The China Business Review

January–March 2012

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Chinese travelers reshape the global travel industry

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January–March 2012 Volume 39 Number 1

The China Business Review

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Travel within China accounts for most Chinese travel and travel-spending.

Focus: Travel & Tourism

Special Report: Human Resources

Features

Departments

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The *China Business Review* (ISSN 0163-7169) is published quarterly by the US-China Business Council, 1818 N Street NW, Suite 200, Washington, DC 20036-2470, USA (Tel: 202-429-0340), a nonprofit organization incorporated under the laws of the District of Columbia. Periodicals postage paid at Washington, DC, and additional mailing offices. Postmaster, please send address changes to the *China Business Review*, 1818 N Street NW, Suite 200, Washington, DC 20036-2470, USA.

Annual subscription rates: $89 US/Canada and $99 international, print and online; $79 online only. Single copy issues: $23, $36 airmail; issues over 1 yr: $15, $20 airmail. DC residents add 5.75% sales tax. Subscriptions to the *CBR* are not deductible as charitable contributions for federal income tax purposes.

The China Business Review

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Short Takes

Solar Power

The China Solar Thermal Industry Association predicts that the country's output of solar thermal products will continue to increase, according to Xinhua News Agency. The association estimates that solar thermal product output increased by 17.6 percent year on year by the end of 2011. Sales of solar thermal equipment also rose by 28.2 percent in 2011 to reach ¥94.2 billion ($14.6 billion). The solar thermal industry is expected to contribute 10 percent of China's renewable energy sources over the next five years.

A surplus of solar panels is leading to a rapid decrease in the price of the devices, according to a Bloomberg News report. The industry is also likely to undergo consolidation in the next few years. Li Junfeng, the deputy director general of the Energy Research Institute at the PRC National Development and Reform Commission, stated that in five years China will have no more than 15 large solar panel manufacturers, down from 330 panel makers in 2008.

Separately, the United States and China have accused each other of unfair trade practices in the solar panel industry. US solar companies filed antisubsidy and antidumping complaints with the Department of Commerce and US International Trade Commission that allege that Chinese manufacturers sold solar panels in the US market below cost. According to *China Daily*, Chinese solar companies may consider moving their manufacturing facilities to different countries to avoid tariffs enacted against Chinese solar products imported to the United States.

Health Insurance

Vice-Premier Li Keqiang in November called for promoting commercial health insurance programs to advance China's healthcare reform efforts. The government spent roughly ¥2 trillion ($315 billion) on healthcare-related expenditures in 2010—about ¥1,400 ($220) per person. According to Vice Minister of Health Huang Jiefu, however, the government is only able to cover a small portion of citizens' medical bills. The government will promote private health insurance—which currently pays for only two percent of China's healthcare costs—to decrease the state's financial burden in paying for increasing medical bills.

According to a Brown University study released in December 2011, healthcare coverage increased significantly in China between 1997 and 2006. This period coincided with government initiatives to increase access to healthcare, especially in rural areas. From 1997 to 2004, the percentage of Chinese people covered by health insurance increased from 24 percent to 28 percent and rose to 49 percent in 2006. During this period, levels of health insurance coverage in rural areas increased to levels similar to urban areas.

Luxury Goods

Men are the primary consumers of luxury goods among wealthy Chinese consumers, according to a recent Bain and Company report. In 2010, Chinese men spent ¥7 billion ($1.1 billion) on clothes, compared to the ¥2.8 billion spent by women. The Chinese luxury menswear market is predicted to expand by nine percent in 2011, compared to seven percent in the women's luxury apparel market. Chinese men also purchase luxury handbags, fragrances, and grooming products. For example, L'Oreal SA says that it now sells more male grooming products in China than in Western Europe.

Wine has also become a hot luxury item for wealthy consumers in China. Though wine comprises only three percent of China's alcohol consumption, the newly rich have transformed China into the seventh largest wine market in the world, according to the *Wall Street Journal*. Even former NBA basketball star Yao Ming is cashing in on this trend by launching the Yao Family Wines. The company's first wines will likely sell for $300 per bottle.

Telecom

Responding to a government-initiated antimonopoly investigation, China Telecom and China Unicom announced in December that they will significantly increase broadband access speeds and decrease prices over the next five years. China Telecom said it will lower broadband access prices by about 35 percent. Both companies have also sent applications to the PRC National Development and Reform Commission (NDRC) to end the investigations. The NDRC in November initiated antimonopoly investigations into the two telecom companies. According to an NDRC official, the two companies comprise 90 percent of China's broadband business. Li Qing, deputy head of the NDRC's antimonopoly and price supervision department, stated that China Telecom and China Unicom used their monopoly to increase broadband access costs, decrease Internet speeds, and practice price discrimination.

Chinese and American telecom companies are working together to provide better service to their customers. AT&T Inc. and China Telecom signed an agreement in November to expand their partnership to include more communication services for customers in China and the United States. According to Bloomberg News, AT&T will offer virtual private networks and other services in China, while China Telecom will gain access to AT&T's US data networks. This will allow China Telecom to provide better data services to Chinese multinational companies operating in the United States. AT&T and China Telecom say they are also considering supporting each other's telecom efforts in other regions.

According to Reuters, China Mobile plans to complete the second phase of its fourth-generation (4G) network trials by June 2012. The second phase will include building 10,000–20,000 4G transmission base stations. The company has launched trial 4G networks in Shanghai; Hangzhou, Zhejiang; Nanjing, Jiangsu; Guangzhou and Shenzhen, Guangdong; and Xiamen, Fujian.

China Conference Calendar

China-related events near you

January–May 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.

16th Chinese New Year Shopping Festival

JANUARY 5–12

Location: Sichuan: New International Convention & Exposition Center Chengdu Century City
Organizers: Sichuan Provincial Department of Commerce; Sichuan Economic and Information Committee; Sichuan Association of Industry and Commerce; Sichuan Marketing Association; Sichuan Supplier Chamber of Commerce; Asian Expo Group Co., Ltd.
Contact: Bonnie Yang, Qiang Zhang, Lynne Luo
Tel: 86-13-008105683; 86-13-730850784
scbolan@tom.com
www.scbolan.com

2012 International Conference on Innovation and Information Management

JANUARY 8

Location: Chengdu, Sichuan: Xinhua International Hotel
Organizer: International Association of Computer Science and Information Technology (IACSIT)
Contact: IACSIT Editor, Ms. Lynn
Tel: 86-28-8652-8758
iciim@iacsit.org
www.iciim.org/index.htm

Asia Wind Power Congress 2012

JANUARY 12–13

Location: Shanghai: Guoson Centre
Organizer: Broaders
Tel: 86-21-5111-3799
info@broadersinc.com
www.broadersinc.com/apwc2012/

2012 International Conference on Mechanic & Materials Research

JANUARY 14–15

Location: Dalian, Liaoning
Organizers: Beijing Jiaotong University; Singapore Institute of Electronics; University of Malaya; Trans Tech Publications Inc.; ISI Proceedings; Scientific.Net
icmmr2012@gmail.com
www.icmmr.org

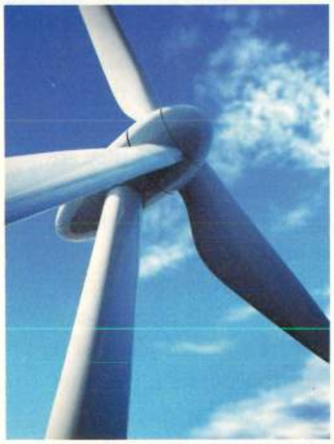
2nd Annual District Energy Asia Summit

FEBRUARY 13–14

Location: Renaissance Beijing Capital Hotel
Organizer: International Quality & Productivity Center
Tel: 65-6722-9388
enquiry@iqpc.com.sg
www.districtenergyasia.com/Event.aspx?id=598844

(Continued on p.8)

China Conference Calendar



Asia Wind Power Congress 2012, January 12–13

China International LED Application Forum 2012

FEBRUARY 19–21

Location: Guangzhou, Guangdong
Organizer: UBM Trust
Tel: 86-21-6157-3930
conferencechina@ubm.com
www.ledchina-forum.com/index.asp

Cell Line Development & Engineering Asia

FEBRUARY 21–23

Location: Grand Hyatt Shanghai
Organizer: IBC Asia (S) Pte. Ltd.
Contact: Rita Parasurum
Tel: 65-6508-2401
rita.parasurum@ibcasia.com.sg
www.celllineasia.com

3rd Annual Clinical Trial Supply China 2012

FEBRUARY 28–29

Location: Renaissance Beijing Capital Hotel
Organizer: International Quality & Productivity Center
Tel: 65-6722-9388
enquiry@iqpc.com.sg
www.clinicaltrialssupply.com

China (Beijing) International Lighting Exhibition & Lighting Technology and Applications Exhibition

FEBRUARY 29–MARCH 2

Location: Beijing: China International Exhibition Center
Organizers: China Illuminating Engineering Society; Adsale Exhibition Services Ltd.
Tel: 852-2516-3386/3381; 86-10-5129-3366 ext 817/810
visitor@bj.adsale.com.hk
www.chinalightingexpo.com

Offshore Wind Power Development Asia 2012

MARCH 6–7

Location: Renaissance Shanghai Pudong Hotel
Organizer: International Quality & Productivity Center
Tel: 65-6722-9388

Automotive Lightweight Materials 2012

MARCH 6–7

Location: Renaissance Shanghai Pudong Hotel
Organizer: International Quality & Productivity Center
Tel: 65-6722-9388
enquiry@iqpc.com.sg
www.automotivelightweight.com

China Crop Protection Summit 2012

MARCH 8–9

Location: Shanghai: Ramada Plaza Gateway
Organizer: CCM International Ltd.
Contact: Coco Yang
Tel: 86-20-3761-6606
econtact@cnchemicals.com
www.cnchemicals.com/Event/EventDetail_26.html

International Conference on Modern Hydraulic Engineering

MARCH 9–11

Location: TBD
Organizers: China Association of Hydraulic Engineering Education; Hohai University
Contact: Dong Wenjun
Tel: 86-13-911152292
cmhe2012@126.com
www.cmhe-conference.org

The 4th Guangzhou International Wood-Plastic Composites Fair

MARCH 9–11

Location: Guangzhou, Guangdong: Canton Fair Pazhou Complex
Organizer: Guangzhou Grandeur Exhibition Services Co., Ltd
Contact: Gillian Zhou
Tel: 86-20-2896-6567
marketing6@grandeurhk.com
www.musuz.com/index_e.asp

Online Information Asia-Pacific Exhibition & Conference

MARCH 20–21

Location: Hong Kong Convention & Exhibition Center
Organizer: Incisive Media
Contact: Christina Hung
Tel: 852-3411-4888
oiap@incisivemedia.com
www.online-information.asia

The 3rd China International Health Products Expo

MARCH 22–24

Location: Shanghai International Exhibition Center
Organizers: China Chamber of Commerce for Import & Export of Medicines & Health Products; Trade Development Bureau of Ministry of Commerce of China
Contacts: Li Heng and Yan Zhongdi
Tel: 86-10-5803-6240; 86-10-5803-6318
liheng@cccmhpie.org.cn
en.healthplex.com.cn

China International Import Expo

MARCH 29–31

Location: Jiangsu: Kunshan Convention & Exhibition Centre
Organizers: Secretariat of the China Chamber of International Commerce; Commerce Department of Jiangsu Province; China Council for the Promotion of International Trade, Jiangsu sub-council; People's Government of Suzhou; People's Government of Kunshan
Contact: Ms. Yulu
Tel: 86-0-13914712182
yulu@importexpo.org
www.importexpo.org

NYIT-Nanjing International Film Festival and Symposium

APRIL 21

Location: Nanjing, Jiangsu
Organizer: The New York Institute of Technology Center for Humanities and Culture at Nanjing University of Posts and Telecommunications
Contact: Marshall D. Willman, Ph.D.
mwillman@nyit.edu
iris.nyit.edu/~mwillman/index_files/Page759.htm

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

Government Provides Clues into China's Foreign Investment Plans for Strategic Industries

Kyle Sullivan

PRC leaders recently shed light on how China intends to incorporate foreign investment into its goals for developing strategic emerging industries. A mix of seven high-tech sectors, the strategic emerging industries (SEIs) will account for roughly eight percent of China's total gross domestic product by 2015 and 15 percent by 2020, according to government targets.

Until recently, PRC regulators had been largely silent about the role foreign investment would play in the strategic emerging industries, prompting questions about how willing the government would be to permit foreign participation in China's next round of industrial development. Though the latest opinions do not address key issues such as the types of ownership structures foreign companies will be permitted to establish, existing policy documents—namely the Catalogue Guiding Foreign Investment in Industry—already restrict foreign ownership in new-energy vehicle, renewable energy, and other industry sectors that fall within the SEIs.

Released by the PRC National Development and Reform Commission (NDRC), the Ministry of Commerce (MOFCOM), and eight other government ministries and offices, the Guiding Opinions on Promoting the International Development of the Strategic Emerging Industries provide a broad framework for policymakers to formulate specific policies that aim to advance the development of SEIs. The opinions primarily discuss China's goal to turn its domestic companies into global competitors, using tools such as partnerships between foreign and domestic entities for research and development (R&D) and imports of essential products. Indeed, many of the themes discussed in the opinions—such as advocating joint cooperation between domestic and foreign companies and importing key equipment that China lacks—are not new and are mentioned in other policy documents.

Foreign investment in emerging industries

The opinions selectively promote foreign investment in three sectors: information technology, advanced equipment manufacturing, and new materials.

Information technology
The opinions encourage foreign investors to establish 3G R&D centers and high-performance integrated circuit enterprises.

Advanced equipment manufacturing
Companies are encouraged to develop platforms for joint investment and cooperation between domestic and foreign companies. Domestic and foreign companies are also encouraged to cooperate in developing seaborne engineering construction equipment.

New materials
The opinions also encourage foreign producers of value-added new materials products to establish and invest in factories.

The opinions do not offer guidance on how foreign investment will be utilized in the remaining four industries—biology, environmental protection and energy conservation, new energy, and new-energy vehicles.

Programs in high-tech industries

The opinions also call on regulators to update the Annual Guidelines for the Priority Programs of High-Tech Industries—a list of 137 high-tech industrial programs, products, and projects that the central government encourages for development. The products span 10 industries, including advanced energy, advanced manufacturing, biotech, modern agriculture, and new materials. NDRC, MOFCOM, the Ministry of Science and Technology, and two other PRC government agencies released the 2011 annual guidelines on October 20. Though the annual guidelines did not include policy guidance, previously released documents—such as those that direct how funds should be used for industrial upgrading—may also apply to products included in the new list. 完

Kyle Sullivan (ksullivan@uschina.org.cn) is a manager of Business Advisory Services for the US-China Business Council (USCBC) in Shanghai. This article is adapted from a report that first appeared in China Market Intelligence, *USCBC's members-only newsletter.*

Transferring China Compulsory Certification Marks

US-China Business Council staff

China Operations Q&A is a new CBR *department in which US-China Business Council (USCBC) Business Advisory Services staff answer companies' China-operations questions. For more information on USCBC's services or becoming a USCBC member, see www.uschina.org/benefits.html.*

Q: Our products have a China Compulsory Certification (CCC) mark in China, but we may merge with another company. Will we need to re-file to obtain new CCC marks for our products because of the merger? If so, is there an abbreviated process, or would we need to start from scratch? Also, should the transfer of a CCC mark occur before or after the merger?

A: Conformity assessment—the testing and certification of products for sale in the China market—represents an important part of China's attempts to assure the quality, safety, and efficacy of products sold in China. China launched its largest conformity assessment regime, the CCC system, in 2001. The PRC government maintains a catalogue of products that must be tested and certified to bear the CCC mark.

As to your specific question, China has an abbreviated CCC mark process for mergers so that certifications can be transferred. Companies will need to follow different processes depending on the type of merger.

For example, if the acquired company will continue to use its current name after the merger, the original CCC certification remains valid. The buying company can apply for revised CCC certificates with the amended business licenses and use the agreement between the seller and buyer to prove that the buyer owns the seller and their products. In this case, products would not need to be retested to gain certification. The cost for this kind of CCC mark certification is reported to be low and the certificates should not take long to secure.

If the acquired company is dissolved after the merger, then all the original certificates will be deemed invalid. The buying company will need to start the application process from the beginning, and product testing will likely be required. Given those factors, the cost will be higher and the process will take longer.

Another consideration is that the time required to gain CCC mark certification differs for domestic-made products and foreign-made products. It takes about three months to process a CCC mark certification on domestic-made products. By contrast, it takes about six months for foreign-made products, largely because of requirements for overseas factory inspections.

If the product is made domestically in multiple facilities (for example, plants in Beijing and Shanghai both manufacture Type XYZ widget) and one facility has already gone through product type testing, the completed and approved tests of products from one facility can be reused when the other facility gets to that part of the process. Factory inspections, of course, will need to be conducted separately.

If a company needs to recertify hundreds of products of the same type (for example, hundreds of widgets in a given product series), the acquiring company may petition the relevant designated certification body (DCB), such as the China Quality Certification Center, at the national level for a mass approval rather than product by product. This is not standard procedure, however, and is only granted on a case-by-case basis. A company's government affairs staff would likely need to contact the appropriate DCB to request this privilege.

The timing of when to start the CCC process during a merger depends on the type of merger the company will pursue. A valid business license is required for CCC mark certification. Thus, in cases where the acquired company exists but will be applying for a new business license, the company must wait to reapply for the CCC mark until after the new business license is issued. In cases where the acquired company no longer exists, the particular industry division head for the DCB will determine whether the acquiring company can begin to recertify products prior to the granting of a business license. Some industry divisions are flexible and will allow the acquiring company to begin recertification procedures (including product type testing) prior to the issuance of a business license; others may not be as flexible in this regard.

Because there are so many variables, companies should contact a representative from a DCB office that covers the necessary product scope—such as the China Quality Certification Center—to confirm how the process will work. (For information on local China Quality Certification Center offices, see www.cqc.com.cn.) In addition, the company may hire a professional third-party agent who specializes in processing these types of transfers on clients' behalf. 完

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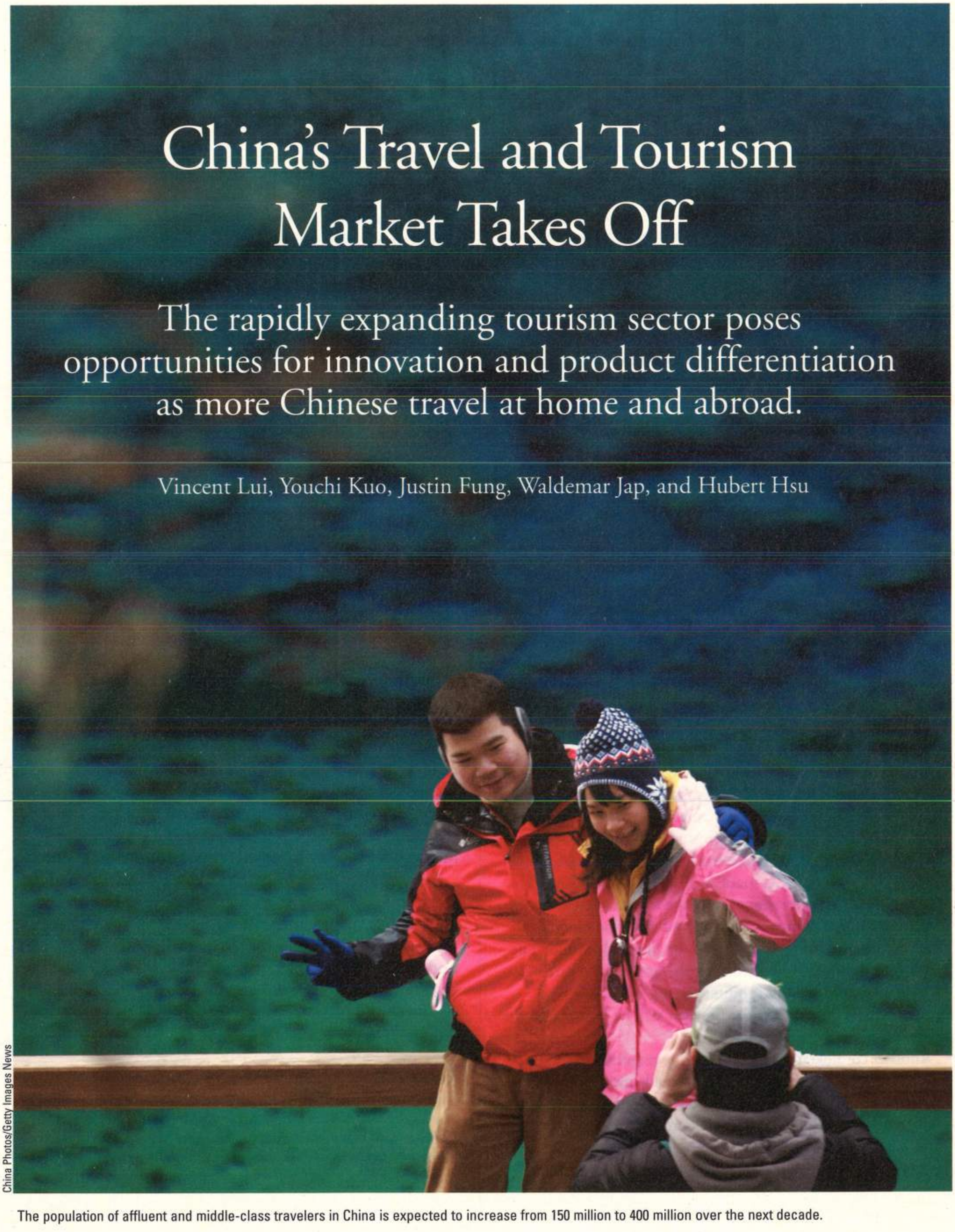
China's Travel and Tourism Market Takes Off

The rapidly expanding tourism sector poses opportunities for innovation and product differentiation as more Chinese travel at home and abroad.

Vincent Lui, Youchi Kuo, Justin Fung, Waldemar Jap, and Hubert Hsu



China Photos/Getty Images News

The population of affluent and middle-class travelers in China is expected to increase from 150 million to 400 million over the next decade.

Not long ago, most Asian tourists were from Japan, South Korea, or Hong Kong—the region's more affluent markets—but that trend is rapidly changing. The World Tourism and Trade Council estimates that China in 2011 surpassed Japan to become the second-largest travel and tourism market in the world in terms of contribution to gross domestic product. Travel within China, which currently accounts for most Chinese travel and travel spending, is projected to increase by 16 percent per year and to be worth ¥3.9 trillion ($615 billion) by 2020. Meanwhile, the country's outbound travel market will likely expand to triple the size of Japan's by 2020.

Yet China's travel industry is still in its infancy. It is also a highly regulated sector and a challenging one for foreign players. Intense competition with little innovation or differentiation is typically found in China's travel agencies, hotels, and airlines. Few domestic or foreign companies understand the needs of Chinese travelers, 95 percent of whom claim they are poorly served on both the domestic and international fronts.

In a recent survey, the Boston Consulting Group (BCG) found that the rapidly rising demand for travel in China, together with the lack of offerings for Chinese tourists within China and abroad, present a rare opportunity for travel-related companies to gain a first-mover advantage. This advantage can be enormously valuable in a market where consumers are desperate for brands that meet their needs. Travel providers who are equipped with insight into targeted segments could develop differentiated products for affluent travelers as well as for the burgeoning segment of middle-class tourists emerging throughout China.

Quick Glance

- China's rapidly expanding travel and tourism market offers companies unprecedented opportunities for growth.
- Chinese tourists tend to travel in groups, take longer trips, and spend more on shopping than tourists from the United States and Europe.
- Companies should tailor their services to meet the needs of both affluent and middle-class travelers.

Demand for travel services

In another BCG survey of more than 4,000 consumers in seven countries, only about one-quarter of US and European respondents said that they planned to trade up—to increase spending in a particular category or service—on vacations, whereas more than one-third of Chinese intended to do so. Indeed, vacations were the highest-rated category for trading up among Chinese respondents, compared to other categories such as food and beverages and personal care.

Travel and lodging companies should prepare for a big change in China. BCG expects the market value of leisure trips to more than quadruple by 2020 and the demand for domestic accommodations—for business and leisure travelers—to double. Business travel accounts for fewer trips, but spending per trip is higher. BCG estimates that business travel within China will remain stable at about 10 percent annual growth over the next decade. The overnight leisure market will likely surpass that of the business segment, accounting for nearly half the market for domestic travel by 2020.

Compared with the already significant domestic travel market, the Chinese market for international travel is still young. According to BCG, Chinese international travel will likely increase by 17 percent per year between 2010 and 2020, driven by rising incomes and aspirations. Slightly more than two-thirds of all international travel today is to Hong Kong or Macao, but Chinese tourists are increasingly venturing to other parts of Asia and even to "long haul" destinations such as Europe, Australia, and New Zealand that require more than six hours of flying time.

Chinese international travel will become a major source of growth for travel providers in destination countries. BCG's findings show that by 2020, 25 percent of international travelers arriving in Japan and South Korea will come from China, while arrivals in Europe from China will quadruple. China will become one of the largest sources of growth for Europe's travel market, accounting for more than half of the increase in international arrivals between 2010 and 2020 from countries outside the EU region. In North America, travelers from China will rank third in number, after travelers from the United Kingdom and Japan.

The Chinese traveler

Chinese travelers differ from their Western counterparts in ways that are significant for the companies that serve them. For instance, demand for travel in China comes mostly from active younger people eager to visit new places, whereas demand in the West is driven by senior citizens, who tend to have more time and money for travel.

First-time travelers

According to BCG, fewer than 200 million urban Chinese consumers today have taken an overnight leisure trip. With an average of 25 million Chinese taking their first overnight leisure trip every year, however, that number will at least double by 2020. Middle-class and affluent consumers are spearheading this explosion in travel. Over the next decade, this population will increase from 150 million to more than 400 million travelers, and two-thirds of these people will come from smaller cities, where disposable incomes are projected to rise rapidly. By 2020, there will be more than 650 urban areas in China (cities and the urban portions of counties) where real disposable income per capita is greater than Shanghai's today.

Longer trips and larger groups

Whether traveling domestically or overseas, Chinese travelers are more likely to take longer trips than Westerners and tend to travel with large groups of friends. BCG's surveys show that about twice as many Chinese as US domestic leisure travelers take trips longer than six days in duration. In addition, 26 percent of Chinese travel with more than five people, whereas only 13 percent of US travelers do so. Of the Chinese who travel in groups, nearly half said that they travel with friends rather than family members. Only 12 percent of US group travelers made that claim.

The Chinese propensity for longer trips may partly be a result of holidays that occur consecutively. But because the PRC government in 2008 shortened the one-week Labor Day holiday to one day and added three traditional Chinese holidays to other months, the holiday schedule may become less of a factor. The preference for traveling in large groups reflects the age of the market—most Chinese travelers are under 40—as young people prefer to travel with friends, and even with parents and children.

Short planning cycle

Many Chinese also take less time to plan a trip. Thirty-nine percent of US travelers said they started planning more than three months ahead for their last domestic leisure trip of five or more days. Only four percent of Chinese travelers begin that early. Of course, the larger the travel group, the more difficult it is to coordinate schedules months ahead of time. But the Chinese also love a good deal, and travel agents often do not announce bargains until one or two months before the departure date. Yet another factor may be force of habit. In the past, travelers from China's big cities could buy train or bus tickets no more than four days in advance; in smaller cities, travelers often had to wait until the day of the trip. Finally, it is still somewhat frowned upon in China for employees to tell their bosses six months in advance that they plan to take a vacation.

Travel planning

China already has nearly 400 million Internet users, so it is not surprising that Chinese travelers are embracing do-it-yourself travel arrangements for domestic leisure trips. Most Chinese have had little experience with leisure travel, so they seek out online travel sites for recommendations, information, and reservations. More than half of BCG's survey participants ranked online information as their most trusted source for travel planning, while only one-third favored word of mouth. This is probably because not everyone knows someone who has been to the places they want to visit.

For travel outside of China, however, people prefer to rely on travel agents, not only for the convenience of handling any visa requirements, but also because agents help bridge cultural differences and language barriers.

Transportation modes

In contrast to the United States, where most travelers either fly or drive, trains and buses remain the most popular modes of transportation within China. The dominance of bus and rail means that being located close to train and bus terminals, city centers, and tourist attractions is an important factor for tour operators and hotels.

Automobile travel is increasing in China, especially for shorter trips, but it is unlikely to become the dominant form of travel in the near future. Roadside facilities are still sparse, accident insurance protection is inadequate, and driving itself can be less than relaxing because of pollution and reckless drivers.

Travel and shopping

On international trips, most Chinese are willing to spend much more than they do on their domestic travels, even excluding transportation costs. They also allocate their spending differently than US travelers. While US travelers prefer to spend the lion's share of their travel budget on accommodations and meals, the Chinese devote nearly half of their budget to shopping. China's strong gift-buying culture stimulates some of this spending. As one consumer told BCG, "I travel overseas only once a year, so my family and friends all know when I go. If I don't buy gifts for everyone, I feel very embarrassed." Chinese tourists purchase luxury items mainly overseas and in Hong Kong and Macao, rather than in duty-free shops in Chinese airports, where there is less variety. Apparel retailer Burberry claims that one-third of the sales in its London stores are made by Chinese shoppers. In Hong Kong, the Louis Vuitton and Chanel stores also have long queues of Chinese tourists.

Valued services

Companies that offer premium services to Chinese travelers should realize that Chinese and US views on value can differ. For example, Chinese travelers rank baggage delivery between airport and hotel second among desired premium services, while US travelers do not even consider it a top-ten demanded service. This is probably because auto travel including car hire, which essentially eliminates the need for separate baggage delivery, is more common in the United States than in China. Furthermore, since Chinese travelers often travel in groups with a full schedule of activities, they appreciate not having to deal with their baggage. Chinese travelers are also more likely to prefer special treatment at airports and the sense of exclusivity conferred by access to priority lounges, security lines, and seating.

All segments are underserved

Many of these preferences, however, are often unmet by China's emerging travel and tourism industry. Many domestic companies serving tourists remain state-owned, and they are just learning how to serve consumers in a competitive environment. Foreign companies in China have focused largely on expatriate customers or on the affluent domestic segment. As a result, a huge portion of the travel market has been underserved.

Troubles on the domestic front

Middle-class domestic travelers typically care more about basic services, such as the price and cleanliness of their accommodations, than they do about value-added extras.

This is only a little less true for the affluent segment, which ranks price below a hotel's amenities and cleanliness. Such basic requirements are taken for granted by Western travelers, but Chinese travelers in the BCG survey said these needs were going unfulfilled, particularly on the domestic front. Most of the complaints about hotels in China concerned a lack of cleanliness and basic comforts.

Challenges for international travel

Chinese travelers in all segments are more willing to trade up when they travel abroad. They believe that they need a higher level of service to deal with language barriers and unfamiliar cultures, and they view international travel as a special treat—an occasion to splurge. The luxury end of the consumer retail industry has already begun to invest in serving this expanding market by hiring Mandarin speakers in their global stores and providing language lessons and exchange programs in China for local staff. Some retailers have VIP programs that require specific customers to be greeted by their first name at any of the company's locations around the world.

Though some casinos in Las Vegas or Macao have become sophisticated in serving Chinese high rollers, BCG research shows that the travel sector has not paid as much attention to affluent travelers as the retail sector. Few hotels at popular destinations for Chinese tourists in the United States and Europe provide tailored services for Chinese travelers, although some are beginning to offer Chinese language services and other amenities (see p.16). For example, most foreign airlines lack Chinese websites or signs, and restaurants overseas rarely offer menus in Chinese.

Differentiated premium services

Currently, most offerings—in foreign countries and in China—are either undifferentiated and targeted at the mass market or they lack sufficient quality to appeal to affluent travelers. For example, the affluent travelers in BCG's survey were less satisfied than those in other income segments with packaged tours offered by travel agencies. Affluent travelers frequently complained about the poor quality of the guides and the lack of diversity in the tours available. BCG survey participants noted that they could detect little difference between two European tour packages—one priced almost twice as much as the other.

Online travel planning

While many consumers in China are already planning their travel online, downloading and interpreting the complex information that appears on the Web, comparing prices, and determining reliable reviews can consume hours and even days for most Chinese. The experience of one Shanghai traveler interviewed is typical: She visited 10 travel websites when planning her most recent trip to Xiamen, Fujian, a major city just an hour's flight away. There is a rising market in China for one-stop, user-friendly travel sites that provide trusted information and services.

Few clear winners in the market

Because the travel and tourism sector in China is still relatively undeveloped, it offers some of the best opportunities in the consumer industry. Companies entering now will be able to set standards and guide consumers in their shopping behavior. So far, few if any companies are fully serving the needs of Chinese travelers. That window will not remain open forever. Therefore, it is important for players to act now. Companies that wish to tap into the China travel and tourism market should:

- Invest in consumer insight to develop different products and services for mass-market and affluent consumers, as well as for consumers with different levels of travel experience;
- Identify opportunities to develop a trusted umbrella brand that will attract the loyalty of consumers new to the travel market;
- Consider opportunities for acquisitions in new, fragmented sectors where the company may not have an established operation; and
- Design a well-timed, cost-effective, and innovative expansion into lower-tier cities to capture this rapidly growing and underserved market.

China's speedy ascension in the world's travel and tourism sector presents an unprecedented opportunity for growth at a time when most mature markets remain sluggish. Considering the colossal advantage to be gained by innovative first-movers in a market desperately seeking trusted brands, companies in China and abroad must take up the challenge of meeting the needs of Chinese travelers. 完

China's speedy ascension in the world's travel and tourism sector presents an unprecedented opportunity for growth at a time when most mature markets remain sluggish.

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Hilton Hotels & Resorts

Hilton Hotels & Resorts will open 11 new hotels in China by the end of 2012.

Hilton Welcomes Chinese Travelers at Home and Abroad

The global hotel chain aims to attract new customers with services that cater to Chinese tastes.

One of the world's largest hotel companies, Hilton Worldwide operates more than 3,700 hotels around the globe. The company's flagship brand, Hilton Hotels & Resorts, has more than 540 properties in 78 countries across six continents. In addition to Hilton Hotels & Resorts, Hilton Worldwide operates Waldorf Astoria, Conrad Hotels & Resorts, and DoubleTree by Hilton properties in China.

With China's tourism market—for domestic and international travel—expected to grow to triple the size of Japan's by 2020, hotel companies such as Hilton are tailoring their services to Chinese travelers. This year, Hilton launched the Hilton Huanying ("Welcome") program to address the unique needs of Chinese travelers abroad. The program operates in 61 of Hilton Worldwide's properties, 48 of which are in the Hilton Hotels & Resorts portfolio.

***Dave Horton**, global head of Hilton Hotels & Resorts, recently discussed China's hotel and travel market with* CBR *Editor **Christina Nelson**. Horton oversees all aspects of Hilton Hotels & Resorts, including product development, marketing, guest experience, and global development strategies.*

When and where did Hilton enter China? How many hotels does Hilton have in China and in which cities?

Hilton Worldwide first entered China in 1988 with the opening of Hilton Shanghai. Today, Hilton Worldwide has 27 hotels operating in China and 85 hotels in its pipeline. The company plans to have 100 properties in China within five years. Our brand, Hilton Hotels & Resorts, has 15 properties open today in China in Beijing; Chongqing; Dalian, Liaoning; Guangzhou, Guangdong; Hefei, Anhui; Nanjing, Jiangsu; Qiandao Lake, Zhejiang; Sanya, Hainan; Shanghai; and Xi'an, Shaanxi.

How would you characterize Hilton Hotels & Resorts properties in China? For example, are they business or luxury hotels?

The Hilton Hotels & Resorts portfolio in China contains a mix of hotels and resorts catering to business and leisure travelers alike. For example, Hilton Shanghai, our first hotel in China, is located in the heart of Shanghai's business district and caters to business travelers by offering 18 meeting rooms, a premium executive lounge, and incredible restaurants. Though a hotel may cater heavily to business travelers, our hotels in the region also offer much of what local leisure travelers and tourists from around the world look for when choosing a hotel. Hilton Guangzhou Tianhe, one of two hotels we opened in Guangzhou this August, has everything a business traveler would need, but is also opening our first "eforea: spa at Hilton" in China in January 2012. Through our spa offerings, restaurants, bars, event space, and amenities, we help travelers find the right balance between business and leisure.

Our resort properties in China cater more to the leisure traveler, but they also offer outstanding business amenities. Earlier this year we opened Hilton Hangzhou Qiandao Lake Resort, which is set on the shore of Zhejiang's breathtaking Qiandao Lake. In addition to the signature amenities at other hotels in China, this resort offers extensive leisure amenities such as four pools, a beach volleyball court, and several restaurants. Many of the guest rooms have a balcony to showcase the lake or mountain views. The resort is located in a popular destination for weekend leisure travelers, but it also has several function rooms and a grand ballroom for meetings and events.

What is the brand's ownership structure in China?

All of our hotels in China are managed by Hilton Worldwide. Our hotels in China are wholly owned by investors other than Hilton, the majority of which are China-based.

What are the top challenges Hilton has faced while opening and operating hotels in China? What has the company done to overcome these challenges?

Today, a key challenge for our brand is the rapid pace of expansion. The rapid expansion means we must hire and train more employees and ensure standards throughout more hotels. We focus on our culture and training programs so that our team members, many of whom may be new to our brand and even our industry, can deliver the hospitality guests expect from us. We ensure that our brand standards are solidly in place at every hotel so that we deliver a consistent experience. These standard brand elements refer to the overall experience for our guests, including the check-in process, overall design, in-room amenities, culinary offerings and service, among other items. These elements are important because many local customers may be staying with us for the first time and this can be an opportunity to educate travelers in China about what we stand for.

What changes did Hilton make to adapt its hotels to the China market? How has the brand's China strategy changed over time?

We believe in providing a consistent set of standards around the world and experiences that are locally relevant. Guest room design, services, and amenities in China follow our brand standards. At the same time, embracing local culture has helped our properties in China evolve over time.

For example, we have focused great energy and passion on food and beverage at our China and Asia properties. Our customers in China expect great food and beverage offerings from us, and we saw a need for multiple dining options. Our work in China is driving innovation that benefits hotels across our portfolio. As a global brand we benefit from being able to learn from each of our regions. We use recipes for traditional Chinese breakfast items from chefs in our China hotels, as well as in hotels across the globe as part of our Hilton Huanying program. Our restaurant concepts team is able to pull elements from restaurants serving traditional Chinese fare at our hotels in China to create authentic experiences for our guests in other parts of the world. Many interior and exterior design elements at our hotels in China are shaping our approach to design and construction around the world.

How does the brand's China strategy differ from its strategies in other countries (for example, in the United States or Japan)?

In each region of the world we adapt to cultural norms and nuances, but we hold true to our standards and best practices that benefit our owners, team members, and guests. This impacts our approach to every aspect of our business—from the ways we train and engage our team members to our customer marketing campaigns and service delivery. Our strategic perspective is that a brand is a promise consistently delivered. Equally important, we strive to be culturally relevant. Cultural differences largely come to life in food and beverage and leisure amenities, such as spa offerings. For example, our eforea: spa at Hilton treatment menus are designed so that each hotel offers core elements that our guests expect, but the menus also give our owners in China flexibility to add treatments specific to their local market. Hilton Guangzhou Tianhe will feature spa treatments such as a foot massage and a variety of full-body massages inspired by traditional Chinese aromatherapy oils.

As a global brand with hotels in 78 countries, we invest a great deal of time and research into understanding the needs and expectations of travelers today, and we are prepared to meet these needs as they evolve over time. Research tells us that travelers have a great deal of trust for Hilton, particularly when traveling abroad. Because traveling abroad is a new experience for many of our guests from mainland China, our brand gives them confidence that the hotel experience will meet their needs so that they can focus on exploring a new destination.

From our more than two decades of experience operating in mainland China, we see two trends that differentiate the Chinese traveler. These trends are similar to the trends we have historically experienced with other rapidly expanding customer segments. First, we must provide our guests with familiar comforts, and make it a point to have team members fluent in Mandarin on staff at our hotels outside China. The recent global launch of the Hilton Huanying program is helping us achieve this goal.

Please tell us more about the Hilton Huanying service launched in 2011.

Hilton Huanying is a consistent set of amenity and service standards at Hilton properties around the world that meet the Chinese traveler's unique needs and expectations when traveling abroad. All of the 10 hotel brands within the Hilton Worldwide portfolio can choose to participate in the program. Currently 61 hotels are enrolled in Hilton Huanying.

China has emerged as a key source market for us and we are expanding at a record pace. We also recognize the opportunity to build brand loyalty. As more Chinese guests stay with us in mainland China, we want them to choose Hilton when traveling abroad.

Huanying is the Chinese word for "welcome" and the program offers amenities and services that extend an authentic welcome to Chinese travelers. Guests are greeted at the front desk by a Chinese-speaking team member, the guest rooms are outfitted with amenities such as tea kettles and slippers, and breakfast includes traditional Chinese items such as dim sum, congee, hard-boiled eggs, fried rice, fried noodles, and dough fritters.

We were inspired to create Hilton Huanying because of our core brand promise, which is to ensure every guest feels cared for, valued, and respected.

China is one of our most important source markets today, and we are expanding at a record pace in mainland China.

Second, we recognize that most travelers from China are booking through government-approved travel agents and tour operators, rather than booking directly with a hotel or online. This affects how we communicate with our customers when they are considering lodging options. With more than 20 years of experience serving the China market, we have developed longstanding relationships with government travel agencies and tour operators. Hilton Worldwide opened its first international sales offices in Beijing and Shanghai in 2005, so we have teams in the market who really understand the travelers and communicate regularly with government travel agencies and tour operators. With Hilton Huanying, for example, we invited many of the tour operators to participate in the global launch events in San Francisco, Beijing, and Shanghai.

Our brand also has an aggressive marketing campaign in China, offers a Chinese version of our consumer site (www.hilton.com.cn) and recently launched a Chinese version of our global press site (www.hiltonglobalmediacenter.com.cn) as a resource for Chinese media.

Please describe the typical Hilton customer in China. What types of travelers do you hope to attract to Hilton hotels in China?

We attract both inbound and local guests at our hotels—whether they are traveling for business or leisure. The various Hilton Worldwide brands and hotels within China give our company the ability to attract travelers across multiple segments such as business travelers, families, and leisure guests. Chinese travelers visiting regions outside of China are most likely to be young to middle aged, relatively wealthy, middle class, urban with higher than average education, and from major cities or coastal provinces. For Hilton Hotels & Resorts specifically, we have a number of active initiatives focused on sharing our story with travelers across China.

In addition, much of our business may come from locals who are not staying with us. We are a destination for people in China to find a rejuvenating spa, enjoy fine dining, and host an event.

Hilton Huanying is a key program for us because it provides familiar services and amenities to any of our Chinese guests—whether they are traveling from Beijing, London, or San Francisco. As outbound tourism from China increases, this program puts us in a position to best serve the needs of these travelers.

What trends do you currently see with domestic and international Chinese travelers?

In October 2011 we issued a Hilton Blue Paper study about Chinese travelers, which was written by Kevin Latham, senior lecturer in social anthropology at the School of Oriental and African Studies at the University of London. The report indicated that we may soon see a shift from Chinese travelers booking group tours to traveling abroad independently. The report shows China is now the largest outbound tourist source-country in Asia. This growth is expected to continue as China's middle class expands and relaxed visa procedures make foreign travel more accessible. Within China, we see a need for brands like ours to expand into new markets such as Nanjing, Xi'an, and others to accommodate local tourism needs.

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The Hilton Huanying program provides amenities for the Chinese traveler, including a traditional Chinese breakfast, at 61 Hilton hotels around the world.

How has the travel and hotel market in China changed since Hilton entered China?

The greatest change is the rise in outbound tourism from China. This growth has a direct impact on the industry within China because more guests are experiencing hotels and brands in other parts of the world. The total number of Chinese outbound tourists reached roughly 57.4 million in 2010, an increase of more than 20 percent over 2009. The numbers were predicted to rise to 65 million in 2011.

International hotel brands may have once heavily relied on international visitors to China. Today we are building brand loyalty within the China market as more Chinese travelers experience our hotels.

China has emerged as the world's fastest-growing economy, and independent reports show the growth in Chinese tourism can be expected to continue.

What are the brand's plans for future expansion in China?

China is one of our most important source markets today, and we are expanding at a record pace in mainland China. We see noticeable growth not only in the number of outbound travelers from China, but also the number of travelers of Chinese origin living in other parts of the world.

Hilton Hotels & Resorts has the largest development pipeline in the brand's history with more than 45 new properties in development in China. Currently, 11 of these hotels are set to open by the end of 2012. Hilton Worldwide will expand its presence in China to more than 100 hotels during the next five years. This will add roughly 25,000 rooms in more than 35 cities—many of which are provincial capitals or second or lower-tier cities.

What are your predictions for China's hospitality market in the future?

China has emerged as the world's fastest-growing economy, and independent reports show the growth in Chinese tourism can be expected to continue. The online travel booking environment continues to grow in importance. More travelers are searching for information about hotels and destinations on their own and turning to social media and travel review sites to inform their booking decisions. Our portfolio of hotels is expanding to new markets across China—such as Guangzhou and Nanjing—as travelers within China and those visiting China from abroad are moving beyond Beijing and Shanghai and exploring other regions of the country. We also see increased interest in leisure travel and are opening several resort properties to meet this demand. 完

The Hospitality Talent Gap

China's hospitality and tourism industry creates jobs and contributes to the country's GDP, but it also faces human resources challenges.

Vincent A. Wolfington and Mark A. Wolfington

PRC government policy initiatives, rapid economic growth, and recent events, such as the 2008 Beijing Olympics and the 2010 Shanghai Expo, have helped China's tourism industry expand rapidly in recent years. Despite adding many new employees in this fast-paced sector, foreign hospitality and tourism companies in China continue to face a shortage of skilled workers.

At the same time, few educational institutions in China focus on hospitality and tourism, and those that do lack programs that sufficiently prepare hospitality workers to provide services that integrate international standards and best practices. Education experts note that today's graduates will need a skill set that integrates contemporary knowledge and best practices to succeed in a rapidly changing work environment—and the tourism industry is no exception.

China's hospitality and tourism sector faces a shortage of skilled workers.

Government tourism industry plans

PRC government leaders have acknowledged the important role the hospitality and tourism sector plays in China's expanding economy. In November 2009, China's State Council released the Guidelines to Accelerate the Development of the Tourism Industry, which aim to develop the hospitality and tourism sector and make it a significant segment of China's economy. To achieve these goals, the guidelines encourage provincial governments to encourage the construction of more hotels and convention centers, provide more transportation services, build more recreation and entertainment outlets, and improve tourism services to compete internationally. In addition, the guidelines recommend that the government develop more qualified entry-level and skilled workers in the hospitality and tourism industry by improving vocational training and enhancing the hospitality curriculum.

China's tourism boom and human resources gap

The Beijing Olympics and the Shanghai Expo helped the travel industry in China mature by exposing the country to foreign and domestic travelers and spurring infrastructure development. For example, China had roughly 10,200 hotel enterprises nationwide in 2006, but the country boasted more than 15,000 such enterprises in 2010, according to the PRC National Bureau of Statistics (see p.23). From 2006 to 2010, business revenue from hotel services expanded from ¥155.2 billion ($24.4 billion) to ¥279.8 billion ($44 billion).

As China's hospitality and tourism industry has grown, the demand for qualified workers has increased as well. Over the next few years, the hospitality and tourism industry will become one of China's largest employers. The World Travel and Tourism Council estimates that the travel industry in China contributed roughly ¥1.1 trillion ($173 billion) in 2011, or 2.5 percent of China's GDP. The industry's direct contribution to employment in China is forecasted to expand from roughly 23.1 million jobs in 2011 to 26.6 million jobs by 2021. Moreover, the hospitality and tourism industry in China has the potential to create rewarding, higher-paying jobs with opportunities for upward mobility. Like many other sectors in China, the tourism and hospitality industry also struggles with employee turnover. Some anecdotal evidence suggests that turnover among hotel workers can be as high as 40 percent per year.

Such turnover rates, combined with rapid industry expansion, are creating a widening gap between supply and demand for qualified workers who understand international standards and best practices. Researchers at Hong Kong Polytechnic University in 2000 analyzed the training and education needs of mainland Chinese academic institutions that teach hospitality and tourism. They reported that China's lack of qualified tourism educators and employees is a common concern among all levels of Chinese tourism education. Their analysis concluded that the training and educational challenges facing China in the 21st century include improvement of the tourism education system and structure; improvement in syllabus design, with a greater balance between theory and practice; change from a traditional teaching mode to a modernized, innovative, and interactive teaching mode; and greater responsiveness to the industry's needs.

More than a decade later, China's tourism education system still faces the same challenges. Industry experts and senior managers at foreign hotels in China report that the country's current tourism education system remains insufficient because it lacks standards, experienced teachers, and industry input. According to Global Ambassador Concierge LLC's research and experience, an improved tourism and hospitality education should give students the hands-on, practical knowledge they need to work in an industry with increasingly higher expectations for professionalism.

China's tourism education system would benefit greatly from collaboration between the public and private sectors. The public sector should implement a standard tourism and hospitality curriculum, as well as hire qualified teachers. The private sector can facilitate the development of teacher training programs and teaching guides that outline critical skills. Private sector involvement in curriculum development can help prepare students for situations they will encounter on the job, as well as introduce the concept of guest services and international standards and best practices.

Educational institutions in China should take specific steps to update course curricula and materials to develop students' functional, social, and business skills through the following elements:

■ Case studies

Case studies should be designed to develop job skills and to provide testimonials about Chinese professionals who are successful in the hospitality industry. Such studies can also provide students with examples of how tourism and hospitality professionals have dealt with difficult management situations.

■ Role-playing activities

Role-playing activities should be designed to foster communications skills and public speaking, including activities such as reading out loud in class, sharing answers to questions with the class, delivering oral presentations, and participating in class discussions. These exercises allow students to act out situations they may encounter on the job. Role playing can also be used to teach customer service skills and how to perform specific functions of common hospitality and tourism jobs.

■ Interactive discussions

Discussions between the teacher and students and among students help develop teamwork, critical thinking, and communications skills. These discussions can help students learn from each other about their individual practical experiences and promote teamwork through group problem solving.

■ Guidelines

A tourism and hospitality curriculum should introduce students to guidelines on work habits and attitudes, customer service techniques, marketing skills, quality performance, and strategies for career advancement. For instance, the guidelines should be designed to facilitate learning about the organization of hotel departments, the management position hierarchy, and the compensation ladder related to promotion. Understanding these guidelines may help hotels with staff retention efforts.

An effective hospitality and tourism curriculum should develop students' knowledge of foreign cultures and their understanding of how to juggle complex tasks and work on international teams. These skills will be important for tourism industry employees that work for large or small international or domestic firms. Such skills are critical to teaching employees to manage conflicts among co-workers as well as between employees and customers. The curriculum should also emphasize the importance of developing a career in hospitality and tourism and provide a map to higher levels of responsibility and pay, which should reduce employee turnover. These lessons can be incorporated into the presentation of practical skills through case studies, role play, and practice.

Developing more tourism infrastructure—hotels, resorts, transportation, tourist destinations, and other amenities—is not enough to meet the needs of this rapidly expanding industry in China. The PRC government and private enterprises must invest in tourism and hospitality education to fill the critical gap in workers who understand international best practices. China has invested billions of dollars in infrastructure, but now is the time to invest in human resources and skills development. 完

Quick Glance

- High-profile events such as the 2008 Beijing Olympics spurred rapid tourism infrastructure development in China.
- China's hospitality and tourism industry faces a shortage of skilled workers.
- Educational institutions and the private and public sectors can help develop course curricula and materials to prepare the next generation of hospitality professionals.

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China's emerging

Tourism will more than double its contribution to GDP and add millions of jobs to China's economy over the next decade.

Tourism's Direct Contribution to China's GDP* and Employment in China, 2011–21

	2011e	2021e
¥ billion	1,077.0	2,545.7
% of total GDP	2.5	2.7
Jobs (million)	23.1	26.6
% of total jobs	2.9	3.2

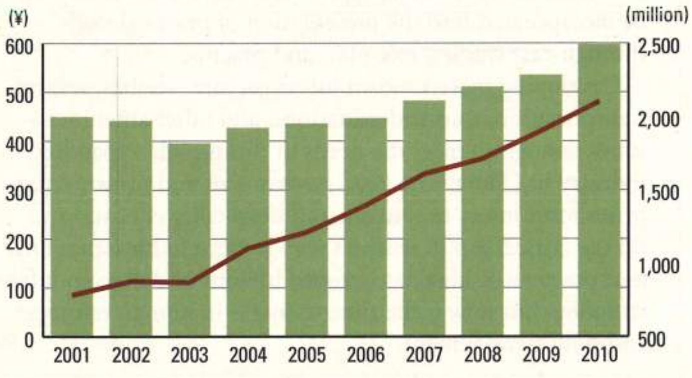
Note: e = estimate

*GDP generated by industries that deal directly with tourists (such as hotels, travel agents, airlines, and other passenger transport) minus purchases made by those industries.

Source: World Travel and Tourism Council, Travel and Tourism Economic Impact, China, 2011

Domestic tourists are increasing in number and spending more money.

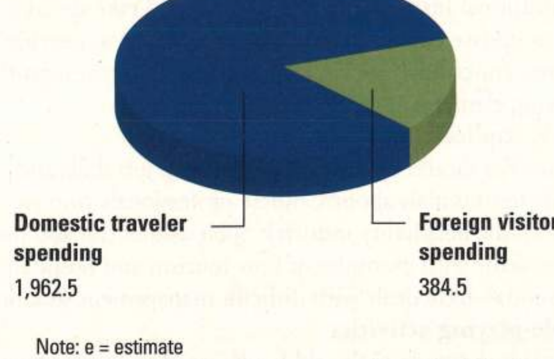
Domestic Tourists and per Capita Expenditures, 2001–10



Source: National Bureau of Statistics of China, *China Statistical Yearbook*, 2011

Chinese travelers spend more in their own country than foreign travelers visiting China.

Domestic vs. Foreign Traveler Spending in China, 2011e (¥ billion)



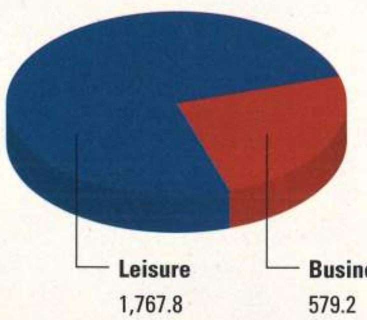
Note: e = estimate

Source: World Travel and Tourism Council, Travel and Tourism Economic Impact, China, 2011

travel market

Leisure travel makes up more than three-quarters of spending by travelers in China.

Spending on Business vs. Leisure Travel in China, 2011e (¥ billion)

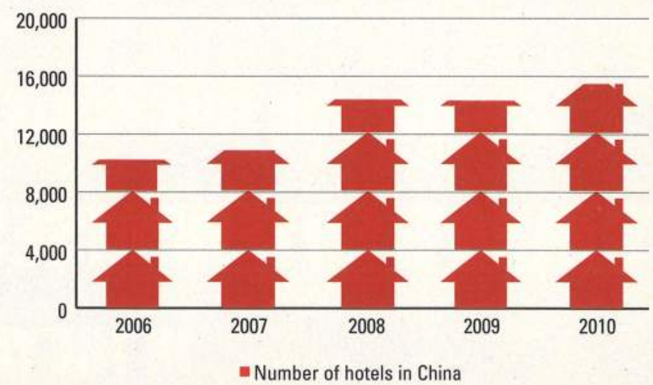


Note: e = estimate

Source: World Travel and Tourism Council, Travel and Tourism Economic Impact, China, 2011

The number of hotels in China is also on the rise.

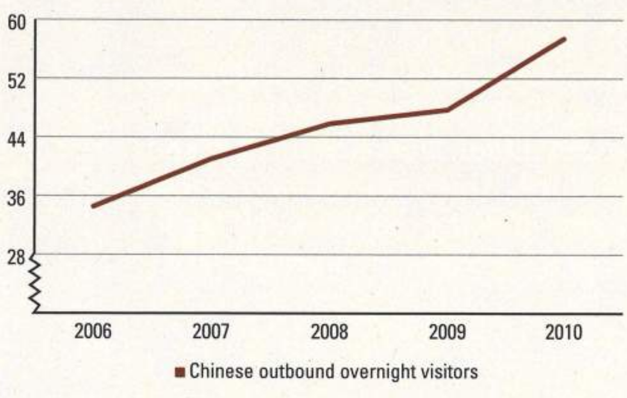
Hotel Enterprises, 2006–10



Source: National Bureau of Statistics of China, *China Statistical Yearbook*, 2011

While more Chinese citizens are exploring their own country, they are also increasingly traveling overseas.

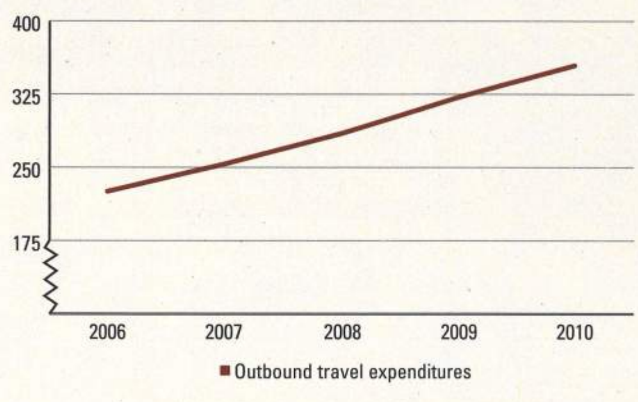
Chinese Outbound Overnight Visitors, 2006–10 (million)



Source: National Bureau of Statistics of China, *China Statistical Yearbook*, 2011

Spending by Chinese travelers abroad has increased steadily over the last five years.

Outbound Travel Expenditures, 2006–10 (¥ billion)



Source: World Travel and Tourism Council, Travel and Tourism Economic Impact, China, 2011

The Ins and Outs of Hiring Local Senior Executives

As the war for talent intensifies, understanding China's cultural nuances is key to hiring local senior managers.

Alex Eymieu

Over the last decade, mainland Chinese companies have been competing more aggressively with multinational corporations (MNCs) for senior business executives. For example, Chinese financial institutions such as Industrial and Commercial Bank of China Ltd., Bank of China Ltd., Ping An Life Insurance Co. of China, Ltd., and China Merchants Group Ltd. are expanding their operations and revising their business models to challenge their foreign rivals. These companies are competing for executive talent as well as customers. In addition, some new entrants into the China market have poached talent from local firms and MNCs as an expedient alternative to developing talent internally or transplanting talent from overseas.

This competitive talent market will put upward pressure on salaries. Global executive search firm CTPartners estimates that overall average wages for executives across all levels at MNCs operating in China have risen by more than 8–9 percent in 2010. In addition, executive candidates in general expect an additional 15–25 percent salary increase to move to a new company. Salary levels for senior executives, moreover, may not be based on standard industry benchmarks, but reflect whatever sum may be needed to convince them to leave their current posts. Despite the global economic downturn, CTPartners expects demand for highly skilled talent in China to be strong across all industries, particularly in the consumer, financial services, industrial, and life sciences sectors.

Companies cannot afford missteps in their senior talent acquisition and development plans. All countries and regions have local customs and cultural distinctions that must be considered when doing business in the region. Failing to weigh these local differences can have costly consequences. Companies that wish to succeed in the China market should carefully evaluate recruiting and hiring strategies or ally themselves with a knowledgeable and locally connected executive search partner.

Companies should network and build relationships to identify local executive candidates in China's competitive talent market.

The indirect path

To recruit senior business executives in China effectively, a company must acknowledge the dramatic changes in the country's economy, history, and traditions over the last five decades. The West has embraced market-based economic systems for centuries, but China just began transitioning to a market economy in the last few decades. This means that a Chinese executive in his or her thirties will have very different values than someone aged 40–60, and will view new job opportunities very differently. So while Western-style talent mapping systems and recruitment methods may work for young Chinese professionals, they seldom will be effective when recruiting more senior Chinese executives. In China, a more indirect and subtle approach is the more accepted way to recruit senior executive candidates.

This indirect approach, which relies on networking and relationship building, is necessary for many reasons. China's rapid economic growth and quickly shifting business landscape makes current, accurate, and public information about executive talent scarce. Moreover, announcements and postings of senior executive appointments are relatively uncommon in China. Thus the information gained from extensive networking can be critical. A search professional must turn to a network of local contacts for guidance when building an initial list of senior-level candidates for a position. Up to 50 percent of successful placements by CTPartners in China in 2009, for example, were identified through recommendations from trusted sources.

The networking approach also enables employers to be introduced to prospective executive candidates. When traditional Chinese business people receive inquiries from strangers without prior introductions, they often dismiss the inquiry or treat it with suspicion. Moreover, sometimes the person making the introduction is primarily self-serving. In one instance, CTPartners' request for an introduction to an appropriate securities industry executive led them instead to a meeting with a government official, who had little interest in sharing information. Instead, he wanted to learn about the client's business expansion plans and the candidate pool the client expected to interview. In such cases, it will be necessary to review information requests with courtesy but without compromising confidentiality.

Respectfully working within the local system of recommendations and introductions is the key to building influential networks and ensuring broad candidate access. Prospecting for candidates requires a significant investment of time. Sharing information and offering assistance to those willing to help with ideas and access will also go a long way toward identifying potential talent. It is not uncommon to conduct 20 or more networking interviews prior to building an initial candidate list.

Quick Glance

- China's competitive talent market drives up wages and makes hiring local business executives challenging.
- Companies and executive search professionals should network to ensure access to a broad candidate pool.
- Companies should consider cultural nuances when evaluating leadership candidates in China.

What's in a name?

Another mistake companies can make when doing business in China is to assume that an executive's job title clearly reflects that person's role and skills. Titles can be misleading, and the names of some of the company's most influential leaders may not even appear on the company's organizational chart. Titles in other countries typically are based on a well-defined organizational structure, and tend to reflect the true nature of the job. But an executive with the title of "director" in China may not actually be a director but a well-connected person who acts as a government liaison.

According to CTPartners' experience, the country's robust economic expansion leaves companies little time to develop management talent internally. With few executives rising through the ranks quickly enough to meet expanding management needs, senior management teams have resorted to placing government officials, company owners, investors, and board members at the top of the company.

Because business success in China requires that a company operate with the approval of the PRC government, business leaders at state-owned and private companies often are selected because of their influential relationships and government loyalty. A rapidly expanding company's first-generation leaders often will come from trusted officials at state-owned enterprises or government agencies. In some cases, industry and functional management experience are not the highest priorities when considering an executive hire. For example, it is common for a foreign joint venture to place a business person with good government connections in a "figurehead" or special projects role to ensure that the company has a clear understanding of potential changes in government policy. A chief executive officer (CEO) or chairman might at times have the veto power and a powerful network to support the business, but these leaders may not necessarily have the management skills to lead the design or execution of the corporate strategy. Deputy CEOs, deputy chief operating officers, and other senior advisors often are retained to bring needed industry, functional, and operational expertise to the company, but their names may not appear on the company's management list.

The absence of transparent organizational charts coupled with unclear application of executive titles muddies the waters for companies seeking talent with specific technical, industry, or managerial skills to support a business expansion. The person listed as the company's chief financial officer might not have the expected level of financial expertise, but that executive's circle of influence could be an extremely valuable asset when approaching local investment funds or seeking to be registered for capital markets. Only through networking can recruiters learn the specific role of any given executive. Finding an executive with the desired skill set requires persistence as well as access to an influential network. In some cases, a company may find it needs to hire multiple executives to obtain the desired mix of competencies.

Appearances can be deceiving

The more subtle challenges of recruiting leaders in China arise from local cultural and historical differences. The globalization of travel, goods, and services has made China's economy and enterprises similar to those of other countries. Though external indicators—in processes, systems, textbook theories, and performance benchmarks—may look familiar, CTPartners' experience shows that many Chinese executives will embrace the theories and systems they grew up with, such as filial piety, or loyalty to one's superiors over and above self. For example, an older candidate may be open to moving to a non-competing company as long as the former employer does not "lose face."

Gap analysis

To give proper attention to cultural differences in terms of value references and decisionmaking styles, companies and executive search firms evaluate leadership candidates in China on two scales: one that leans toward Chinese business and cultural standards, including Chinese organizational nuances; and one that is more Western-leaning with performance targets that are more open, numeric, and systematic. When helping companies find local executives, search professionals should understand the client company's culture, the extent to which the company is using international best practices, and where the company has modified best practices to meet local requirements. Such knowledge is critical to the process of effectively establishing and using competency weightings and assessments. For example, in a Western context, data that are collected to support business decisions are typically collated by analysts or sales teams from the bottom up. Conversely, in China, those who are in charge of government relations can heavily influence business decisions from the top down. Success in China is more often tied to government policy than market fundamentals.

The search consultant must also have a deep knowledge of both Western and Chinese cultural elements to articulate and quantify variations from what may be viewed as acceptable behavior for different roles at multinational corporations. Reflecting the country's large population, diverse ethnic groups, and fast-paced changes in China's recent history, Chinese citizens across different age groups encompass a broad spectrum of values and behaviors. It is important to create and use an assessment tool that investigates the candidate's value system. For example, a 40-year-old candidate may accept an invitation to find out more about a potential new role and move quickly, with the intent of job-hopping to the next-higher paying offer. An influential 55-year-old senior executive, on the other hand, may rebuff any invitation until persuaded by a trusted business associate. Such executives may value continued good relations with key party officials over their pay package.

Scoring a candidate according to Western and Chinese standards and identifying gaps in the requirements of the new role can help a company evaluate and compare candidates for any given corporate environment and business position.

Evaluating skills

After successfully navigating the networking process, identifying potential candidates, and understanding a candidate's reference system and decisionmaking skills, companies should reevaluate and apply competency assessments and weightings. As outlined earlier, the prioritization of leadership considerations, skills, and experiences will be different in China than in other markets. It is important to weigh leadership competencies and execution capabilities appropriately. In China, local connections to specific provinces, wide industry networks, and relations with key government bodies may at times be valued more highly than professional background. Rankings also will vary with each position, but in one case, CTPartners ranked the desired leadership competencies for a China-based senior executive for a specific role as follows:

1. Government credibility
2. Local network
3. Decisionmaking ability and values
4. International exposure
5. Industry expertise
6. Functional expertise
7. People-management skills

Though CTPartners would rarely prioritize along these same lines when seeking a senior executive for a Western corporation, such attribute rankings would be considered common and appropriate in China. In the United States, these weightings typically would be in reverse, with decisionmaking ability and industry expertise trumping government credibility.

Balancing priorities

Recruiting executive talent in China requires careful consideration of cultural requirements as well as ready access to a broad range of executives and influential leaders in the region. For new market entrants or companies balancing multiple regional and global priorities, the challenges can be daunting. But companies and executive search firms that network and build relationships, consider the political realities of doing business in China, and adjust how they evaluate skills are well positioned to find the right candidate for an executive role. 完

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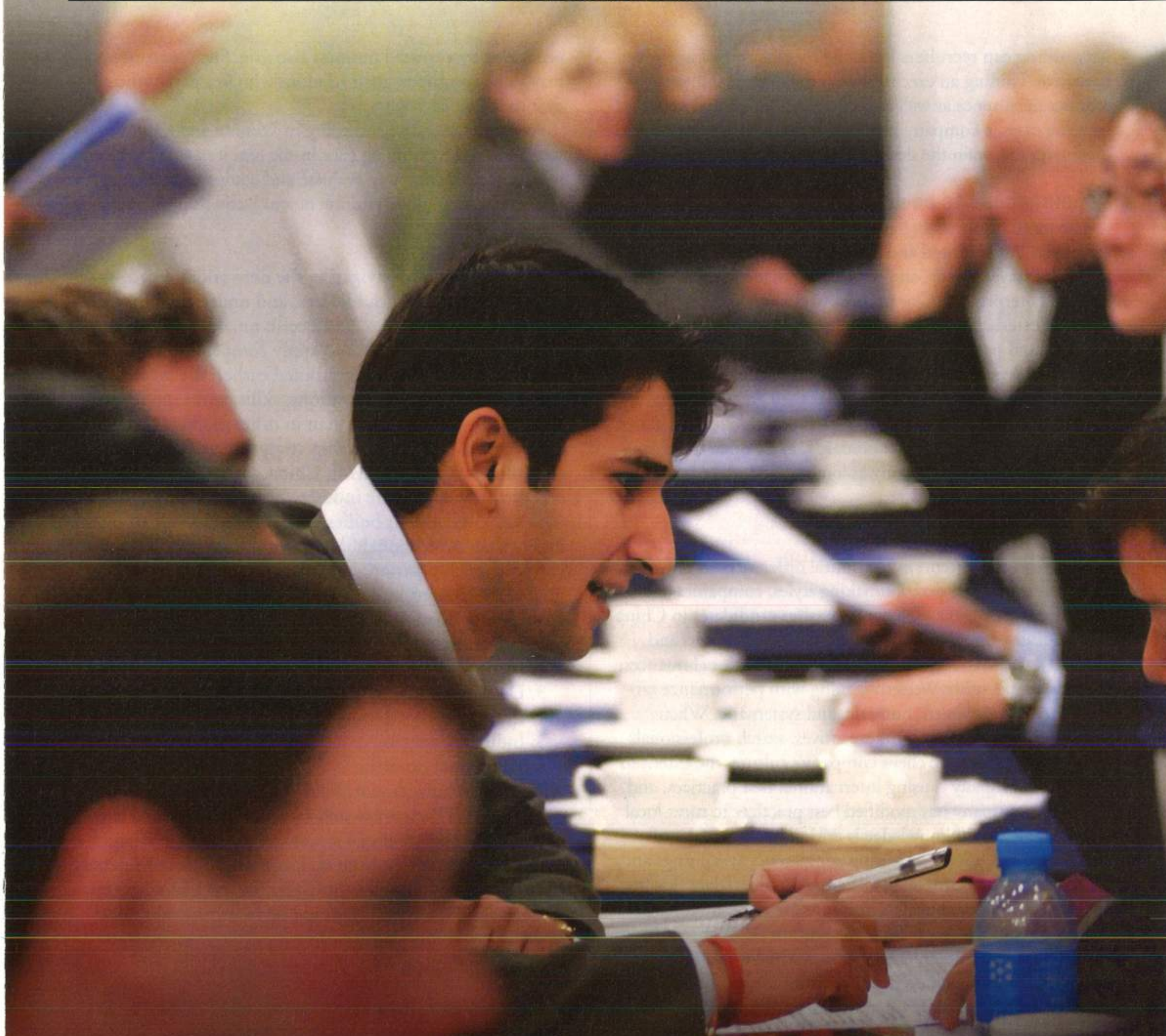

China Foto Press

The New PRC Social Insurance Law and Expatriate Employees

With implementation details still unclear, foreign employees and their employers face uncertain financial and procedural hurdles.

Lesli Ligorner, Gordon Feng, and Mitchell Mosvick

China's new Social Insurance Law, which took effect on July 1, 2011, established the first national, basic social insurance framework for employees across mainland China. The law requires that all employers in China enroll each employee in five insurance programs: basic pension; basic medical insurance; work-related injury insurance; unemployment compensation; and maternity insurance. The law also aims to set up social insurance programs for non-employee urban and rural residents, eliminate discrimination in social insurance registration based on an employee's household registration status, and facilitate the transfer of personal social insurance accounts across provincial jurisdictions. Foreign employees and their employers must now contribute to the social insurance system, but implementation details are still unclear and will vary by municipality and province.

Though enforcement procedures and the long-term social implications of the law have yet to emerge, the PRC government has released clearer guidelines on how the system should work. As is often the case with new laws in China, however, some localities appear to be moving faster than others in establishing contribution rate schedules and implementing guidelines.

Quick Glance

- China's new Social Insurance Law requires that employers and expatriate employees contribute to the country's social insurance programs.
- To date, only Beijing has issued implementing regulations, while other jurisdictions are not yet ready for expatriate contributions.
- Though the new law will increase costs for companies that employ foreigners, it remains to be seen whether the law affects expatriate hiring.

Broad coverage for all workers

Under the Social Insurance Law, both employers and full-time employees must contribute to five social insurance programs. Part-time workers are also covered, but are expected to self-enroll in the social insurance programs as employers are not responsible for enrolling them. The contribution base and rates are subject to local regulations and rules, and vary among jurisdictions. In Beijing and Shanghai, for instance, rates are set at the municipal level and contribution rates for the five social insurance programs vary (see p.31). In other localities, rates are likely to be set at the provincial level.

The contribution levels are based on an employee's average monthly salary over the last calendar year, with an upper limit at 300 percent and a lower limit at 60 percent (40 percent for some programs in Beijing) of the local average monthly salary. In addition, the contribution rate for work-related injury insurance is calculated on the individual company's claims history and the risk level of an individual employer's business and industry. For example, an employee who earns ¥10,000 ($1,575) per month in Shanghai will personally contribute ¥1,100 ($173) per month for the social insurance programs and his or her employer will contribute ¥3,700 ($583) per month. In contrast, due to the cap on the contribution base, an employee who earns twice as much, or ¥20,000 ($3,151) per month, will not have his or her contribution requirement (or the employer's) doubled. His or her personal contribution will be capped at ¥1,286 ($203) and the employer's contribution will be capped at ¥4,325 ($681) per month.

Inclusion of foreign workers

Before the Social Insurance Law, PRC law did not mandate that any foreigners enroll in social insurance programs. The 1996 Regulations on Employment of Foreigners in China, promulgated by the PRC Ministry of Human Resources and Social Security (MOHRSS) and other ministries, provided that foreign employees' social insurance enrollment would follow applicable national rules. But no such national rules were ever released until the recent Social Insurance Law and the interim measures (as discussed below) were passed last year. Under the 2005 Regulations on Employment of Hong Kong, Macao and Taiwan (HMT) Residents in the Mainland, HMT residents and their PRC employers were required to make social insurance contributions to pension, medical, and unemployment insurance, but enrollment was sporadic and enforcement was uncommon. Before the Social Insurance Law, some cities—including Shanghai; Suzhou, Jiangsu; and Tianjin—also had promulgated local rules regarding foreign workers' voluntary enrollment in basic pension, medical, and work-related injury insurance programs.

The law, however, mandates that foreign employees and their employers contribute to the social insurance system, which has garnered considerable controversy. To implement that aspect, MOHRSS in September 2011 issued the Interim Measures on Participation in Social Insurance by Foreigners Working in China (interim measures), which took effect on October 15, 2011. The interim measures require that the local employers or sponsors of foreign employees enroll them in all five social insurance programs within 30 days of obtaining PRC work permits. To strengthen enforcement of expatriate enrollment, the interim measures mandate increased coordination among government agencies with respect to foreign workers and require the authorities handling work permits for foreigners to share information regarding foreigners' employment with the social insurance administration. The social insurance administration in turn must periodically check with other PRC authorities to obtain information regarding the foreigners who have obtained employment authorization.

Article 2 of the interim measures defines a "foreigner" as a person who is not a Chinese national; holds a PRC work permit (such as a work permit for foreigners, foreign expert certificate, or permit for permanent foreign journalists) and residence permit (permanent or temporary); and is employed lawfully in China. This definition includes foreigners who are officially employed overseas (outside of mainland China) but who are seconded to PRC companies.

The definition of a "foreigner" in the interim measures fails to include employees from Hong Kong, Macao, or Taiwan. Notably, HMT residents were included in draft measures on foreign worker contributions issued for comment in June 2011, but the interim measures omit this reference. It is likely that HMT residents are expected to be covered under local regulations issued by cities and provinces as now written or in the future. For example, under current Shanghai regulations, an employer may voluntarily enroll their employees who are HMT residents in three insurance programs. In contrast, consultations with the Tianjin Labor Bureau suggest that HMT residents in that city are required to participate in all five insurance programs, as is the case with all local PRC employees and foreign workers.

Mandatory or voluntary participation?

Despite a flood of comments from foreign companies and trade associations on the draft regulations, neither the Social Insurance Law nor the interim measures clarify whether a local government may make enrollment of foreign workers voluntary, or if an employer may opt out of enrolling foreign workers who, for example, already have medical insurance or are enrolled in their home country's pension system. Until this ambiguity is clarified, employers will have to "double enroll" expatriates in overseas programs as well as PRC programs, and contribute to both schemes.

The interim measures state, however, that foreign workers can be exempted from enrollment in PRC social insurance programs if there is a bilateral social insurance treaty between the expatriate's home country and China. To date, only Germany and South Korea have concluded such treaties with China. But these two treaties provide only piecemeal exemption from the Social Insurance Law: a German employee is exempted only from the pension and unemployment insurance schemes, while a South Korean employee is exempted only from the pension insurance. It appears that a German or South Korean employee must still enroll in the other PRC social insurance programs not covered by the treaties.

Though the interim measures took effect on October 15, as *CBR* went to press in December 2011, most jurisdictions were not yet ready to enroll foreigners. Nonetheless, on December 20, 2011, MOHRSS released a notice urging local governments to enforce the enrollment of foreigners. The notice also clarified that foreigners will be eligible for maternity insurance benefits and subject to current retirement age regulations for pension purposes. According to the notice, foreign employees must be enrolled by December 31, 2011 or daily penalties would be imposed as of October 15, 2011.

As a general practice, each provincial or municipal jurisdiction will issue its own implementing rules for enrollment to solve practical gaps not addressed by the Social Insurance Law or interim measures. For example, both measures are silent as to whether contribution amounts for foreigners will match those required for PRC nationals. In many of the jurisdictions that had accepted voluntary enrollment of foreigners prior to the Social Insurance Law, the contribution rates applied were those applicable to PRC nationals. Due to the ambiguity in the national law, however, one cannot rule out the possibility that local governments might revise the contribution rates for foreigners, potentially raising them above those required for PRC nationals. For example, the language of the regulations in Dalian, Liaoning, does not cap an employer's contribution base for either its PRC or expatriate employees' pension insurance contributions, which could result in a sharp increase in both the employer's and the employee's contribution amounts. These increases are likely to hit employers with expatriate employees and the expatriates themselves the hardest, as expatriates' income levels tend to be relatively higher than those of local employees.

To date, only Beijing has released local implementing rules. Based on unofficial consultations with various labor authorities, the status of the interim measures and the Social Insurance Law in some provinces or cities as of this writing is as follows.

- In Shanghai and Suzhou, Jiangsu, foreigners' enrollment remains voluntary even after October 15. If a foreign worker and his or her employer choose to participate in these jurisdictions, so far the worker may only enroll in basic pension, basic medical, and work-related injury insurance programs. The contribution rates are identical to the rates paid by PRC nationals.
- In Wuxi, Jiangsu, labor authorities currently are not accepting enrollment because they are not ready, and local implementing rules are pending. Many companies are taking a "wait and see" approach before taking any action. Others are starting to save for this additional liability so, if required, they can make the contributions for prior months once the implementing rules are finalized and issued.
- In Beijing; Guangzhou and Shenzhen, Guangdong; and Tianjin, local labor authorities have stated that expatriate employees must enroll in all five social insurance programs. Foreign workers and their employers must start contributing immediately if they have not done so already.

Broader implications

It is clear that once the Social Insurance Law is fully implemented, employers will face increased labor costs with respect to their expatriate employees as a result of compulsory enrollment. As most expatriates are paid relatively high salaries compared to the applicable average monthly salary, generally they and their employers will be required to make the maximum contributions (assuming contribution levels remain the same as those for PRC nationals). By following the interim measures as currently written, an employer in Shanghai, for example, will incur at least an additional ¥52,000 ($8,100) per year per expatriate employee at current contribution levels. In the future, expatriates may ask employers, as a condition of employment, to bear the individual workers' portion of social insurance contributions, which would further inflate PRC employers' labor costs. Employers should begin to calculate the potential social insurance contributions for their existing expatriates and budget for these additional payroll costs. At a minimum, employers should consider accruing the employer portion of the social insurance contributions for expatriate employees before and until actual enrollment is enabled in a particular jurisdiction.

Despite the increased costs that enrolling foreign workers will bring, employers may benefit in several respects. First, in the case of a work-related injury, the insurance fund will cover medical expenses and a significant portion of the allowances that companies must pay to the injured employees under law. An employer without insurance would have to bear those medical expenses and allowances itself. Second, the maternity insurance can reduce the employers' costs. Under the 1992 PRC Law on the Protection of Women's Interests, a female employee's salary may not be lowered during her maternity leave. Instead of paying a female expatriate employee her regular salary during maternity leave, the employer may be relieved of all or a part of this expense because female employees will receive a maternity allowance paid by the insurance fund. The employer will likely, however, need to make up the difference between the maternity allowance and the employee's actual wage if the allowance falls short of actual wages. As of July 1, 2011, employers are required to calculate the maternity allowance according to the average monthly wage for all employees of the individual employer in the previous year. In the past, though it varied from city to city, the maternity allowance was usually linked to the employee's own wages rather the employer average monthly wage.

Despite these potential benefits to employers, some foreign workers and their employers may believe that foreign workers will not benefit from enrollment in these programs. For example, expatriates generally do not use PRC hospitals covered by the statutory medical insurance scheme, largely due to language barriers and concern over standards of care. Clinics and hospitals set up for expatriates are not currently covered by the local medical insurance system. Foreign workers are also not limited by the "one-child policy" as PRC nationals are, and whether female expatriates can receive maternity insurance benefits for multiple children remains unknown.

Furthermore, many expatriates will work only temporarily in China, and are likely to think that they will not fully benefit from mandatory contributions to the social insurance funds. The interim measures state that an expatriate may receive pension benefits after leaving China, provided that he or she has become eligible for the benefits. An employee becomes eligible when he or she has cumulatively contributed to the pension insurance scheme for 15 years or more or when the employee reaches the statutory retirement age, generally age 60 for men and 55 for women. An employee who has not become eligible may maintain his or her personal account until returning to China, whereupon the employee will receive credit for prior contribution periods upon the resumption of making contributions. Alternatively, the expatriate may apply in writing to withdraw the balance of his or her individual pension account in a lump sum payment when he or she departs China, and thereby terminate enrollment in the social insurance scheme. The regulations do not permit either the employer or expatriate to withdraw the employer's contributions to the social insurance scheme upon the employee's departure, and it is the employer contributions that make up the lion's share of the total contributions for each employee. There do not appear to be any provisions for refunds for contributions to the other four social insurance funds.

Sample Contribution Rates for Social Insurance Programs

	Shanghai Employer	Shanghai Employees	Beijing Employer	Beijing Employees
Pension	22%	8%	20%	8%
Medical insurance	12%	2%	10%	2% + ¥3
*Work-related injury	0.5%	0%	0.2%	0%
Unemployment	1.7%	1%	1%	0.2%
Maternity insurance	0.8%	0%	0.8%	0%
Total	**37%**	**11%**	**32%**	**10.2% +¥3**
Maximum amount (¥)	4,325	1,286	4,033	1,289
Minimum amount (¥)	865	257	628	188

Source: Shanghai Bureau of Human Resources and Social Security; Beijing Bureau of Human Resources and Social Security

Keeping a close watch

Compulsory enrollment of foreign workers in PRC social insurance programs under the interim measures, if strictly enforced, will no doubt increase labor costs for companies that employ expatriates in China. Nevertheless, it is unlikely that most foreign companies will decrease expatriate hiring, especially of senior executives, given the relatively small contributions required. These contributions, when compared to most expatriate compensation packages, are unlikely to render their employment unacceptable for employers who need their skills in China. Yet foreign-invested enterprises that heavily rely on low- or middle-income expatriates, such as language schools, may see a much greater impact. Nonetheless, these positions are not easily filled by Chinese nationals, and such schools may attempt to pass these increased costs on to customers by increasing tuition.

Mandatory enrollment in social insurance programs is a well-known part of business in many other countries. For example, enrollment in US Social Security is generally mandatory for non-US workers in the United States. Thus, while concern over increased labor costs is understandable, enrollment of foreigners in social insurance programs is standard practice in many other countries. Over the long term, the PRC government may anticipate that more countries—other than Germany and South Korea—will attempt to negotiate new bilateral social insurance treaties with China to avoid their companies and workers making dual contributions. Such treaties would also provide reciprocal benefits to PRC nationals who work abroad, especially for those who work for PRC state-owned companies overseas. In the short term, however, US and other foreign companies operating in China should anticipate new administrative and fiscal responsibilities as the Social Insurance Law's local implementation rules are enacted. 完

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Companies should provide customized transition support to help China-bound executives succeed early in their assignments.

Transitioning Key Executives to China

Going above and beyond traditional relocation programs helps expats hit the ground running.

Betsy Neidel

For companies with a global outlook, having a foothold in China is a growing necessity. A recent survey by the US-China Business Council revealed that 23 percent of US company respondents view China as their top priority, while 71 percent say China is among their top five priorities. These same companies, however, list human resources—particularly local talent recruitment and retention—as a top challenge to operating in China. Foreign companies' rapid expansion in China and the relative scarcity of highly trained local personnel mean many US and other foreign firms find it necessary to import key personnel for their China operations. For the eleventh year running, China has been recognized as a top destination for international assignees, second only to the United States, according to Brookfield Relocation Services' Global Relocation Trends 2011 Survey.

Quick Glance

- Adapting to a new business culture and overcoming language barriers are among the top challenges executives face when transitioning to a new role in China.
- Companies should offer customized programs to help China-bound executives and their families adjust to life and work in China.
- A successful transition plan includes specific objectives an executive is expected to achieve during the assignment abroad.

Foreign companies—both those relatively new to China and those with a long history of sending expatriate staff there—rate China as the most difficult country for international assignees. Despite the growing number of expatriates in China, the current process for relocation is not making the executive transition easier. With large numbers of key executives relocating to China and the importance of China to global corporate strategies, companies now find it more crucial than ever to improve and accelerate executive transitions. Individualized, business-focused transition programming, in addition to traditional cross-cultural relocation training, provides a stable platform for expatriate executives to be effective from an earlier stage in the assignment, and to be better positioned for success in their new assignments.

What's so hard about moving to China?

China's sheer distance from the United States, along with complex administrative and legal requirements to secure long-term residency and work permits, makes relocation particularly challenging. Fortunately, with the increase of China-bound executives over the last decade, many major relocation companies are well versed in the physical requirements of shipping and packing, and have experience handling the paperwork and providing resources for cross-cultural training and orientation. Companies looking to send an employee to China can use fairly standardized procedures and checklists.

In contrast to the physical aspects of the move to China, companies tend to pay less attention to the psychological and sociological aspects of relocation. These factors often weigh more heavily on the relocating spouse and family, and are exceedingly important to address. According to research from Worldwide ERC, a primary cause of assignment failure in China—as measured by early termination of the assignment—is failure of the family to adjust.

Employees cite language and cultural differences as the top challenges of living and working in China. Seasoned expats comment that these differences make it hard "to get around" or to accomplish what should be simple tasks.

Other variables can further complicate the family adjustment process:

- **Relocation to lower-tier cities**
Companies are increasingly moving executives to cities beyond Beijing, Shanghai, and Guangzhou, Guangdong. Outside of coastal areas, Chinese cities tend to have fewer expat resources and feel less globalized.
- **Family transition issues**
Roughly 30 percent of executives headed to China are single. The remaining 70 percent move with their families, so finding good schools and medical services are high priorities, as well as making sure their children can quickly acclimatize and make friends. Other specific concerns often include food and environmental safety issues.
- **Shifting family roles**
In many cases, the spouse of the transitioning executive will give up full-time employment and may not have the necessary permits or skills to work in China. Loss of routine and self-identity questions can add to relocation stresses.

In addition to the overall concerns about adjusting to life in China, transitioning employees note that adapting to the Chinese business culture is one of the most difficult challenges. Some additional stress points for the executive during the transition process revolve around the following factors:

- Because an executive assigned to China can cost up to five times his or her salary, an executive feels a lot of pressure to make an impact from an early stage of the assignment in China (see the *CBR*, November-December 2009, p. 28).
- Executives stationed in China typically fill important strategic or operational roles where their success has a large impact on the business.
- Executives relocating to China often transition into new roles, which are difficult to navigate because of cultural complexities in the workplace.

A traditional approach

Companies should offer services to help the executive and his or her family adjust to life in China as a part of the relocation package—and most do. The three relocation services most often made available to individuals and families include the initial inspection trip, language training, and cross-cultural training. None of these services, however, is structured specifically to shorten the executive's learning curve in his or her China role.

During the initial visit, the employee and spouse (sometimes with children) investigate housing options, schools, and the overall living environment. This trip can reduce anxiety for the executive and family and may occur prior to the executive's decision to relocate. This service is generally offered to executives going on assignment for at least one year.

Similarly, a 2011 Worldwide ERC benchmarking survey found that most companies provide some form of language training for China-bound executives and their families. In many cases, language training is provided for the entire length of the assignment. Executives relocating to China view the opportunity to learn the language as mission critical, as do their employers.

Cross-cultural training is the third part of the traditional relocation package. A majority of the companies surveyed offer this type of training, but it is not considered mandatory and frequently falls victim to internal cost-cutting initiatives. The typical objectives of this training are to help both executive and family to prepare mentally for the move; to mitigate the effects of culture shock; to explain differences in local protocol and behavior; and to provide information on current events and the local infrastructure.

All three of these services should be a required component of the move. Creating a comprehensive program to accelerate executive transition, however, requires going a step beyond these standard relocation offerings.

Creating a customized transition program

Highly effective transition programs consider a company's primary business objectives, the transitioning executive's role, and the context of the Chinese operating environment. The goal of such a program is for the executive to understand the essential demands of the situation, and to build the skills and flexibility to meet these demands in the shortest period of time.

The value of such programs is an increased rate of executive success and time saved. Assignment failure or a lengthy transition period is a waste of time and resources for the corporation and the employee. Each transition program will be different, reflecting the unique nature of the individual assignment. There are, however, a number of elements common to successful programs and their implementation.

■ Senior management support

The over-arching goal of the transition plan is to ramp up an executive's ability to conduct business in China in the least amount of time. However, a successful plan requires senior management support. Funding and support for customized business transition training is usually outside the scope of human resources departments—which normally are responsible for organizing the more physical aspects of relocation—and must be driven by the relevant business unit in the home country. Having a senior management-level "champion" within the business unit who will clarify and support business-aligned transition objectives is equally important. Leadership support for the transition program helps drive the executive's focus and accountability. It also creates a bridge within the company headquarters for greater understanding of the local China situation by opening a high-level channel for regular two-way communication.

■ Business-aligned transition objectives

The more specific the executive's deliverables, the more likely a transitioning executive will succeed. A comprehensive transition program should establish top-level business-aligned objectives that the executive is responsible for during the relocation assignment (see p.35). This would be the starting point of the transition program, and would include input from the senior management champion once that person has been designated. Going well beyond the actual job description, these objectives should include metrics to measure performance, as well as a timeframe for accomplishing specific goals.

In working to set objectives, it is critical that both the China-bound executive and the senior management champion recognize the context of the transition. For example, an executive expected to maintain and advance current initiatives will have different goals than an executive expected to turn around current operations and replace the management team. These varying goals require different skill sets of the executive as well as different prioritization of tasks.

Skills and needs assessment

In the transition program, the company should assess the executive's strengths and weaknesses in the context of what is required to meet specific objectives. The impact of cultural differences must be strongly considered in this phase. HR personnel can use various diagnostic tools and questionnaires to assess an executive's needs and skills, though the process is best facilitated by specialists with expertise in intercultural skills assessment. For example, a basic strengths, weaknesses, opportunities, and threats (SWOT) analysis could be used to assess the executive's individual strengths and weaknesses in the context of the China assignment, viewed in line with the opportunities and threats within the China work environment. Anyone facilitating the analysis would ideally be well versed in cultural differences related to China.

Gap analysis and action plan

Using information from the assessment, the transition program should identify skill gaps relating to the transitioning executive's deliverables and any capabilities he or she needs to meet specific goals. For example, many executives find that motivating employees in China requires a different communication style and mindset as compared with doing so in the home office. Creating an action plan that addresses and prioritizes China-specific skill development needs in conjunction with top business priorities is the keystone of a successful China business transition program.

To take the program a step further, a company must break down top-level objectives into actionable steps and identify how these steps would be done differently in China. For example, if an executive was required to improve the company's relationships with local distribution networks, the plan would include specific steps applicable to the China business environment. In China, the process of building rapport with distributors to get any meaningful insight goes beyond scheduling a few meetings. Instead, such a plan should include the correct positioning and formal introduction of the executive; a carefully considered meal or first meeting that is relatively light on business discussion; informal follow up by an intermediary; provision of useful information; and demonstration or reiteration of how the corporate relationship is beneficial to the distributor.

The transitioning executive and his champion should review the action plan together. Companies may also consider hiring outside facilitators with intercultural business expertise who can streamline the planning process as well as support intercultural business skill development.

Follow-up and accountability

Implementing a follow-up and accountability system is important in making sure an executive follows the action plan and develops the appropriate skill set. An accountability system will also bolster the transition program by creating a feedback mechanism through which unforeseen obstacles can be more easily identified and dealt with. Ideally, this process is handled by the same person or group who facilitates the needs assessment and skills inventory from a skill development standpoint, and overseen by the executive champion for feedback and progress.

The China mentor

In addition to support from senior leadership, the most successful transition programs include assignment of a separate individual to guide the transition for the executive's first three to six months in China. The China mentor should support China-related skills development, as identified in the needs assessment, and should begin working with the China-bound employee immediately after the skills inventory and needs assessment. The person in this role must be objective and discreet and have strong business focus and capability. This person should also have experience working in China and understand the differences between Chinese and home office work styles. The mentor should be able to meet with the executive in person at the beginning of the support period. Regular follow-up meetings should take place in person, though these may be conducted virtually. For senior executives, companies should use an outside consultant or coach through the entire transition program to maintain objectivity and confidentiality. For a more junior expat employee, a local Chinese colleague could act as mentor, with a higher-level manager responsible for follow-up and accountability.

Rising to the challenge

Relocating to China can be exciting and challenging for an executive on both personal and professional levels. Though traditional cross-cultural training can facilitate many aspects of the move, particularly for an executive's family, companies can pave the way for successful executive transitions by creating comprehensive, individualized programs that focus on meeting business objectives in China. This preparation and support can help executives add value at an earlier stage through their roles as managers and decisionmakers in China. Incremental expenditures in executive transition programs for China-bound executives go a long way in driving corporate returns and ensuring that expatriate employees succeed earlier in their assignments. 完

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Transition plan goals

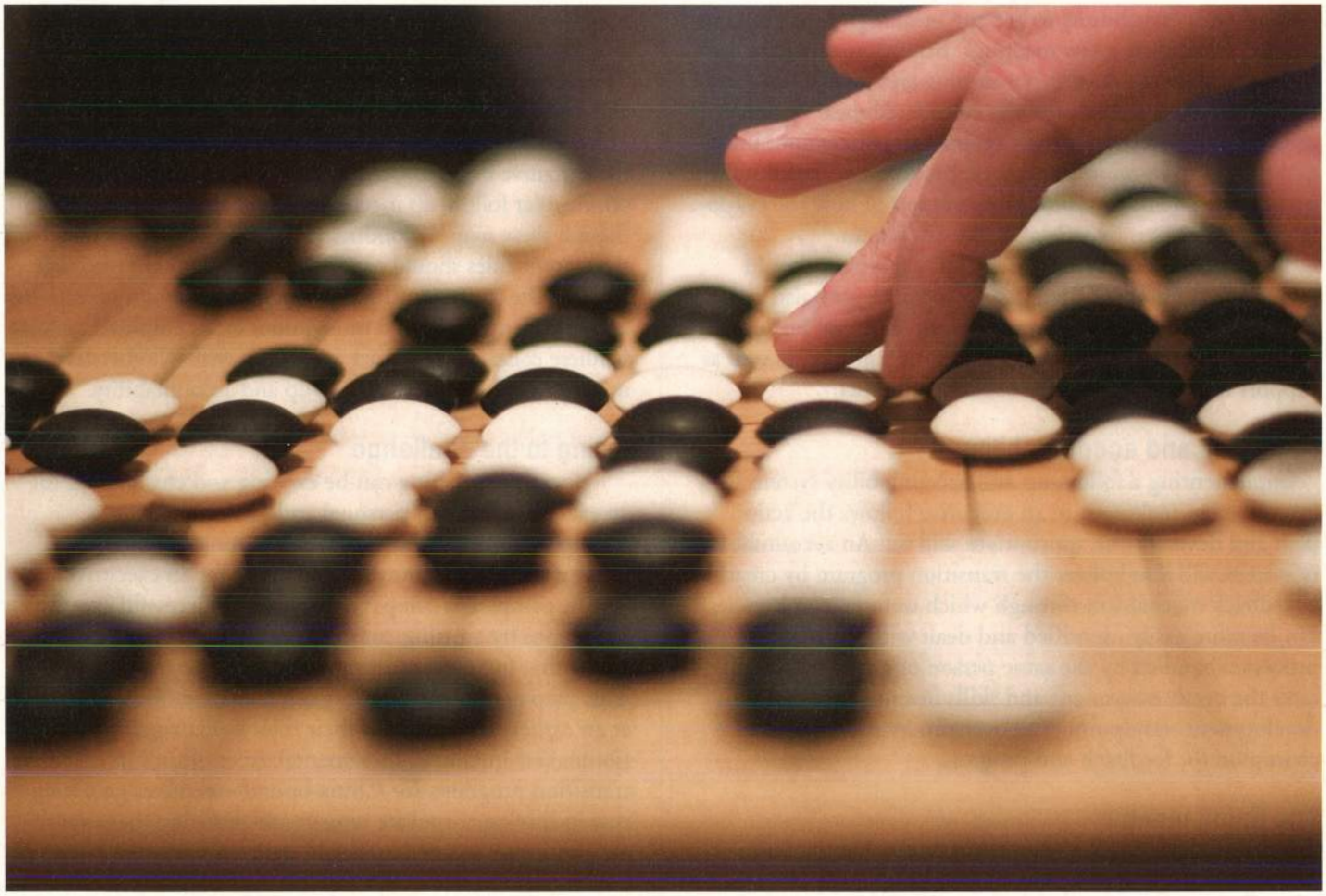
Business-aligned executive objectives in the transition plan should focus on company requirements in China and consider the skills the incoming expat is expected to demonstrate. Here are some examples of specific business objectives, which are the starting point of creating individualized action plans and skill development plans that underpin the transition program:

■ **Raise sales by 15 percent in six months** To accomplish this goal, an executive must work with the local sales team to promote the product in a place where the brand is not well known nor is it the cheapest. The executive would need to manage, train, and motivate the local team and convey the local situation and marketing requirements to headquarters. The executive must also visit major customers and potential customers to begin to understand the local sales environment.

■ **Manage the phase-out of a joint venture (JV)** The company's leadership does not know whether their Chinese partner will renew the JV agreement and the current expat manager has been reassigned overseas. The staff members are very loyal to the out-going expat manager and have concerns about the real reason for the new executive's involvement and relocation. The executive's immediate tasks include safeguarding intellectual property and retaining the company's human resources manager and at least 50 percent of the staff for the next six months.

■ **Assess current distributors** The new executive must build up the local controller function so that the company has more insight into relationships with distributors. The executive does not speak Chinese, but must promote compliance with corporate governance standards by China-based employees. The executive's goal should be to complete a clear assessment of the situation, along with prioritization of risk exposure within 45 days of the China assignment.

—Betsy Neidel



Foreign companies increasingly view China's state-owned enterprises as potential partners instead of just competitors. Companies that partner with SOEs can take steps to minimize risks and ensure a productive relationship.

State-Owned Enterprises: Partners and Competitors

Foreign companies are re-thinking strategies to compete and partner with China's state-owned enterprises in China and abroad.

Joie Ma

As China's state-owned enterprises (SOEs) develop rapidly with assistance from the PRC government, some foreign businesses are considering new partnership opportunities, while others look to improve strategies to compete with SOEs. US-China Business Council (USCBC) staff recently conducted interviews with 20 member company representatives to learn more about how they are interacting with SOEs in China and abroad.

Respondents indicated that foreign companies that partner with SOEs may be able to work in industries that would otherwise be restricted, apply for special projects, and receive preferential policy incentives. Companies that chose to partner with SOEs can take steps to minimize risks and operational conflicts, such as protecting intellectual property rights (IPR), while companies that compete with SOEs can adjust their strategy to be more competitive.

Foreign company and SOE partnerships

As foreign firms have sought to expand in China, companies have increasingly considered partnering with Chinese enterprises—especially SOEs—for sales, acquisitions, projects, and joint ventures. Several PRC central government policies released in 2010—including the State Council opinions promoting mergers and acquisitions between enterprises and the opinions on improving the utilization of foreign investment—have raised foreign investors' interest in understanding partnership options, especially if the Chinese partner is state-owned.

The USCBC interview results show that firms should consider the following factors before deciding to partner with an SOE:

■ Foreign companies should identify whether PRC laws and regulations require a Chinese partnership to conduct business in a specific sector. For example, strategic and pillar industries—such as aerospace, auto, nuclear power, and telecom—require foreign investors to find a domestic partner to conduct business in China. Because SOEs dominate these industries, the partner will likely be an SOE.

■ Companies should consider whether they are willing to give up some decision-making control. Interviewees said SOEs often have a hierarchical structure, while the SOE leadership sometimes focuses more on political goals rather than long-term company development or profits. According to USCBC interviews, foreign companies fear they will have to compromise some of their goals or concede some of their decisionmaking power by working with an SOE.

■ Companies should consider whether cooperating with SOEs can help achieve a specific goal. For example, company representatives interviewed said that some SOEs do not worry about market share because PRC authorities encourage other companies to purchase from SOEs and may assign designated customers for their products. SOE partners can thus give foreign companies a direct channel to sell products.

Quick Glance

■ More foreign companies are considering partnerships with China's state-owned enterprises (SOEs) to work in restricted industries and access new customers.

■ Companies can take steps to ensure a smooth working relationship with their SOE partners.

■ Foreign companies are also developing new products and focusing on niche segments to compete with SOEs in China and abroad.

Evaluating a potential SOE partner

Interview respondents stressed that it was important to choose an SOE partner with care. More than one interviewee said that it is easier to partner with local SOEs than central SOEs because local SOEs may have fewer political ties or motivations. Local SOEs in eastern China tend to be more market-oriented than SOEs in other parts of China because their leadership often has more managerial experience.

When evaluating a potential SOE partner, interviewees said foreign companies should consider whether anything in the SOE's financial, commercial, or production history could be a liability in the new partnership. Interviewees cautioned that foreign companies may need to perform more due diligence on a potential SOE partner than on a private Chinese company partner. Foreign companies should pay attention to several issues.

■ **Recommended partners**

Though regulations seldom mandate SOE partnerships, the PRC government often steers foreign companies toward a specific SOE partner. According to interviews, SOE leaders often believe that a foreign company needs the SOE more than the SOE needs the foreign company. This leads to a greater risk that the potential Chinese partner will approach the cooperative activity from a position of strength or even indifference.

■ **Priorities**

Foreign companies should try to understand the priorities of the potential SOE partner before cooperating on any business activities. Some interviewees stressed that foreign companies should evaluate whether an SOE's priorities might be overly linked to a particular PRC central or local government agency. Government connections can be an asset for potential foreign partners, but such connections can also impose political objectives that could constrain a company.

■ **Prior experience**

Foreign companies should evaluate their past experiences with SOEs as well as their potential partner's experience working with foreign companies. Companies can review past Foreign Corrupt Practices Act (FPCA) cases to find out if the SOE has been involved in such a case or hire an outside firm to conduct due diligence research. Interviewees cautioned that foreign companies that have avoided partnerships in the past may have difficulty cooperating with an SOE. Likewise, an SOE partner with limited international business exposure may make the relationship more challenging.

■ **Network reach**

Interviewees recommended that foreign companies pay close attention to the SOE's network, which will vary with the size, location, and type of enterprise. For example, a company that is looking to expand distribution in northeastern China may be better off partnering with a provincial SOE based in Liaoning than with a centrally controlled SOE with branches in the Northeast. But in highly controlled sectors, such as electricity transmission or telecom, a centrally controlled SOE may be an effective way to raise a foreign company's profile in that industry. SOEs in these sectors tend to have nationwide networks and many branches.

Interviewees said foreign companies should not base their decision to partner with a Chinese enterprise on the enterprise's ownership structure. Both SOEs and private Chinese companies could be well-positioned to help a foreign company meet its goals. For example, most interviewees believe that SOEs often have greater access to resources such as capital, land, and other natural resources than private Chinese companies. If the foreign partner's primary need is access to capital or different kinds of resources, the SOE might be a stronger candidate. If a foreign company is looking for a partner with a shared commitment to maximizing profits, however, the company may find it easier to partner with a private Chinese enterprise.

Minimizing risk in SOE partnerships

Partnerships between foreign companies and SOEs in China are not always smooth, but companies can take steps to minimize risk and ensure productive relationships. While cooperating with SOEs, foreign companies should pay close attention to three issues: IPR protection, compliance with the FCPA, and implementation of transparent management and conflict prevention practices.

IPR protection

Many foreign company representatives report that one of their biggest fears in partnering with an SOE is intellectual property theft. SOEs and private Chinese companies often lack awareness of IPR infringement. Interviewees shared their best practices in protecting a company's IPR when cooperating with an SOE partner.

■ Tech transfer and research and development (R&D) activities

Foreign companies often aim to limit core technology transfer in China and keep their main R&D activities in developed markets because of fears of intellectual property theft. But withholding essential intellectual property from an SOE partner is more challenging now than it was 10–15 years ago. SOEs no longer rely on foreign capital and are more likely to request technology transfers when negotiating a partnership with a foreign company. Central government policies often encourage technology transfer from foreign to Chinese companies (see the *CBR*, March-April 2010, p.20). As potential instruments of state policy, SOEs are more likely to press for intellectual property to show government owners they are working toward national development goals.

■ China-specific technologies

Many foreign companies are developing new products for China or using China as an incubator for technologies to deploy to other emerging markets. Interviewees suggested that foreign companies manage intellectual property based on where it is used most as opposed to managing it based on tax and royalty considerations. For example, if a company develops intellectual property to meet demands in China, the company should file for IPR protection in China. This practice can help foreign companies offer something concrete to their potential SOE partner. Moreover, SOE partners are often willing to develop China-specific technologies because such actions demonstrate to the government that the SOE is supporting national goals. At the same time, Chinese companies, including SOEs, generally understand the needs of the China market better than foreign companies. Foreign companies must understand PRC rules that govern how Chinese-created intellectual property can be used or licensed overseas. These rules will affect how the foreign company and its Chinese partner are able to use what they create.

■ Accountability

Interviewees suggested that companies should encourage SOE partners to take responsibility for protecting intellectual property. According to interviewees, foreign companies will need to educate SOEs continually about why intellectual property protection is in the partner's interest. Commercial and political arguments—such as the PRC government's recent IPR protection campaign or senior leaders' statements about the importance of IPR protection—help persuade SOE partners about the value of protecting intellectual property.

■ Cooperative agreements

Interviewees stressed that foreign companies should take customary precautions such as registering patents, trademarks, and copyrights in China, and creating intellectual property protection clauses for the original and supplemental agreements of the planned cooperation. Potential SOE or private partners that are unwilling to discuss intellectual property protection should be avoided.

■ Standard protection mechanisms

Companies should consider limiting employee access to certain parts of the intellectual property, using technology and other internal security measures to monitor intellectual property use, and designating one employee or team of employees to track IPR protection.

> Because many SOEs lack strong customer service capabilities, foreign companies can distinguish themselves by paying close attention to customer needs and improving service and support.

FCPA compliance

Foreign companies often believe that SOEs generally have excellent relationships with government agencies and officials. But SOE employees may violate FCPA rules through their interaction with PRC government officials. Interviewees said foreign companies should err on the side of caution and pursue a strict course of compliance with the FCPA.

■ **Train local partners**

Companies must train local partners in FCPA compliance, which should not be overlooked for cultural considerations such as the gifts Chinese businesspeople traditionally give government officials. Though PRC antibribery regulations increasingly detail prohibited behaviors and prescribe serious penalties, FCPA rules are stricter. Interviewees recommended using Chinese rules and regulations as a starting point for conversations and training on FCPA compliance.

■ **Appoint a staff specialist**

Companies should appoint one person as an FCPA monitor within the joint venture to help maintain awareness and promote compliance.

■ **Create compliance structures**

Interviewees also recommended designing internal audit procedures for FCPA compliance within the joint venture and organizing regular and ongoing FCPA training programs for SOE partners.

Transparent management systems and conflict-prevention practices

According to interviewees, foreign companies believe many SOEs lack professional business management—especially at SOEs where the leadership is appointed by the government. Companies can strengthen transparent management systems and minimize cultural and operating conflicts using the following strategies.

■ **Information sharing**

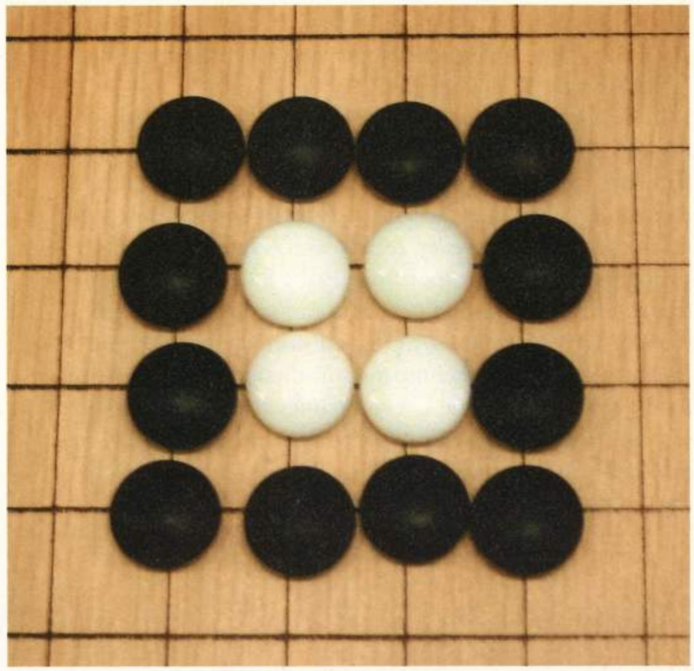
Many SOEs frequently disclose less information than their foreign partners expect—practices that reflect their state ownership and lack of exposure to international business norms. Foreign partners need to set aside assumptions of what information might normally be shared and be prepared to ask questions.

■ **Due diligence**

Companies will need to perform due diligence on an ongoing basis, rather than only in preparation for establishing the initial partnership. This will help companies understand the SOE's perspective on the partnership, help identify areas of divergence, and prevent potential conflicts.

■ **Long-term strategy**

Companies should integrate their long-term strategies in the original cooperation agreements so that both sides understand and accept the partnership's direction and goals. SOEs may have different opinions on the goals and length of the partnership, as well as how to terminate it. These matters should be agreed upon at the beginning and regularly reviewed during the course of the cooperation to help both parties avoid conflicts relating to culture, values, operation, and management.



Companies should develop new strategies to compete with Chinese state-owned enterprises in China and abroad.

Strategies for competing with SOEs

Regardless of whether a foreign company's plans include partnering with an SOE at some point, many US companies operating in China find themselves competing with SOEs. Understanding how SOEs operate can be important, as the competition can be intense, particularly for companies that sell products targeted at the middle to low end of the market, or those that operate in monopoly industries. Foreign companies that are technologically advanced, position their products and services on the high end of their market segment, or do not operate in monopoly industries may not face as much competition from SOEs. Moreover, companies find they may need new strategies to compete with SOEs outside of China as these companies move to emerging markets.

Domestic competition

Chinese enterprises, especially SOEs, dominate in strategic, pillar, and certain non-technology-intensive industries reserved by the PRC government for domestic leadership. Such sectors include aerospace, banking, energy, grain, petroleum, postal services, public utilities, railway, and telecom. The PRC government often restricts foreign investment in these industries by requiring foreign companies to partner with domestic companies or limiting the foreign ownership share. Meanwhile, the PRC government offers

SOEs and private Chinese enterprises access to tax incentives, subsidies, and special funds, and gives them preference in government procurement.

In technology-intensive industries, such as electronics and information technology, Chinese enterprises usually dominate low- and mid-range products and services while foreign companies focus on mid- and high-end products and services. In the future, however, technological developments and strong government support may make SOEs more competitive in mid- to high-end products and services. Most interviewees agreed that these SOEs will still need some time to catch up with foreign companies in these market segments. At the same time, some US companies are considering how to form partnerships with SOEs that dominate the low- to mid-end product and services markets. Interviewees said that companies competing with SOEs should consider

- Developing new products or localizing products for use in China;
- Diversifying current products and technologies to expand business into down-stream industries;
- Advancing R&D and upgrading products to widen the technology gap between foreign companies and SOEs;
- Selling business units that have low profits due to severe competition in China or moving the business units to other emerging markets;
- Focusing on underserved niche segments; and
- Lobbying government agencies for equal treatment.

Because many SOEs lack strong customer service capabilities, foreign companies can distinguish themselves by paying close attention to customer needs and improving service and support. Company executives could also aggressively market and educate prospective customers about their products. Many SOEs are usually satisfied with their designated customers and do not emphasize marketing and customer development.

Overseas competition

While competition with SOEs in China is increasing, the PRC government is encouraging Chinese enterprises to invest overseas. Most of the $68 billion China invested abroad in 2010 came from SOEs. Though few interviewees—all of which are based in China—expressed strong concern about competition in other markets, they and their counterparts at headquarters are watching China's investments abroad more closely.

Interviewees said competition with private Chinese companies and SOEs in emerging markets such as Africa, India, and South America is more robust than expected and stronger than competition from these companies in developed markets. Most competition with Chinese companies has focused on low-tech, low-price market segments where Chinese products and services might be more compatible with emerging market demand. According to interviewees, some US companies have been slightly behind their Chinese counterparts in cultivating business in emerging markets, and now these companies must scramble to catch up.

Interviewees said competition with private Chinese companies and SOEs in emerging markets such as Africa, India, and South America is more robust than expected and stronger than competition from these companies in developed markets.

Some interviewees noted that existing partnerships in China could serve as platforms for foreign companies to access emerging markets. One interviewee said his company had established a cooperative relationship with a Chinese SOE so both could take advantage of the SOE's early access to a specific developing market.

Interviewees noted that many Chinese companies still lack the technological sophistication and customer support necessary to compete in mature markets such as the United States and Europe. Nevertheless, interviewees suggested that competition with Chinese companies would likely be higher in price-sensitive commodity products, and that they expected future competition with Chinese companies in mature markets to increase across all product segments.

Following SOE developments

Trends indicate that SOEs will only become stronger in the future. Foreign companies should consider how they interact with SOEs not only as competitors, but also as partners. Foreign companies should be prudent in selecting a potential SOE partner and take steps to minimize risks—such as conducting due diligence and keeping communication channels open—to ensure a productive relationship. Companies should also adjust their China and global strategies to keep a close eye on the SOE competition. 完

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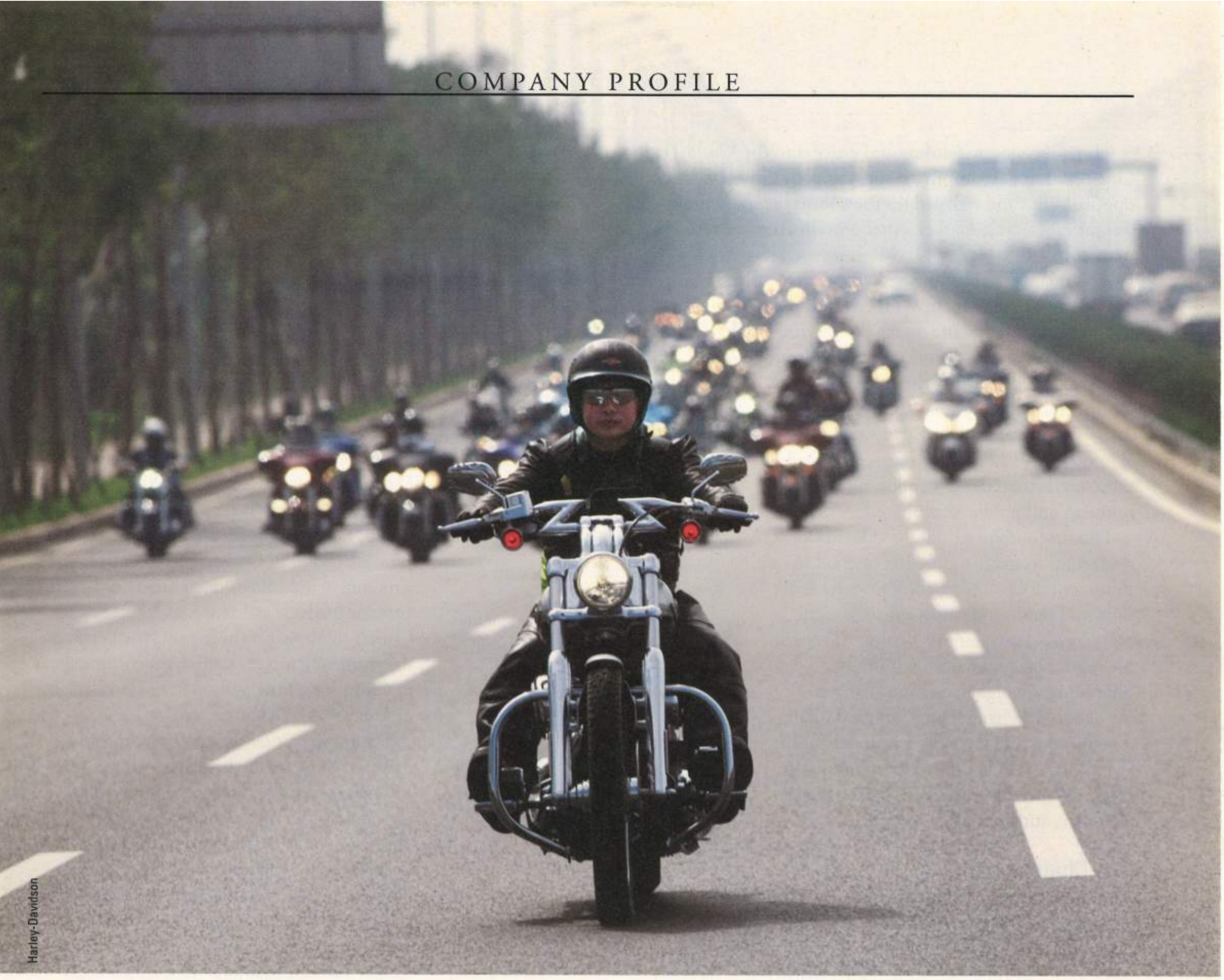
Harley-Davidson

Unlike customers in the United States, Harley-Davidson's customers in China use their bikes exclusively for leisure riding.

Harley-Davidson in China

An American icon revs up its fan base and sales in China.

Paula M. Miller

Often associated with freedom, open roads, and "raw power," the Harley-Davidson Motor Co. has been increasing its global motorcycle sales in recent decades. Founded in 1903 and based in Milwaukee, Wisconsin, the company today sells motorcycles through more than 1,300 dealerships in 70 countries.

Its recent expansion into countries such as China and India is part of the company's Asia-Pacific expansion strategy. Because the Asia-Pacific region is home to some of the world's fastest developing economies, the company feels it has great opportunities to introduce its brand and riding experience to the increasing number of riders in the region. With that in mind, Harley-Davidson sees China as one of the key contributors to its Asia-Pacific growth strategy.

China expansion

Harley-Davidson first entered Asia in 1912, when it began exporting motorcycles to Japan. The company rapidly expanded its Asia operations over the last 20 years and launched its Asia-Pacific headquarters in Singapore in May 2011.

China's economic reforms and entry into the World Trade Organization have improved the company's investment opportunities and warmed up the country's leisure heavyweight motorcycle market. After entering the Hong Kong market in 1995, Harley-Davidson marked its entry into mainland China by establishing a representative office in Shanghai in 2005. The representative office managed sales, marketing, dealer development, and after-sales service. Harley-Davidson upgraded its China operations by establishing a wholly foreign-owned enterprise—the Harley-Davidson (Shanghai) Commercial and Trading Co. Ltd.—in July 2010. The company's mainland China division now has 14 team members who work in sales, marketing, dealer support and development, and public relations.

The first authorized Harley-Davidson dealership in mainland China opened in Beijing in 2006. Today, the company has sales and service networks through eight full-service dealerships in Beijing; Chengdu, Sichuan; Dalian, Liaoning; Qingdao, Shandong; Shanghai; Suzhou, Jiangsu; Wenzhou, Zhejiang; and Xiamen, Fujian. The motor company sells 14 models from five distinct families of motorcycles; it also offers apparel and accessories, general merchandise, and after-sales services.

Quick Glance

- Harley-Davidson Motor Co. entered the Hong Kong market in 1995 and opened its first mainland China representative office in Shanghai in 2005.
- The company now has eight full-service dealerships in China and plans to open three to four new dealerships per year for the next five years.
- Harley-Davidson's typical customer in China is a successful entrepreneur between the ages of 35 and 55 years old.

The Chinese rider

Who are Harley-Davidson riders in China? Sean Jiang, managing director of Harley-Davidson's China operations, explained that Harley-Davidson customers around the world share similar personality traits, but they may vary in some socio-economic terms. Jiang remarked: "Globally, Harley-Davidson customers typically have strong character traits and a strong desire for success and to express their personalities." But he noted one main distinction between Harley-Davidson customers in China and those in the United States: "In the United States, many people consider Harley-Davidson motorcycles a big-ticket item, but quite a few hardcore customers still ride their bikes to work on a regular basis. In China, Harley-Davidson motorcycles are rarely used as commuting tools. Chinese customers don't ride their Harley-Davidson motorcycles to and from work, instead they use their bikes exclusively for leisure riding." Because all of Harley-Davidson's bikes are imported into China from the United States and incur import duties and taxes, the company's motorcycles cost significantly more to buy in China than in the United States.

Typical Harley-Davidson customers in China are successful entrepreneurs between the ages of 35 and 55 years old, which is slightly younger than their US counterparts. These Chinese consumers often own or lease at least one luxury vehicle. Jiang states that these owners are almost entirely Chinese nationals; less than 10 percent of customers are expatriates. Though only a small percentage of Harley-Davidson buyers in China are female, that number has grown significantly since 2007.

Top challenges

When asked to describe Harley-Davidson's top challenges in China, Jiang replied that the first challenge has been improving understanding of the market. "In 2010, China produced 27 million motorcycles, 99 percent of which were small, easily affordable bikes—such as mopeds—used for basic transportation. Only a couple of domestic manufacturers make models with engines sizes up to 600 cc," he said. "For comparison, Harley-Davidson's smallest engine is 800 cc, and ranges up to a very large 1,600 cc. The concept of heavyweight leisure motorcycles is not yet understood in China. There's no infrastructure, wholesale or retail financing, insurance, or roadside assistance, as compared to China's more mature auto industry. Because the segment isn't yet established, consumers in China have little awareness of heavyweight motorcycling as a leisure activity."

The growth of leisure motorcycling also has been hindered by regulatory challenges. PRC regulations ban motorcycles in many city centers and on elevated motorways. There are other challenges as well. Jiang remarked: "Regulations make it difficult for consumers to buy and ride motorcycles—mostly because it is difficult to get a license plate. Plus, China has a compulsory scrap policy that dictates all bikes must be scrapped after 11 years. China's regulations were set some 20 years ago when conditions were quite different. The smaller bikes that were mass produced then were generally of poor quality. Road conditions and traffic management were also poor. The bikes caused safety, traffic, and pollution problems. These bans still remain in effect today, even though motorcycle quality, road conditions, traffic management, and rider profiles have all changed."

Jiang explained that since heavyweight motorcycles are generally used for leisure riding on the outskirts of cities, they do not contribute to such problems. In addition, he said, Harley-Davidson customers in China are typically mature and often participate in the company's social responsibility activities. For example, Harley-Davidson China sponsored the "Safe Beijing" program to promote child safety, planned the May 12 Earthquake Relief Charity Banquet, raised money for students from the Central Primary School of Taipinghu, Huangshan, and sponsored an art contest to bring attention to emerging artists in China with the winning works displayed at the Milwaukee Art Museum in the United States.

To ease current restrictions, the company has spoken to PRC and US government agencies with the hope that PRC legislators will improve their understanding of the market and lift or change the restrictions. "The regulations aren't malicious in nature, there is just a lack of understanding of a leisure riding culture. With Harley-Davidson's help, we hope that people's understanding and perceptions will change and the rules will eventually be lifted," remarked Jiang.

HOGs hit the road

Harley-Davidson established the Harley Owners Group (HOG) in 1983 in response to riders' desires to share their passion with other motorcycle enthusiasts. The HOG organization is supported by Harley-Davidson, and local HOG chapters are sponsored by Harley-Davidson dealerships. HOG chapters are membership organizations with their own bylaws, officers, activities, and dues. There are roughly 1,400 HOG chapters throughout 70 countries, which makes HOG the largest company-sponsored organization of motorcycle riders in the world.

China's first HOG chapter was established in Beijing in 2006. The country now has four chapters—with others in Chengdu, Qingdao, and Shanghai.

Organized by the Beijing and Shanghai HOG chapters and Harley-Davidson China, the first China National HOG Rally occurred in Tai'an, Shandong, in May 2009. The three-day rally drew roughly 100 riders from Beijing, Qingdao, and Shanghai. The second China National HOG Rally occurred in Qinhuangdao, Hebei, in May 2010 with more than 200 riders participating in the three-day event. Rallies since then include the "Great Ride of China" in which 400 riders toured 12 Chinese cities in the summer of 2010; and the third national HOG rally, which attracted more than 600 Harley-Davidson owners to Qingdao in October 2011. Rallies often include a welcome ceremony, organized ride, various activities, and a charity auction.

Initially, Jiang thought that organizing HOG rallies in China "would involve a lot of red tape, but they are becoming easier to organize. All levels of local government have been participating and cooperating to make sure the events run smoothly."

Jiang doesn't see many differences between HOG chapters in China and the United States. But he says that dealerships in China must learn more about managing HOG chapters, sponsoring rallies, and providing HOG members with technical advice and services.

China sales

Though other companies sell heavyweight motorcycles in China, Harley-Davidson does not compete with motorcycle brands alone. Rather, Harley motorcycles also compete with luxury goods such as boats, and with leisure sports such as golf.

China sales currently make up a small portion of Harley-Davidson's global sales, but the company expects China to play an increasingly large role. Jiang stated, "Japan is Harley-Davidson's largest market outside of the United States. But Harley-Davidson has been in Japan for almost a hundred years, and it is a mature motorcycling market. China is still an emerging motorcycle market, but the company is pleased with its growth in the country."

Sean Jiang, managing director of Harley-Davidson's China operations, says the company hopes to open three to four new dealerships per year in China over the next five years.

Over the next five years, Harley-Davidson would like sales volume in China to increase 35 percent each year and hopes to see three to four new dealerships open each year. The company expects retail sales of new Harley-Davidson motorcycles in non-US markets to exceed 40 percent of total unit sales by 2014.

Positive outlook

Since Harley-Davidson entered China, it has seen more riders and increased lenience and cooperation from the government. "Qingdao provides a good example," Jiang said. "When organizers approached the Qingdao government about the HOG rally, the officials immediately recognized it as a good opportunity for the city. Qingdao, which has been working to brand itself as a tourist city, included our rally in the city's month-long tourism festival. We received a lot of government support and media attention, because the city saw it was good for tourism."

Jiang predicts that with a more relaxed regulatory regime, a maturing market segment, and improved traffic management, China will be one of the preferred countries for global HOG rallies. He explained: "Because of its size, terrain, history, and culture, I think many overseas HOG chapters will want to come to China to ride. HOG members want adventure, an open road, and happy times—and China can offer all that." 完

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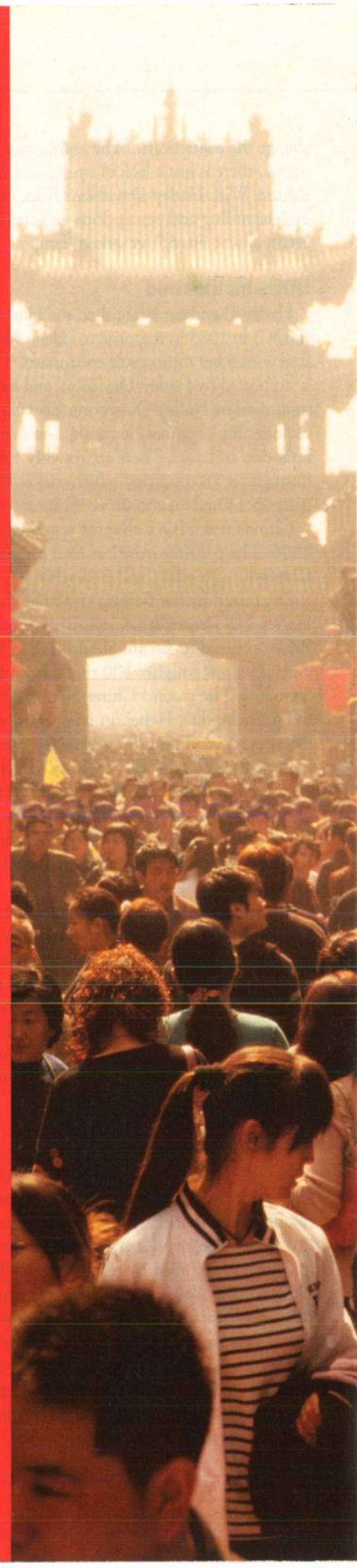
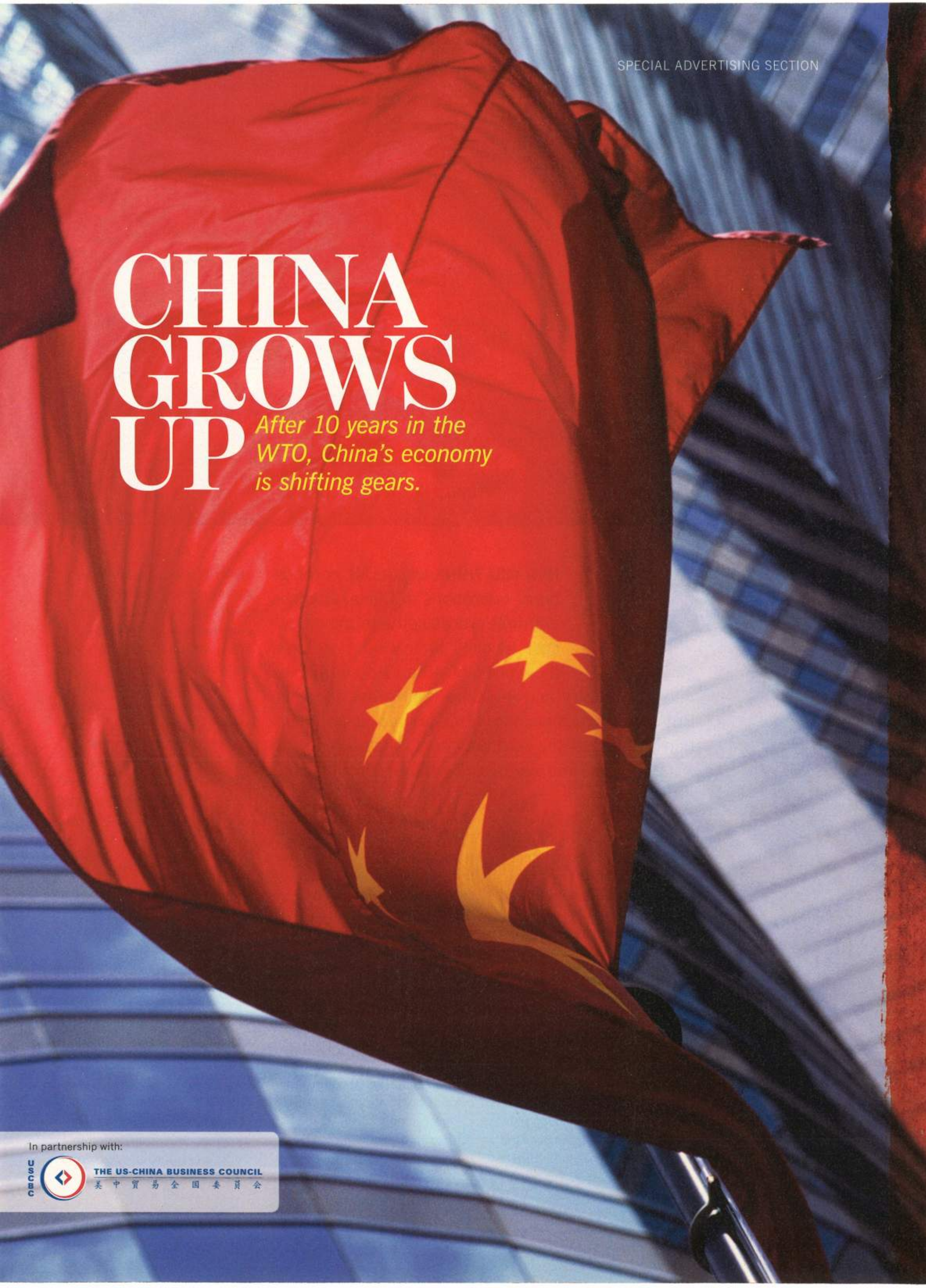
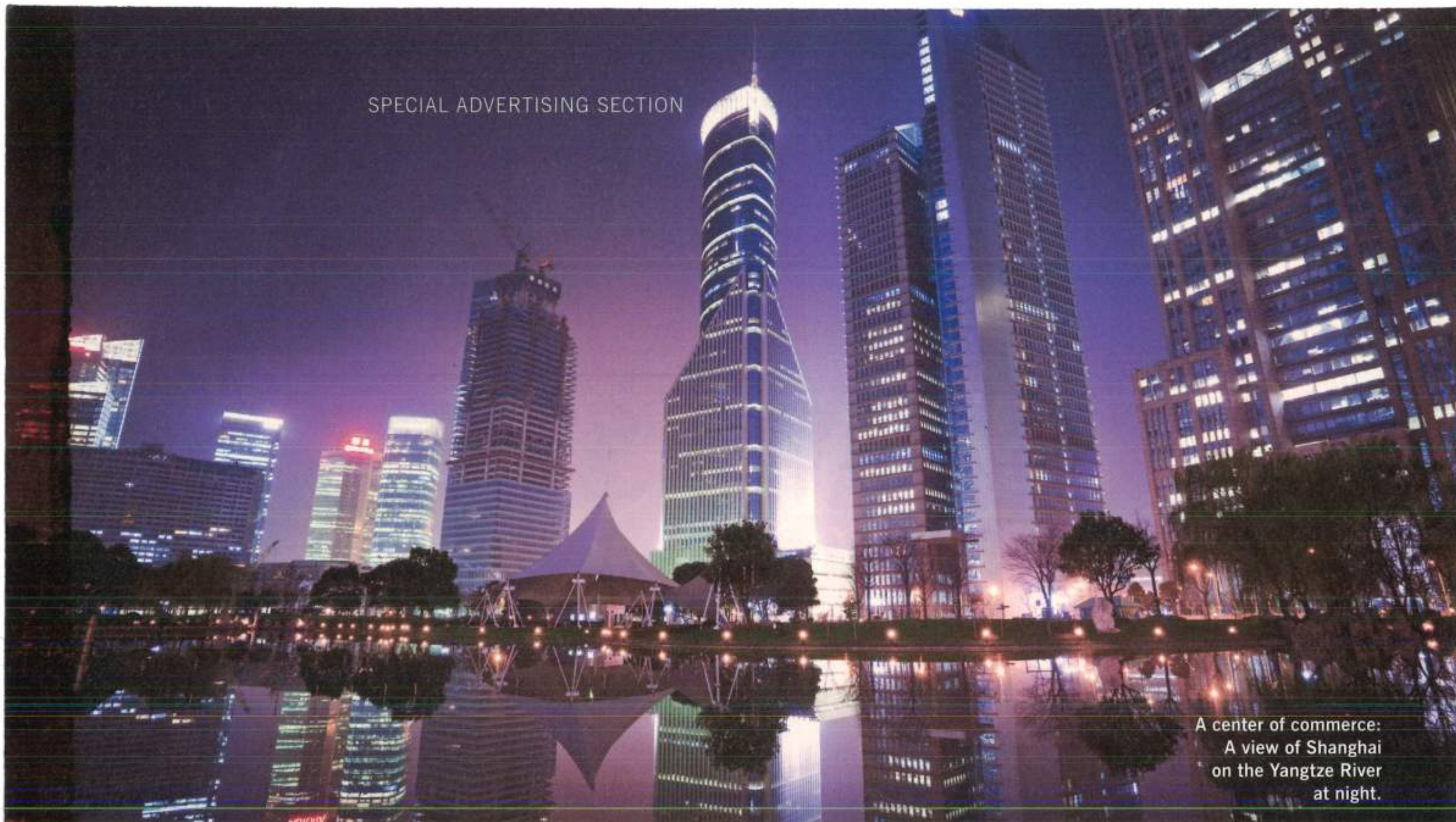


CHINA GROWS UP

After 10 years in the WTO, China's economy is shifting gears.





A center of commerce: A view of Shanghai on the Yangtze River at night.

WHEN YOU THINK about U.S. corporations' operations in China, chances are three words come to mind: low-cost labor. That's what has lured thousands of American companies into the country and enriched their gross margins. But now China's economy has arrived at an inflection point. Over the next decade, China's siren song will be these three words: enormous middle class.

"Anyone who's taken advantage of this cheap labor over the last several decades has done remarkably well. But as China develops, those opportunities recede. Rather than sourcing, China—with its emerging middle class—is becoming a place for selling products," says Christian Lundblad, an associate professor of finance at Kenan-Flagler Business School at the University of North Carolina at Chapel Hill.

In theory this transition will play out beautifully. China will add an estimated 1 billion people to the middle class over the next decade, nearly one-third of the world's expected middle tier by 2020. With a huge new product market in China, U.S. firms can swiftly grow exports, correcting America's trade deficit in the process.

The risks? Inflationary pressures in China might push up costs in the short term. Increasing income disparity might cause instability. And the steady improvement in business conditions wrought by China's membership in the World Trade Organization (WTO) could slow, or possibly reverse.

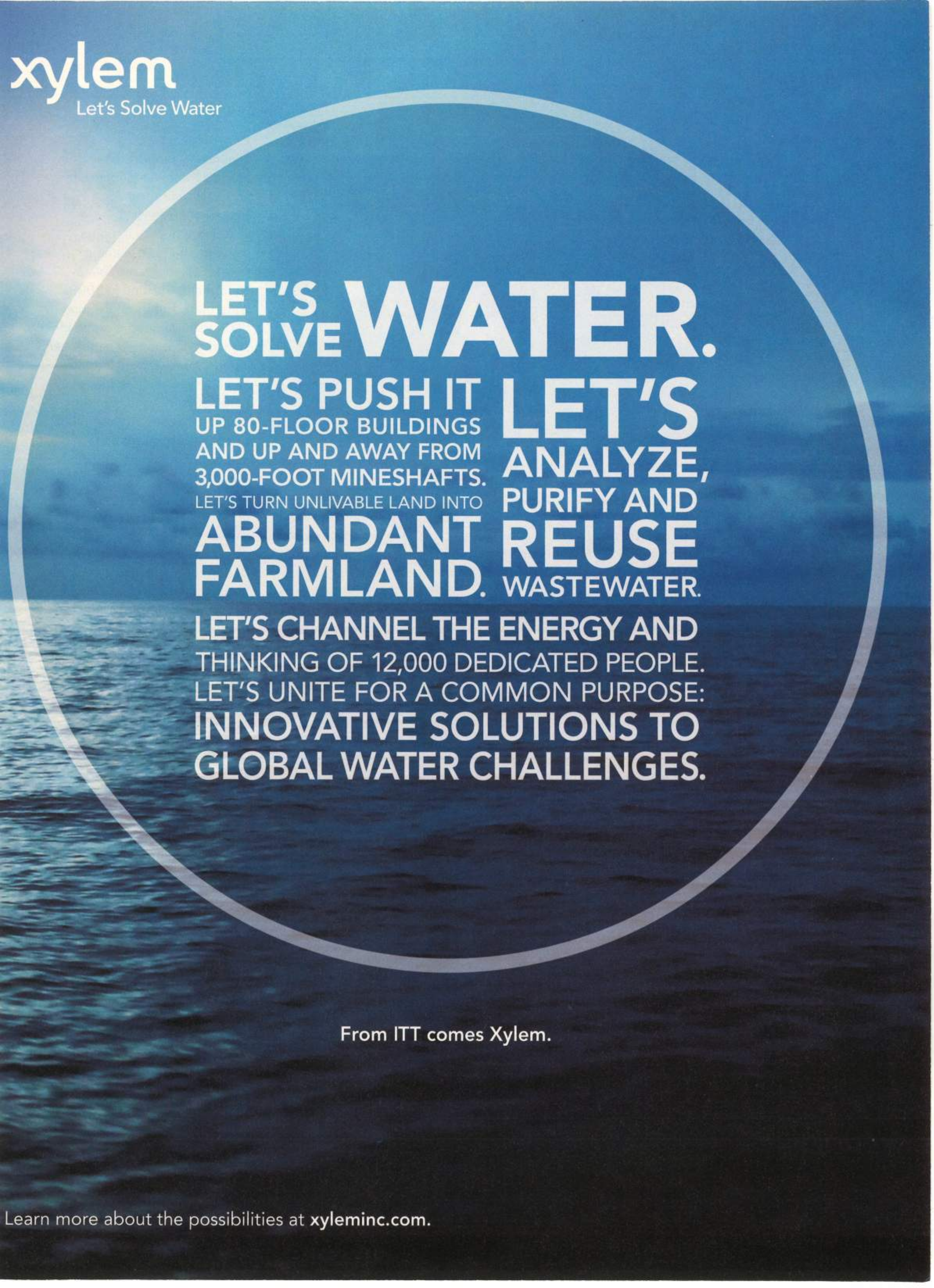
After joining the WTO in 2001, China cranked open the trade gates by revising thousands of laws and administrative processes, cutting import tariffs by nearly 40%, almost eliminating import licenses and quotas, relaxing ownership restrictions on foreign businesses, and allowing non-Chinese companies entry into previously off-limits sectors.

This cascade of market-opening moves—the latest in China's long-term effort to become part of the modern world economy—has generated eye-popping statistics. U.S. exports to China have grown 468%, to $91.9 billion, since 2000. Trade has increased from less than 10% of China's GDP to 64% over the same period. Surges in Chinese demand account for roughly 50% of export growth of Hong Kong, Japan, and Taiwan.

"Foreign trade has grown rapidly, and foreign investment has poured into the country," says John Frisbie, president of the U.S.-China Business Council (USCBC). "The trend has created jobs, helped to raise incomes, and contributed to China's extraordinary growth."

Since 2000, U.S. exports to China have grown 468%

SOURCE: BUREAU OF ECONOMIC ANALYSIS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Minister Shi Guangsheng signs China's WTO accession documents at a ceremony in Doha on Nov. 11, 2001.

AFP/GETTY IMAGES

China is now America's third-largest export market—
$118 billion in 2010 when Hong Kong is included.

SOURCE: BUREAU OF ECONOMIC ANALYSIS

The WTO's membership requirements lowered several key barriers for U.S. companies, including UPS. "The liberalization of express delivery services has been particularly important to the growth of UPS in China, as it allowed us to service our customers directly and provide greater efficiency and improved visibility for their supply chains," says Chris Grubb, vice president of marketing for UPS's Asia Pacific region. China also dropped its average tariff rate for medical devices and pharmaceuticals from 14% to about 6% in 2000. That move, along with removing its import quota for medical devices, encouraged UPS to increase its investment in health care logistics in China.

Since 2002, UPS has invested a hefty $900 million in the country. Between 2008 and 2010 it opened hubs in Shanghai and Shenzhen, and a shared center in Hefei, Anhui Province. Today the carrier operates out of 45 locations, serving 330 cities, and employs some 6,000 workers.

Similarly, Xylem Inc. has positioned itself to reap the benefits of China's meteoric rise. The $3.8 billion water business that was spun off of ITT Corp. last month and renamed as a stand-alone company—is an old hand in China, where one-quarter of the total population lacks access to safe drinking water.

"China's five-year plan for infrastructure investments aims to provide China's population with improved access to clean water and superior wastewater treatment," says Bob Wolpert, head of Xylem's businesses in China and India, as well as president of the company's flow control business. "We've been doing business in China for more than 20 years, and we will continue to support these newest goals with our global water and wastewater transport and treatment business."

Xylem's history in China includes an award-winning effort it still operates called Watermark. Starting in 2009, Watermark and its charitable partners have designed and installed solar-powered safe water pumps, hand-washing stations and latrines for more than 8,000 students and teachers; taught a disaster risk-reduction course for an international NGO, and hosted a competition for Chinese students to find innovative solutions to water supply problems and pollution.

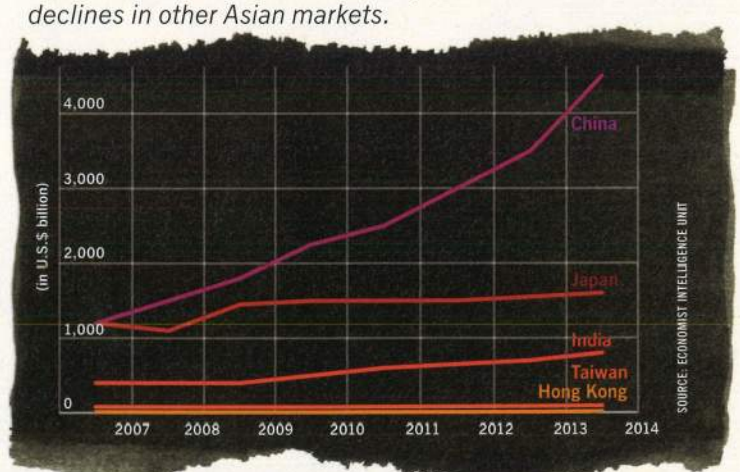
MATURING MARKET

During the last decade, relaxed trade regulations have paid off handsomely for most U.S. companies. Nearly 90% of USCBC members responding to a council survey in 2010 said that their China operations were profitable and that profit margins are the same or better than other ventures worldwide.

As China's economy matures, its emerging middle class is both a boon to U.S. corpo-

RINGING UP RETAIL SALES

China's retail sales growth has helped offset declines in other Asian markets.



A bustling middle class shops on the world-famous Nanjing Road in Shanghai.

rations and a potential time bomb. Chinese with disposable income are already ringing cash registers for U.S. consumer goods companies. Yum! Brands, based in Louisville, had more than 3,400 KFC and Pizza Hut restaurants in China in the first quarter of 2010. Starbucks has 700 outlets there and plans to open 80 shops per year going forward, making China the company's second-largest market.

One measure of the middle class's rapid growth: cellphone usage. China Telecom, which is a dominant carrier in China with broadband access to all 31 provinces and 70% of the country's Internet market, had some 28 million mobile subscribers in 2008. By August of this year, the figure had more than quadrupled, to 113.5 million.

The Chinese are hungry for America's big-ticket items too. GM, which held its first board of directors meeting in China this year, sold more light vehicles—16.6 million—in China last year than it did in the U.S. Back in 2000 it sold just over 1 million. That torrid pace will continue. J.D. Power and Associates predicts that in just seven more years, the Chinese market will reach 33 million vehicles.

86%

of U.S. subsidiaries in China are U.S. wholly owned or majority-owned.

SOURCE: BUREAU OF ECONOMIC ANALYSIS

China's actual consumption will increase by more than six times by 2027 to as much as $10 trillion annually.

SOURCE: BUREAU OF ECONOMIC ANALYSIS

Needless to say, GM, Volvo, and other foreign and Chinese car companies are racing to build factories there.

Apart from autos, food, and beverages, the industries with the greatest growth prospects in China include retail, agricultural goods, processed foods, aviation, natural resources (particularly lumber, coal, wheat, and corn), entertainment, and tractors and trucks.

Alongside the growth in middle-class consumers is a significant rise in small and medium-size businesses. SMEs, as they are known (for Small to Medium Enterprises), contribute 60% of industrial output and 80% of jobs in China. Currently suffering from shortages of electricity, capital, and labor, as well as soaring costs, many of the country's SMEs are facing the toughest conditions in years. The country's new national growth plan for SMEs calls for addressing these problems and other growth impediments by simplifying legal business structures, easing hiring rules and boosting development of targeted industries (including nanotechnology, biotechnology, defense, and pharmaceuticals) through incentives and other moves.

AliExpress, a new online wholesale marketplace launched by Alibaba.com, highlights the business-to-business opportunities in the SME market. Alibaba .com, which describes itself as the world's largest business e-commerce marketplace connecting buyers and suppliers, created AliExpress to enable consumers and businesses globally to buy products at wholesale prices. Through the integration of UPS technology and shipping services, AliExpress customers can manage their shipping and tracking processes on AliExpress's website.

GROWING PAINS

Amid the exciting prospects in China, however, new risks are growing. The country has been grappling with inflationary pressures. Loath to revisit the 20% inflation rate that prevailed during the late 1980s, China has put the brakes on monetary policy during the last year or so. But the current global economic slowdown, which has triggered a significant contraction in China's growth, calls for the opposite: stimulus policies.

Walking this fine line will be all the more challenging as millions of Chinese continue to migrate from rural to urban areas. "A global economic slowdown makes it more difficult for the government to employ these interior workers who are moving to the coast," says UNC's Lundblad. Over the next 14 years, some 250 million Chinese will migrate, on top of the 200 million who've moved during the past 20 to 30 years. Income inequality, which has grown very rapidly, particularly from region to region, drives much of the movement and could be a threat to China's stability.

For companies already doing business in China, the chief concern is, as always, achieving equal footing in the country. The USCBC's members cited competition with state-owned enterprises, intellectual property rights enforcement, and licensing, business, and product approvals from regulatory authorities among their top 10 concerns, in last year's survey. The rise of protectionist voices in China and the U.S., which could roll back recent market-opening measures if the voices become loud enough, concerns the USCBC's Frisbie.

"The terms of China's WTO entry agreement cannot be the end of the story," he says. "Services sector reforms and market openings, innovation and technology transfer policies that are based on global best practices for Chinese and foreign companies are all areas that will be crucial."

Clearly, doing business intelligently in China is getting more complicated as its economy matures. But the country's siren song is harder than ever to ignore. Who said growing up was easy? ●

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USCBC Gala Features White House Chief of Staff

The US-China Business Council's (USCBC) 2011 Gala, held on December 7 at the Mandarin Oriental in Washington, DC, featured White House Chief of Staff William Daley as the keynote speaker. Nearly 400 people attended the event, which was co-sponsored by 38 USCBC member companies. Special guests included PRC Ambassador to the United States Zhang Yesui, Madame Ambassador Chen Naiqing, and Reps. Rick Larsen (D-WA) and Charles Boustany (R-LA), US-China Working Group co-chairs.

USCBC recognized the US Department of State's 100,000 Strong Initiative as its 2011 honoree for advancing US-China relations. In presenting the award, USCBC Chair and Coca-Cola Co. Chairman and CEO Muhtar Kent said: "Given the importance of the US-China relationship, and the need to support future leaders in both nations who can successfully manage the political and commercial relations between the two largest economies in the world, USCBC applauds the efforts of the US Department of State 100,000 Strong Initiative. The need for Americans to gain greater exposure to and understanding of China is clear: there is perhaps no more important or complex relationship in the world than that of the United States and China." The 100,000 Strong Initiative is designed to dramatically increase the number and diversify the composition of American students studying in China.

USCBC also made a $15,000 contribution to The Five Project, which will allow the organization to broaden its reach by introducing on-site training in remote areas of northeastern China. The mission of The Five Project is to increase the capacity of autism and other disability organizations in China and to provide effective intervention services to support self-help and self-advocacy skills in Chinese individuals with disabilities and their families.

The Honorable Barbara Franklin, president and CEO of Barbara Franklin Enterprises, the Honorable William Cohen, chair and CEO of the Cohen Group, the Honorable Carla Hills, chair and CEO of Hills & Co., and Cargill, Inc. Vice Chairman Paul Conway.

USCBC Chair and Coca-Cola Co. Chairman and CEO Muhtar Kent, White House Chief of Staff William Daley, and PRC Ambassador to the US Zhang Yesui attended USCBC's 2011 Gala at the Mandarin Oriental in Washington, DC.

USCBC President John Frisbie addresses Gala attendees at the Mandarin Oriental in Washington, DC.

Kent presents an award to Carola McGiffert, director of the US Department of State's 100,000 Strong Initiative.

Event Wrap Up

CHICAGO

October

Breakfast on Current Issues in US-China Trade

US-China Business Council (USCBC) President John Frisbie provided an overview of the latest developments in US-China trade politics and discussed the current operating environment for member companies in China as laid out in USCBC's 2011 member survey.

ONLINE

November

Webinar on the China Business Outlook in 2012

InterChina Consulting's Founder and President Jan Borgonjon and Senior Counselor Dr. Kim Woodard examined how China's current economic environment is shaping up for 2012. They addressed the effects of increasing cost pressures and inflation on industrial and business decisions, and explained how an economic slowdown could improve the success rate of merger and acquisition transactions in 2012.

SHANGHAI

November

Shanghai China Operations Conference 2011

See box below.

WASHINGTON, DC

October

China-US Investment Forum

The China Society, the Center for China & Globalization, the China Times, and USCBC co-hosted a day-long conference on Chinese investment in the United States. The event featured panel discussions with US and PRC scholars and business representatives, as well as remarks by PRC Ambassador to the United States Zhang Yesui.

Briefing on Human Resources in China

Steptoe & Johnson LLP Partner Susan Munro and USCBC Business Advisory Services Manager Kyle Sullivan discussed human resources issues in China.

Briefing on China Dialogue with Under Secretary Hormats

USCBC and the US Chamber of Commerce co-hosted a briefing with Under Secretary of State for Economic, Energy, and Agricultural Affairs Robert Hormats on his visit to Chengdu and Beijing for the US-China Sub-National Dialogue and the Senior Dialogue between the US State Department and the PRC National Development and Reform Commission. Hormats also updated participants on US priorities for the Asia-Pacific Economic Cooperation (APEC) Summit in Hawaii.

November

Joint Commission on Commerce and Trade (JCCT) Briefing

Assistant US Trade Representative (USTR) for China Claire Reade and Deputy Assistant Secretary of Commerce for Asia Craig Allen discussed the developments and plans for the meeting of the fall 2011 JCCT.

Briefing on Trends in US and PRC Anticorruption Efforts

K&L Gates LLP Partner Amy Sommers and KPMG LLP Partner Pamela Parizek discussed China's revised antibribery and anticorruption rules and the impact the rules will have on US companies. They also discussed US government efforts to boost Foreign Corrupt Practices Act enforcement in China.

December

JCCT Debrief

USCBC, the US Chamber of Commerce, the Coalition of Service Industries, and the National Association of Manufacturers co-hosted a debriefing with Assistant USTR for China Claire Reade and Assistant Secretary of Commerce Craig Allen. Reade and Allen recapped the most recent session of the JCCT held in Chengdu, Sichuan.

Briefing on APEC and President Obama's Asia Trip

Assistant Secretary of State Kurt Campbell discussed President Obama's trip to Asia, Obama's meeting with PRC President Hu Jintao and US allies, and the US government's new strategic initiatives in the region. Campbell also discussed what to expect in the year ahead for US-China relations.

USCBC Gala 2011

See p.52.

Upcoming Events

SHANGHAI

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

January 12

WASHINGTON, DC

USCBC Forecast 2012

January 18

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

Shanghai China Operations Conference 2011

The US-China Business Council (USCBC) brought together China operating and policy experts for its fall China Operations conference in Shanghai. Hank Levine, senior vice president of the Albright Stonebridge Group and former US Commerce Department deputy assistant secretary for Asia, delivered the luncheon address.

The event also featured Dr. Paul Armstrong-Taylor, professor of international economics at the Johns-Hopkins University-Nanjing University Center for Chinese and American Studies, who updated members on China's economic outlook. FedEx Express Domestic Services Regional Vice President Jimmy Chen and American Society of Transportation and Logistics Greater China Chief Representative Chung Tam also discussed the policy developments and best practices for managing rising transportation and logistics costs.

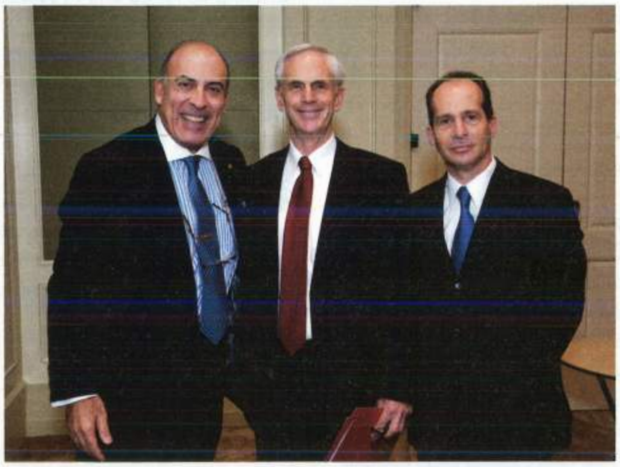
Conference topics also covered multinational corporations' human resources challenges in China's tight labor market; Shanghai's tax reform projects; US and PRC actions to prevent commercial corruption; employee ethics and compliance training; and best practices in managing local government relations.

Board Hosts Bryson, Elects New Director

The US-China Business Council's (USCBC) board of directors held its semiannual meeting on December 7, which included discussions with US Secretary of Commerce John Bryson and Governors Jack Markell (D-DE) and Bob McDonnell (R-VA). The discussions covered the state of US-China commercial relations and how to increase engagement between governors and mayors of the United States and China. The directors also elected Stephen B. Dobbs of Fluor Corporation to join the board.

At the meeting, Bryson discussed his first visit to China as US Commerce secretary. Bryson was among the top officials who led the US delegation to the US-China Joint Commission on Commerce and Trade (JCCT) meetings in Chengdu, Sichuan. This year's JCCT included high-level discussions on US-China trade issues and promoting commercial relations.

With sub-national engagement increasingly important in US-China trade, Governors Markell and McDonnell spoke to the board about their states' efforts to increase trade and investment opportunities with China.



USCBC Chair and Coca-Cola Co. Chairman and CEO Muhtar Kent, US Secretary of Commerce John Bryson, and USCBC President John Frisbie at USCBC's board meeting.

Kent greets Virginia Governor Robert McDonnell, Delaware Governor Jack Markell, and US Department of State Special Representative for Global Intergovernmental Affairs Reta Jo Lewis, at USCBC's board meeting on December 7, 2011.

From Telex to Text Message

Ingrid Lombardo

As a student in Beijing in 1983, Elvira Hammond's primary communication with home was by letter. All mail, coming and going, was opened and read by the Chinese post office. Hammond once received a mix tape in the mail with the first hour of music erased and replaced with sounds of the post office. She received one international phone call all semester—the news that she had been admitted to Stanford University. This call cost $30.

Elvira Hammond, pictured above in her student identification card, recalls the challenges of communicating with friends and family in the United States when she was a student in China in 1983.

This year CET Academic Programs—which sends roughly 650 study abroad students to China every year—will celebrate its thirtieth anniversary in China. As we plan our celebration, we are reconnecting with program alumni and staff from decades gone by, which has made us reflect on changes in China over the past 30 years. One of those changes is how technology has dramatically altered how we communicate with program staff and students.

In the 1980s, we rarely used telephones to communicate with China-based staff. Ken Hammond, CET resident director in Beijing in 1983, would take a taxi to a hotel to use the telex machine to send messages to headquarters. Hammond would type the message on a typewriter-like keyboard, which would punch holes in a tape. Price was calculated by inch of tape, so messages had to be concise. If Hammond made a mistake, the tape had to be cut and taped back together. Phone calls were reserved for emergencies and CET staff sent program reports by regular mail.

Mark Lenhart, CET resident director in Harbin in 1990–91 and CET's current executive director, said there was only one telephone in the guesthouse lobby for roughly 500 students and guests. "There was no privacy when calling headquarters, so I made it my goal to get my own telephone," Lenhart said. Obtaining the necessary permissions to get the phone took four months and his request went all the way up to the president of Harbin Institute of Technology. A rotary phone arrived and a dedicated line was run from a telephone pole across a vacant lot directly to Lenhart's office window. The conspicuousness of the line was awkward, but he appreciated the gesture. "The number of phone lines a *danwei* could have was limited, and it meant a lot to me that the university installed an extra line just for CET," Lenhart said.

Even with the new phone, calls were rare and expensive. Lenhart sent written communications to headquarters by fax. He would type a page on his computer, print it, and ride his bicycle to the International Hotel to send the fax. In 1991, Lenhart achieved another victory when he got his own fax machine.

Jocelyn Flint was a student in China in the early 1990s. At that time, calling home was too cumbersome. Not only did Flint have to wait in line to use an international phone, there was a delay that made it impossible to have a normal conversation. Instead, Flint relied on letters. She wrote home on aerograms, blue pieces of paper that were lighter than normal paper and cost less to send. It took weeks for letters to come and go, but her mother still has them all. Any urgent news—like that of her parents' divorce—came by fax.

When Flint returned to work as CET's academic director in Beijing in 2000–01, China was a different world. Communications to headquarters were sent via email; it was a dial-up connection, so the phone and Internet could not be used at the same time. Fax was used as a back-up for important messages because email was unreliable. Flint recalls receiving news of 9/11 via fax.

A decade later, we have myriad ways to communicate with our China-based staff. We send several emails daily. If we need to speak to someone in China we can talk for free over the Internet, call their office or cell phone, or send a text message. In the 1990s, Lenhart recalls working autonomously and not consulting frequently with headquarters, but today we are in regular contact with our overseas staff and available for guidance at any time.

Though technology cannot erase the time difference between Beijing and Washington—a constant communication challenge for any US business working in China—it has fundamentally altered the frequency and ease of communication. But new technologies bring new challenges. Because we communicate more often now, we sometimes find that our staff is overburdened with emails and phone calls. Technology has also changed our students' China experience. CET pushes students to immerse themselves in life abroad, and we sometimes struggle to get them to unplug from home. From an immersion perspective, the "good old days" of telex machines and public telephones had some advantages. 完

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