chinese Anti-Unfair Competition Law and the Criminal Law bans the conduct of commercial bribery. Regardless, for many US persons and corporations in China, corruption and bribery have always been a major concern. This is due to the Foreign Corrupt Practices Act of 1977 (FCPA). The FCPA has long been a tool of the United States Justice System to govern the behavior of US persons and entities abroad, with around 80% of FCPA cases in 2017 and 2018 being related to China according to our independent research.

#### FCPA Overview

The FCPA is a broad anti-corruption anti-unfair competition law that applies to every US person and individuals working for US companies as well as entities with securities listed in the US. The FCPA prohibits making or even knowing about payments, gifts, or offers of anything of value to a foreign official for the purpose of influencing the official or otherwise securing any improper advantage in obtaining or retaining business. The language used in the FCPA has broad effect and has been known to include a wide variety of gifts ranging from goods of value (or cash), generous service contracts, and even the hiring of relatives of a government official.

Violations of anti-corruption and anti-unfair competition laws often result in large fines and possibly incarceration for individuals and large financial penalties for corporations including injunctions, forfeiture of assets, and disgorgement of profits.

#### **Notable Cases in China**

Notably in 2018, Polycom, a communications company headquartered in the

The Foreign Corrupt Practices Act (FCPA), enacted 1977 and since amended by Congress and construed by the courts, is a US criminal and civil statute that prohibits bribery of foreign government officials to obtain or retain business. Anti-corruption compliance is an increasing area of focus for American entities around the world, driven in large part by increased global enforcement by authorities.

US, agreed to pay \$16 million for making illicit payments to Chinese government officials through its local distributors and resellers. Also, in 2018, Credit Suisse's investment bank in Hong Kong agreed to pay \$76.7 million criminal and civil penalty for a corrupt hiring scheme that violated the FCPA.

Businesses of all sizes are expected to maintain reasonable control systems and accounting standards to identifying red flags, investigate claims and prevent bribery and corrupt behavior from taking place. When violations of anti-unfair competition and anti-corruption laws do occur, self-regulation can help avoid corporate punishment.

In 2015, Tencent reported serious violations within the company resulting in several arrests including then general manager of Tencent Video, Patrick Liu. Huawei and Alibaba group both instituted anti-corruption campaign within their network of dealers and third-party affiliates, while also turning in alleged corruption cases to the relevant authorities. Adopting clear guidelines for employee behavior and establish a culture of no tolerance toward bribery and corrupt behavior is important as it can help reduce corporate punishment should an employee violate FCPA guidelines.

In general, businesses should assume that fraud and manipulation are inevitable when control systems are weak. More often than not, fraud cases are not incidental with the OECD reporting over 60% of fraud events within a company being due to deliberate override of internal control or collusion with third parties.

In July of 2019, Lai, a Director of Marketing at Meituan, and Mei, Senior Manager, were criminally detailed by the Beijing Chaoyang police on suspicion of accepting bribes from non-state officials. Similarly, in August of 2019, Baidu announced an internal investigation found serious violations of professional ethics guidelines on the part of someone by the name of Shi, a Key Account Manager for several large clients in Shanghai. Shi had used his position to seek personal gains and was suspected of accepting bribes from non-state officials.

#### **FCPA Compliance Best Practices**

When someone learns of, or suspects, a violation of anti-corruption compliance policy, they should be directed to immediately report the matter to an internal compliance manager, legal department or closest possible authority with such channels of reporting being made widely known throughout the organization.

When it comes to mitigating the risks of corruption and fraud, there is no one size fits all. Anti- corruption and anti- bribery practices commonly accepted amongst businesses, but how to do it differs from business to business. Finding and implementing the right policies, detailing procedures and instilling compliance behavior that works becomes critical. To get help, businesses are advised to seek financial compliance and legal experts on anti-bribery and anti-corruption policies and how fraud manifests itself in China should they need help to find what works for them. **Q** 

Pierre Wong is the founder and Managing Director of Integra Group.







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