April–June 2012

The China Business Review

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Delivering the Goods in China

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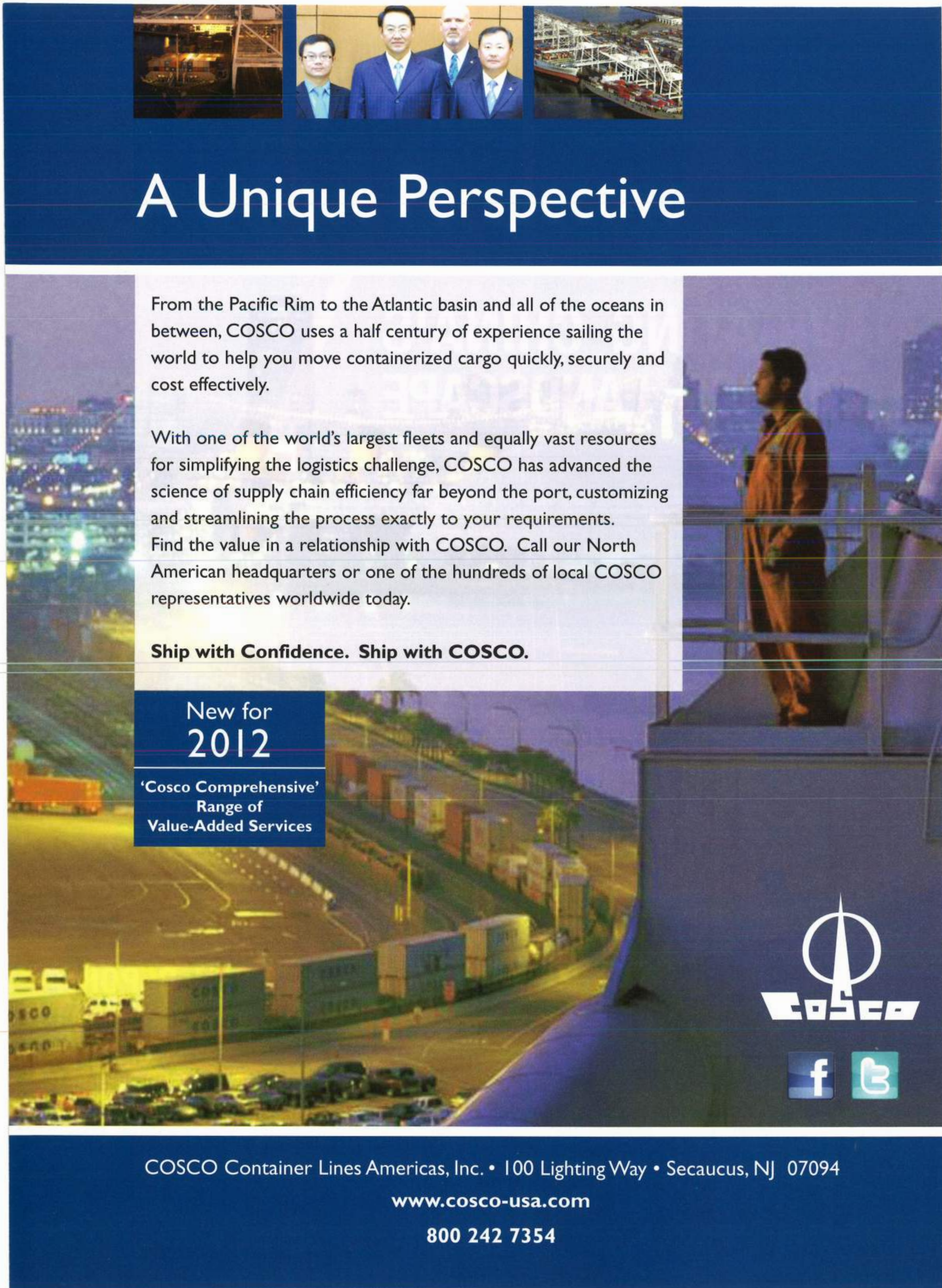
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Special Report: Energy & Environment

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The World Bank's Blueprint for Change in China

In February, the World Bank and the Development Research Center of the PRC State Council released a report that recommends the economic reforms China should make over the next 20 years to become a high-income country by 2030.

"China's leaders have recognized that the country's growth model, which has been so successful for the past 30 years, will need to be changed to accommodate new challenges," says World Bank President Robert Zoellick.

In the report, *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*, the World Bank offers six strategic reforms China should implement to prevent the country from becoming stuck in what they call a "middle-income trap" of slower growth and less prosperity. The six reforms include transitioning to a market economy, "accelerating the pace of open innovation," investing in clean energy, expanding the social safety net by improving access to healthcare, education, and jobs, strengthening China's fiscal situation, and building mutually beneficial relations with the rest of the world.

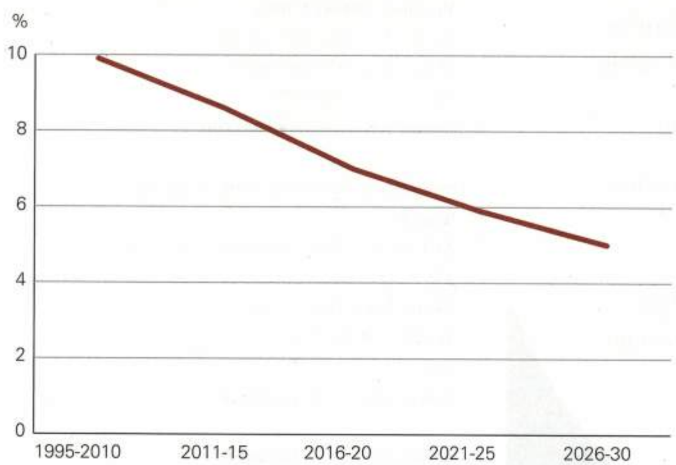
"China has an opportunity to avoid the middle income trap, promote inclusive growth, without further intruding on the environment, and continue its progress towards becoming a responsible stakeholder in the international economy," Zoellick says.

China's economic growth is expected to remain robust in the near future, but the World Bank expects the pace to moderate over the latter part of the next 20 years (see Table 1 below). Along the way, China is expected to surpass the United States as the world's largest economy.

To become a high-income country, the World Bank says that the PRC government must relax its control over many parts of the economy and promote competition among private companies. That means allowing interest rates to move according to market principles, diversifying ownership of China's many state-owned enterprises, protecting landowners' rights, and transforming the household permit system—or hukou.

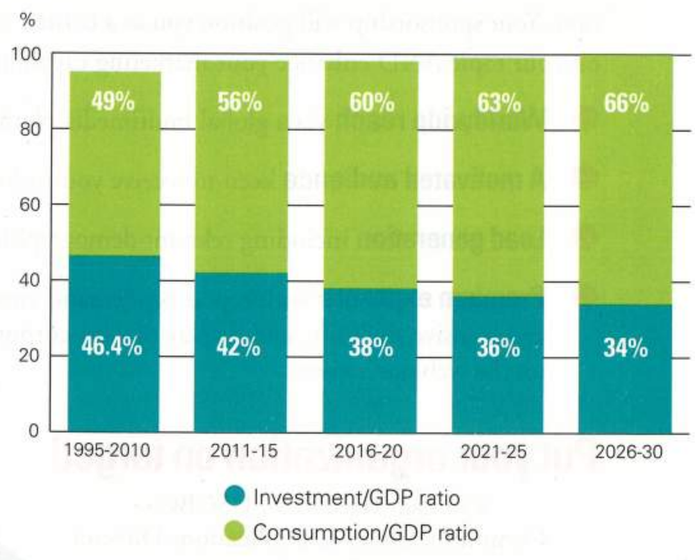
The World Bank also insists that China must tackle its rising inequality by supporting its lower-income rural and migrant workers by providing programs like unemployment insurance and retirement pensions. In addition, the report says China must get its fiscal house in order by raising more revenue in areas such as energy consumption and allocating spending more effectively in the future. If China is able to successfully implement reforms and open up its financial sector, the World Bank believes the renminbi will one day be considered a major global reserve currency.

TABLE 1: CHINA'S PROJECTED GDP GROWTH, 1995–2030



Note: Projections assume steady reforms and no major shocks.
DEVELOPMENT RESEARCH COUNCIL.

TABLE 2: CHINA'S PROJECTED ECONOMIC STRUCTURE, 1995–2030



The Development Research Council projects that Chinese consumers will play a larger role in the country's growth in the future.

Note: Due to rounding, figures do not add up to 100 percent.
DEVELOPMENT RESEARCH COUNCIL

As Costs Rise, Opportunities Evolve

As companies have faced rising costs in China in recent years, they have also been presented with an opportunity, says Shaun Rein, author of *The End of Cheap China*, which was published at the end of March. Founder of the Shanghai-based China Market Research Group, Rein spoke with *CBR* Editor Christina Nelson about how American businesses can evolve to meet the needs of, and profit from, China's growing base of middle class consumers.

What are the global implications of a more prosperous China?

Rein: You see that China is no longer just a place to manufacture but a place to sell into because incomes are rising. What is going to be important for American companies is to understand what it is that Chinese consumers want, what the shift is, and how to execute. You have already seen China become the largest market in the world for Intel, the second largest market for Apple and Dell, and it is about to become the largest market for Starbucks.

What has a company like Starbucks, for example, done right?

Rein: I met some entrepreneurs about 14 years ago in China who wanted to open coffee shops, and I told them they had no chance. The Chinese would not pay for a bitter, high-priced drink. I was really wrong. Starbucks was able to understand that Chinese consumers were looking for a little bit of personal indulgence and luxury. And that's what going to Starbucks meant for them. Starbucks was brilliant because they increased prices—the price of a latte in Shanghai is more expensive than New York. They created very nice seating options. Starbucks became the de facto meeting place for businessmen, friends, as a place where you had nice comfortable seats, good service, ambiance, at an aspiring price. The other thing Starbucks did that was very smart is they retained their employees very well. So instead of treating them like third-class citizens, they really focused on training, giving top benefits, and giving reasonably good compensation packages.

What kind of human resources lessons can we learn from a company that has done really well with retaining employees?

Rein: We interviewed Fortune 500 firms in China, and 70 percent of them told us they have 30 percent plus annual turnover. To give you an idea, in the United States 11 percent is considered a good number, 9 percent means you are not getting rid of dead weight and bringing in new ideas, and 12 percent becomes too expensive from a recruiting standpoint. When we interview companies, they say their biggest problem and challenge for growth in China is not the typical issues that you hear about in the Western media like corruption, lack of transparency, or rising protectionism by the government. It is really at the end of the day about human resources. The fight for top talent is going to get tougher and tougher in the next couple years. What's happening is a lot of the top Chinese talent are leaving Western multinationals and moving to either state-owned enterprises or private Chinese enterprises because there are no glass ceilings. They feel they can become the global head of marketing for a company rather than just the head of China. Brands really need to show strong career paths for mainland Chinese because the days of everyone wanting to work for multinationals really are gone. Now recent grads are saying they want to work for state owned enterprises and the Baidus of the world.

What should companies currently manufacturing in China be thinking about to control costs?

Rein: A lot of brands are starting to relocate a lot of their manufacturing to other countries. They are moving to places like Indonesia or Vietnam where salaries are much cheaper, but that's actually not a model that will work for all industries. In the second chapter of my book, I track a large American furniture company that several years ago—facing rising labor and real estate costs—shifted a lot of their production to Indonesia and Vietnam. After a couple of years, even though the salaries were a quarter or an eighth of those in China, they found that their operating expenses were higher because labor efficiency there was not very good. So they moved back to China a large part of their manufacturing.

There are two implications. The first is that what's going to happen is a lot of American companies are going to have to cut their margins if they are producing in China and shipping to the United States. What's really most likely going to happen is that they are going to export inflation in China back to the United States. And that's why I think that the end of cheap China means that America is going to deal with rising inflation for the next 10 years. What this furniture company did is they decided that the recession was so bad in the United States that they could not transfer costs to the American consumer, so they started to try to sell into China. That was something they had never tried doing before.

What are the opportunities for companies that sell goods and services to China?

Rein: China is definitely becoming a mass consumer market and I think over the next five years the Chinese middle class is going to be one of the greatest growth stories in the world from an economic standpoint. There are major differences between how Chinese consumers spend and how American consumers spend. So the book argues that companies need to take a China-first strategy, which means looking at product development, marketing, advertising, all from day one with Chinese consumers in mind rather than just transplanting what worked in the United States into China.

Visit chinabusinessreview.com to read an excerpt of Rein's book, *The End of Cheap China*.

Americans Want More Cooperation between the United States and China

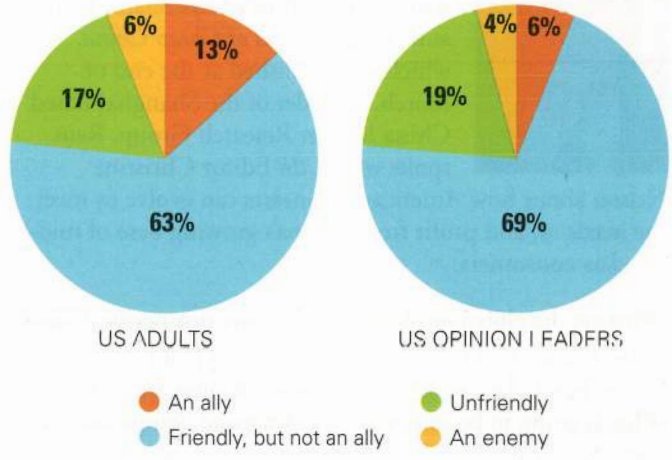
In advance of PRC Vice President Xi Jinping's visit to the United States in February, Gallup and China Daily USA polled a sample of Americans and "opinion leaders"—made up of US government officials, think tank leaders, members of the media, college professors, and business executives—on their views on China. The results show that both the American public and opinion leaders perceive the US-China relationship as important but remain divided on their feelings about China's rise.

More than two-thirds of those polled said they viewed China as either an ally or friendly, but in general the American public and opinion leaders are mostly split on whether or not they have a favorable or unfavorable opinion of China. The poll revealed a generational gap among the American public: About half of respondents between the ages of 18 and 34 have a favorable opinion of China, compared with only 36 percent of Americans age 55 and older. In addition, a correlation was found among respondents who said they followed the news closely. Respondents who followed the news closely were more likely to view China unfavorably.

Notably, a majority of respondents said they believe strong US-China relations are important, and they want more cooperation between the United States and China on a range of issues, including energy, education, politics, and diplomacy. More than 40 percent of both the American public and opinion leaders believe that China will likely pass the United States as the world's leading power.

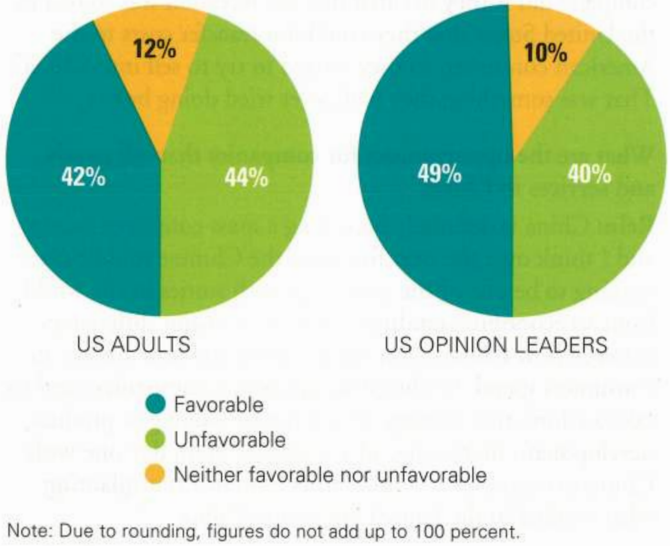
The bottom line, according to Gallup: "Most Americans view strong US-China relations as important, characterize the relationship as friendly, and desire more cooperation between the two countries in key policy areas. However, Americans remain divided on China's favorability, perhaps reflecting historic tensions over differing political ideologies, a widening trade imbalance, and China's growing influence."

HOW RESPONDENTS CHARACTERIZE CHINA'S RELATIONSHIP WITH THE UNITED STATES



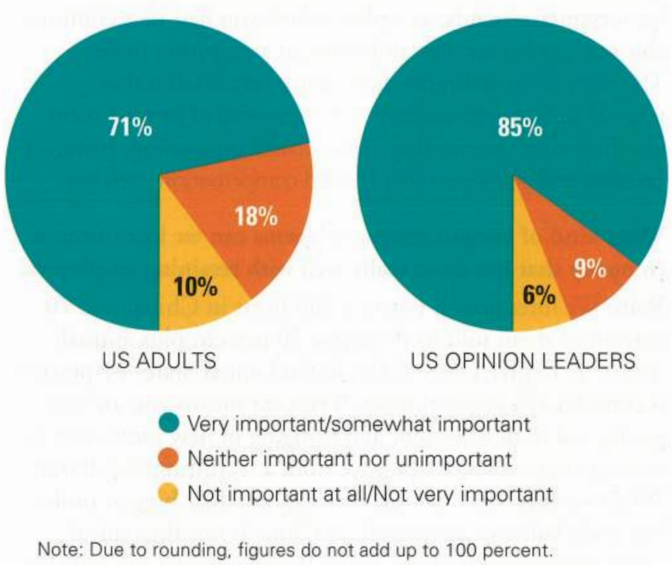
Note: Due to rounding, figures do not add up to 100 percent.
GALLUP/CHINA DAILY

RESPONDENTS WITH A FAVORABLE OR UNFAVORABLE OPINION OF CHINA



Note: Due to rounding, figures do not add up to 100 percent.
GALLUP/CHINA DAILY

THE IMPORTANCE OF A STRONG US-CHINA RELATIONSHIP



Note: Due to rounding, figures do not add up to 100 percent.
GALLUP/CHINA DAILY

China Conference Calendar

China-related events near you

April–July 2012

Please confirm dates and venues with the organizer prior to attending events. To suggest an entry for the next issue, send an announcement to Joseph Luk (jluk@uschina.org). You can also post listings and view additional entries on the *China Business Review* website at www.chinabusinessreview.com/conference-calendar.php.

2012 International Manufacturing Engineering Conference

APRIL 11–13

Location: Shanghai: International Convention Center
Organizer: American Institute of Engineering and Sustainable Development
Contact: LaShawn Johnson
imec_services@aiesd.org
www.aiesd.org/meetings-and-conferences/imec2012/index.html

Shanghai Zhangjiang Forum on Translational Medicine

APRIL 13–15

Location: Shanghai: Jumeirah Himalayas Hotel
Organizer: Chinese Academy of Medical Sciences; Fudan University; Shanghai Zhangjiang Center for Translational Medicine
Contact: Xiuli Wang
Tel: 86-21-5027-7728 ext. 819
xwang@biotecan.com
www.fudanmed-ce.com/transforum/eng/index.html

The 111th Session of the China Import and Export Fair (The Canton Fair)

APRIL 15 –MAY 5

Location: Guangzhou, Guangdong: China Import and Export Complex
Organizer: China Foreign Trade Center
Tel: 86-20-8913-8616
invitation@cantonfair.org.cn
info@cantonfair.org.cn
www.cantonfair.org.cn/en/index.asp

2012 International Conference on Advanced Manufacturing Technology and Systems

APRIL 17–18

Location: Wuhan, Hubei
Organizer: International Association of Engineering Technology
Tel: 86-27-8785-0713
2012amts@gmail.com
www.amts2012.org

NYIT-Nanjing International Film Festival and Symposium

APRIL 21

Location: Nanjing, Jiangsu
Organizer: The New York Institute of Technology (NYIT) Center for Humanities and Culture at Nanjing University of Posts and Telecommunications
Contact: Marshall D. Willman
mwillman@nyit.edu
iris.nyit.edu/~mwillman/index.htm

Shale Gas Summit

APRIL 23–24

Location: Novotel Beijing Xinqiao
Organizer: Center for Management Technology
Contact: Grace Oh
Tel: 65-6346-9147
grace@cmtsp.com.sg
www.cmtevents.com/aboutevent.aspx?ev=120419

7th International China Pharmaceutical R&D Summit 2012

APRIL 23–26

Location: Grand Hyatt Shanghai
Organizer: IBC Asia (S) Pte Ltd
Contact: Rita Parasurum
Tel: 65-6508-2401/86-21-2326-3680
register@ibcasia.com.sg
rita.parasurum@ibcasia.com.sg
www.chinapharmard.com

5th Wine China Expo 2012

APRIL 23–25

Location: Beijing: China World Trade Center
Organizer: Wine International Ltd.
Contact: Linda Gurney
Tel: 61-448-800968
linda@wineinternational.com
www.winechinaexpo.com/en/visitorregistration.html

2012 Aviation Manufacturing Summit China

MAY 8–10

Location: Shanghai
Organizer: IGVision
Contact: Tina Tian
Tel: 86-21-5161-5300
marketing@igvision.com
www.chinaaviationindustry.org/aviation/index.html

Global Mobile Internet Conference

MAY 10–11

Location: Beijing: Chinese National Convention Center
Organizer: Great Wall Club
Contact: Maxim de Wit
Tel: 86-10-8252-5377
max@greatwallclub.com
gmic.greatwallclub.com

2nd Global Derivatives 2012

MAY 15

Location: Renaissance Yangtze Shanghai Hotel
Organizer: Daiss Associates
Tel: 86-21-5272-0733
bd@indexingeft.com
gd.daissassociates.com

3rd Annual Green Fuels & Vehicles China 2012

MAY 15–16

Location: Shanghai: Ramada Plaza Pudong
Organizer: IGVision
Contact: Tina Tian
Tel: 86-21-5181-5373
tina@igvision.com
marketing@igvision.com
www.greenfuels-vehicles.com/gfvc/index.html

China Conference Calendar

Unconventional Gas Leadership Forum Asia 2012

MAY 15–18

Location: Beijing: China World Hotel
Organizer: Coal-bed Methane Industry Association of Shanxi Province
Contact: Raymond Zhang
Tel: 86-21-5070-0089
contact@giuniverse.com
www.unconventionalgasasia.org

Annual Shipping China Conference

MAY 22–23

Location: Shanghai: Kerry Hotel Pudong
Organizer: TradeWinds
Contact: Banu Kannu
Tel: 86-186-2136-0996
www.nhstevents.com/events/shipping-china-2012

3rd International Aluminum Raw Materials Conference

MAY 22–24

Location: Qingdao, Shandong: Shangri-la Hotel
Organizer: AZ China
Contact: Charissa Trahms
Tel: 86-10-5907-0270
20enquiries@az-china.com
www.conference.az-china.com

6th Annual Asia Mining Partnering Forum 2012

MAY 24–25

Location: Kempinski Hotel Beijing Lufthansa Center
Organizer: China Decision Makers Consultancy
Contact: Cecilia Xu
Tel: 86-21-6840-7631
sues@cdmc.org.cn
www.cdmc.org.cn/ampf2012

Shanghai Forum 2012

MAY 26–28

Location: Fudan University
Organizer: Fudan University
Tel: 86-021-55664590
shf@fudan.edu.cn
www.shanghaiforum.org

Financial Data Asia 2012

MAY 29–31

Location: Hong Kong: Harbor Grand Hotel
Organizer: WBR Singapore Pte. Ltd.
Contact: Greg Moyle
Tel: 65-6408-9214
greg.moyle@wbresearch.com
www.wbresearch.com/financialdataasia

11th IEEE/ACIS International Conference on Computer and Information Science

MAY 30–JUNE 1

Location: Shanghai: Pine City Hotel
Organizer: Institute of Electrical and Electronics Engineers (IEEE); International Association for Computer and Information Science (ACIS)
acis@lsfk.org
acis.cps.cmich.edu/ICIS2012

2012 4th IEEE International Conference on Communication Software and Networks

JUNE 1–3

Location: Zhengzhou, Henan: Fengleyuan Hotel
Organizer: IEEE
Contact: Dr. Haodong Zhu
iccsn@vip.163.com
www.iccsn.org

Offshore Technology Asia 2012

JUNE 5–8

Location: Shanghai
Organizer: UMS Institute, the Society of Oil & Gas Technology Alliance
Contact: Jack Ong
Tel: 86-21-6155-3964
jack.ong@otanet.org
www.otanet.org

China Global Real Estate Institute

JUNE 6–7

Location: Shanghai
Organizer: Global Real Estate Institute
Contact: Grace Shi
grace.shi@globalrealestate.org
www.globalrealestate.org

World CSP Asia Forum 2012

JUNE 18–21

Location: Beijing: China World Hotel
Organizer: General Intelligence
Contact: Raymond Zhang
Tel: 86-21-6163-3586
contact@giuniverse.com
www.cspasia.org

2012 International Conference on Energy and Environmental Protection

JUNE 23–24

Location: Hohhot, Inner Mongolia
Organizer: Inner Mongolia University
Tel: 86-139-4811-4976
ICEEP@188.com
www.iceep2012.org

Shared Services & Outsourcing Network Dalian 2012

JULY 3–4

Location: Dalian, Liaoning
Organizer: International Quality and Productivity Center
Contact: Merrylyn
Tel: 65-6722-9388
enquiry@iqpc.com.sg
www.ssodalian.com

Innovation and Entrepreneurship: Theory and Practice Relevant to China

JULY 8–14

Location: Wuhan, Hubei
Organizer: Lancaster University Management School, the Economics and Management School of Wuhan University
Contact: Dr. Qihai Huang
Tel: 44 (0) 1524-510752
qihai.huang@lancaster.ac.uk
www.lums.lancs.ac.uk/events/chinacentre/24166

2012 International Conference on Logistics, Informatics, and Services Sciences

JULY 12–15

Location: Beijing Jiaotong University
Organizer: Beijing Jiaotong University
Tel: 86-10-5168-4188
liss@bjtu.edu.cn
http://icir.bjtu.edu.cn/liss2012

6th Ditan International Conference on Infectious Diseases

JULY 12–15

Location: Beijing
Organizer: Beijing Ditan Hospital, European Society of Clinical Microbiology and Infectious Diseases, and Global Chinese Association of Clinical Microbiology and Infectious Diseases
Tel: 86-139-1147-0885
info@bjditan.org
www.bjditan.org

Understanding and Preparing for Chinese Trade Remedy Cases

Will Turner

Recent research from the US-China Business Council shows US exporters increasingly face the threat of sanctions resulting from anti-dumping (AD) and countervailing duty (CVD) investigations in China. Regardless of whether such sanctions are the result of legitimate investigations of trade remedy rules or overt political retaliation against the United States, companies can take steps to mitigate the threat these cases pose to their business in China.

Background on trade investigations

AD investigations assess whether foreign competitors are selling their product in a country's market at prices below what they charge in their home market to undercut domestic industry. CVD investigations assess whether a foreign government is subsidizing its exporters. In both cases, different government offices determine whether a domestic industry has been injured and calculate the rate for tariffs to be applied on exports. Affirmative decisions lead to corrective tariffs being applied on all exports from the foreign country, but specific exporters can argue for lower rates or that they do not qualify for sanctions.

Unlike in the United States, where responsibilities for injury determination and tariff rate calculations are divided between the US International Trade Commission and the US Department of Commerce, respectively, in China these responsibilities are divided between two different departments under the PRC Ministry of Commerce (MOFCOM). This combined structure may increase the risk that political considerations can overshadow legal ones. In addition, Chinese industry petitions are not publicly available when filed, PRC cases do not follow a standard timeline, and there is no administrative protective order in China that allows lawyers to access confidential information that also protects data exposed to other parties. All of this creates uncertainty for US companies seeking to prepare for cases, plan business operations, and protect company information.

Preparations

Though petitions are not publicly available in China before MOFCOM initiates cases, rumors of pending cases from trade associations or the Chinese media can provide warning signals. Once a case is announced there is little time to file paperwork, so companies should start preparations as early as possible. Registration is costly and time-consuming, but companies should register to participate because it increases the likelihood of receiving a lower rate or avoiding sanctions altogether. Companies that do not register are almost certain to receive the highest tariff.

Companies should hire lawyers from both the United States and China because only Chinese lawyers can represent clients in meetings with PRC government officials, but they frequently do not have the expertise of their US counterparts. US lawyers should conduct internal company investigations as well as educate their Chinese colleagues on relevant World Trade Organization (WTO) law and prepare them to interact with PRC investigators. Since cases are often politicized in China, companies should also assign their government affairs staff in China to engage PRC government contacts and keep US officials informed.

It is also important to coordinate with other affected companies through trade associations or other vehicles during the injury determination proceedings. Injury determination cases can be won, and negative decisions mean no tariffs will be applied on any exports because the petitioner's claims have been rejected. If PRC investigators determine that an industry has been injured, however, then companies must assess whether the best strategy is to coordinate with others or work alone to receive a lower tariff rate than their competitors.

Back-up plans

If a company receives a prohibitively high margin or one that puts them at a disadvantage vis-a-vis their competitors, there are options for appealing that ruling. Companies may be able to apply for an administrative review that usually takes three or four months to complete. These reviews can result in changes to the tariff rate. Companies can also pressure MOFCOM through US and other PRC government contacts.

A final option is to work with the Office of the US Trade Representative to file a WTO case against China. Due to a lack of transparency, PRC trade remedy decisions are often vulnerable to charges at the WTO. Though dispute settlement cases can take up to three or four years to resolve, the WTO's pro-complainant record and China's desire to avoid losing WTO cases provide the possibility of settling the dispute more quickly. 完

Will Turner *was manager of government affairs at the US-China Business Council (USCBC) in Washington, DC. This article is adapted from a report that first appeared in* China Market Intelligence, *USCBC's members-only newsletter.*

China's Environment Targets: Another Cost Increase on the Horizon

Julie Walton

How prepared is your company to pay taxes in China on the energy it uses and the pollution it creates? Despite the media discussion about rising costs in China—such as land, labor, capital, or raw materials costs—China-based executives seldom discuss the costs associated with cleaner energy and environmental protection. Rather quietly and quickly, however, PRC energy and environment policy has developed to the point that energy consumption, carbon emissions, and pollution control are set to become the newest cost considerations for companies in China.

A central feature of China's macroeconomic strategy through 2015 is to create cleaner industrial processes, while simultaneously addressing the significant environmental problems plaguing China's soil, air, and water. While the government has talked publically about these tasks for some time, some of the most detailed action plans to date emerged in 2011, making it clear the central government will put substantive effort behind its rhetoric in the near future.

So what's on the horizon?

Energy consumption targets

In September 2011, the State Council released the 12th Five-Year Plan for Energy Conservation and Emissions Reduction (FYP, 2011–15), which guides provinces to reduce energy consumption and emissions. The FYP also assigns specific responsibilities to individual agencies. For example, the National Development and Reform Commission (NDRC) will guide and coordinate emissions reduction policies, and the Ministry of Environmental Protection (MEP) will oversee pollution control policies. While setting provincial targets is nothing new, having them written into a national plan that seeks to establish an integrated system to monitor and control energy usage throughout the country is. By 2015, for example, Guangdong, Jiangsu, and Shanghai, must reduce by 18 percent their energy consumption per unit of GDP, while Anhui, Chongqing, and Fujian must reduce by 16 percent. The National Energy Administration has announced its goal to establish a nationwide total energy consumption limit and allocate and manage consumption by province. Such a consumption limit will drive up energy costs and may lead to the development of energy consumption trading platforms among provinces.

Carbon trading

Four cities—Beijing, Shanghai, Tianjin, and Chongqing—along with two provinces—Guangdong and Hebei—received approval to launch carbon trading pilot projects within their jurisdiction. Each city or province must draft a plan detailing the pilot project's implementation in its jurisdiction and submit that plan to NDRC for final approval. In general, each pilot area will be required to set caps on greenhouse gas emissions, establish a local carbon trading registration and administration system, set quota allocations, build a trading platform, and establish a special fund to implement a trading system. The pilot projects will run throughout 2012, and the central government aims to have a nationwide carbon trading system fully in place by 2015. In addition, the State Council's December 2011 notice on the Work Program for Controlling Greenhouse Gas Emissions During the 12th FYP assigns for the first time specific greenhouse gas emissions reduction targets for each province. Guangdong, for example, must reduce emissions by 19.5 percent per unit of GDP from 2010 levels. Shanghai and Jiangsu each have a target of 19 percent, while interior provinces such as Jiangxi and Henan each have a target of 17 percent.

Resource taxes

In support of carbon trading, Chinese energy and tax experts are working on plans to tax carbon dioxide emissions, in addition to reforming the tax system on other emissions such as nitrogen oxide and sulfur dioxide. Current thinking within the Ministry of Finance is that taxes on carbon dioxide would initially be set around 10 RMB ($1.58) per ton of CO_2 emitted, although MEP officials are advocating for a starting rate of 20 RMB ($3.17) per ton. Regardless of the starting price, the rate would gradually increase over time. To streamline tax collection, the tax would be assessed on producers and wholesalers of fossil-fuel based energy, who could then pass the increased cost along to their customers. Analysts expect the taxes to be launched by 2013.

Reforming environmental law

China's current Environmental Protection Law dates back to 1989, and officials admit it is not suitable for managing China's current environmental challenges. The law is under active revision, however, and may possibly include changes that would make it easier to bring lawsuits against polluters and place greater liability on polluters, including possibly extending liability for pollution much further up the supply chain. A draft of a revised Environmental Protection Law is likely to come up for review by China's National People's Congress in 2012.

It might not happen in 2012, but central government goals will lead to companies paying more for the cost of their energy and the pollution it causes by 2015. Companies that do not factor those costs into their China business decisions will likely wake up one day to a very costly operating environment.

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Companies in China should select a logistics provider with a global network of offices, standard procedures, and up-to-date information technology systems.

Nine Rules for Logistics in China

A carefully selected logistics partner can help companies overcome their China supply chain challenges.

Rosemary Coates

Logistics is an essential component of a successful deal anywhere in the world, but especially in China where services offered may not be what they seem. Global supply chains are easily disrupted when companies do not consider critical logistics services or blindly trust their supplier to arrange transportation and the export of products from China.

To avoid these supply chain traps, consider these nine rules:

1. Carefully select a logistics and transportation supplier

There are thousands of small logistics companies in China that advertise as freight forwarders and export trade brokers. Almost anyone will say they can do this job because they have connections to trade services. But so many things can go wrong and result in supply chain disasters. If a company cannot get goods to market in time for the season or the sale, or to meet peak demand, the company's logistics network has failed.

Small freight forwarders can provide personalized service when a company needs special care, but they may also add time and frustration to your supply chain. Because they are independent businesses, small, independent Chinese forwarders rely on a network of agency relationships and one-off favors to move freight. Essentially, these small forwarders and brokers are just cargo coordinators. They typically do not own any of their own equipment, make no investments in capital equipment or systems, and rely on subcontractors to provide trucking, air, and ocean freight. Their networks are only as strong as the weakest link. It is common to see small forwarders like this in tier-two or tier-three cities, moving cargo in tricycle carts from manufacturing sites to airports. Some of these companies also subcontract the preparation of export documentation, including US Customs' 10+2 reporting—the information now required to be processed before an ocean shipment, bound for the United States, can leave a foreign country—which can cause delays in China if documents are not properly prepared. Companies should select a freight forwarder or broker with a global network of company-owned offices, standard procedures, and information technology (IT) systems capabilities that comply with the complicated export and import regulations.

Global logistics providers that have established offices across China, such as Expeditors International of Washington, Inc., CEVA Logistics, DB Schenker, Kuehne & Nagel International AG, among others, offer advantages, including:

- Standardization and consistency of procedures worldwide;
- Up-to-date information about export/import regulations;
- Communications standards and protocols;
- Global IT systems to track the many documents required for global trade shipment progression and compliance with trade regulations;
- Negotiated rates and schedules with air and ocean carriers;
- Standard documents and assistance with completing them;
- Landed cost and total cost estimations; and
- Familiarity with International Commerce Terms of Sale (Incoterms).

Keep in mind that just because these forwarders are larger does not mean they are more expensive. Very often, the size of the forwarder allows them to negotiate for better volume rates from ocean and air carriers.

2. Make sure logistics providers have systems capabilities

In the past, logistics was all about moving boxes and getting space on aircraft and ocean vessels. In the early 1990s, with the wide implementation of enterprise resource planning (ERP) systems at most companies, visibility and synchronization became king. Companies could then truly see the impact of disruptions in scheduling caused by delays in transit. As a result, logistics progressed from moving boxes to moving information.

Now, it is extremely important to know where freight is in the supply chain, inventory levels by location, and what is expected to move from your suppliers. This is because manufacturers and retailers need to plan for arrivals or delays using their own ERP or other systems. Without accurate logistics information about shipments from China, entire supply chains can be disrupted—or worse, shut down.

Logistics providers should be partners in gathering and reporting information to help manage a company's supply chain. To accomplish this, logistics providers have to make large investments in their own systems. The ability to provide information is no longer an option, but a basic service offering. Companies should be able to search and schedule online, transmit information electronically (such as Advance Shipment Notices and trade compliance information), and receive automated notices when there are delays or disruptions. Logistics providers should have sufficient IT staff to integrate or interface their systems with any company's systems.

Closely tying IT systems creates a deeper level of partnership that must be monitored and managed. Importers should plan to go to China on a regular basis to review the logistics operations and the associated IT systems. Start with a written audit plan and review sample transactions every time you visit.

Background on Incoterms

International Commerce Terms of Sale (Incoterms) apply to delivery of goods sold, and exclude intangibles like computer software. Use of Incoterms reduces or eliminates uncertainties from differing interpretations in contracts. The Incoterms are updated to reflect new usage about every 10 years. Among the most commonly used Incoterms are EXW (Ex works), FOB (Free on Board), CIF (Cost, Insurance, and Freight), DDP (Delivered Duty Paid), and FCA (Free Carrier). The International Chamber of Commerce (ICC) introduced Incoterms in 1936.

Since then, the ICC has updated them seven times to keep pace with the development of international trade. The latest edition of Incoterms is Incoterms 2010, which took effect in January 2011. The ICC publishes a brief introduction to Incoterms as well as a fact sheet on its website. The section does not provide every answer, but will help companies understand how Incoterms are organized. For more information, visit www.iccwbo.org/incoterms.

—Rosemary Coates

3. Compare rates and services

Business conditions in China change rapidly. Companies need to be aware of pricing in the market and service offerings. One of my clients was very surprised to find out that while their logistics provider seemed to have competitive pricing, they were five years behind in systems capabilities and had not made other process or productivity improvements for several years.

I recommend that companies forge a long-term relationship with their logistics providers and encourage and monitor productivity improvements through IT systems, shared forecasts, and strong quarterly evaluations. But it is also very important that companies stay current with the marketplace. On trips to China, visit other facilities and talk to other providers to make sure service offerings are competitive and up-to-date.

It is also prudent to go through a bidding or request-for-proposals (RFP) process every two to three years. Even if a company does not want to change providers, this process will at least provide an opportunity to review the business in depth and determine where improvements can be made.

A company's purchasing department can help write an RFP that stays within company guidelines and includes all of the questions required to attain comparative information. Companies can also engage a consultant if assistance is needed in the RFP process for logistics providers. Consultants will bring marketplace information and objective rigor to the process.

Quick Glance

- A logistics supplier should gather and report information to help manage a company's supply chain.
- Companies should develop indicators and review logistics providers' performance every quarter.
- Companies should visit their China operations quarterly to audit and observe their operations on the ground.

4. Consider central China

I spoke at a logistics conference in Chengdu, Sichuan last year and was surprised by the rivalry for logistics business between Chengdu and Chongqing. Both cities have experienced better-than-average economic growth and attracted high-tech and automotive manufacturing. The two cities are rapidly building logistics capabilities to support the manufacturers that are moving there, and vying for new business. The PRC government is also moving quickly to construct additional high-speed rail links and new superhighways from this area to the eastern coastal export cities. Local governments are offering attractive financial benefits, such as tax breaks and other financial incentives.

Consider locating manufacturing in one of these cities where wages are one-quarter of those in the eastern cities. In western and central cities, many experienced migrant workers are closer to home, the workforce is plentiful, and vertical integration of vendors in the supply chain is spawning many alternative local suppliers.

Recently built super highways and rail lines to the interior of China allow for fast movement of cargo. Adding a day or two to the transit time from the interior to the coast will not make much difference in costs or time to market. The logistics infrastructure of warehousing and distribution centers is newly built and readily available.

5. Rigorously review logistics providers

Too often my clients will tell me that they hold quarterly business reviews (QBRs) with their logistics providers, but when I dig deeper, I find that the QBRs are nothing more than activity reviews. These meetings focus on how many shipments, containers, or millions of pounds were moved, hours worked, and other countable topics. However, a QBR should be multi-dimensional and include quality and productivity measures in addition to activity measures. Further, the quarterly evaluation process should be completed by both the company and the logistics provider, to give two-way feedback.

QBRs should include a review of topics such as:

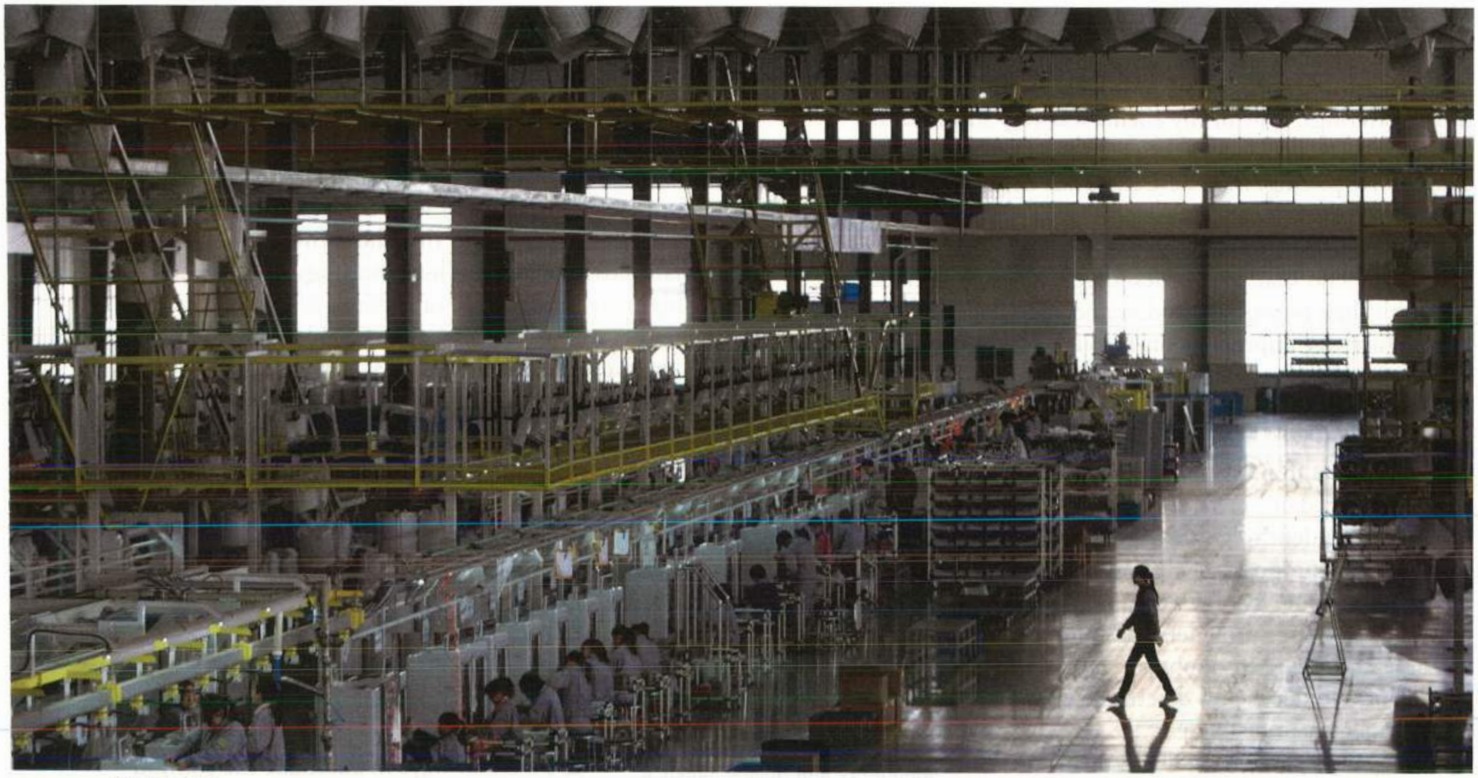
- On-time service;
- Errors by category;
- Response time;
- Specific problems or challenges during the past period;
- Potential ways to automate the communications between companies;
- Improvement in automation and processes to increase productivity;
- Revenue generated per quarter and quarter-over-quarter revenue comparison; and
- Training and education. (For example, a company should educate a logistics provider on its products and business, and the logistics provider should educate the company on services and new trade compliance regulations and procedures.)

Regardless of what a company chooses to measure, all categories and key performance indicators (KPIs) should align with corporate goals. Managers should ask themselves the following questions: Have I read my own company's annual report? Do I clearly understand this year's goals and objectives? Do all of the company's logistics performance indicators support these goals? If the answer is no, the company is measuring the wrong things.

A logistics provider should also measure the company it serves. The logistics provider should give feedback on things like their customers' response times, productivity improvements, issue resolution, and training. Two-way communications between the logistics provider and their customers will provide valuable input regarding areas where improvements need to be made.

6. Know your Incoterms

Incoterms, or International Commerce Terms of Sale, were developed by the International Chamber of Commerce (ICC), and they are recognized by most countries. The latest versions, Incoterms 2010, are commonly used, standardized



China Foto Press

Overall, logistics and transportation capabilities are maturing across China, and in some areas logistics capabilities are considered world class.

terms that stipulate who pays for what in international shipping and who assumes risk (see p.14).

Correct use of Incoterms helps to provide legal certainty between buyers and sellers. To be sure of using Incoterms correctly, companies should consult the full ICC texts or use a consultant. A company needs to understand the financial and risk responsibilities for the Incoterms in its contracts with Chinese suppliers.

7. Export/import compliance is required

Before 9/11, the United States maintained a list of "denied parties" with whom US companies could not legally do business. After 9/11, the restricted parties list (RPL) ballooned to more than one million names. To comply with the law, every order from every customer must be checked against the RPL. With so many names on the list, it is nearly impossible to do this manually. As a result, many companies rely on logistics providers to check the list for them. The Chinese office of a logistics provider should have technology that performs this task in seconds online. In addition, a company and its logistics provider should have written procedures for handling matches to names on the list.

On the import side, a Chinese logistics provider should be able to prepare standard and non-standard documents that will allow a company to clear US Customs easily and legally. This means that for imports into the United States, the documents need to be in English, and completed quickly with all information required so as not to delay any shipments. In addition, for ocean shipments, the freight forwarder must submit 10+2 information electronically to US Customs before the container is loaded onto the vessel in China. This is yet another reason to use a global logistics company with IT capability.

Add a review of compliance systems and procedures to your checklist for every visit to China. A company's internal audit and trade compliance staff can assist with developing this checklist. I recommend that companies visit their China logistics provider two to four times per year and on each visit, review the procedures, validate that these procedures are being followed, and provide training if necessary.

8. Determine the best approach for serving the burgeoning Chinese domestic market

Most of my clients have started to develop robust approaches to selling inside of China. With the rise of the Chinese middle class and the enormous PRC government market, foreign companies see a huge new market opportunity to sell goods. Factories producing goods for export may also be licensed to produce goods for the growing Chinese market. But beware, logistics and distribution within China to support domestic sales are very different from exporting from China.

Chinese distribution channels may be somewhat longer and more complex than the United States. For example, luxury goods retailers have found a robust market in China's big cities, but these retailers are also opening stores in the tier-two cities. Logistics for tier-two and tier-three cities may not be as sophisticated and may require unique delivery solutions. In large cities, multi-stop deliveries to several retail stores are coordinated by a retail logistics company. In a tier-three city, the retailer may have to wait a week or more for a single store delivery from the airport that is passed from trucker to delivery cart.

Setting up an effective and efficient domestic Chinese distribution system will take time. Companies need to consider and vet logistics providers, resellers, and wholesalers. China is a new and diverse market for delivery of goods so the process may be uneven for a few years. As a result, companies should consider where to locate inventories and distribution centers. Further, if a company produces and plans to market industrial products, it will need to consider delivery sites and capabilities before shipping goods. Older buildings and factories may not have adequate facilities such as truck docks and fork lift equipment.

Overall, logistics and transportation capabilities are maturing across China, and in some areas logistics capabilities are considered world class. Be sure to select logistics providers and partners with global networks and standards, and measure them regularly and rigorously. For distribution within China, verify the capabilities of partners and understand the delivery points. Companies should not assume that every delivery place can accept trucks, has fork lifts, or other equipment. Verify where you plan to deliver—dock, warehouse, or other location—and the equipment available.

9. Visit China often

There is no substitute for regular, structured visits to vendors and logistics providers in China. Companies should never assume that just because policies and procedures are stated in a contract that any of them will be followed. In the Western world, we view a contract and written procedures as the end product to be executed. In China, the contract is just the beginning of doing business together. Contracts and written procedures are often viewed as guidelines and are subject to interpretation. If companies want procedures to be followed precisely, they must monitor and audit the Chinese operations regularly.

I typically recommend that companies visit their China operations quarterly. During these visits, companies should audit the processes through observation and by using a validation checklist. Ask to see the operations while people are working, then return for a surprise visit later that day or evening.

When companies cannot employ a full-time person in China to watch over and manage operations, it is important to hire a trusted agent who resides in China to work on behalf of the company. (Some consulting companies provide these services for a fee.) Even with the addition of local services to oversee operations, companies still need to make an effort to visit China quarterly. 完

> In western and central cities, many experienced migrant workers are closer to home, the workforce is plentiful, and vertical integration of vendors in the supply chain is spawning many alternative local suppliers.

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China Foto Press

Beyond Compliance

A new breed of managers take on environment, health, and safety issues in Chinese factories.

Matthew DeGroot

For decades, one of the biggest challenges facing companies that source products from China has been ensuring that their supply chains are clean, fair, and safe for workers and the planet.

Companies are regularly forced to defend themselves from accusations that overseas supply factories employ unfair labor practices, pollute indiscriminately, or skimp on product quality. Corporate leaders have learned that they ignore these issues at their peril. Incidents involving child labor, factory fires, and chemical spills can result in lasting human and environmental costs, and permanently damage a brand's reputation and credibility.

The early response to this responsibility challenge was simple and direct: Police the supply chain. Beginning in the mid-1990s, international companies started drafting "codes of conduct" for Chinese suppliers that established minimum standards for things like air quality, fire safety, and overtime limits—sometimes referred to as environment, health, and safety issues (EHS). To comply, they reviewed supplier EHS performance annually. Now, almost every multinational company sourcing products from China has some kind of supplier compliance and evaluation program in place, each spending millions of dollars a year in auditing and remediation costs.

In the meantime, however, something unexpected happened on the way to managing reputational risk. A few multinational companies discovered that when suppliers comply with EHS standards it doesn't just reduce liability; it offers positive and measurable advantages in efficiency, affordability, and product quality across the value chain. This realization has slowly changed the way a handful of leading supply chain managers and corporate leaders think about EHS in the supply chain—not as a risk to be managed, but as an opportunity to be leveraged.

This idea is driving a critical rethinking of the prevailing "code and audit" approach. Even well-developed audit programs often do not do enough to prevent violations because they do not change basic behavior. Increasingly savvy suppliers have learned to provide the appearance of compliance without addressing root causes. Getting suppliers to internalize EHS and manage it effectively requires more than basic standards and inspections. It requires a fundamental change in thinking about production, resource efficiency, and the factory's role in the community—and in the world. Ultimately, it requires a new breed of 21st century managers, champions capable of motivating and enabling suppliers to join their international partners in driving continuous improvement in EHS performance.

Quick Glance

- The early response to environment, health, and safety (EHS) issues in factories in China was to draft codes of conduct to police the supply chain.
- Along the way, multinational companies realized that creating a better workplace environment was good for the company and its bottom line.
- Multinationals will need to find and train a new breed of managers to motivate and enable suppliers to drive improvement in EHS performance.

The value of EHS

Even leading brands once viewed compliance as a sunk cost, the price of doing business in an increasingly regulated business climate. The idea of compliance conjures pictures of safety and environmental engineers with clipboards and checklists, hairnets and repetitive motion studies, costly wastewater treatments, and emissions controls. Companies might have to pay to comply with legal requirements, but they did not usually go above and beyond the letter of the law.

In a competitive business climate, no aspect of business operations can escape the search for efficiencies and added value for long. Managers started noticing that some of the obvious benefits of EHS performance—using resources more efficiently, identifying less-costly-to-dispose-of chemicals, reducing lost work time due to injuries—had a far greater impact on a company's bottom line than they expected. Reducing lost work time does not just lower replacement and turnover costs, it also increases worker productivity and improves retention of a company's most valuable employees. Eliminating harmful air and water emissions does not just reduce the risk of fines, it can also create stronger and more positive ties to local officials and the surrounding community. Over time, managers began to uncover the hidden or intangible benefits of improving EHS performance and overall business sustainability.

Leading brands quickly saw the links between EHS compliance and product quality. Lee Scott, then-CEO of Wal-mart Stores, Inc., referenced this link in his remarks at Wal-Mart's 2008 Sustainability Summit in Beijing where he launched the company's new initiative to make purchasing decisions in China based not just on price, but on the EHS performance of suppliers.

"Meeting social and environmental standards is not optional," Scott said at the summit. "I firmly believe that a company that cheats on overtime and on the age of its labor, that dumps its scraps and its chemicals in our rivers, that does not pay its taxes or honor its contracts, will ultimately cheat on the quality of its products. And cheating on the quality of products is the same as cheating on customers." Like other leading companies such as Adidas AG, General Electric Co., H&M Hennes & Mauritz AB, and Hewlett Packard Co., Wal-mart was putting its Chinese suppliers on notice that EHS performance was no longer an afterthought in the company's purchasing decisions. Companies that could not make the cut would no longer be Wal-mart suppliers.

The potential benefits of improving supplier EHS performance for these companies, which use thousands of suppliers in China, are enormous. Take GE, for example. "Our supplier auditing team has reviewed 3,000-plus Chinese suppliers since 2002 in an effort to help address the labor, health, safety, and environment challenges facing Chinese small and medium enterprises," says Qin Zhigang, GE's EHS director in North Asia. "Building the capacity of Chinese suppliers to comply with EHS laws and regulations is critical."

Looking for a few good managers

Over the past decade, the PRC government has instituted ambitious targets for increasing energy efficiency, reducing air and water pollution, improving worker health and safety in its factories, and lowering greenhouse gas emissions. Pressure from a rising middle class combined with international scrutiny has led China's leaders to consider the harmful effects of production domestically and on the global environment. Air and water standards, in particular, have become more stringent and penalties for noncompliance more severe. Faced with serious acid rain challenges, for example, China instituted new policies and penalties to control the emission of sulfur dioxide, and managed to reduce these emissions by 13 percent between 2006 and 2009.

Since the proliferation of new standards in China has been both profound and relatively recent, finding skilled Chinese managers who are familiar with these regulatory requirements and capable of complying with them can be difficult. As a result, even when international companies audit their suppliers and demand improvements, follow-through can be spotty or cosmetic at best. A few years ago, companies like GE, Wal-mart, and Adidas came together to look at this problem and identify innovative new strategies for overcoming it. At a workshop in Shenzen, Guangdong organized by GE and the Institute for Sustainable Communities (ISC), senior managers from these and other multinational companies identified a critical barrier to

The EHS Academy

Working with one of the most prestigious business management schools in China, Lingnan (University) College at Sun Yat-sen University in Guangzhou, the Institute for Sustainable Communities (ISC) and its partners established the first-ever Chinese-owned and -operated industrial training center focused on EHS performance—the EHS Academy. The EHS Academy was initiated through a public-private partnership between the US Agency for International Development and several private foundations, including the GE Foundation, the Walmart Foundation, the Citi Foundation, Adidas AG, SABIC Innovative Plastics, and Honeywell, Inc. The multinational companies also contributed funds to underwrite the academy's development, and donated their internal, industry-leading environment, health, and safety (EHS) training materials and management tools to the effort. Working with representatives from these companies, ISC and Lingnan synthesized this material into an EHS curriculum for practicing factory managers at a fraction of the cost of comparable trainings offered by traditional international consulting firms. ISC also added energy and carbon management courses to create a more well-rounded curriculum for enterprise sustainability. Since the launch of training activities in 2009, the academy has educated more than 3,500 managers on job safety analysis, hazard risk and recognition, and clean production. Based on this success and with additional support from the GE Foundation, Pfizer, Inc., and the Alcoa Foundation, ISC launched a second EHS Academy in Jiangsu province, just west of Shanghai, in 2010.

Improvements commonly cited by EHS Academy graduates include using new tools and methodologies to assess EHS hazards and risks; implementing systematic incident analysis procedures to handle work injuries and identify root causes; delivering factory-wide trainings and performance guidelines; developing emergency management plans; improving energy, carbon, and resource management; redesigning procedures and requirements for chemical storage; and instituting new safety guidelines for machine operation.

By establishing a local source of high-quality, low-cost EHS training in China, the academy makes it easier for factories to comply with international and Chinese standards, and become more constructive players in helping China build a more sustainable economy. More than 200 international brands have now encouraged their suppliers to attend academy courses as part of their supply chain engagement programs.

Beyond China, the EHS Academy has brought direct benefits to the United States in a variety of ways as well. By motivating and equipping Chinese suppliers to comply with international standards, rather than take advantage of China's historically lax labor and environmental regulations, the EHS Academy helps level the playing field for US manufacturers. Through its energy and carbon management initiatives, the academy helps US companies with industry leading energy products and services to improve their access to market opportunities in China. The academy is also helping position China to fulfill its international commitments on environmental performance and carbon emissions, and reduce the environmental impacts of Chinese industrial production on US air and water quality.

The academies have trained thousands of managers already. They are on track to achieve financial independence and help launch China's first-ever EHS professional certification.

—Matthew DeGroot

improving supply chain EHS performance—a significant lack of training programs in China aimed at producing the kind of skilled Chinese managers capable of driving positive change in their enterprises.

"Systemic change requires effective champions, managers who understand not just the technical aspects of EHS, but also how to convince enterprise owners and financial managers to invest in EHS improvements," says George Hamilton, president of ISC.

The marriage of technical skill with management savvy is paramount. Understanding the chemical makeup of industrial waste discharge and its potential impact on the environment are important technical skills. But technical efficiency alone is not enough for a manager to make progress in reducing a company's environmental impact, to make a compelling case for alternative solutions, and to secure the buy-in of decision-makers and entry-level workers. EHS management skills are in short supply in China, and international brands looking to identify and pursue meaningful EHS improvements in their supply chains find it difficult to gain ground.

In response to this challenge, in 2008 ISC, GE, and their corporate and Chinese partners established a new Environment, Health, and Safety Academy in Guangdong Province (see box p. 20). Trainees of the EHS Academy are equipped to drive systematic improvements in their enterprises' EHS performance, energy use, and carbon emissions.

For instance, Yu Yang, an EHS Academy graduate working for Fortune Electric (Wuhan) Ltd., engaged the leadership of key departments across his company to institute a routine EHS evaluation program. Fortune department managers now conduct weekly evaluations, and communicate all findings and corrective actions with plant employees via public bulletin boards. This systematic approach led to significant improvements in EHS performance. From 2005 to 2009, Fortune's measurement of lost time due to worker injuries increased steadily, but after Yu implemented the EHS evaluation program this rate fell dramatically.

Other achievements followed. By monitoring and managing its air emissions more effectively, Fortune reduced its atmospheric carbon output from 752 tons in 2009 to 610 tons in 2011—a 19 percent reduction in just two years. Fortune has also invested in facility upgrades to separate and improve its treatment of solid wastes, and to reduce leakages of oil and other chemicals used in its machinery. In 2010, GE highlighted Fortune as a model factory at its annual supplier summit.

Looking ahead—EHS 2.0 and beyond

Multinational companies are transforming the way they do business in China. Rather than focusing exclusively on suppliers who charge the lowest prices, brands increasingly recognize the value of helping suppliers improve their EHS performance, increase energy efficiency, and reduce carbon emissions. New training programs are providing managers with the skills they need to drive positive change.


Imagine China

Companies that want to improve their supply chains' environment, health, and safety performance need effective managers with technical skills.

Perhaps most encouraging of all, the Chinese government itself is supporting and joining efforts to improve EHS compliance in its factories. Officials from the Guangdong Bureau of Work Safety and the Guangdong Environmental Protection Bureau—agencies with regulatory and enforcement oversight of EHS compliance—have sought out and paid for training in significant numbers. Even more significantly, the Guangdong Bureau of Human Resources and Social Security, which oversees all professional certifications in the province, has invested its own resources in the development of a new protocol for the certification of qualified EHS managers, the first of its kind in China. This protocol is based on the EHS Academy curriculum, and the academy team contributed directly to its development. Currently being piloted at the provincial level, the corresponding national-level Ministry of Human Resources and Social Security in Beijing has expressed interest in adopting this protocol once approved in Guangdong. This development is critical to driving greater awareness of and interest in EHS as a profession, and in establishing quality EHS management as a routine component of doing business in China. 完

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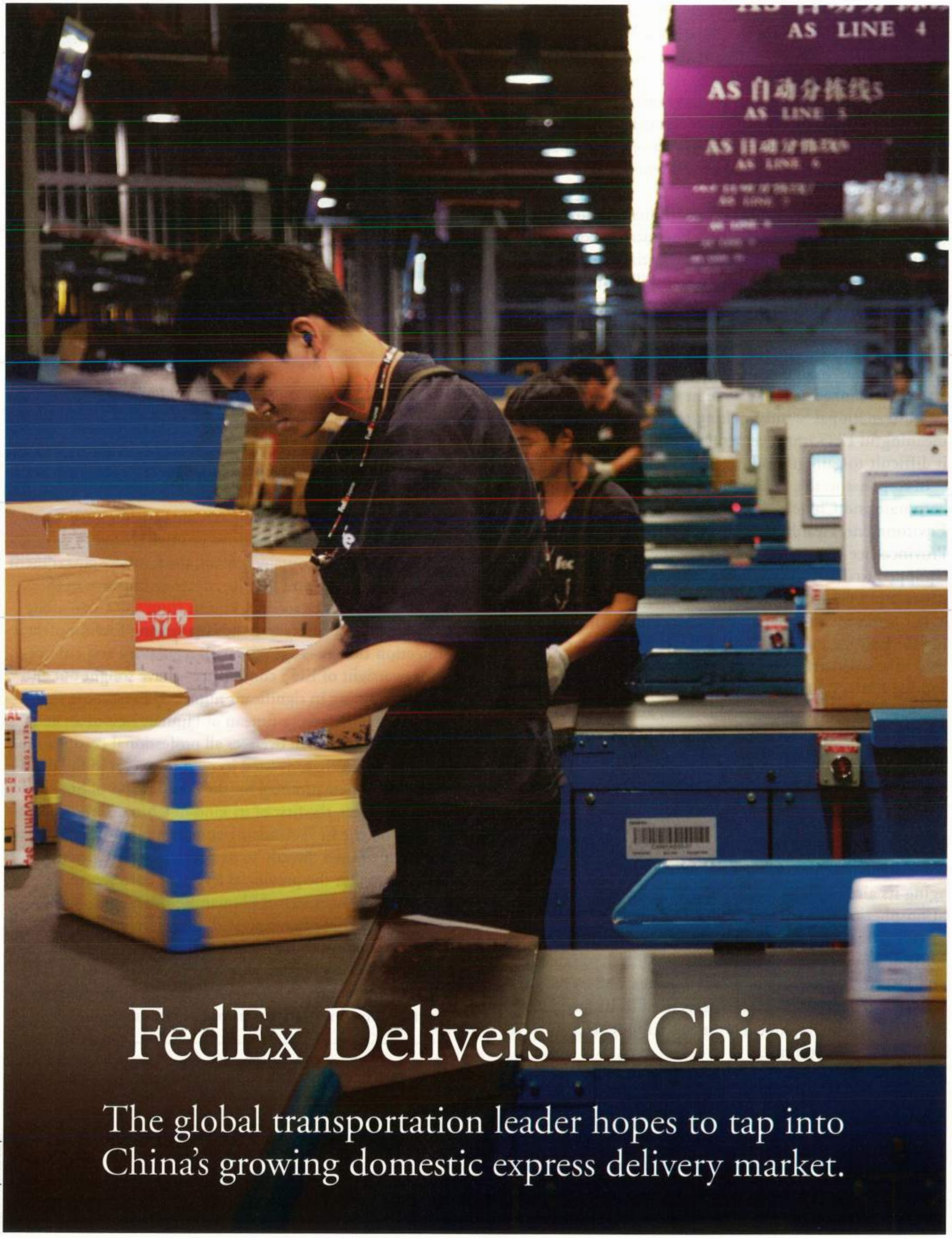


Federal Express Corp.

FedEx Delivers in China

The global transportation leader hopes to tap into China's growing domestic express delivery market.

As a global leader in the transportation and information industry, Federal Express Corp. handles more than 8.5 million shipments for express, ground, freight, and expedited delivery service every day in more than 220 countries, and it employs more than 290,000 team members worldwide. FedEx's operating companies include FedEx Office, FedEx Supply Chain, FedEx Ground, and FedEx Express. As the world's largest express transportation company, FedEx Express delivers about 3.5 million packages and 11.5 million pounds of freight a day.

One of FedEx's fastest growing markets is the Asia-Pacific region, in particular China. Revenue in China's express delivery market is expected to grow 30 percent in 2011, three times as fast as China's overall economic growth, according to the China Express Associaton. Currently, FedEx employs more than 16,000 staff and serves more than 30 countries in the region. ***David L. Cunningham Jr.****, president of Asia Pacific FedEx Express, which is headquarted in Hong Kong, recently spoke with* CBR *Associate Editor* ***Ben Baden*** *about FedEx's history and plans for its business in China.*

When, where, and how did FedEx first enter the Chinese market? Where does FedEx operate now?

Cunningham: FedEx entered mainland China in 1984. Since then, we have expanded our international and domestic service to reach more than 400 cities in China. We operate as a wholly foreign-owned enterprise, which allows FedEx operational and business flexibility on the ground.

There have been a number of business milestones for FedEx in China. FedEx was the first all-cargo carrier to hold rights to fly into and out of mainland China. In 2005, we were first to launch a direct air cargo flight from mainland China to Europe and an overnight connection from mainland China to India. Our FedEx Asia Pacific hub, which opened in February 2009, is located at Guangzhou's Baiyun International Airport in southern China. We currently operate more than 225 weekly flights in and out of China.

FedEx established a domestic business in China in May 2007, which is supported by our China Regional Hub based at Hangzhou International Airport. Currently, FedEx has more than 100 operations stations in megacities like Beijing and Shanghai as well as other provincial capitals and smaller western and inland cities across China, and we continue to invest in both our infrastructure and domestic portfolio offerings for customers.

How does the express delivery market in China compare with the United States and other markets?

Cunningham: China is as sophisticated as the US and European markets in terms of demand for reliable express delivery. Companies in China require access to time-definite shipping, later cut-off times, earlier delivery times, and a comprehensive portfolio of services. Both markets play an integral role in our global network.

Where China once lagged behind the United States and Europe in terms of infrastructure, the Chinese government is making great strides to enhance the "hardware" such as airports, roads, and rail. These infrastructure upgrades are resulting in a migration of manufacturers inland away from the eastern seaboard. As China better connects itself and western cities continue to grow, the express delivery market will need to meet market demand. By 2025, China is expected to have 221 cities with more than 1 million residents, eight of which will have a population of more than 10 million.

While government-led infrastructure initiatives like highway construction undoubtedly benefit the express industry, we also need to continue making our own investments. For example, to better meet client needs, we invested in our FedEx Asia Pacific Hub located in Guangzhou, south China's biggest and busiest airport, and recently upgraded our Wuhan customer service facility in central China's Hubei province.

The size of China's logistics industry as a whole has seen a significant expansion. In 2011, the total value of the industry rose 12.3 percent year on year to ¥158.4 trillion ($25.1 trillion). And the growth momentum is expected to continue. There is tremendous potential in both the international and domestic express delivery markets and our established networks and experience has put FedEx in a strong position.

Besides the express delivery market, what other services do you provide for companies in China and around the world?

Cunningham: In addition to our international and domestic shipping, we have also introduced customized services to meet and anticipate changing customer demands.

- In January 2010, FedEx Express domestic service expanded its scope to include FedEx General Delivery, an ideal choice for shipping medium (heavier than 5kg), large (heavier than 60kg), and non time-definite packages.
- FedEx Critical Inventory Logistics services was launched last year. We provide an integrated logistics solution that enables customers to more efficiently manage high-value and time-critical inventory throughout the supply chain.
- FedEx Trade Networks, a subsidiary of FedEx Corp.,

provides international freight forwarding services, customs brokerage, trade, and customs advisory services and access to new products and markets for customers from 10 locations in mainland China. These include Beijing; Guangzhou and Shenzhen, Guangdong; Qingdao, Shandong; Shanghai; Xiamen, Fujian; Tianjin; Ningbo, Zhejiang; Dalian, Liaoning; and Chengdu, Sichuan.

FedEx supports all levels of China's economic development, helping to keep Chinese companies competitive in the global marketplace, to advance infrastructure investment, and to sustain the country's economic growth.

What distribution and logistics challenges do foreign companies in China and exporting to China face? How can FedEx help manage these issues?

Cunningham: Efficient logistics, especially express airfreight relies on "hardware" in the form of physical infrastructure, such as airports and motorways mentioned earlier, as well as "software" in the form of regulations and procedures that govern the use of those assets and the flow of goods.

Hardware makes a huge impact on the overall logistics industry development, and it is essential in ensuring the flow of goods. While China has been rapidly resolving the hardware issue over the past decades, improvements to the software issue continue to be a challenge for corporations, not just foreign companies. Streamlining bureaucracy, simplifying licensing and permit applications, and eliminating duplication of procedures at both the national and regional level are important.

With more than 27 years of experience in China, FedEx has been providing consistent quality and reliability in express delivery within, into, and out of China. This provides an exemplified operational model, supporting the overall development of the transportation industry in China. In addition, our provision of transparent tracking systems and customs clearance helps both domestic as well as foreign corporations meet their business needs.

What are your plans for the domestic market in China?

Cunningham: FedEx established domestic services as a wholly foreign-owned entity in mainland China in May 2007. As mentioned, FedEx serves more than 400 Chinese cities from 114 operation stations across the country, and our domestic service includes next-day delivery and second-day delivery service commitments.

In 2010, FedEx launched a domestic general delivery service for inter-province, long-distance deliveries reaching major cities in China. This service is a reliable, cost-effective solution for medium- and large-sized shipments that do not need to arrive at a specific time.

Over the past five years, China's express delivery business has nearly doubled from ¥30 billion ($4.7 billion) in 2006 to ¥57.4 billion ($9.1 billion) in 2010. FedEx will continue to enhance our existing operational network and further strengthen our domestic and international services to grow with the China market.

What challenges does FedEx face in the domestic delivery market in China?

Cunningham: The domestic delivery market is very competitive with a large number of strong local players. Those local firms have grown up with the market, they have strong ties in the community, and everyone in China is pulling for domestic companies to succeed. Although we have years of international experience and have been operating in China since 1984, we are a relative newcomer to the domestic market.

A second challenge is the size and complexity of the market. Think about China's geography: While the country as a whole is larger than the United States, most of the population—and an even greater portion of the higher-value added industrial and consumer activity—is squeezed into an area that is about the size of Western Europe. The challenge is capacity, which at the moment is unable to meet demand. These capacity issues can be anything from the availability of slots at an airport to congestion on roads and railways. Transportation and infrastructure are also undeveloped in the areas outside of major cities. This makes it difficult for domestic delivery.

Different regions have very different habits and preferences. Regulation of key elements of our business, such as trucking, is intensely local, which makes building and operating a nationwide network very challenging. China is not

While China as a whole is larger than the United States, most of the population is squeezed into an area that is about the size of Western Europe.

one national market, but a collection of regional markets.

Infrastructure also continues to be a challenge. As I mentioned earlier, efficient logistics relies on the physical "hardware" as well as the regulatory "software." Ensuring access to markets is essential for the continued growth and competitiveness of the Chinese economy. The removal of regulatory barriers, physical access to suppliers, customers, and partners through hard infrastructure, and the removal of trade and market entry barriers both domestically and internationally will ensure China's competitiveness.

FedEx operates the "hub and spokes" distribution model, which is a system of connections arranged like a chariot wheel in which all traffic moves along spokes connected to the hub at the center. FedEx pioneered the hub-and-spokes concept in its US operations and has implemented a similar strategy in its international operations. However, many of the "spoke" airports in

Imagine China

FedEx currently operates more than 225 weekly flights in and out of China.

Different regions have very different habits and preferences.
China is not one national market, but a collection of regional markets.

China are not yet ready to accommodate the domestic delivery industry. This is in part due to China's low airport density. In China, there are 1.6 airports every 100,000 square kilometers. Many airports also remain underutilized as a result of airspace constraints and difficulties in forming and supporting regional air markets. These constraints can result in unnecessary downtime at airports, which impacts the airfreight express industry. We are working closely with the regulatory authorities to address some of these challenges and maximize the opportunities.

What key trends do you see in distribution and logistics in China in the future?

Cunningham: The development of the logistics industry in China is being fuelled by the continual growth of its economy. In 2010, China surpassed Japan as the second largest economy in the world. The nation's GDP growth rate stood at 9.2 percent in 2011.

With the country's expanding affluent middle class, we are witnessing the trend of a growing demand for domestic delivery with the rapid development of e-commerce in China. China currently has more than 500 million internet users, representing the world's biggest online population. Of the 513 million internet users in China, 28 percent, or 145 million shop online.

In addition, more and more companies in China are moving their manufacturing base from the coastal cities to western China. There are growing shipping demands for fast and reliable international express service in the second- and third-tier cities in western China.

We have also witnessed the rapid development of high-end products entering the Chinese market. The products include electronic goods and components and products with short life cycles, such as textiles and high fashion goods. They are coming largely from the United States and Europe. This represents another opportunity for the logistics industry in China. It is important to have a trusted transportation partner to ensure the reliability, security, and flexibility to meet the increasing demands of customers. 完

BY LAND, AIR, OR WATER:

China's Infrastructure Improvements Help Companies Deliver the Goods

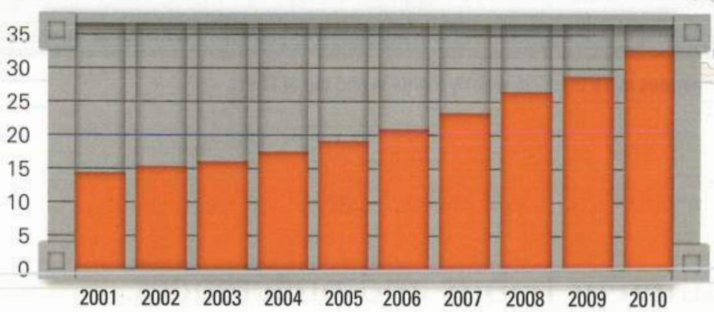
CHINA'S LARGEST INLAND PORT IS THE ALATAW PASS

on the China-Kazakhstan border in Xinjiang. In 2011, foreign trade value at Alataw Pass reached $17.4 billion, a 46.5 percent increase from the previous year.

FREIGHT TRAFFIC, 2001–10

(BILLION TONS)

Freight volume in China has more than doubled in the last 10 years.



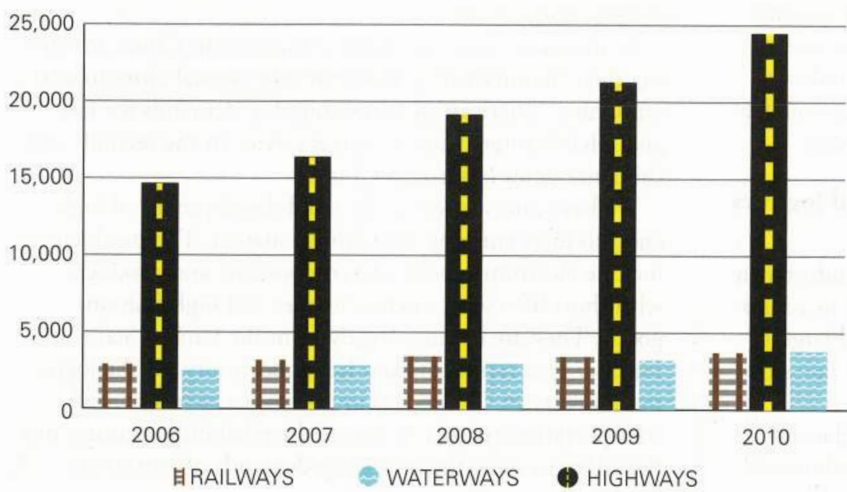
LENGTH OF RAILWAYS IN OPERATION, 2006–10

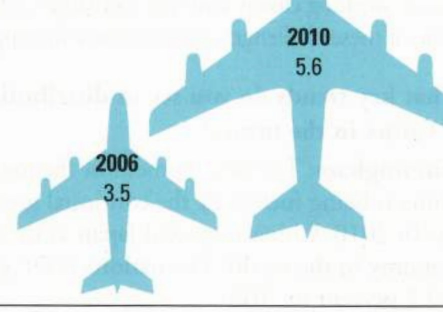
As China's extensive railway network expands, the

FREIGHT TRAFFIC BY MODE OF TRANSPORT, 2006–10

(MILLION TONS)

Freight traffic by highway and air transport increased by nearly 40 percent between 2006 and 2010.

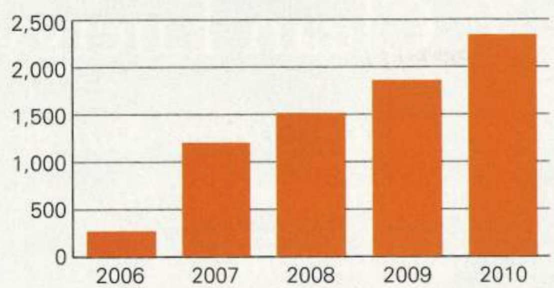




SOURCES: PRC NATIONAL BUREAU OF STATISTICS, *CHINA DAILY*, WORLD SHIPPING COUNCIL, SHANGHAI MUNICIPAL GOVERNMENT, ASIAN DEVELOPMENT BANK

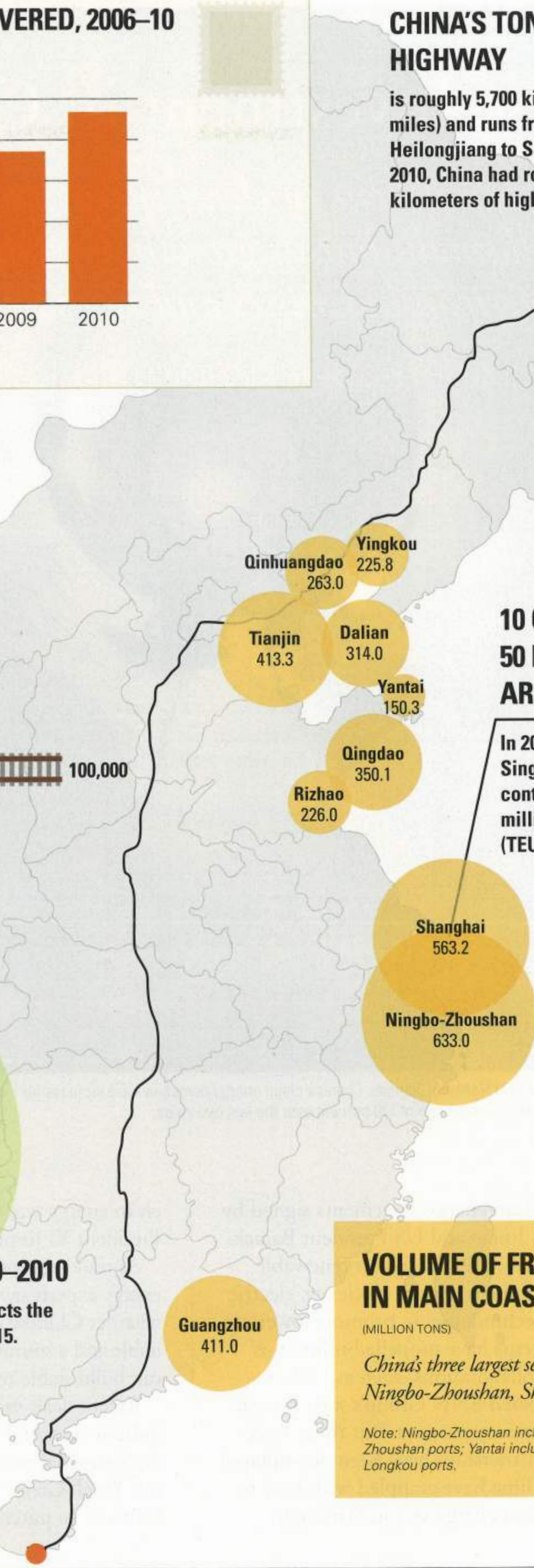
VOLUME OF EXPRESS MAIL DELIVERED, 2006–10

(MILLION UNITS)



CHINA'S TONGSAN HIGHWAY

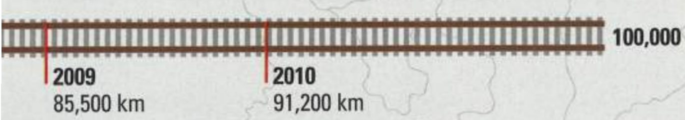
is roughly 5,700 kilometers (3,500 miles) and runs from Tongjiang, Heilongjiang to Sanya, Hainan. In 2010, China had roughly 4 million kilometers of highways.

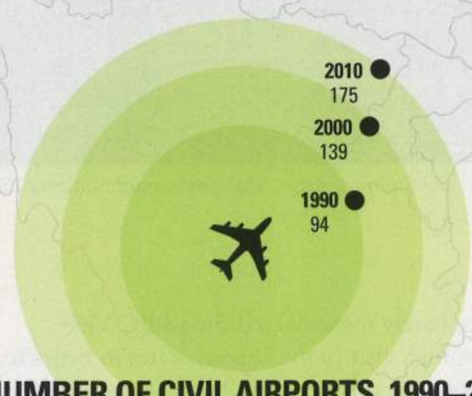


10 OF THE WORLD'S 50 LARGEST PORTS ARE IN CHINA.

In 2010, Shanghai's port overtook Singapore as the world's busiest container port, handling 29.1 million 20-foot equivalent units (TEUs) of containers.

y becomes more connected.





NUMBER OF CIVIL AIRPORTS, 1990–2010

The Civil Aviation Administration of China expects the number of airports in China to exceed 230 by 2015.

VOLUME OF FREIGHT HANDLED IN MAIN COASTAL PORTS, 2010

(MILLION TONS)

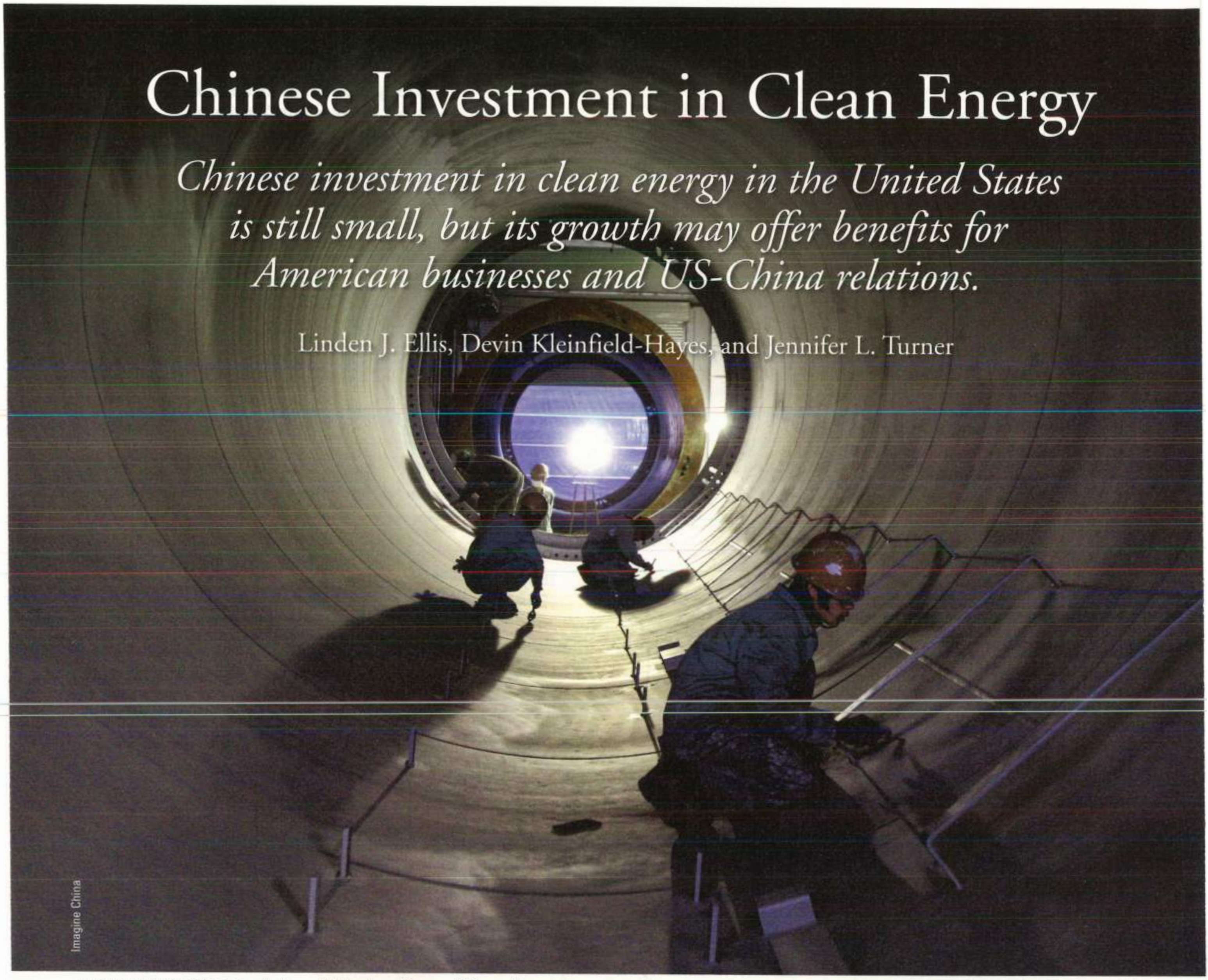
China's three largest seaports by volume are Ningbo-Zhoushan, Shanghai, and Guangzhou.

Note: Ningbo-Zhoushan includes data from the Ningbo and Zhoushan ports; Yantai includes data from the Yantai and Longkou ports.

Chinese Investment in Clean Energy

Chinese investment in clean energy in the United States is still small, but its growth may offer benefits for American businesses and US-China relations.

Linden J. Ellis, Devin Kleinfield-Hayes, and Jennifer L. Turner



Imagine China

Chinese workers labor in a wind tower in Nantong, Jiangsu. Chinese clean energy companies are increasingly looking to invest abroad, and Chinese investment in the US clean energy sector has increased at an annual rate of 130 percent over the last two years.

The seven bilateral clean energy agreements signed by PRC President Hu Jintao and US President Barack Obama in the fall of 2009 focused on renewable energy, advanced coal technology, energy efficiency, electric vehicles, and many other technologies to promote lower carbon growth. These agreements have propelled numerous public and private sector collaborations, such as Duke Energy Corp. and China-based ENN Group's solar power, smart grid, and energy efficiency projects. But these agreements and new business partnerships have been downplayed as the United States and China have grappled with how to properly compete in the clean energy sector. Strikingly, clean energy was barely mentioned during PRC Vice President Xi Jinping's visit to the United States in February.

As trade tensions rise between the United States and China, energy experts say it is an important time to dig deeper into whether Chinese investment in US clean energy can be profitable and a sound platform from which the two countries can build stable relations.

Recent deals made between US and Chinese companies indicate it should be possible. In early 2012, new clean energy deals targeted manufacturing in the United States. For example, Yingli Green Energy Holding Co., Ltd. agreed in February to purchase materials from E.I. du Pont de

Nemours and Co. to produce photovoltaic (PV) panels. EmberClear Corp. and China's Huaneng Clean Energy Research Institute agreed to build a coal-to-gas plant that could create more than 1,000 jobs, according to the two companies. And China's Wanxiang (USA) Holdings Corp. invested $420 million in Massachusetts-based GreatPoint Energy to develop technology that converts coal to gas.

Although the costs of wind and solar power have significantly dropped, the US clean energy industry is still in its infancy and many companies are not able to stand on their own without government support. The collapse of Solyndra, Inc. in 2011, which had received $535 million in federal loan guarantees, has made domestic investors and the US government wary of the entire industry. In stark contrast, Chinese policymakers and investors have been pushing ahead on clean energy, both at home—with an ambitious new five-year strategy—and in foreign markets.

Quick Glance

- Chinese investment currently makes up a small but fast-growing portion of clean energy projects in the United States.
- Some Chinese companies have established local manufacturing in the United States to address US regulators' concerns about job creation.
- Some local governments in the United States have encouraged Chinese investment in clean energy by offering supportive policies such as tax credits.

Since 2006, China has invested about $6 billion in clean energy projects in the United States. This is a small percentage of what the United States has spent on its domestic clean energy, which according to Bloomberg was $55.9 billion in 2011. However, Chinese investment in the US clean energy sector has risen sharply over the past five years, reaching $264 million in 2011 alone. Over the past two years, Chinese investment in renewable energy has grown at an annual rate of 130 percent.

According to a 2011 report by the Rhodium Group, an advisory firm that conducts research on Chinese investment, the total amount of Chinese investment in the United States in the first nine months of 2011 added up to $4.2 billion. Clean energy investments have been among the fastest growing sectors since 2008. About three-quarters of the total investment was in greenfield projects—new projects as opposed to mergers and acquisitions—and about half of the investors have been private Chinese multinationals. Most of these investments appear to have been positioned to sell Chinese manufactured modules such as turbines or solar panels—which often contain components made around the world—in the United States.

Benefits of Chinese investment in clean energy

Critics argue that Chinese investment in US clean energy results in stolen American jobs and intellectual property. However, clean energy investments in particular are good for the US economy, the environment, and global energy security, argues Derek Scissors, an Asian studies research fellow at the Heritage Foundation, a conservative think-tank. Even if clean energy components are manufactured in China, installation of these systems can result in the creation of American jobs, Scissors says.

Job creation

The question of equity in job creation surrounding clean energy projects came to the forefront in in 2009 when US regulators raised concerns about using stimulus money from the American Recovery and Reinvestment Act to purchase Chinese-made wind turbines for a proposed wind farm in Texas, where China's A-Power Energy Generation Systems, Ltd. would be the largest investor.

Publicly announced job creation projections by three high-profile renewable energy farms built with Chinese investment (A-Power, Xinjiang Goldwind Science and Technology Co., Ltd., and Suntech Power Holdings Co., Ltd.) indicates that about one job is created for every million dollars invested. Multiplied by the total Chinese investment in the sector, this amounts to a modest 6,000 jobs since 2006.

But because US manufacturing is more mechanized than Chinese manufacturing, Chinese factories tend to manufacture and assemble modules, often using American-made components. The industry is complex, and any system will include parts manufactured from all over the world. For example, the polysilicon production for Chinese solar company Suntech is done by US-based MEMC Electronic Materials, according to Bloomberg.

Furthermore, studies have shown that most jobs created by clean energy investment are downstream—meaning they are in the installation and maintenance of solar panels and wind turbines, rather than the increasingly mechanized manufacturing process. For example, a study commissioned by Duke Energy in 2010 estimated that 73 percent of jobs created in US-China partnerships in the power sector would occur where the infrastructure was built, even when much of the capital equipment was imported. According to the Coalition for Affordable Solar Energy (CASE), an organization of American-owned or -based companies in the US solar industry, roughly 52 percent of jobs in the solar industry are in installation, and 17 percent are created in sales, meaning the majority of jobs go wherever the technology is deployed, not where it is manufactured.

Some Chinese companies are adapting to increasing concerns over trade by hiring more employees locally. Goldwind, for example, opted to establish local manufacturing in the United States before local-content disputes became a threat, says Joanna Lewis, who is a fellow at the Woodrow Wilson International Center for Scholars researching China's wind power sector.

Goldwind's project in Shady Oaks, Illinois is expected to use 60 percent locally manufactured materials despite importing the turbines from China. The A-Power project in Texas was successfully negotiated in 2011 and appears to be proceeding with American steel components.

Investment incentives to rise

The outlook on Chinese investment in the US clean energy market despite recent tensions is positive. China's stockpile of foreign reserves and under-diversified portfolio has Beijing searching for higher-yield returns in more asset-based and infrastructure-related projects. Following major investment losses in places like Sudan and Libya, China is also looking to invest in stable markets such as the United States. China's 12th Five-Year Plan (2011-15) emphasized environmental mandates, with low-carbon measures topping the priorities. Chinese solar energy companies have overproduced in the domestic PV market, deepening the need to look abroad for sales. Furthermore, wages in China are rising 10 to 25 percent a year, driving up the cost of manufacturing and encouraging Chinese companies to consider manufacturing elsewhere. US companies are increasingly seen as a safe and affordable option for Chinese investors.

Barriers to Chinese investment in US clean energy

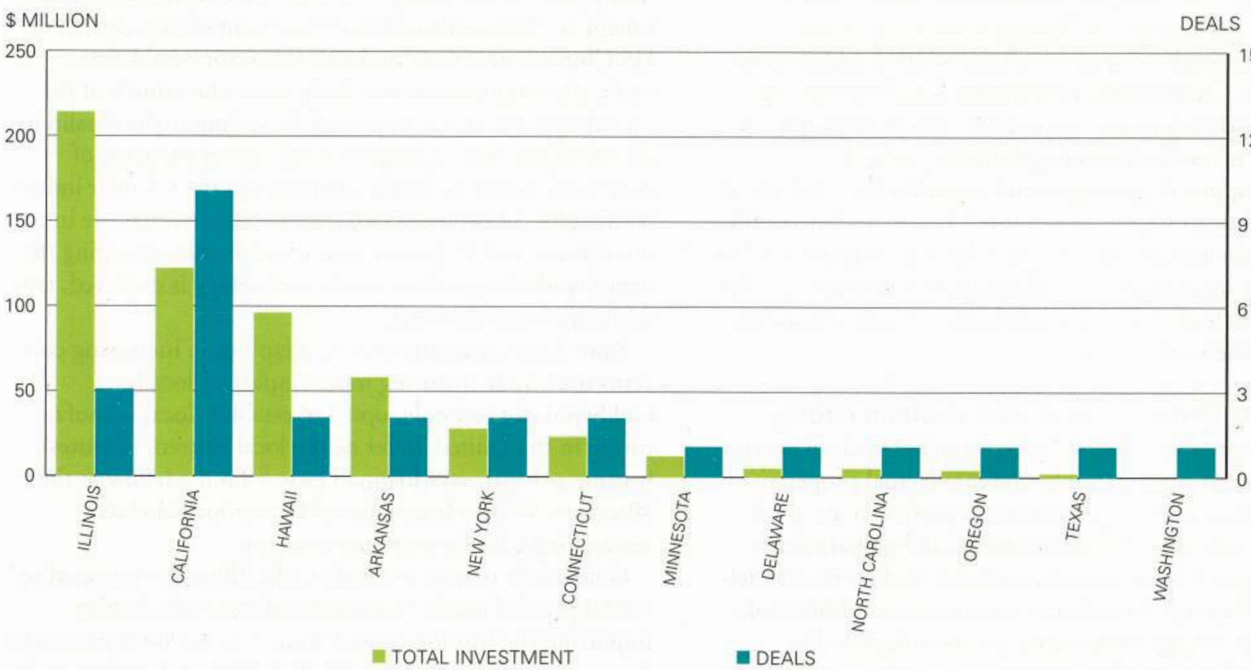
An uncertain market and lack of supportive national policies are two of the most significant barriers to Chinese investment in clean energy in the United States. The US federal government is sending mixed signals to the clean energy market by claiming it is dedicated to clean energy, while at the same time continuing to support the oil and gas industries with subsidies and allowing support mechanisms for clean energy to expire. Many of the US stimulus incentives for solar and wind power, such as tax credits, will expire unless Congress acts to renew them. "Both US and foreign financiers are looking for positive signals from the government," says Tom Weirich, vice president of membership and corporate relations at the American Council on Renewable Energy, a nonprofit member organization.

Recent events have added to uncertainty in the US clean energy market. SolarWorld Industries America Inc., a founding member of the Coalition for American Solar Manufacturing (CASM), filed an antidumping and countervailing duties case with the US Department of Commerce and International Trade Commission in 2011 that accused China of dumping silicon solar PV cells in the US market. A report by the Coalition for Affordable Solar Energy, which opposes CASM's case, argues that nearly 50,000 American jobs could be lost if these tariffs are enacted.

The role of local governments

Chinese companies, particularly smaller firms that want to invest in the United States, find it very difficult to navigate a system of 50 states with different regulations and incentives, says Weirich. Local US governments are increasingly trying to facilitate Chinese investment by setting up offices in China and organizing business delegations to China. In some cases, states are competing with each other for international investments in clean energy by offering local-level policy incentives. For example, Illinois and California, the top two recipient states of clean energy investment from China, have offered

CHINESE INVESTMENT IN CLEAN ENERGY BY STATE, 2006–11



THE RHODIUM GROUP

local incentives to support clean energy. For example, both states have set up regulations—such as Renewable Portfolio Standards, which mandate that utilities steadily increase energy from renewables—guaranteeing returns on clean energy investments and ensuring its long-term growth.

Both states have also actively engaged China in seeking clean energy investment. California, in particular, established formal relations with Jiangsu—a province promising to be a clean energy leader in China—in the hopes of enhancing cooperation on energy and reduction of greenhouse gas emissions. Both states have indicated high-level support for the relationship by sending their governors to China to highlight trade deals (see p.30).

Still, US local governments are in the beginning stages of attracting international investment. Most of the experts interviewed for this article have been approached by local governments seeking basic advice on Chinese business etiquette. In many cases, Chinese firms and local US governments are equally unfamiliar with international trade and investments, though they are both improving, says Scissors of the Heritage Foundation.

Opportunities and alternatives

The energy and economic challenges that the United States and China face provide a nexus for opportunity and cooperation. Renewable energy offers more opportunity than traditional energy for Chinese investors because it is not as politically sensitive, says Ken Su, a partner at PriceWaterhouseCoopers in Beijing. China can bring investment and an enormous future market, and the United States can reciprocate with innovation and current clean energy demand. "If we are serious about being a leader in clean energy and building out substantially, China is an important partner," says Thilo Hanemann, research director at the Rhodium Group. For the US clean energy companies that do manage to get Chinese investment "the benefits are more than just cash," says Ashok Sinha, CEO of Sunpreme, Inc., whose investors include Tsing Capital's China Environment Fund. "They promote collaboration between portfolio companies, leading to nice synergies and more value to all partners." 完

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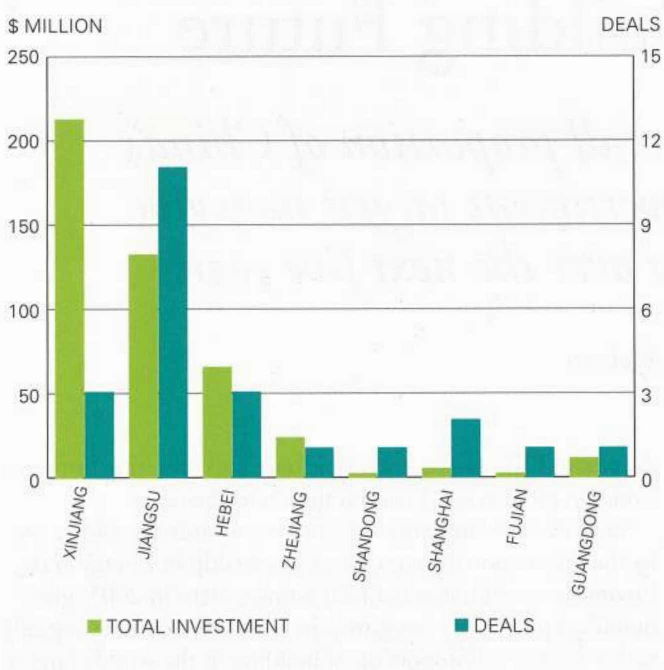
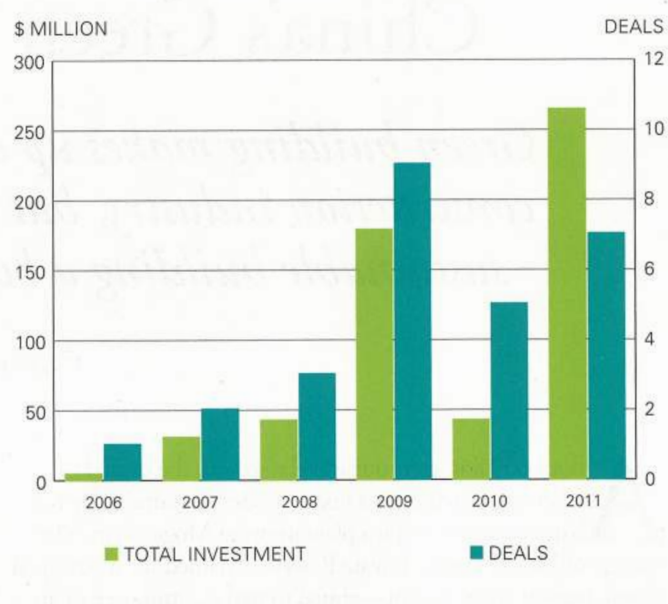
CHINESE INVESTMENT IN CLEAN ENERGY BY SOURCE PROVINCE, 2006–11



CHINESE INVESTMENT IN US CLEAN ENERGY, 2006–11



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China Foto Press

Vistors view a model of the Sino-Singapore Tianjin Eco-City, which is expected to become home to roughly 350,000 people once it is completed in 2020.

China's Green Building Future

Green building makes up a small proportion of China's construction industry, but government targets may give sustainable building a boost over the next five years.

Christina Nelson

About 60 kilometers outside Hangzhou, the capital of Zhejiang province, is a luxury resort surrounded by the bamboo forest and tea plantations of Moganshan. The owners of Naked Stables Private Reserve—named for its stripped down, natural environment—aimed to make as minimal of an impact on the surrounding environment as possible by reducing water and energy use and growing their own food on site. "[The owners] did all these things because they thought it was the right thing to do," says Alessandro Bisagni, founder and managing director of BEE, Inc., a sustainable building consulting firm that works on projects in China and the United States.

Since the first building in China was awarded a gold rating by the internationally recognized Leadership in Energy and Environmental Design (LEED) rating system in 2005, green building's popularity has grown in China. Green building still makes up a small proportion of building in the world's largest construction market, where maximizing profits and lowering building costs often trump sustainable design and energy efficiency considerations. Multinational companies, large Chinese companies, and an increasing number of hotels and resorts are currently the most likely green builders in China, but increasing environmental awareness and central government policies that set ambitious targets to reduce China's overall energy use may make green building practices more widespread in the coming years.

Green building on the rise

In 2011, developers in China started constructing 1.9 billion square meters of floor space and invested ¥6.2 trillion ($983 billion) in property development, according to the PRC National Bureau of Statistics. At the same time, China's 12th Five-Year Plan (FYP, 2011-15) aims to reduce overall energy use by 16 percent per unit of gross domestic product (GDP) and reduce carbon dioxide emissions by 17 percent per unit of GDP by 2015. Because buildings account for roughly 25 percent of all energy consumed in China, regulators have focused on implementing green and energy efficient practices in both new and established buildings. Beijing alone plans to build 35 million square meters of green buildings by 2015, according to the *People's Daily*.

In general, green building incorporates design, construction, and operations practices that use sustainable materials in construction, achieve energy efficiency and water savings, and improve indoor air quality, among other measurable targets. Green building developers also consider a building or project's location, selecting sites with exposure to sunlight and sites that are close to public transportation, grocery stores, and other amenities.

Evaluating all buildings and development projects in China that take these strategies into account is difficult, but developers are increasingly applying for green building labels, such as LEED certification and China's own green building certification, the Green Building Design Label, also known as "Three Star." (The system assigns buildings one to three stars, with three stars being the highest rating.) In 2005, a PRC Ministry of Science and Technology office building in Beijing was awarded a LEED gold rating, the first building in China to receive LEED certification. The Beijing Olympic Village and other facilities for the 2008 Olympics followed, and by the end of 2011, more than 800 construction projects had been registered for certification while nearly 200 had been LEED certified (see p.34). The Three Star system is newer and has fewer projects, but it has seen similar growth, increasing from 10 projects certified in 2008 to 83 in 2010 (see p.35).

Challenges

Regardless of the certification system used, the green building concept does not always translate to the China market. According to a 2011 report by the China Greentech Initiative—a collaboration between more than 100 organizations that focuses on identifying and developing green tech solutions in China—lack of understanding of green building and misaligned incentives have slowed the adoption of green building in China. Experts say construction decisions are often made based on short-term costs, such as material and labor costs, instead of considering the long-term savings from energy efficiency or green building techniques.

Bisagni says working on green building projects in the United States and China is like night and day because Chinese builders still prefer to cut costs in the short term. "The extent of solutions that you can propose in a project [in China] is limited in a way because of that payback and

LEED and Three Star

In 2006, one year after the Agenda 21 office building in Beijing became the first building in China to receive a gold Leadership in Energy and Environmental Design (LEED) rating, the PRC Ministry of Construction released evaluation standards for green buildings. The standards included China's Green Building Design Label, or "Three Star" system, for rating building sustainability. LEED and Three Star share common elements and a common goal—to reduce a building's environmental impact—but the two systems diverge in their ratings and review processes.

Three Star

China's Three Star system rates residential and commercial buildings, including apartments, hotels, and office and commercial space, from one to three stars with three stars indicating the highest performance level. Like LEED, the rating uses a point system to evaluate a building's water and energy efficiency, materials and resources use, indoor environment, operation and maintenance, and site efficiency and outdoor environment. A building must obtain a certain number of points in every category to qualify for a star rating. A building is evaluated by a local, provincial, or national committee, depending on the location of the building and what star-level a developer hopes to obtain.

LEED

LEED, developed by the US Green Building Council in 2000, uses a point system to evaluate buildings in terms of site selection, water efficiency, energy, materials and resources, indoor environmental quality, and design innovation. Unlike Three Star, LEED does not require builders to meet minimum requirements in every category, but instead allows builders to achieve a LEED rating by meeting a minimum number of points overall. LEED uses different rating systems for new construction, existing buildings, schools, and neighborhood development projects, among others. The Green Building Certification Institute administers the certifications and performs third-party technical reviews of projects that wish to obtain a LEED rating.

—Christina Nelson

LEED-CERTIFIED AND REGISTERED BUILDINGS IN CHINA, 2005–11

	2005	2006	2007	2008	2009	2010	2011	Total
Certified	2	4	0	8	31	65	85	195
Registered	8	7	47	95	152	209	279	797

US GREEN BUILDING COUNCIL

cost mentality," he says. "In China, there's still a large knowledge gap. In order to cross that it takes a lot of effort."

Green building experts say that it is a myth that sustainable buildings are expensive to build. "A green building can pay for itself," says Yingchu Qian, head of sustainability business in Asia for Faithful+Gould, a construction consulting firm. Qian, who has worked on roughly 120 green building projects in China, says that the savings from energy efficient practices and the premium developers can charge for green buildings helps investors make back any additional money spent on construction. He said it usually takes five to 10 years for a developer to make back the initial investment in a green building, but that in some cases it can take as little as two years.

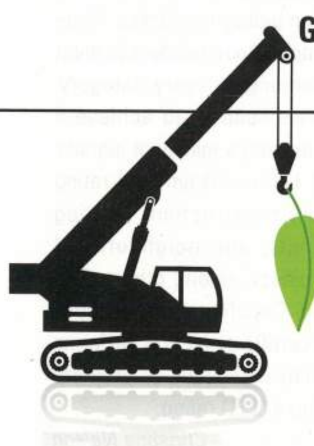
Companies that chose to build green in China early on were not necessarily focused on cost. The early adopters in China have tended to be large, multinational corporations with a "sustainability vision" and those that see green building as a good marketing tool, says Jennivine Kwan, vice president of international operations at the US Green Building Council (USGBC), the organization that developed the LEED rating system. But now more companies are considering operation costs, return on investment, higher tenant occupancy rates, and a premium on rents. "Those things are real tangible financial reasons as to why people are building green buildings from an owner-developer point of view," she says.

Because developers in China may not see immediate cost savings, they often overlook the green features—such as better insulation and sealed windows—that could help the government meet its energy targets. This is especially true in the multi-family residential buildings that most people in urban China live in, say researchers at the US Department of Energy's Lawrence Berkeley National Laboratory (LBNL). "I think it also gets complicated because the tenants that live in the building didn't build it. The builder doesn't operate the building, so they are not motivated to invest in better insulation," says Nan Zhou, a scientist at LBNL's China Energy Group.

LBNL researchers have been working with the PRC government to improve energy efficiency initiatives and labeling standards, including the PRC Ministry of Housing and Urban-Rural Development's building energy efficiency label. This rating system ranks buildings from one to five stars. A building that receives a five-star rating is the most energy efficient—requiring an 85 percent reduction in energy use compared to buildings constructed in the 1980s. (Current building codes require that new buildings achieve a 50 percent reduction in energy use compared to the 1980s.) The energy efficiency label is still voluntary for most residential and non-residential buildings, but the government requires that certain buildings receive a star rating, including new government-owned and large public buildings, existing government-owned office buildings, and large public buildings that apply for government energy retrofit subsidies.

Zhou says that because the green building and energy efficiency labels are still voluntary for the majority of buildings, such programs are not likely to reduce energy consumption in China on a large scale. "If there's a mandatory program ...then that can definitely reduce energy use," Zhou says.

GREEN BUILDING IN CHINA



2005

The Agenda 21 Demonstration Energy-Efficient Office Building in downtown Beijing receives the first LEED gold rating in China. The building houses offices of the PRC Ministry of Science and Technology (MOST), and was a joint project between MOST and the US Department of Energy.

2006

The PRC Ministry of Construction (now the Ministry of Housing and Urban-Rural Development) releases evaluation standards for green building, which includes standards for the Three Star rating system.

2007

US-GREEN BUILDING COUNCIL, PRC MINISTRY OF HOUSING AND URBAN-RURAL DEVELOPMENT, GENSLER, CHANNEL NEWS ASIA, *PEOPLE'S DAILY.*

Eco-cities

While the PRC government implements energy labeling programs, provides subsidies for energy efficient technologies, and releases policies to support carbon and energy reduction goals, China's push to develop more sustainable communities, or "eco-cities," may also influence green building's future in the country.

According to the Asian Development Bank, the PRC government began encouraging development of sustainable communities as early as the mid-1990s. Dozens of eco-cities are currently being developed, according to some estimates, but arguably the most high profile is the Sino-Singapore Tianjin Eco-City. The project is a collaboration between the governments of Singapore and Tianjin and promotes water and energy conservation, mixed-use development, and comprehensive public transport for the city's expected 350,000 residents. The city's first residents began moving into apartments in mid-February, and the entire project is expected to be complete by 2020.

The PRC government's eco-cities initiative may be one reason China has the largest number of LEED for neighborhood development projects outside the United States, says USGBC's Kwan. These projects help local governments and developers design "communities that are a little more human scale, that are linked better to the outside environment, and that provide that type of safe and healthy environment for all the people who live there," says Kwan. Like LEED for buildings, the LEED for neighborhood development rating system evaluates an entire community. The rating system looks at whether the community has walkable streets and reduces residents' dependence on cars, and whether buildings and infrastructure are energy efficient, use renewable energy sources, and reduce water use.

Compared to the United States or other developed countries, mixed-use development is already common in China, where many neighborhoods feature all the services most people need within walking distance. The government's role in urban planning also makes it easier to create sustainable communities, Kwan says. "China is one of the few places in the world that actually decides where a city is going to happen. They actually build the city."

THREE STAR CERTIFIED BUILDINGS IN CHINA, 2008–10

Note: Includes buildings certified at one-, two-, and three-star levels.

ECO-CITY AND GREEN BUILDINGS, 2011

Green building's future in China

An analysis by LBNL researchers shows that China made the largest energy efficiency improvements in new construction and hit targets in energy management in government and large-scale public buildings during the 11th FYP (2006–10) period. However, China has not been as successful during the first year of the 12th FYP, says LBNL's Zhou, and she expects the PRC government to continue including energy and carbon reduction goals in future five-year plans. "This period will be very challenging because the first year has already ended and they did not meet the first year milestone," she says.

Whether green building will play a large role in meeting these goals remains to be seen, but advocates remain optimistic that the green building market will continue to grow in China. Still, some think the PRC government will have to implement stronger policies before mainstream developers build green projects on a larger scale. "The only way that can happen is from the top down," says Bisagni. "The government has to give direction about what green building has to be." 完

Christina Nelson *(cmnelson@uschina.org) is editor of* CBR.

2008 **2009** **2010** **2011** **2012**

The Olympic Village in Beijing earns a LEED gold certification, the first neighborhood development project outside the United States to achieve a LEED certification. The village was home to 17,000 athletes during the 2008 Summer Olympics.

Construction begins on the Shanghai Tower, a 632-meter-high building in Pudong. According to M. Arthur Gensler and Associates, Inc., the US architecture firm that designed the tower, the top of the building will feature wind turbines that will power the building's exterior lighting and some park areas.

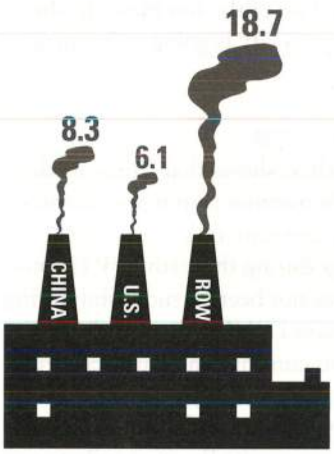
The first residents begin to move into the Sino-Singapore Eco-City in Tianjin. Project developers expect the city to become home to 350,000 residents by the time it is completed in 2020.

China's Energy and Environment Challenges

CARBON DIOXIDE CONTRIBUTIONS FROM CHINA, THE UNITED STATES, AND THE REST OF THE WORLD

(BILLION METRIC TONS)

China emitted 8.3 billion metric tons of carbon dioxide in 2010, a quarter of total global CO2 emissions.



Note: ROW = rest of world

BP STATISTICAL REVIEW OF WORLD ENERGY, 2011

TOP RENEWABLE ENERGY INVESTMENT DESTINATIONS

China attracted more investment in renewable energy sources than any other country in 2010. Investments in the United States ranked second.

BLOOMBERG NEW ENERGY FINANCE

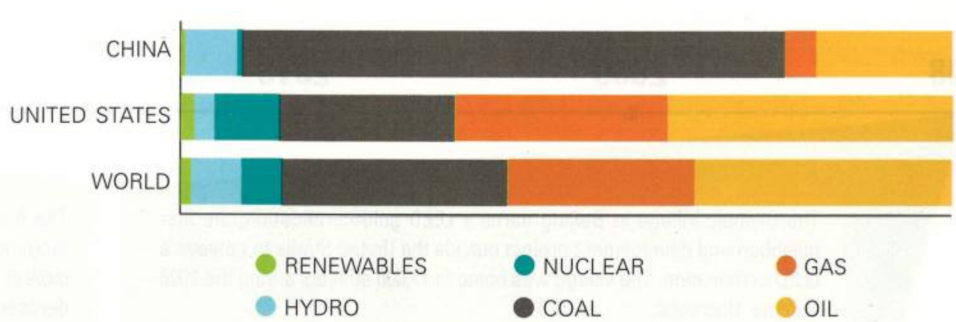
THE PRC GOVERNMENT AIMS TO REDUCE CARBON DIOXIDE EMISSIONS PER UNIT OF GDP BY 17 PERCENT FROM 2010 LEVELS BY 2015.

PRC NATIONAL PEOPLE'S CONGRESS

ENERGY COMPOSITION OF CHINA, THE UNITED STATES AND THE WORLD

(% OF TOTAL)

China gets 70 percent of its energy from coal, much more than the world average.



BP STATISTICAL REVIEW OF WORLD ENERGY, 2011

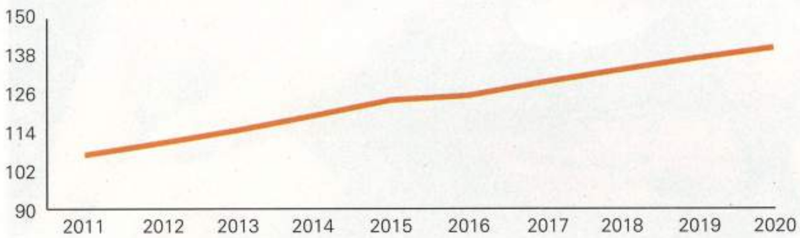
THE PRC GOVERNMENT IMPLEMENTED PILOT PROGRAMS TO SUBSIDIZE ELECTRIC VEHICLES UP TO ¥60,000 ($9,523) AND HYBRID ELECTRIC VEHICLES UP TO ¥50,000 ($7,396).

PRC MINISTRY OF FINANCE

FORECAST OF CHINA'S TOTAL ENERGY CONSUMPTION, 2011-20*

China is expected to use 40 percent more energy in 2020 than in 2011.

(QUADRILLION BTU)



Note: Btu = British Thermal Unit

*Estimate based on baseline world economic growth used by the US Energy Information Administration

US ENERGY INFORMATION ADMINISTRATION

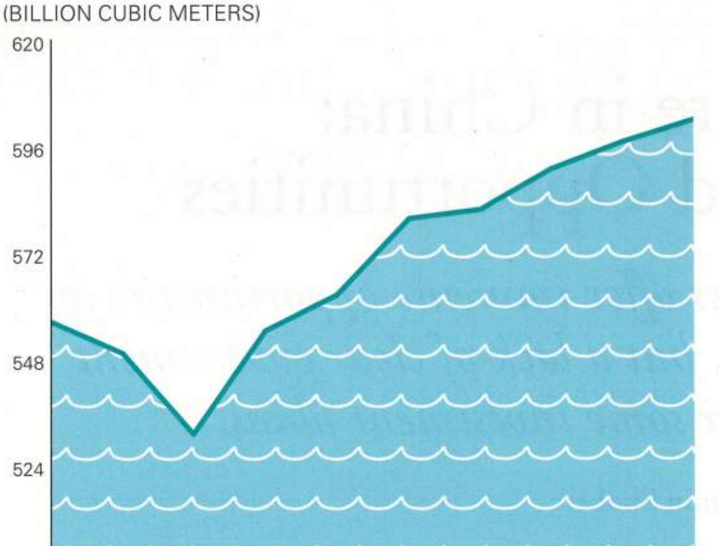
THE PRC GOVERNMENT AIMS TO REDUCE CHINA'S ENERGY USE PER UNIT OF GDP BY 16 PERCENT FROM 2010 LEVELS BY 2015.

PRC NATIONAL PEOPLE'S CONGRESS

WATER USE

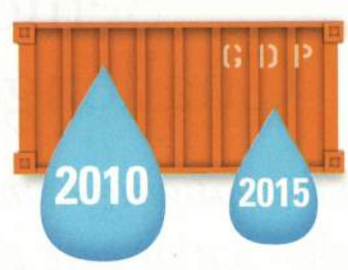
As China's economy has grown, so has its water usage.

(BILLION CUBIC METERS)



PRC NATIONAL BUREAU OF STATISTICS, *CHINA STATISTICAL YEARBOOK, 2011*

THE PRC GOVERNMENT AIMS TO REDUCE CHINA'S WATER USE PER UNIT OF GDP BY 30 PERCENT FROM 2010 LEVELS BY 2015.



PRC NATIONAL PEOPLE'S CONGRESS

There are now four grandparents and two parents for every one working-age adult in China.

Senior Care in China: Challenges and Opportunities

China's changing demographics offer immense opportunities for foreign senior care providers, but a lack of clear government guidelines may hinder some investment plans.

Benjamin Shobert

The senior care market in China represents a great example of the peril and promise of doing business in China. If senior care issues in China are not addressed, the sheer number of Chinese who grow older without caregiving options could become both an insurmountable economic drain as well as a potential source of social instability. However, the senior care market in China is also a promising opportunity. If scalable and profitable business models emerge, the country could quickly become one of the world's most lucrative markets for senior care companies.

Quick Glance

- China's rapidly aging elderly population and rising prosperity may lead to opportunities in the senior care market.
- Foreign senior care operators face challenges in licensing, human resources, and consumers' lack of knowledge of senior care options.
- Though the mid- to low-end market may offer the most opportunities, foreign senior care companies have primarily focused on the high-end market so far.

China's demographic shift

In mid-January, China's National Bureau of Statistics announced that China now has roughly 185 million people over the age of 60. A 2007 study by the United Nations estimated that in 2005 there were 16 retired people in China to every 100 workers. The study projected that this ratio will reach 64 elderly for every 100 workers by 2025. Compare this to the United States, which currently has approximately 20 retirees for every 100 workers and is projected to have 33 retirees for every 100 workers by 2050. Even in developed economies, this would be a challenge to deal with properly.

The PRC government is acutely aware and deeply concerned about these demographics. Today, government funding only covers 1.6 percent of seniors in need of care, who cannot otherwise pay for their own care. The World Bank's standard for developed nations is 8 percent coverage. As Li Jianguo, vice chairman and general secretary of the Standing Committee of the National People's Congress, stated last year, this translates to a need for an additional 3.4 million hospital and nursing home beds dedicated to senior care over the next five years alone.

In addition, China's massive rural to urban migration has left in its wake elderly parents and grandparents whose geographic distance from their children means China's traditional cross-generational housing model will no longer be an option. Even for those family units that have managed to stay together during this period, the one-child policy has created what is being called the "4:2:1" problem. Namely, there are now four grandparents and two parents for every one working Chinese. While most—if not all—of China's working-age family members would be willing to honor the Confucian ideal of filial piety towards their elders, the combination of relocation, and the number of family members in need of care, make doing so no longer feasible.

Challenges of providing senior care in China

The China market is hungry for a solution to this problem and foreign senior care operators are eager to prove they can export their approaches to China. However, there are numerous challenges that will need to be addressed before this can happen.

Perceived value

A successful elder care model in China will need to be perceived by both those paying for the care, as well as those receiving it, to meet the cultural expectations of how seniors are to be honored and taken care of in their old age. Researchers that have studied expatriate Chinese communities in Hong Kong, Vancouver, and Toronto found that secondary care-giving is not the preferred option of those paying for or receiving the care, but that both parties are beginning to understand that secondary care may be necessary if it rises to meet the expectations of cross-generational care. The simplest way this can be achieved by foreign operators is to stress the quality of the services provided, if not the outright luxury, of the senior care experience as some early entrants are attempting to do.

Government involvement

The question of what role—if any—the PRC government should play in shaping the elder care market remains unanswered. China lacks regulations covering quality standards for caregivers as well as a government-sponsored accreditation processes that would allow consumers to judge reputable facility-based care from those that should not be trusted. In the United States, nursing home operators and in-home caregivers are governed by a variety of federal and state regulations in addition to third parties that advocate for patients' rights.

The most pressing question the PRC government must answer is how to expand its reimbursement for senior care. The government's clear preference today is to reimburse for in-home care versus residential-based care, largely because the former is believed to be a more cost-effective mechanism for providing care. While this remains the central government's primary policy-orientation, it is also looking into how it can best offer incentives to real estate developers to get them to build the sort of entry-level residential senior care the country will ultimately need. Zhanlian Fang, an assistant professor at Brown University, noted in his 2011 study of China's nursing homes that the government remained "largely uninvolved in financing the sector's growth spurt." Successful operators in China will be quick to engage local government, in particular the ministries of Civil Affairs and Health to establish a relationship and begin working towards reimbursement schemes that align with the central government's senior care agenda. As with other policy agendas driven by the central government, local and provincial leadership will have wide latitude to implement new approaches.

Licensing

Another challenge for foreign senior care operators who want to enter China is obtaining a license to do so. As American and European hospital entrepreneurs have discovered, getting a license to open and operate a private hospital in China is an extremely complicated and drawn-out process that varies widely across provinces. The process for opening a privately licensed senior care facility in China will be similarly difficult. This is why the September 2011 announcement by Seattle-based Cascade Healthcare Services LLC that it had been licensed by the PRC government to open the country's first for-profit senior care facility was so significant. Because licensing is an opaque process in China, foreign firms will need to find local legal representation that has experience working with the national-level ministries of Civil Affairs and Health, ideally a firm that has experience navigating the confusing approval process to open a private general care hospital in China.

Human resources

Once a foreign operator is properly licensed, they must staff their facility. Because geriatric care in general is not a well-developed competency in China's medical, nursing, or vocational schools, foreign senior care operators must plan on making identification, training, and retention of qualified caregivers a top priority. This will be an issue both for skilled workers like doctors, facility managers, nurses, and physical therapists as well as non-skilled workers like bedside assistants. Several foreign operators have made it a priority to find partners in China who have ready access to pools of Chinese vocational labor, regardless of whether these workers are focused on healthcare or not. Rather, these foreign operators believe they must first find someone in China who knows how to structure a training program that imparts industry-specific technician level knowledge to the average Chinese worker and then build a healthcare-centric training model in conjunction with their partner. Foreign operators will want to carefully think about whether this is a core competency they can translate to China from headquarters or whether they will need to identify a partner already in China. Ideal partners can include vocational schools as well as a small but growing group of China-based healthcare companies that offer training programs that an operator can incorporate into their expansion.

China's senior care industry lacks structure, so companies must anticipate and deal with quality control issues. Foreign companies in China across all industry sectors already know they must guard their company's reputation and services. Because a developed senior care industry does not yet exist in the country, bad experiences—such as abuse, poor living conditions, or perceived inadequate value for the money—could all derail the industry in its infancy. Now, foreign operators in China are focused on training and overseeing quality of service, a particularly acute problem faced by in-home care providers who must manage their offerings outside of a facility under their direct supervision.

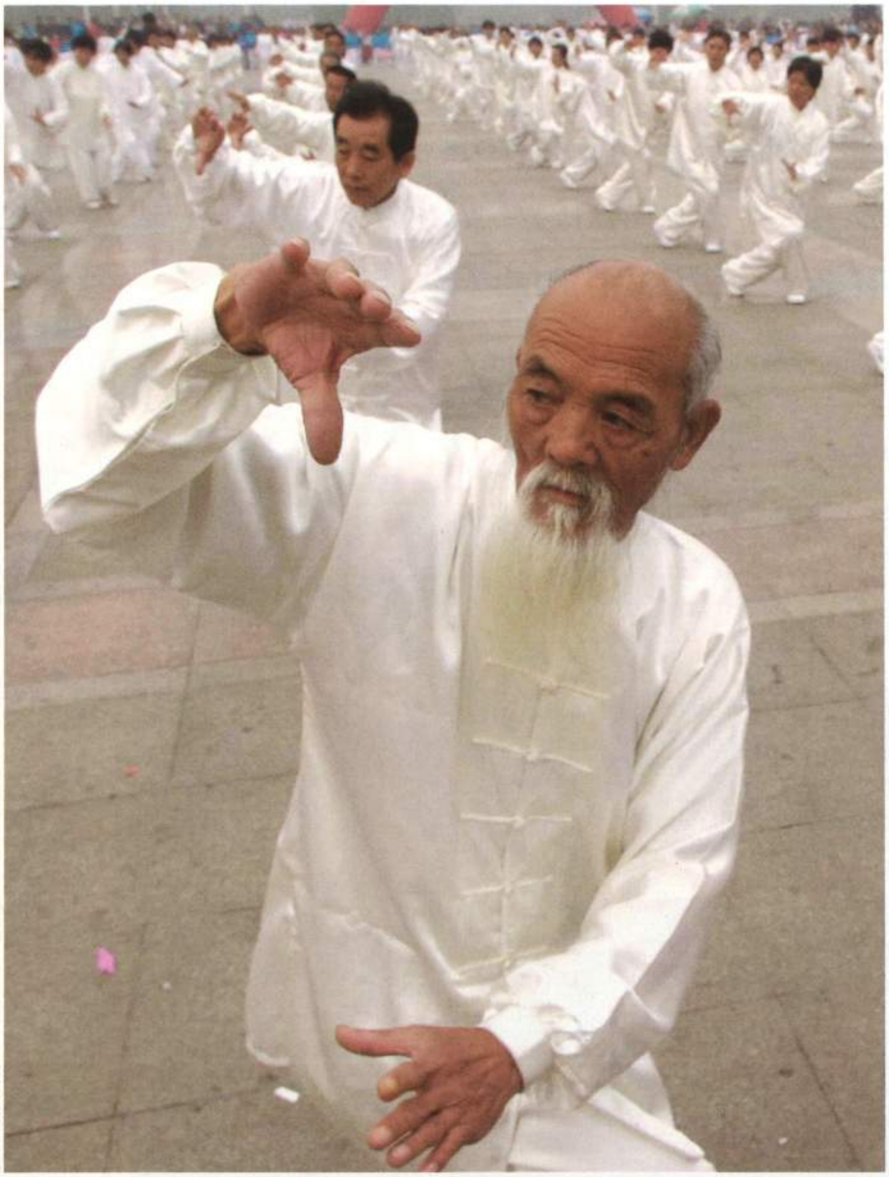
Marketing

Once regulatory and infrastructure issues are resolved, foreign senior care operators must effectively market their services. Chinese understand outsourced senior care at two extremes: either they know about it and think it is of extremely low quality, or they are not aware that in-home or residential-based caregiving are options. In China, many people do not know that there are rehabilitation services for an elderly parent who has had a stroke and needs physical or speech therapy. To educate the average Chinese family on their options, Western operators are studying the hospital discharge process to see if they can somehow interject themselves and educate the family on their options.

To date, foreign-funded and -operated elder care facilities in China have all been designed to deliver a luxury product.

Opportunities

Keeping these challenges in mind, senior care providers that invest in China with a residential business model are deliberately focusing on the high-end of the market. To date, foreign-funded and -operated elder care facilities in China have all been designed to deliver a luxury product. These facilities are self-described as "five-star resorts" and offer the amenities one would expect of the most luxurious hotel or apartment. This approach solves multiple business challenges. First, because these senior care facilities focus on the luxury market, family members perceive the service as worth the money. Second, a luxury senior care experience addresses the problem of whether Chinese perceive value in the services they receive for their elderly parents. Finally, by focusing on the needs of the rich, the PRC government's role as funder disappears from the equation entirely.


China Foto Press

Foreign senior care companies may need to educate Chinese families on different care-giving options.

Not everyone agrees that this high-end model will work. Questions remain about whether a large enough market of wealthy Chinese exists to support the number of developers and operators who have focused on delivering a luxury product. Even if a large enough market exists, it is unclear whether wealthy Chinese will prefer to see their elderly parents taken care of in a residential home or have high-end in-home care provided instead. Providing residential care could be especially problematic because many wealthy Chinese became wealthy only after they left their hometown. Because many of their parents have stayed behind, relocation—even if to a luxury senior care facility—to a city far away is likely to be difficult.

For the PRC government, the emphasis foreign operators are putting on the high-end of the market is distressing. The greatest need and opportunity for senior care is in the mid- to low-end of the market that has so far been largely overlooked. So far, the government has offered land incentives to developers to build senior care facilities targeted for the low-end and middle markets. To address the lack of investment in the mid- to low-end of the market, the PRC government could offer additional incentives for foreign operators to make focused investments in senior care facilities that offer unique services not currently available but desperately needed. Examples of this would include incentives for rehabilitation hospitals and hospice care facilities. In addition, the PRC government's approach since 2005 has been to offer additional land incentives, tax rebates, and fast track approvals to developers. Beyond this, the PRC government will likely continue to expand its reimbursement scheme for in-home elder care service providers.

There is an enormous need for a successful elder care business model in China to emerge. The most lucrative market opportunity—serving members of China's newly minted middle class as they seek to cost-effectively honor their parents and grandparents by providing customized care—remains the most underserved market segment. But before this can happen, the PRC government must clarify its role as both regulator and funder, two steps that have hindered other healthcare opportunities in China where the need has been just as great but problems have been allowed to fester.

Residential care operators should not wait for regulators to work out these issues. As the healthcare market in China evolves, foreign companies in sectors ranging from pharmaceutical to medical device to senior care need to engage local and national regulators to shape reimbursement policies. As the pharmaceutical industry has seen with the slow, province-by-province adoption of a pricing model that has dramatically lowered drug prices and dramatically decreased profits for pharmaceutical companies in China, it is up to foreign operators to engage, early and aggressively, local and national officials as reimbursement schemes and regulatory programs evolve. 完

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Improving Local Government Affairs

To be successful in China, foreign companies must build strong, lasting relationships with not only the central government but with local governments as well.

Nancy Huang and Julie Walton

Local PRC government offices exert a significant amount of influence on foreign companies' operations in China. The influence can stretch beyond expected areas—such as product and investment approvals, customs clearance, and taxation—to touch on matters such as land use, human resources, and marketing. Given the extensive reach of government and quasi-government entities in China, many foreign companies seek best practices to manage the wide range of government relationships.

Continued expansion of US companies into China has brought a heightened recognition of the importance of government relations at all levels. Many companies have a dedicated, centralized, corporate-level government affairs (GA) staff based in one location in China, frequently in Beijing. With the increasing number and complexity of policies that affect US companies in China, GA staff often focus on maintaining relations with central government officials and linking broader corporate goals to national government priorities. This broader focus often leaves little time to manage local government relations that are essential to ensuring smooth daily business operations.

The US-China Business Council (USCBC) in 2011 interviewed more than 20 China-based GA practitioners from among its membership to compile best practices in managing local government relations. Interview questions focused on topics such as municipal- and district-level relations, staff structure for managing local government relations, the role of company GA staff in operational activities, and strategies to handle local problems to support company development in China.

In addition to GA work at the national level, companies often manage government relations at the sub-national level, which includes provincial, municipal, district, and county levels, to support business operations in that specific jurisdiction. Sub-national GA work tends to focus on compliance and implementation to ensure smooth daily operations at the company's local facility rather than on policy development. Companies that cultivate relations with local officials when business is going well increase the likelihood that they will have channels to use when specific problems arise.

Quick Glance

- Local PRC government offices exert a significant amount of influence on foreign companies' operations in China.
- Companies that cultivate relationships with local officials when business is going well increase the likelihood that they will have channels to use when specific problems arise.
- To manage the multiple relationships, companies employ various strategies based on their business needs and internal corporate structure.

Administrative levels in local government affairs

A company may need to work with all local government administrative levels depending on the issue. In general, provincial-level government agencies set the goals and development strategies for the whole province. GA work at the provincial level tends to focus on promoting awareness of the company's products and services to influence top provincial decision-makers and on gathering information about the province's plans for implementing industrial and macroeconomic policy. In addition, certain provincial regulators, such as provincial development and reform commissions and provincial bureaus of commerce, have approval authority for foreign investments above a certain threshold or in certain industries.

District and zone government agencies are generally micro-regulators responsible for implementing the policies that touch on daily business operations, such as business licenses, tax registrations, import and export clearance, work safety inspections, and utility supply.

Structures for managing local government relations

Because all local facilities must interact with the government, companies use various methods to manage local relationships. The top three methods follow:

■ General manager as local GA lead

At some companies, the senior executive at the facility, including a factory, store, branch office, or warehouse, serves as the local senior company representative who interfaces with government agencies at the city, district, or zone level. An advantage of this structure is that a competent local senior executive may be more readily able to identify and respond to problems before they get out of hand. This individual usually also has the title necessary to ensure an effective level of access to the relevant government agency. Because the government relationships rest so heavily on one person, higher-level company executives should ensure that the executive embodies qualities the company would like local officials to associate with the company.

■ Deputizing other functional staff as local GA lead

In some cases, a corporate GA professional and the local facility executive will "deputize" local functional staff to handle local government affairs in addition to their other daily roles and responsibilities. Local human resources, finance, operations manager, or any other local employee who interacts frequently with the local government because of his or her existing responsibilities could serve as the local GA staff member. To ensure an effective local government relations strategy with this structure, interviewees offered three suggestions: Create specific GA training for staff, establish a local GA committee or similar group for deputized staff who will handle local GA work, and add GA responsibilities to the local designated staff's performance criteria. These strategies ensure that he or she fully understands the function's importance and is motivated.

■ Hire a full-time local GA manager

Under this method, the full-time local GA professional mirrors the corporate GA function but tends to be more junior. This individual usually reports directly to a senior, corporate-level GA professional, but also reports to the local facility senior executive.

When to create a full-time local GA role

A company might make this decision if it:

- Has a concentration of investments in a particular area, such as eastern China, and needs one GA professional to manage the local relationships in that jurisdiction.
- Operates in a regulatory-intensive industry, such as retail, chemicals, or healthcare, and must maintain strong relationships with many local officials from supervisory agencies, such as quality inspection or customs bureaus.
- Needs to support a specific business unit in multiple localities, even if the geographic territories are not near each other.
- Has a large, complex local investment that is important for the company's China development strategy, such as a regional headquarters, a multi-million dollar plant, or a flagship store.

Internal communication

According to USCBC interviews, effective internal communication and information sharing among local facilities, business units, corporate GA staff, and local GA staff from different localities are important factors contributing to effective local GA. For example, senior corporate GA professionals can offer tools and resources to support local GA work. The GA professionals can provide updates on company interaction with central government agencies, brief local staff about which agencies are implementing new policies, share best practices or common standards of conducting local GA work, and inform staff of internal company developments or experiences that might be useful in other jurisdictions. This helps equip local staff with better tools to handle a range of issues and allows them to take preemptive measures to prevent local crises.

Many companies also bring the GA team and business units together on a regular basis—at least annually, but often semi-annually or quarterly—to review business development goals and identify areas that need GA assistance. This regular interaction allows the GA team to craft its plans and strategies in line with the needs of the company's business units.

Basic tasks and responsibilities

Not surprisingly, staff members who manage local GA generally maintain close contacts with working-level officials and representatives from various government entities, especially officials from the relevant development zone, to ensure that local operations run smoothly. In practice, this may mean working on different local operational issues such as tax payments, utility supply, human resources management, brand building, customs clearance, and business development. They can support local operations by regularly interacting with local officials in formal settings—such as individual company meetings—and informal settings—such as seminars and events. They must also pay attention to how local agencies implement national-level policies to ensure local company operations comply and are not unfairly disadvantaged. Additionally, local GA practitioners:

- **Follow up on approvals and licenses**

By following up with different government bodies on project approvals and business licenses, companies can potentially alleviate the long delays in securing necessary licenses and approvals. This may include managing an environmental assessment by the local environmental protection bureau or participating in an energy consumption assessment by the local development and reform commission.

- **Identify future problems**

Staff members who manage local GA should take a lead role in identifying where problems may occur in the future. For example, if a facility is located near a natural resource or near a downtown area, GA staff should monitor local land policies and changes that could cause problems based on the facility's location.

- **Conduct due diligence**

Companies considering new or expanded investments may approach specific development zones or foreign investment promotion bureaus to learn more about potential incentive packages and how the local government interprets relevant policies and regulations. Involving GA staff in the investment planning process at an early stage can also ensure a continuous relationship once the deal is finalized. Local GA staff involved from the pre-investment stages can serve as a bridge between officials and the new operating team.

Key business units and operational staff often handle negotiations directly, but GA professionals can facilitate contacts between the company and government.

■ **Support negotiations**

Key business units and operational staff often handle negotiations directly, but GA professionals can facilitate contacts between the company and government. This can include following up with local governments to determine their perspective on what was discussed in the meetings. Usually such follow-up requires that GA staff talk with different government departments, such as officials responsible for tax or land use, to understand their viewpoint on what was discussed and promised in the meeting. This step helps minimize miscommunication among agencies, and between agencies and the company.

■ **Monitor pilot projects**

The central government often tests policies through pilot projects in select locations. Interviewees indicated pilot projects have important implications both for companies operating in those areas and for the regions to which those policies may apply. In addition, local governments may allocate a certain percentage of their budgets to promote region-specific development. Therefore, it is important for local GA staff to be aware of any local incentives that companies may be eligible to receive.

In China, local governments are involved in the daily lives of all companies—foreign and domestic.

Identifying relevant local officials

Not all local government agencies are relevant to companies' operations, and not all levels of a particular agency are relevant. Interviewees reported that limited resources made it essential to identify and prioritize agencies and levels and to allocate resources accordingly. What might be a strategic relationship for one company may only be an opportunistic one for another. For example, entities with many minimum-wage employees may find more value in maintaining solid relationships with district-level human resources and social security officials than entities with fewer employees.

At the same time, interviewees confirmed that it is important to cultivate relationships with certain agencies because of the broad nature of their work. For example, district officials from the local tax, administration of commerce and industry, and commerce bureaus are important to know well because they have primary and ongoing approval authority for all aspects of business operations.

Who should interact with local officials

When seeking to interact with officials from various local agencies, the issues to be discussed and the official's level will determine who from the company side should lead and attend the meeting. In most cases, local GA staff will interact with officials from relevant functional government agencies at the district or zone level, such as the zone management committee, tax bureau, customs, quality inspection and quarantine, and administration of commerce and industry. China-based GA executives and local staff responsible for GA-interface meet with city-level government agencies that oversee foreign investment, industry, science and technology, foreign affairs, and more. China based-GA executives and senior corporate executives meet with related provincial-level agencies. Sometimes senior China GA executives must also work with officials from the city, district, or zone when local staff cannot resolve problems. In addition, the nature of the subject to be discussed in the meetings may affect who will attend from the company side. For example, a meeting about expanding an investment may bring in a different level of company executive than a meeting about relocating.

Interviewees commented that meetings with most local government officials are not routine but rather are focused on specific issues, tasks, and projects. What companies have said about central-level officials is often true of local government officials: Busy schedules, increased workloads, and more professional attitudes leave little time for courtesy calls.

Informing local officials about a company

Companies also recognize that the educational and professional level of local officials varies in China. Some specific ways to educate officials about a company's products or business operations include:

■ **Using well-known customers to introduce industrial products to local government officials.** One company's airport customers in China agreed to serve as a reference and allow the company to bring officials from other localities to see the systems in operation.

■ **Working to correct misperceptions about certain sectors.** Many people perceive companies in certain sectors, such as chemicals, as polluting. Introducing past safety records and best practices helps local officials better understand the business.

■ **Organizing industry-specific events at which officials can hear other examples about the industry.** For example, a machinery manufacturer for the food processing industry presented industry best practices at a food processing seminar with officials from the food and drug administration and health bureau.

Cultivating local relationships in a new region

Interviewees said that cultivating local government relationships is challenging if their companies do not have physical investments in that area. Because those companies might not contribute to local gross domestic product growth and tax revenues, local officials are less inclined to listen to them. But companies may need local relationships for business growth because local governments may have influence that could directly affect sales performance. A local government agency may also supervise aspects of a company's potential customer base.

For example, in the healthcare sector, the local food and drug administration, development and reform commission, and health bureau have jurisdiction over drug pricing, bidding, and tendering. Their decisions affect product sales, so local GA staff assists the local company team to coordinate with the municipal and provincial health bureau, drug and food safety bureau, and development and reform commission even if there is no manufacturing in those locations.

Troubleshooting local problems

Regardless of the strength of local government relationships, companies will always have problems and unexpected challenges to solve. A failed safety inspection, an overtime violation, or an error on a customs declaration form may result in a need for local GA support. Situations that require companies to interact with local government officials do not only result from negative circumstances, however. Company growth and the need to build new or relocate existing facilities, launch new products, or provide new services can result in significant bottlenecks and bureaucratic headaches that require sustained company involvement with local government agencies.

Interviewees noted several best practices when troubleshooting:

- GA staff should collect as much fact-based information as possible from relevant company departments and external parties before acting.
- GA staff should investigate the causes of the problem, including whether it may be an internal government dispute that is not rooted in a company issue.
- Companies should analyze relevant policies, including interpretations from relevant authorities at the municipal, provincial, and central government levels.
- GA staff should consult internally about whether their investments in other locations have encountered similar issues and how they may have been handled.
- Companies should show sincerity and patience when communicating with local officials, demonstrating a willingness to be flexible to resolve the matter.
- Even in situations where a company believes that the problem has resulted from local government actions, the company should be prepared to accept a certain amount of responsibility and to create opportunities for officials to save face and find solutions.
- Companies should weigh the pros and cons of escalating a local issue to higher level authorities, and carefully consider how and when it may be appropriate to do so.
- Firms should evaluate whether other companies are experiencing similar problems in the same geographic area and consider whether to form a coalition with those companies.

Escalating a problem to a higher level

Interviewees advise considering and answering the following questions when evaluating whether to raise a problem to a higher-level government authority:

- Have all possible solutions been exhausted at this level before approaching a higher administrative level?
- Does the company have all the relevant information to be able to understand the full picture of the issue?
- Is the judgment by the lower-level administrative agency legitimate or biased? If it is biased, does the company have proof?
- Are other companies experiencing the same issue? How have they resolved it?
- Does the company have the internal resources to support the escalation, commit upfront to dedicating the time and personnel needed to see the escalation through? In addition, does the company have a clear idea to which government level, agency, or senior official the problem should be brought? Is there any evidence that the official with authority has provided a favorable determination in the past on a similar question?
- Will the escalation negatively affect the future operation by creating tension, embarrassment, more work, or censure for the lower-level officials or agency?

Boosting operations and government relations

In China, local governments are involved in the daily lives of all companies—foreign and domestic. To manage the multiple relationships, companies employ various strategies based on their business needs and internal corporate structure. Successful companies can develop internal structures and communication systems that allow the companies to collect and use information that keeps the operations running, while simultaneously keeping in touch with relevant government stakeholders to ensure positive working relationships. 完

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Tough Talk on the Campaign Trail

US presidential candidates have a history of saying one thing about China on the campaign trail only to change their tune when they reach the Oval Office.

Marc Ross

The US-China commercial relationship has taken center stage early in the 2012 campaign season. During late February and early March, the Republican presidential candidates focused much of their political rhetoric on US-China relations, claiming China cheats on trade policy, steals technology from American companies, and keeps the value of its currency artificially low. Meanwhile, President Barack Obama announced plans to investigate and counter unfair trade practices by countries like China. Instead of highlighting the expansion of US exports to China, which again hit a record high in 2011, the focus this election season has been on getting back at China.

Quick Glance

- US presidential candidates historically have not followed through on campaign promises on China.
- Though Americans have a generally positive view of China, they also see China as a threat.
- Some experts say the United States loses credibility when presidential candidates make promises on China they cannot keep.

China on and off the campaign trail

This aggressive campaign talk has been seen before by the American electorate only to be reversed once the Oval Office is won. In 1980, then Republican presidential candidate Ronald Reagan advocated for a cooling of relations with the government in Beijing and stressed that America should do more to support the pro-democracy government of Taiwan. Four years later, Reagan visited China and held talks on important bilateral issues, and the following year PRC President Li Xiannian made the first visit to the United States by a Chinese head of state.

In 1992, Democratic presidential candidate Bill Clinton said President George H.W. Bush "coddled" the PRC government, which Clinton also called the "butchers of Beijing" on the campaign trail. Once in office Clinton was much more engaged and conciliatory with China. In 1993, PRC President Jiang Zemin met with Clinton during the Asia-Pacific Economic Cooperation (APEC) summit meeting in Seattle, the first formal meeting between leaders of the two countries since February 1989. Subsequently, Jiang made a state visit to the United States in 1997 where a joint communique was released that called for a constructive strategic partnership. In his final year in office, Clinton signed the landmark US-China trade bill that normalized trade relations between the countries and paved the way for China's entry into the World Trade Organization.

In 2000, Republican presidential candidate George W. Bush told CNN's Larry King that "the president has called the relationship with China a strategic partnership. I believe our relationship needs to be redefined as competitor." However, after the 9/11 attacks the relationship once again became a partnership. China publically supported Bush on the global war on terror and UN resolutions. PRC President Hu Jintao visited the United States in 2006, and Bush attended the opening ceremonies of the 2008 Summer Olympics in Beijing.

Americans' views on China

This year's campaign rhetoric on China is not entirely in line with Americans' views of China. Recent polling shows that Americans generally support strong US-China relations and want more cooperation between the world's two largest economies. In a survey released in February by Gallup and China Daily USA, 71 percent of Americans said a strong US-China relationship is important (see p. 8).

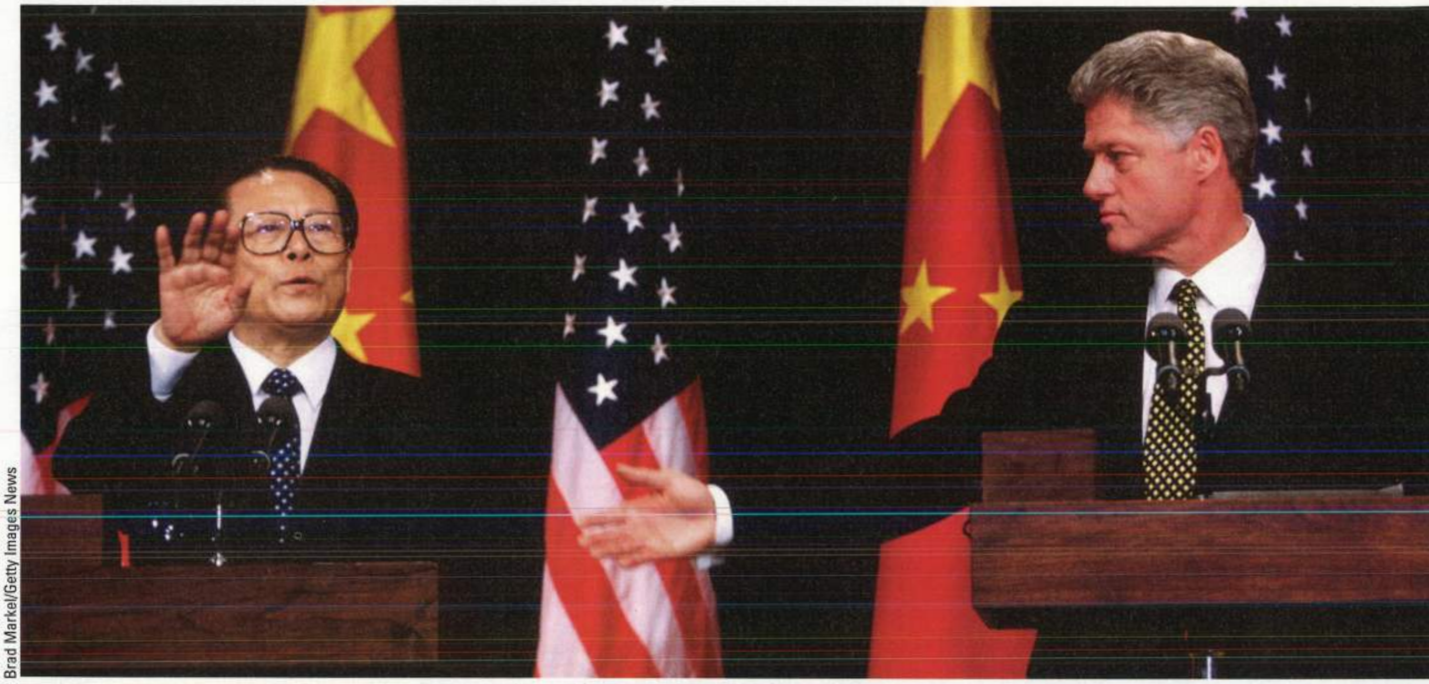
"Americans tend to have a positive view of China," says Richard Wike, associate director at the Pew Global Attitudes Project. In the spring 2011 Pew Global Attitudes survey, 51 percent of respondents expressed a favorable opinion of China. But various opinions emerge among different segments of the population. Notably, Republicans and older Americans tend to have more negative views of China.

Even though Americans have a fairly positive view of China, they also see China as a threat. In a January 2011 poll by the Pew Research Center for the People and the Press, 22 percent saw China as the country posing the greatest danger to the United States, second only to Iran at 28 percent.

"One thing that has changed since 2008 is that Americans increasingly see the balance of power shifting between the

Ronald Reagan Library/Getty Images

US President Ronald Reagan and First Lady Nancy Reagan stand among the terra cotta warriors in Xi'an, Shaanxi in April 1984. As a presidential candidate, Reagan advocated for cooling relations with Beijing, but later traveled to China for bilateral talks and hosted the first visit to the United States by a Chinese head of state.



Brad Markel/Getty Images News

US President Bill Clinton and PRC President Zhang Zemin speak at an October 1997 meeting in Washington, DC.

US and China," Wike says. "In 2008, 46 percent of Americans said the US was the world's leading economic power. Only 26 percent named China. By 2011, 43 percent said China was the world's economic leader, while just 38 percent named the US."

Pew's research also shows that Americans increasingly believe China will supplant the United States as the dominant global superpower. In 2008, 54 percent said China would never replace the United States as the world's leading superpower, while 36 percent thought it either already had or would eventually. By 2011, opinions were almost evenly split: 45 percent said China will never replace the United States, and 46 percent said it already has or will take America's place as the leading superpower.

harmed economically by China," he says. "They're not necessarily right, but that is often the first thought."

Another contributing issue is the growing federal deficit, says Adam Probolsky, chairman and CEO of Probolsky Research LLC, a firm specializing in opinion research for corporate and government agencies. He sees China's role in US federal government spending as influencing American voters. "The American people are angry about out-of-control spending in Washington," Probolosky says. "There is recognition that the Chinese, through their purchasing of our Treasury bonds, are complicit in this spending spree."

He sees several factors that are changing the American electorate's view on China: the loss of US jobs to China, the amount of US debt China owns, China's expanding

American voters should be cautious when candidates make specific commitments on what they intend to do with China.

"Clearly, American attitudes toward China are shaped in part by the anxieties Americans feel about their own country, its place in the world, and the economic challenges the US has faced over the last few years," Wike says.

For some Americans, feelings and attitudes about China may be personal, says Derek Scissors, Asia economist at the Heritage Foundation, a conservative think tank. "There are many people who believe they have been or could be

military, and the PRC government's relationship with North Korea.

In the short term, Scissors believes American voters are responding to congressional action and campaign events. "In 2008, the economic crisis was clearly our fault," he says. "Now a number of [federal] incumbents don't want to take responsibility for their failed attempts to address the crisis. They're using China as a scapegoat."

Jason Roe, partner at Revolvis Consulting, a political consulting firm that advises Republican candidates, thinks American voters are fed up with China. "Americans want to see candidates who are willing to stand up to China," Roe says. "I would say the view is that American policymakers are timid in confronting China, and it is a frustration to the electorate." But like Scissors, Roe sees opportunities for engagement with China. "People want to see engagement [with China] for more understanding of the culture and system and identify opportunities to export American goods."

Robert Haus, an experienced Iowa Republican campaigner and vice president of public relations at Des Moines, Iowa-based Policy Works LLC, a consulting firm specializing in corporate communications and issue campaigns, says the two main factors shaping the American electorate's views on China are the current presidential election and the current budget crises. "As America's budget problems continue, we are being told the only people 'bailing us out' are the Chinese, and that is causing concern among investors and entrepreneurs."

During the Iowa caucuses in January and PRC Vice President Xi Jinping's visit to Iowa in February, Haus says, "Basically, only the anti-China messages have gotten through, there's been no counterbalancing argument." He says that Xi's visit was important for the state of Iowa because Xi was able to "put a human and friendly face on the Chinese government, and reinforced just how much brings us together, and that we share."

Brookings Institution Scholar Jeff Bader, who recently served in the Obama administration as senior director for East Asian affairs on the National Security Council, agrees that the United States and China share common interests. In remarks given at a recent Brookings event, Bader told the audience that the United States needs to seek a more stable relationship with China based on more engagement and expanded American trade and exports to the country.

Remarking on the current campaign rhetoric, Bader said it was "important to not make the same mistakes of recent presidential campaigns, which got us off to a bad start." He stressed that American voters should be cautious when candidates make specific commitments on what they intend to do with China. Bader said that winning candidates have damaged their credibility when they "walk back from those commitments" on China. He said the United States loses credibility with the PRC government when a candidate says one thing on the campaign trail but does another in the Oval Office.

Regardless of who wins the presidency this fall, it may be difficult for Obama or any of the Republican presidential candidates to walk away from their positions on China. American voters are confronting a China that is a new global player with the scale, wherewithal, and polices in place to truly compete with America's long-held top economic spot. This is a relatively unknown place for the American electorate, and the presidential candidates have taken this opportunity to offer simple but short-sighted economic fixes.

"Candidates need to be careful in just talking about China's currency manipulation as the solution to America's economic challenges without advancing plans to reform our own policies that will help improve our competitive advantage with China," says David Mercer, a former senior Democratic National Committee staffer and current president at the public affairs consulting firm Mercer & Associates. American voters would be better served in the long-run if candidates avoided easy political fixes and empty campaign rhetoric that damages US credibility. 完

Marc Ross (mross@uschina.org) is the communications director at the US-China Business Council in Washington, DC.

Event Wrap Up

BEIJING AND SHANGHAI

March

Now What? US-China Trade Politics after Xi's Visit

US-China Business Council (USCBC) President John Frisbie traveled to China to meet with PRC government officials about key issues in the US-China commercial relationship. He spoke to USCBC member company representatives in Beijing and Shanghai about the outcomes of Vice President Xi Jinping's visit to the United States, the Obama administration's China policy, and how to advance member company concerns in the lead-up to the May Strategic & Economic Dialogue.

ONLINE

February

Webinar on Best Practices for Establishing Your Web Presence in China

Jeff Kim, COO for the United States and Europe, Middle East, and Africa at CDNetworks, and Zaheer Nooruddin, digital chief marketing officer at Burson-Marsteller Asia Pacific, presented best practices for establishing a company's web presence in China. Topics included dealing with China's firewall and complex social media environment.

SHANGHAI

January

Luncheon on Shanghai's Goals of Becoming a Financial and Trading Hub

Susan Ju, a partner at PricewaterhouseCoopers, and Timothy Huang, COO of Bank of America-Merrill Lynch, discussed developments in customs, renminbi liberalization, cross-border settlements, and local financing options for companies that use Shanghai as a platform for international transactions.

February

Luncheon on Opportunities in Shanghai's Strategic Emerging Industries

USCBC hosted a luncheon program with officials from the Shanghai Economic and Information Technology Commission (SEITC). Ma Jing, the chief engineer of SEITC, explained Shanghai's 12th Five-Year Plan on Strategic Emerging Industries. Zhang Ying, division chief of the Technological Improvement division, and Han Dadong, deputy division chief of the Foreign Economy division within SEITC, answered questions on how to receive government financial support.

Upcoming Events

WASHINGTON, DC

39th Annual Membership Meeting
June 5

Welcome Reception for Incoming Board Chair and Directors
June 6

Gala 2012
December 5

For more information on USCBC or its events, visit www.uschina.org.

WASHINGTON, DC

January

Forecast 2012
See p. 52.

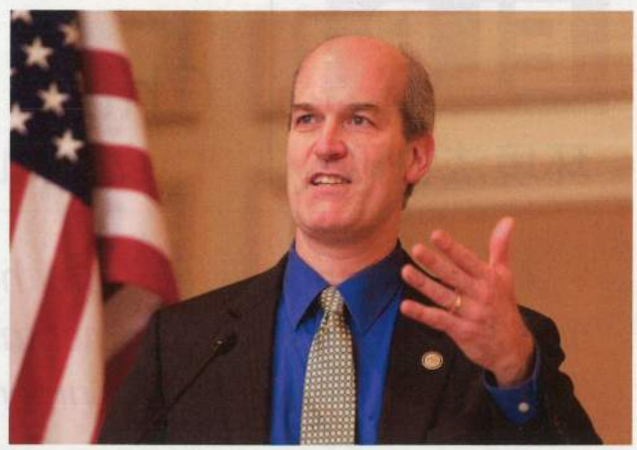
February

Luncheon Honoring Vice President Xi Jinping
See p. 53.

Forecast 2012

The US-China Business Council (USCBC) brought together experts to discuss economic and political trends in China at its Forecast 2012 conference on January 18 in Washington, DC. At the conference, Rep. Rick Larsen (D-WA), founder of the US-China Working Group in the House of Representatives, outlined the Obama administration's new "Asia pivot" strategy. Nicholas Lardy of the Peterson Institute for International Economics detailed the prospects for China's economy in 2012, including growth risks from a surge of investment in China's real estate market. Douglas Paal of the Carnegie Endowment for International Peace described the issues surrounding Chinese domestic politics, highlighting the leadership transition later this year and early 2013. Bob Poole, vice president for China operations at USCBC, elaborated on members' concerns related to doing business in China, including talent shortages, PRC government policies, and market access restrictions. Richard Wike of the Pew Global Attitudes Project and Chris Cillizza of the *Washington Post* discussed Americans' views of China ahead of the upcoming US elections.

Participants at USCBC's Forecast 2012 conference in Washington, DC.



Rep. Rick Larsen (D-WA), founder of the US-China Working Group, speaks at USCBC's Forecast 2012 conference.

Event Wrap Up

March

Debriefing on PRC Vice President Xi Jinping's Trip to the United States

USCBC, the US Chamber of Commerce, and the Coalition of Service Industries co-hosted a briefing with Jeff Prescott from the Office of the Vice President, and Evan Medeiros and Rory MacFarquhar from the National Security Council. Prescott, Medeiros, and MacFarquhar discussed Xi's recent trip to the United States, including the outcomes and next steps on policy matters.

Roundtable Briefing on JCCT IPR Working Group

USCBC and the Global IP Center at the US Chamber of Commerce held an interagency briefing on the upcoming meeting of the Joint Commission on Commerce and Trade (JCCT) Intellectual Property Rights Working Group in Beijing. This briefing featured officials from the Office of the US Trade Representative and the US Patent and Trademark Office.

Luncheon Honoring PRC Vice President Xi Jinping

The US-China Business Council (USCBC) and the National Committee on US-China Relations co-hosted a luncheon on February 15 to honor PRC Vice President Xi Jinping. Vice President Xi addressed nearly 600 corporate and policy leaders and 200 members of the press at the luncheon in Washington, DC.

Muhtar Kent, chairman and CEO of the Coca-Cola Co. and USCBC chair, former Secretary of State Henry Kissinger, and Commerce Secretary John Bryson, commented on the past and current state of US-China trade relations in their introductory remarks. Bryson noted that US exports to China have increased by almost 50 percent over the last two years.

In his speech, Xi urged the United States and China to increase trust and understanding and cooperate on global issues that affect both countries. Xi addressed challenges in US-China policy, but stated that despite ups and downs, the US-China relationship has continued moving forward. Xi shared a personal story about an American in Fujian province when Xi was an official there. A PRC foreign ministry official said that this reflected Xi's desire to incorporate a personal connection into his visit.

USCBC Chair and Coca-Cola Co. Chairman and CEO Muhtar Kent proposes a toast in honor of PRC Vice President Xi Jinping at the luncheon.

USCBC President John Frisbie greets PRC Vice President Xi Jinping at the luncheon.

National Committee on US-China Relations (NCUSCR) President Stephen Orlins, PRC Vice President Xi Jinping, US Secretary of Commerce John Bryson, Kent, and NCUSCR Chair Carla Hills at the luncheon.

PRC Vice President Xi Jinping speaks at the luncheon.

CEO Roundtable with Vice Presidents Xi Jinping and Joe Biden

The US-China Business Council, the US Chamber of Commerce, and the China Council for the Promotion of International Trade co-hosted a CEO roundtable February 14 in Washington, DC.

The roundtable was the second dialogue between the vice presidents and business leaders from both countries, following a similar dialogue in Beijing in August 2011. Vice Presidents Xi Jinping and Joe Biden addressed their commitment to commercial progress in US-China relations. Xi said that the US-China economic relationship is the "ballast and propeller" for the bilateral relationship. Biden commented that "a rising China is a positive development," and that the relationship between both countries will "fuel economic growth and prosperity."

While the dialogue reflected shared attitudes about growing investment and trade in both countries, American CEOs at the roundtable reiterated the importance of addressing commercial issues such as foreign investment, intellectual property, visa policies, as well as the need to follow global best practices in areas such as innovation policies.

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PRC Vice President Xi Jinping and US Vice President Joe Biden at the US-China Business Roundtable in Washington, DC.

China's Melting Pot

Joseph Luk

Students tour a recycling station in Shanghai on the China Energy Trip.

Last August, I joined an educational tour, the China Energy Trip, led by students from Jiaotong University in Xi'an, Shaanxi. The trip started in Shanghai, took us through Henan province, and ended in Xi'an. The group was a collection of roughly 20 students and recent graduates from around the world—Belgium, Norway, France, Germany, Austria, Chile, Spain, Saudi Arabia, and the United States—drawn to the trip by the technical nature of the sites we visited. We toured steel plants, recycling stations, auto factories, and wind museums to learn about China's energy sector. We also experienced the region's culture by visiting a Shaolin monastery in Henan and tasting Chinese-Muslim food in Xi'an.

Members of the group held varying views on how to shape China's energy future, and each participant's motivation for joining the trip mirrored their countries' business relationship with China. A Chilean student said he came to learn about China because its economy is driving Chile's boom in copper exports. Participants from Norway and Belgium were interested in learning how to raise living standards, but were simultaneously baffled by China's challenges in governing a vast population with diverse geography. The French and German students were armed with a body of technical knowledge they thought could be applied to China's energy market. For example, my roommate showed me an innovative French wind turbine designed for single households. The Germans were fascinated by engineering and the impressive growth of China's solar industry. And the American students demonstrated their mixed love and fear of China by acknowledging China's technological advances, while also critiquing its intense resource use and environmental degradation.

As we toured more factories over the next few days, I saw evidence of China as a "melting pot" of ideas and people. I learned that the Baosteel Group Corp.—China's state-owned steel company—has a manufacturing plant in Shanghai that co-opted Japanese technology to make its steel. Shanghai Volkswagen Automotive Co., Ltd., a joint venture of the Shanghai Automotive Industry Corp. and Volkswagen Group, showcased German machinery that manufactured cars for the China market. As we toured a foreign-owned waste reprocessing plant, I discovered that the plant owner was Malaysian of Chinese descent. Though the plant was running at a loss, the owner felt it was his duty to contribute positively to his heritage by treating and recycling Shanghai's waste in an eco-friendly manner. The trip allowed me to witness how so many nations had a stake in and have influenced China's development. The takeaway was clear: China could not have risen to its position today without its friends from abroad.

Because I grew up in Hong Kong, my bias was to expect a showcase of China's domestic achievements, its self-sufficiency, and "rising up." The trip, however, erased those preconceptions and taught me that there are other players shaping China's future. Without foreign investment and new ideas, China's economy might not be as dynamic as it is today, and its technological progress would likely not be as rapid.

A company's products are now assembled from components made from all over the world. Supply chains have become so fluid and intertwined that few products are now made in just one country. I learned on this trip that while we often think that products are "made in China," it turns out that things made in China could not be what they are without input and technologies from around the world. China may be the workshop of the world, but now I feel equally compelled to view it as the workshop "by" the world. 完

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