www.amcham-shanghai.org

100 1915-2015

INSIGHT

The Journal of the American Chamber of Commerce in Shanghai

April 2015

The Forbidden Zone

Executives in China are frustrated over new Internet curbs that restrict their ability to stay in touch with foreign clients and their headquarters



ALSO INSIDE

- **Interview with Matt Tsien of GM**
- **President's Report**

STANFORD
RESIDENCES
尚臻
JING AN 静安





CONNECT AN IDEAL HOME WITH STYLE IN SHANGHAI

Service:

24-hour Front Desk & Regular Housekeeping
Concierge Desk
Taxi Booking & Car Rental
Floral Arrangement
Neighbornood Familiarization Tour
Monthly Social Calendar & Residents Event
Travel Agency Services
Restaurant & Private Club Recommendations and Reservations
Laundry and Dry-cleaning*
Baby Sitting & Business Center Service*

** additional fees may apply.*

Facility:

Indoor & outdoor swimming pool
Gym & Sauna
Common room & Children' s play room

Equipment :

Floor heating
Fully equipped kitchen
65' TV set & blue ray DVD player
Broadband & Wi-Fi
In-room infrared security system



STANFORD RESIDENCES JING AN

Block No. 1&3, Lane 1999 Xin Zha Road, Jing An District, Shanghai,PRC.

Leasing Hotline: **(8621) 8023 6288**

www.stanford-residences.com

info@stanford-residences.com

Managed by STANFORD (SHANGHAI) HOTEL MANAGEMENT *A Member of* 嘉華集團 K. WAH GROUP

AMCHAM SHANGHAI

APRIL 2015

INSIGHT

The Journal of the American Chamber of Commerce in Shanghai

AMCHAM SHANGHAI

PRESIDENT
Kenneth Jarrett

VP OF PROGRAMS & SERVICES
Scott Williams

VP OF ADMINISTRATION & FINANCE
Helen Ren

DIRECTORS

BUSINESS DEVELOPMENT & MARKETING
Patsy Li

COMMITTEES
Stefanie Myers

EVENTS
Jessica Wu

GOVERNMENT RELATIONS & CSR
Veomayoury "Titi" Baccam

MEMBERSHIP & CVP
Linda X. Wang

INSIGHT

EDITOR-IN-CHIEF
Bryan Virasami

CONTENT MANAGER
Kathryn Grant

SENIOR ASSOCIATE EDITOR
Silvia Feng

INTERNS
Lois Delhom
Anne Meredith
Amanda Zhao

DESIGN
Alicia Beebe

PRINTING
Mickey Zhou
Snap Printing, Inc.

INSIGHT SPONSORSHIP
(86-21) 6279-7119 ext. 5667
Story ideas, questions or comments on Insight: *Please contact Bryan Virasami*
(86-21) 6279-7119 ext. 5668
bryan.virasami@amcham-shanghai.org

Insight is a free monthly publication for the members of The American Chamber of Commerce in Shanghai. Editorial content and sponsors' announcements are independent and do not necessarily reflect the views of the governors, officers, members or staff of the Chamber. No part of this publication may be reproduced without written consent of the copyright holder.

Shanghai Centre, Suite 568
1376 Nanjing West Road
Shanghai, 200040 China
tel: (86-21) 6279-7119
fax: (86-21) 6279-7643
www.amcham-shanghai.org

11 **Taxing Errors** *By Peter Stratos*
A tax expert sheds some light on common mistakes American expats make on tax returns



11

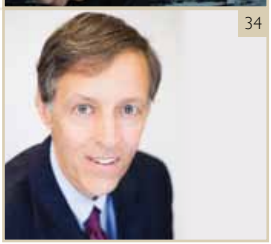
18 **In the Driver's Seat** *By Bryan Virasami*
Matt Tsien, president of GM China, talks about the auto market, air quality and electric vehicles


18

26 **Cover Story: The Forbidden Zone** *By Kathryn Grant*
The Internet in China is frustrating many business executives who interact regularly with overseas colleagues and clients


26

34 **Opinion: The Economic Fallout** *By Robert Atkinson*
How China's crackdown on the Internet will hurt the economy


34

INSIGHT STANDARDS
5 **Movers & Shakers**
9 **President's Report**

42 MONTH IN PICTURES
Highlights from recent events

50 EXECUTIVE INTERVIEW
Favorite Interview Question

INSIDE AMCHAM
40 **From the Chairman**
41 **Board of Governors Meeting**
45 **Government Relations**
46 **Event Highlights**

COVER DESIGN BY MICKEY ZHOU

President's Circle

Special thanks to the 2014-2015 AmCham Shanghai President's Circle Sponsors

American Medical Center 美国医疗中心

招商信诺 CIGNA CMB

DELTA 美国达美航空公司

Washington University
Fudan University
EMBA

United Family Healthcare 和睦家医疗

EDITOR'S NOTE



BRYAN VIRASAMI
EDITOR-IN-CHIEF

Spring is in the air, it's sunny and you've decided to take the laptop to the neighborhood coffee shop to do some work and catch up on emails. You try to enter the password and it doesn't work. After a few attempts, you conclude the password is correct, and it's just not your day. It's highly likely also that it's just not a good day for Internet users in China.

It's an issue that's frustrating many foreigners living in Shanghai and we've asked them to share some stories. One entrepreneur says the poor connections are "infuriating" and "detrimental" to his business while a U.S. expat in Shanghai said that he recently had to ask for permission to work from home in order to get his job done. His work is heavily reliant on a stable Internet connection.

Another is upset emails with attachments are not opening as fast as before the crackdown on VPNs. Welcome to the age of cyber discontent.

In this technology themed issue, we are pleased to have an interview with Matt Tsien, President of General Motors in China. An engineer by training, Tsien says the world's largest auto market will embrace electric vehicles and it's a matter of "when" and not "if." He also sheds some insight into November's historic pact between China and the U.S. that calls for reductions in carbon emissions.

It's tax season for Americans and if you're worried about preparing you own 1040, you can read about some of the most common misconceptions your fellow Americans have about filing from China and learn how to stay in compliance.

We will be back next month with our annual series on Shanghai Workers.





MY LIFE, MY STYLE

LANSON PLACE

The freedom to immerse yourself in a foreign culture begins with a sense of comfort. Find yours in the understated elegance and serenity of Lanson Place.

www.lansonplace.com Join & Connect with Us
BEIJING SHANGHAI KUALA LUMPUR SINGAPORE HONG KONG

Lanson Place Jinlin Tiandi Serviced Residences, Puxi, Shanghai
No. 3, Lane 168 Xingye Road, HuangPu District,
Shanghai 200020, China
Tel: (86) 21 2306 188 8, Fax: (86) 21 2306 1999
Email: enquiry.lpjt@lansonplace.com

COMPILED BY JUNLING CUI

Movers and Shakers highlights major personnel changes within the Chinese government at various levels and senior management-level movements within multinational companies in China.

DOW CORNING

Jeroen Bloemhard was appointed by Dow Corning as its new Greater China president. In this role, Bloemhard becomes the lead executive for corporate governance, compliance and risk management. Bloemhard joined Dow Corning in Belgium in 1993. In 2003, he relocated to Shanghai as a marketing executive in Greater China. Since 2010, he has held global leadership positions in raw materials procurement and Dow Corning's XIAMETER business. He has been stationed in Belgium, Germany, China, Japan and the U.S.


Jeroen Bloemhard

PRIVATE SECTOR

BURSON-MARSTELLER


Terri-Helen

Burson-Marsteller recently named **Terri-Helen Gaynor** President and CEO for Asia Pacific. She was the founding partner and managing director of Reputation Pty Ltd. in Australia for the past 12 years, serving clients including Becton, Dickinson and Company, Deutsche Bank, KPMG, Marriott International, Optus, and Qantas, among many others.


Kevin Johnson

STARBUCKS

Starbucks recently announced the appointment of **Kevin Johnson** as President and Chief Operating Officer. In his new role, Johnson will lead the company's global operating business across the Americas, EMEA (Europe Middle East and Africa), and China/Asia Pacific, as well as the Starbucks supply chain, information technology, and mobile and digital platforms. Johnson has been a Starbucks board member since 2009. From September 2008 through December 2013, he served as Chief Executive Officer of Juniper Networks, Inc. Prior to that, Johnson was the president of the Platforms Division at the Microsoft Corporation, where he held a number of senior executive positions over the course of his 16 years with the company.

EDELMAN

Carol Potter was recently hired by Edelman as executive vice-chairman for Asia-Pacific, Middle East and Africa. Potter has 30 years of advertising experience. She has worked with clients including Unilever, Pepsi, Visa, Kellogg's, Avis, Mercedes-Benz, Mars/Wrigley and Nivea. Between 2001 and 2004, she ran the De Beers account globally. She arrived in Shanghai as CEO of BBDO China in 2006, and ran the agency for nearly a decade. Prior to BBDO, she was a Global Business Director at J. Walter Thompson in London. She started her career at Saatchi & Saatchi and has worked in Sydney, New York, Tokyo and London.


Carol Potter

GOVERNMENT


Liu Hongcai

Liu Hongcai was named Deputy Minister of the International Department of the Central Committee of the CPC in March. Liu was born in Liaoning in 1955. He joined the International Department of the Central Committee in 1975 and worked in different positions over the years. From March of 2010 to February 2015, he served as the Chinese Ambassador to North Korea.


Zhang Taiyuan

Zhang Taiyuan was promoted to Vice Governor of Yunnan Province. Zhang worked in the National Government Office Administration from 2002 to 2009. In November of 2010, he was named Deputy Party Secretary of Kunming Municipal Government. Prior to his recent appointment, he was the secretary and member of the standing committee of Chuxiong Autonomous Prefecture.

If your company has executive personnel changes, please contact Junling Cui at junling.cui@amcham-shanghai.org.

Scan to renew

AMCHAM SHANGHAI | 100 1915-2015

Renew Your Membership Today and Lock in Savings



Renew your AmCham Shanghai membership today and stay a part of the largest and most active AmCham in the Asia Pacific region! In addition, you will enjoy the following special offers from us:

- All members who renew before March 3, 2015 will be eligible to enjoy free membership extension. *(Members who renew for two years will receive three-month free extension. Members who renew for one year will receive one-month free extension.)*
- 10% membership bundling package discount are available for renewal of Corporate Membership plus additional Associate Membership.

To renew or learn more about the details, please contact our Membership Team at (86 21) 6279 7119 x 5677 or email renew@amcham-shanghai.org.

A Special Thank You to Lucky Draw Prizes Sponsors

BLOSSOM HILL HOTELS & RESORTS 花间堂

CLASSIC TRAVEL

green massage 青籁养身

www.AmCham-Shanghai.org

FTZ DIGEST



Multinationals Remain Skeptical About the FTZ

More than one year after the FTZ's opening, foreign multinational companies remain skeptical about the business benefits of registering in the FTZ. According to the recently released AmCham Shanghai 2015 China Business Report, 73 percent of respondents indicated that the FTZ offers no tangible benefits for their businesses and almost half (48 percent) indicated that they perceived no noticeable changes for business since the zone's commencement in 2013. Additionally, 45 percent said that there was a lack of information to help companies understand the zone. Despite these issues, however, trade facilitation was cited as one area where the foreign business community has seen significant improvements. In particular, 35 percent indicated that streamlined customs and CIQ procedures were among the top benefits.



Program Paves the Way for Retail Investment in Foreign Markets

The Pudong New Area government recently announced that it was planning to launch a Qualified Domestic Individual Investor Program 2 (QDII2) on a trial basis within the FTZ this year. Under the program, individuals who meet certain eligibility requirements would be allowed to invest directly in foreign securities markets, as well as in property, industry, and other areas. This would be a significant step, as currently only institutional investors can invest in foreign capital markets through the Qualified Domestic Institutional Investor Program. Plans are also under consideration to raise the limit on permissible individual foreign exchange purchases, which is now the equivalent of US$50,000 per year. QDII2 is reportedly part of a set of 51 measures jointly proposed by the Shanghai Municipal Government, the Central Bank and other financial regulators intended to further facilitate capital account RMB convertibility and internationalization.

FTZ Expansion Plans Underway

In a move designed to further the implementation plans of expanding the FTZ announced earlier this year, the Pudong New Area government recently announced that it would be separating the management of Zhangjiang High-Tech Park from that of Zhangjiang Town. With the new split, responsibility for overseeing issues of public administration will fall to the government of Zhangjiang Town, while the responsibility for overseeing economic affairs will fall to the management committee of the Zhangjiang High-Tech Park. The inclusion of the Zhangjiang High-Tech Park, as well as the Lujiazui financial district and the Jinqiao export processing zone, will expand the FTZ from its original 28.78 square kilometers to 120.7 square kilometers. The ceremony commemorating the expansion, however, has been postponed until further notice.



IMAGINECHINA

Apple watch to hit China market

Apple announced during its Apple Watch launch event that China will be among the first nine regions to offer the watch for sale. The most affordable sports model will sell for about RMB3,000 ($479), including tax, versus $349 in the United States, while the top-end luxury edition will set buyers back more than RMB145,000 yuan ($23,157), against $17,000 in the U.S. The latest wearable gadget by the world's largest tech company is designed to provide immediacy by incorporating some apps that will allow users to get updates at a quick glance. Popular apps in China including WeChat and Alipay have already been added and were demonstrated during the launch event last month in Palo Alto.



Apple watch

Starbucks teams up to sell RTDs

Starbucks has announced its partnership with Taiwanese drinks maker Tingyi Holding Corporation to produce and sell ready-to-drink (RTD) beverages in China. John Culver, head of Starbucks' China and Asia-Pacific operations, said the tie-up would "unlock" the ready-to-drink coffee and energy beverage market in China, helping the company to tap into a niche market that is projected to be worth US$6 billion with a growth rate of 20 percent over the next three years. It has become an increasingly popular practice of multinationals to seek local partners for their roles in the local market. Analysts said the tie-up would help lower the cost of Starbucks' RTD coffee products and beef up the company's presence in lower-tier cities, in which there are more new customers to be won over.

Yahoo to shut China offices

Yahoo confirmed on March 18 that it will close its office in China, a move that is expected to eliminate up to 300 jobs. No detailed numbers were revealed, but the office, acting mostly as a research and development center, is said to have employed 200 to 300 people, according to reports. The closure comes about a month after the Chinese government announced new rules that would require foreign-based tech companies to hand over source code, submit to audits and build deliberate back doors into both hardware and software products. The company has cut about 600 jobs in the past six months, mostly at operations in Canada and India. With a staff of around 12,500 employees worldwide at the end of 2014, this round of job cuts will affect about 2 percent of its global workforce.

Chanel lowers prices in China over weak Euro

Luxury brand Chanel is reported to have realigned the price setting of its products on the global market. The price drop, which comes as a result of the significantly weakened euro, saved Chinese customers around 20 percent without the need to travel and shop abroad. While there is a price hike of around 20 percent in Europe on its iconic 11.12 and 2.55 bags, as well as Boy Chanel bags, prices fell around 20 percent in China. Some analysts believe that with Chanel kicking off the price competition, other high-end brands are likely to follow suit, particularly in the area of handbags and watches. TAG Heuer, owned by LVMH Moet Hennessy Vuitton SA, said it is also planning for a price-cut internationally due to the strong Swiss Franc.



A Chanel bag



Annual Survey Tells Us American Companies Still Doing Well

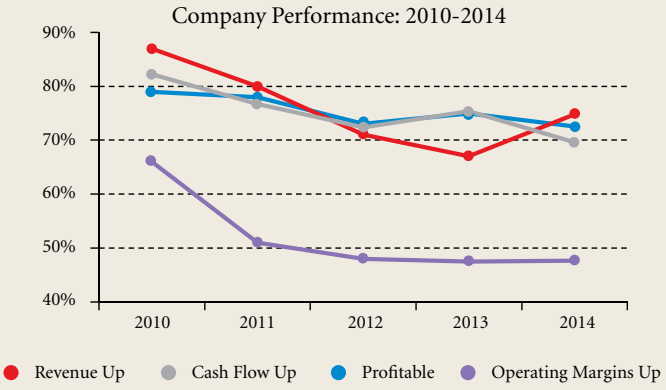
We released the results of our annual business climate survey in early March. For those who haven't seen the report, the headline news from the survey is that our member companies are performing well but moderating their growth expectations and sense of optimism. The *2015 China Business Report* is one of the Chamber's most important documents. It allows us to understand your concerns and helps us prioritize our advocacy efforts with both the Chinese and U.S. governments. The report is also a valuable educational tool as it provides an informed snapshot from people on the front lines of doing business in China – our members. There was strong media interest in our findings and we have started to take the report on the road with briefings to provincial officials in the Yangtze River Delta and in Beijing with the Central government.

The full report is available on our website (www.amcham-shanghai.org) and there is an interactive online tool that allows you to explore the data by industry sector. I encourage you to look at both.

Since you may not have read the report yet, let me summarize the key findings:

- The overwhelming majority of member companies were profitable in 2014 (73 percent), enjoyed revenue growth (75 percent), positive cash flows (70 percent) and growing or stable market share (91 percent).
- Our members continue to have an "optimistic" or "slightly optimistic" five-year outlook (85 percent), intend to increase investment and are increasingly focused on the China market. One noteworthy shift was a 10 percent move from "optimistic" to "slightly optimistic." Another is that planned increases in investment are more concentrated at the low to moderate end.
- High operating costs, China's slowing economy, uncertainty about China's economic reform program, and perceptions of regulatory bias against international companies are tempering long-term optimism and growth outlooks.
- Companies characterized the regulatory environment as increasingly opaque, deteriorating and having an impact on business. A majority (54 percent) believe that the regulatory environment favors local companies and a slightly larger number (63 percent) say this situation hinders their business.
- Companies are looking for productivity improvements to drive growth, emphasizing innovation to build new markets, and strengthening compliance efforts to ensure the sustainability of their businesses.

The results are consistent with the trends we have seen in recent years, meaning there were no major surprises in the findings. The business performance numbers were stronger than I had expected but consistent with what I hear from members. Performance, of course, varies by industry, but the composite picture for American companies is a positive one. Indeed, some sectors still anticipate high levels of growth, such as healthcare, consumer goods and energy. But overall, most companies are moderating their growth expectations and paying greater attention to productivity and transaction efficiencies. For example, the survey revealed an increase in companies looking to automation and downsizing as a response to rising costs. Moreover, dissatisfaction about the lack of transparency (70 percent) and unclear regulatory basis for investigations (67 percent) characterized the response to questions about China's anti-monopoly and anti-corruption campaigns.



I welcome your feedback on the report. We are already thinking about next year's report and your input will ensure that the report asks the right questions and provides useful data that we can use with the Chinese government to press for improvements to China's investment environment. We are also looking at ways to capture your views on issues that can't wait until the next survey – implementation of State Council Circular 62 on tax incentives provided by local governments and cyber-security regulations for the banking industry are two such examples. We want to ensure that U.S. companies remain successful in this critical market and your input on the business climate is essential for that effort.



Kenneth Jarrett, President



The Centennial Ball

AmCham Shanghai 2015 Charity Gala

Join us at this main event of the social season, a dazzling celebration, where revelers will enjoy a journey back to the days of spices and tea. This spectacular night of song and feast, games and laughter will drop anchor on April 11 in the Rose Ballroom of the Peninsula Shanghai.

DATE
SATURDAY, APRIL 11, 2015

18:00 Cocktails & Silent Auction
19:00 Dinner & Entertainment
21:30 Retro Dance Party

VENUE
THE PENINSULA SHANGHAI

DRESS CODE
Formal Evening Wear/Black Tie
Old Shanghai or Smart Vintage

We look forward to seeing you there!

Platinum Sponsors

Corporate Table Sponsors

Auction Sponsor

Supporting Organization

Media Partners

BY PETER STRATOS

It's a Mistake Not To

American expats tend to have a few misconceptions about their U.S. tax returns but it's not all on the minus column

Americans working in China tend to hear a lot of stories and opinions about who should or shouldn't file U.S. tax returns. Some of these tales are probably true but others are clearly false. It is possible to add something else to the famous quote that claims nothing in life is certain "except death and taxes" by pointing out that if you're an American working in China, you can be certain you're required to file tax returns.

After providing tax advice to expats in Shanghai over the past 10 years I have seen situations that fall into different categories. The following is an abbreviated list of some of the most commonly misunderstood items.

Doubling up

Since the United States taxes its residents and citizens based on worldwide incomes, there is a chance that one could end up paying taxes in two jurisdictions on the same income. This, I think, is why a lot of taxpayers choose not to file or try to hide their American status from foreign financial institutions. Fortunately, Congress is aware that this is an issue and has provided two different ways to limit this possibility.

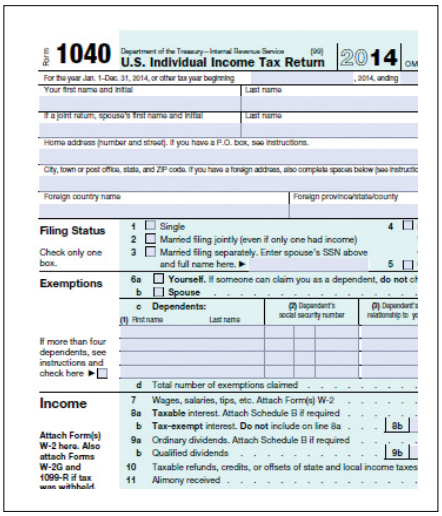
The first is the foreign tax credit (FTC), which allows a taxpayer to claim a credit for foreign taxes paid on income against their U.S. tax liability. The foreign tax credit is claimed in lieu of deducting the foreign taxes and can be claimed on a past due or amended return.

If the mechanics of the foreign tax credit fail to eliminate double taxation, one can always look to a tax treaty between the U.S. and the other country. Such treaties contain articles that address different types of income and states who has the right to tax, either primary or exclusive, and what that tax rate will be.

Reduction

Just about everyone knows that there is an exclusion of earned income ($99,200 for 2014 and $100,800 for 2015) for taxpayers whose tax home is outside of the U.S., however many people don't realize that they need to file a tax return in order to get this exclusion. The exclusion is not automatic and should be claimed in a timely manner by filling in an original return.

It is important to remember that the exclusion is only available to offset earned income, that is to say, wages or self-employment income. The FEIE cannot offset passive income such as interests, dividends, rents, or capital gains. Furthermore, the earned income and exclusion should not be presented as one net number on page one of your tax return. Instead, the salary or business income should be


Form 1040 Department of the Treasury—Internal Revenue Service (99) U.S. Individual Income Tax Return 2014 OM

For the year Jan. 1–Dec. 31, 2014, or other tax year beginning , 2014, ending

Your first name and initial Last name

If a joint return, spouse's first name and initial Last name

Home address (number and street). If you have a P.O. box, see instructions.

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructi

Foreign country name Foreign province/state/county

Filing Status
Check only one box.
1 ☐ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐
5 ☐

Exemptions
6a ☐ Yourself. If someone can claim you as a dependent, do not ch
b ☐ Spouse
c Dependents: (1) First name Last name | (2) Dependent's social security number | (3) Dependent's relationship to y
If more than four dependents, see instructions and check here ▶☐
d Total number of exemptions claimed

Income
Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax
7 Wages, salaries, tips, etc. Attach Form(s) W-2
8a Taxable interest. Attach Schedule B if required
b Tax-exempt interest. Do not include on line 8a 8b
9a Ordinary dividends. Attach Schedule B if required
b Qualified dividends 9b
10 Taxable refunds, credits, or offsets of state and local income taxes
11 Alimony received

> …all foreign accounts are reportable, even those with a balance of zero."



presented on the appropriate line on page one of the return and then the exclusion is presented on line 21 as a negative "other income" item.

If you do elect to claim the FEIE you will have to proportionately reduce the foreign tax available for the foreign tax credit because this income is not subjected to tax in the U.S. Forgetting to make the reduction is easily one of the top five mistakes we see on self-prepared returns and can make the difference between owing additional tax in the U.S. or not, especially when a significant amount of income earned in China is not subject to China tax.

Asset reporting

We get a lot of questions about foreign asset reporting. It is important to understand that the reporting is informational only and not a tax calculation. Second, the reporting is divided into two mechanisms with different thresholds for FBAR and FATCA.

The first is the Financial Crimes and Enforcement Network (FinCen) Form 114 which has been around since 1972. Reporting is required when you have an aggregate balance in all foreign accounts at any time in excess of US$10,000. A foreign account includes a normal checking or savings account as well as retirement accounts, investment accounts, a safe deposit box requiring a signature to access, annuities, and children's or company accounts you have signature authority over. Once any foreign account or combination of accounts exceeds the threshold for even a moment, all foreign accounts are reportable, even those with a balance of zero.

The second reporting mechanism is done on IRS Form 8938, which should be attached to your income tax return. This report contains not only your bank account information reported on Form 114 but also other foreign financial assets such as an interest in a public or private company, a rental agreement with a foreign tenant, artwork, or any other foreign investment asset. The exception to this is real estate held directly in the taxpayer's name. The threshold for this reporting for taxpayers whose tax home is outside the U.S. is as follows:

- Unmarried and married filing as separate taxpayers: more than $200,000 on the last day of the year or $300,000 at any time during the year
- Married filing as joint taxpayers: more than $400,000 on the last day of the year or $600,000 at any time during the year

Given the above thresholds most taxpayers living overseas will not need to report any of their foreign assets under FATCA and will only need to report on the FBAR.

Foreign instruments

The two most costly items for expats are foreign life insurance policies and foreign mutual funds, or closely held foreign companies that are effectively investment vehicles (collectively known as Passive Foreign Investment Companies, or PFICs).

Common in Europe and many other parts of the world are tax deferred investments sold as life insurance policies, with a very small amount of the monthly payment actually going towards the life insurance and most of the payment going into investments. For U.S. purposes, these are generally not life insurance policies and you must look to the investments to determine the U.S. tax treatment. In most

cases these are foreign mutual funds and treated as PFICs; but if they truly are life insurance policies issued by a foreign insurer they are subject to an excise tax.

These foreign mutual funds or other foreign mutual funds are part of a category referred to as PFICs and are subject to rather draconian anti-deferral mechanisms. The two most common regimes are the "1291 method" and "mark-to-market method." The 1291 method allocates income to both the current and prior years subjecting the amount allocated to prior years to a flat rate of 35 percent plus an interest charge, generally making these very unattractive investments.

The mark-to-market method is a bit more straightforward and creates taxable income or loss based on the change in market value from year to year. However, your losses are limited to the previous increases and any additional losses are recognized in the year of disposal. While there is no interest charge under this method the income is generally ordinary income and not capital gain.

Save anywhere

To end on a positive note, there's a lot of confusion regarding savings and retirement accounts. Many U.S. taxpayers say they have been told they are not eligible for IRAs because they do not have taxable income (i.e., their gross income less the FEIE and other deductions leave them with zero taxable income). While this is normally true, the rules say that the income threshold is adjusted by adding back the FEIE, leaving the taxpayer with positive income and thus eligible for an IRA

AMCHAM SHANGHAI 100 1915-2015

MAY 28, 2015 | GRAND HYATT SHANGHAI

AMCHAM SHANGHAI 2015

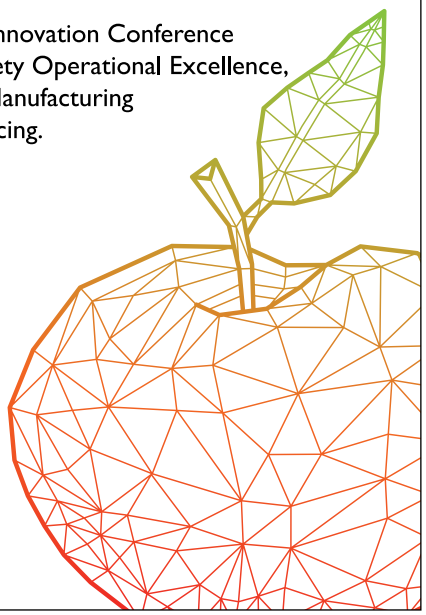
FOOD SAFETY & INNOVATION CONFERENCE

Developed in collaboration with the Shanghai Food Safety Federation, the Food Safety & Innovation Conference includes panel discussions on Industry, Government & Consumer Collaboration, Food Safety Operational Excellence, Food & Beverage Industry Innovation, as well as practical workshops on issues including Manufacturing Operations, Labeling, Regulatory Compliance & Government Relations, and Tracking & Tracing.

Speakers include leaders from:

- Shanghai Municipal Food And Drug Administration (FDA)
- Yum! Group
- Fields
- U.S. Pharmacopeial Convention (USP China)

and many more.



Call us at (86 21) 6279 7119 ext. 5658 to register your interest or email committees@amcham-shanghai.org for more information.

"Forgetting to make the reduction is easily one of the top five mistakes we see…"

contribution (deductible, nondeductible, or ROTH IRA).

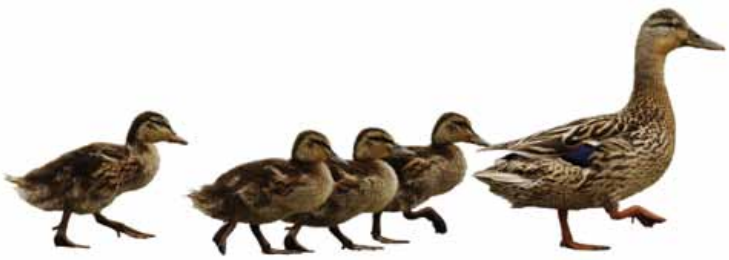
Contributing to 401(k) plans is a little trickier but still manageable depending on your relationship with your employer. The most effective way to continue participation in a U.S. 401(k) plan is to have some of your compensation paid by the home office entity and elect to have this portion contributed to your plan. If you are self-employed or have a small business you can set up a U.S. Corporation, put yourself on payroll and contribute to a retirement plan based on that compensation. Both of these allocations of salary to the U.S. must be reasonable and consistent, so it is best to consult a tax advisor before implementing. But it can be a very effective method of getting money into a retirement account.

We understand that living overseas is difficult enough without dealing with a U.S. tax system that both wants to treat you fairly with respect to your fellow taxpayers and at the same time take great pains to make sure you are not unfairly avoiding U.S. tax. We hope this information was helpful and gives you some tools to use to avoid mistakes or even create opportunities in your next annual tax filing ritual.

Peter Stratos is the founder of Stratos & Associates PLLC, a CPA firm specializing in tax consulting and preparation for international taxpayers. He has offices in Springfield, VA and Shanghai serving both individual and business taxpayers around the world.

AMCHAM SHANGHAI 100 1915-2015

FOLLOW US...



AmCham Shanghai invites all our members and *Insight* readers to follow us on WeChat, LinkedIn, Facebook, Twitter, and Sina Weibo and look for special updates and the latest bulletins. Please follow **AmCham Shanghai** or 上海美国商会.

www.AmCham-Shanghai.org

Washington University in St.Louis

Fudan University 復旦大學

WASHINGTON UNIVERSITY – FUDAN UNIVERSITY EXECUTIVE MBA PROGRAM

China's International Business Gateway



Since its beginning in 2002, the program has been a leader in China, providing a world-class development experience for executives who are serious about personal development and growth.

The program was ranked No.7 worldwide by *Financial Times* EMBA Rankings 2014.

Experience the Top EMBA Program

Each class is led by one of Washington University in St. Louis's world-best faculty and a co-teacher from Fudan University, working together training China's best international executives. Contact us now to reserve a time to visit a class session and experience the vibrancy of our learning environment.

WUSTL-Fudan EMBA Program

Tel: +86 21 55664788

Email: EMBA-Shanghai@olin.wustl.edu

www.fdsm.fudan.edu.cn/topemba (Chinese)

www.olin.wustl.edu/Shanghai (English)

Class Visit Schedule

March – June 2015

Leadership & Leading Change

MAR 6 – 9, Fudan School of Management

Valuation, Mergers & Acquisitions

APR 10 – 13, Fudan School of Management

Managing Power & Influence in Organizations

MAY 8 – 11, Fudan School of Management

Competitive Strategy & Industrial Analysis

JUN 5 – 8, Seoul, Korea



Buick – Ahead of the Curve in China



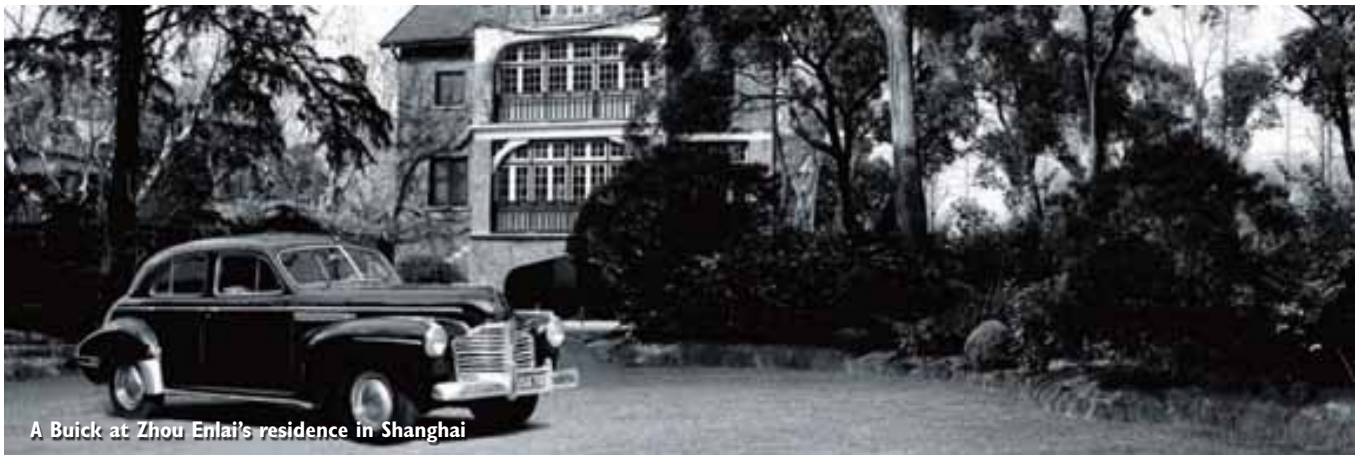
Dr. Sun Yat Sen in a Buick in 1912

As the American Chamber of Commerce in Shanghai prepares to celebrate 100 years in China as of June 2015, we take a look back to highlight some American products, people and companies that changed daily life in China, bridged cultural gaps, and paved the way for decades of American-Chinese trade.

On the streets of Shanghai today, and indeed throughout all of China, Buick is one of the most popular automobile brands. Its widespread presence is a symbol of the rising affluence of the country's middle class. But what's not widely known is that the brand's success is just the latest chapter of its long history in China. From the last emperor nearly a century ago to a postwar premier, Buick has long been the choice for China's political and business leaders.

Buick's history in China is long and distinguished – even longer than the 100 years of AmCham Shanghai. In 1906, two journalists attempted to set a U.S. transcontinental speed record in a Buick Model F to impress Yuan Shikai, then viceroy of a Chinese province, who was interested in introducing Buicks to China "if they come up to expectations." While the record was not ultimately broken, the Buick did set a new speed record between New York and San Francisco.

It wouldn't be long before Buick became



A Buick at Zhou Enlai's residence in Shanghai

General Motors' de facto flagship brand in China – and the car of choice for the country's influential citizens.

Dr. Sun Yat-sen, China's first provisional president, took his first automobile ride in a 1912 Buick. In 1924, Pu Yi, the last emperor of China, was sold a Buick four-door sedan and a Buick four-door limousine. They reportedly became the first cars ever owned by an emperor of China and the first cars to enter what had been the Forbidden City. Zhou Enlai, China's beloved premier, kept a Buick at his home here in Shanghai.

Buick's growing popularity in Shanghai led to the opening of its first sales office in this city in 1929, the same year that General Motors China originally opened for business, and seven years after GM moved its Manila branch to Shanghai.

In 1930, a Buick advertisement read: "According to very recent statistics of the Shanghai Municipal Council, it is stated that one out of every six cars is a Buick." That same year, 20 prominent Chinese signed a testimonial: "The new Buick – welcomed by all the leading statesmen and prominent businessmen of China."

Buick would leave China when the Communists took power in 1949, but it was far from forgotten. General Motors returned to China in 1997 to form Shanghai General Motors, a joint venture with SAIC Motor. On December 17, 1998, when the first vehicle rolled off the production line at Shanghai GM, it bore the Buick tri-shield logo. The company chose the Buick brand primarily because of its prestigious local heritage. With the introduction of an original family of Buick sedans at the joint venture, GM became the first global automaker to build a completely new product line in China.

Buick has also been responsible for several other industry firsts in China. It was the first brand to feature a locally produced automatic transmission. It pioneered China's executive wagon segment with the seven-passenger GL8, and also the country's affordable family car segment with the original Buick Sail.

Today, Buick products are manufactured at Shanghai GM facilities in Shanghai and Shenyang. In 2014, 919,582 Buicks were sold across China, accounting for nearly 80 percent of all Buicks sold worldwide and enabling the brand to set a global sales record in its 111th year.

As 2014 came to a close, Shanghai GM surpassed 10 million cumulative sales in record time for a passenger car manufacturer in China. It was an achievement that was largely due to Buick, the brand that first met China's roads about a century earlier.



Pu Yi's Buick



BY BRYAN VIRASAMI

In the Driver's Seat

Matt Tsien, president of GM China, talks about the auto market in China, the demand for luxury cars, air quality and electrification

Last year, General Motors, one of the world's largest automakers, sold more than 3.5 million Buicks, Cruzes and other vehicles in China, a 12 percent increase from the previous year. The company, which traces its roots to 1908, has 11 joint ventures and more than 58,000 workers in China.

Matt Tsien, GM's China President, spoke to *Insight* on a wide range of issues including the company's success in China, electrification, air quality and the luxury car market. Tsien joined GM in 1976 as an electrical engineer in the U.S. and has held several senior positions at the company, including Vice President of Planning and Program Management for GM China and GM Consolidated International Operations and Strategic Alliances for China. Tsien received the Magnolia Award from the Shanghai Municipal Government in September, and he has served as head of all of GM's China operations since January 2014. He oversees all of the company's business in China, including its 10 joint ventures.



Matt Tsien

The following is a transcript of the interview.

Insight: ***It's not easy running a company in China. What is your top challenge and how do you deal with it?***

Matt Tsien: "Our number one challenge is to make sure we truly understand the needs of our customers. The needs of our customers are evolving. The consumers in China I think are becoming more and more mature and cognizant of what's available and more specific with regards to what they like. I think that in addition to that the regulatory environment is changing, so we need to obviously make sure that we have the right technology and the right solutions at the right cost point to meet the regulations as well as to meet the needs of our consumers from a value stand point."

Insight: ***You're an engineer by training. Do you see any technology in China that you think will actually revolutionize the auto market in the next 10 years or so?***

MT: "One area I think where China is leading is in the area of electrification. There's very strong encouragement on the part of the policymakers in terms of new energy vehicles. And I think all OEMs (Original Equipment Manufacturers) are looking at this opportunity and responding so we're working on new energy vehicles as well with our joint ventures and I think we will have some exciting offers in the future."

Insight: ***The latest China Business Report said most U.S. companies are optimistic about the***

China market. How would you describe GM's optimism for the China market?

MT: "I think the automotive industry is going to continue to grow. The rate of growth may be more moderate in the future than it has been in the past, but it's still going to be significant. And again I think we're pretty well-positioned in this market."

Insight: ***Will the air quality pact signed by China and the U.S. at the APEC summit in November affect automakers such as GM and how?***

MT: "I think you are referring to the historic global warming announcement made by Presidents Obama and Xi. The U.S. President committed that between 2005 and 2025 emissions will be reduced by 25 percent and China committed to peak global warming emissions as a nation by 2030. These commitments potentially impact all sectors of both country's economies, including the auto industry. At GM we take this matter seriously. For instance, we have set aggressive goals in energy reduction within our manufacturing processes and in lifecycle emissions from our products. On the product side, both countries encourage the role of clean alternative fuels such as electricity. From a product development standpoint, common national approaches in the U.S. and China allow GM to pursue common product and propulsion solutions in our two largest markets."

Insight: ***China is introducing stricter emission standards for passenger vehicles. From a policy standpoint, how is this impacting foreign carmakers?***

MT: "From GM's perspective, the unique situation in China merits the best we can offer to our Chinese consumers for the overall benefit of Chinese society. China has been adopting cleaner fuels and vehicle emission standards on a greatly reduced implementation schedule compared to any other market. In fact, when the Beijing Municipality adopted China 5 vehicle emission standards in 2013, it marked the very first time that a location in China matched the vehicle emission performance of vehicles in Europe (Euro 5 and China 5 being essentially equivalent). Europe has since moved on to implement Euro 6, and China is considering the format and stringency of the China 6 standard. GM is engaged in China 6 policy development and offering our global subject matter expertise to China's regulators."



Matt Tsien at an employee recognition event

Insight: ***In China, air pollution is often linked with cars on the road. Whether it's true or not, how do you encourage Chinese to buy your cars while showing you care about the environment?***

MT: "You are quite correct, the growing number of vehicles in China is often depicted as a contributing cause of urban air quality depletion. However, more often now when you read beyond the headlines alone I'm pleased to see balanced reporting on this topic. Today's vehicles with modern emission controls produce a mere

> "I think the automotive industry is going to continue to grow."



A selfie with U.S. Ambassador Max Baucus

fraction of pre-controlled tailpipe emissions. The regulator understands this well, which is why China has moved aggressively to remove Yellow Label Vehicles (or gross emitting vehicles) from China's roads. One YLV has about 28 times the tailpipe emissions of a China 4 vehicle. GM cares about the environment and our clean vehicles are a necessary part of the urban air quality solution."

Insight: ***Do you think more Chinese will buy electric cars in China?***

MT: "I think electrification is probably more of a question of 'when' versus 'if.' I think the right conditions have to be in place. First of all, if you're talking about pure electric vehicles, adequate infrastructure, including charging locations and charging standards, is obviously a key customer concern. The government's working on that. But it will take some time for the infrastructure to be completely available. The other piece of it, I think, is range. Vehicles must have adequate range for customers to feel comfortable with regards to vehicles meeting their needs. Another consideration is cost. It must be reasonably cost effective. The whole industry is working very hard on these issues and I think the solution will be there."

Insight: ***Besides brand name, what are Chinese customers looking for in a new car today and how is GM changing to address that?***

MT: "I think the needs of our customers here in

China are similar to those in other markets. The one thing I would say that is perhaps a little more unique here in China versus some of the other markets is that the bandwidth is very wide. So at the entry level customers have some very basic and very utilitarian requirements going all the way up to ultra luxury buyers. It really spans a very broad spectrum. And that's why we're very happy here to have a variety of choices for our customers ranging from Wuling and Baojun, to Chevrolet to Buick to Cadillac. I think we're really able to cover the spectrum of needs of our customers."

Insight: ***In the U.S., there's a general profile of who drives what type of cars. Is that the same in China? For example, who is buying luxury cars here?***

MT: "Luxury has grown very robustly here in China and we expect within a few years that China will be the largest market in the world for luxury vehicles. So we're very excited about Cadillac. We think Cadillac is very well positioned. In fact, last year alone Cadillac's volume grew 47 percent over the year before. We plan to offer more Cadillac models that will be locally produced in China for consumers. But in terms of the needs of our luxury customers, I don't think they're dramatically different from that of the rest of the world. I mean they all want great performance, a great deal of comfort and wonderful styling and I think that's what Cadillac is able to offer."



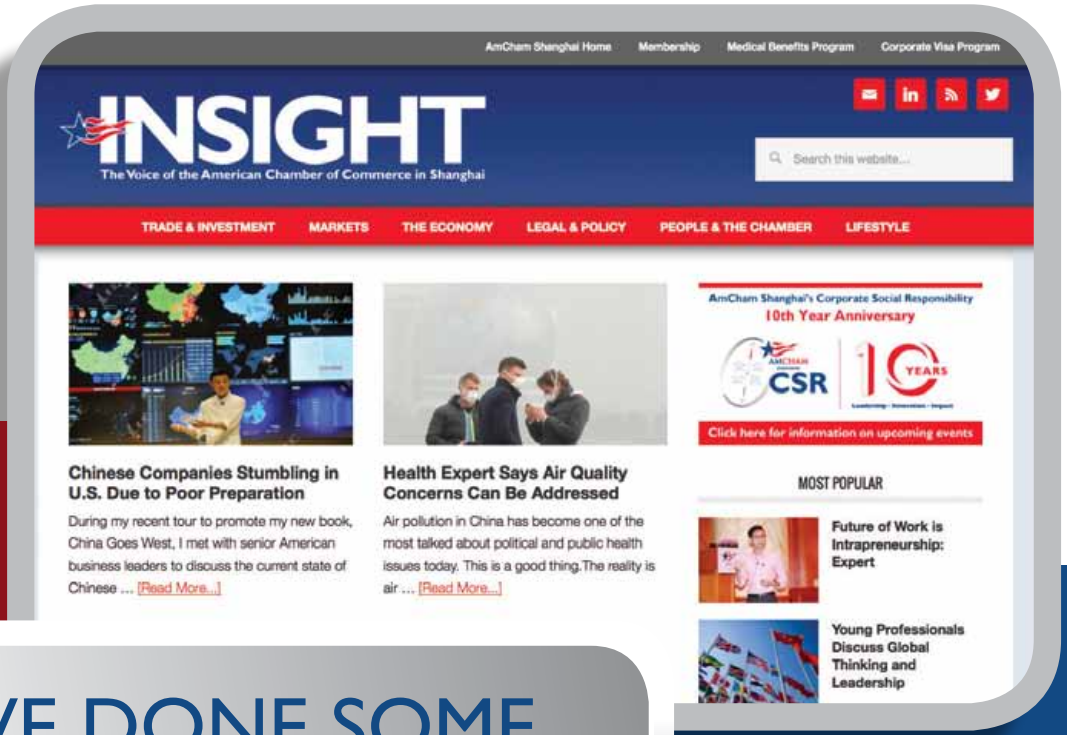
Tsien says the Cadillac is poised to take off as more opt for luxury cars



A GM worker

Insight: What is the top selling GM car in China?
MT: "The Cadillac XTS is a very strong seller, as is the Cadillac SRX. We just recently introduced the ATS-L, and it's doing very well and growing in terms of popularity. For our Buick brand, Excelle is our top selling volume model. We have a number of offerings under the Excelle nameplate. But other popular models include the Encore, the Regal, the LaCrosse, and the GL8, which is a perennially popular vehicle. And what we're really excited about with regards to Buick is the launch of the Envision last year. It's a mid-size compact SUV and it's really taken the public by storm. For Chevrolet, we have Cruze, which is doing very well in the marketplace."

> "…We expect within a few years that China will be the largest market in the world for luxury vehicles…"



WE'VE DONE SOME **REMODELING**

Find all of Insight
at our new address:
http://insight.amcham-shanghai.org

AMCHAM
SHANGHAI

BY HUU-HOI TRAN

Slow Road to Success for E-Vehicles


Huu-Hoi Tran

KPMG auto study shows lackluster expectations for market penetration in China for e-vehicles

Conversations about the market for electric vehicles in China aren't, well, electrifying. At least this is not the case for the time being. It's a topical issue among those analyzing the potential business opportunities and on-the-ground reality.

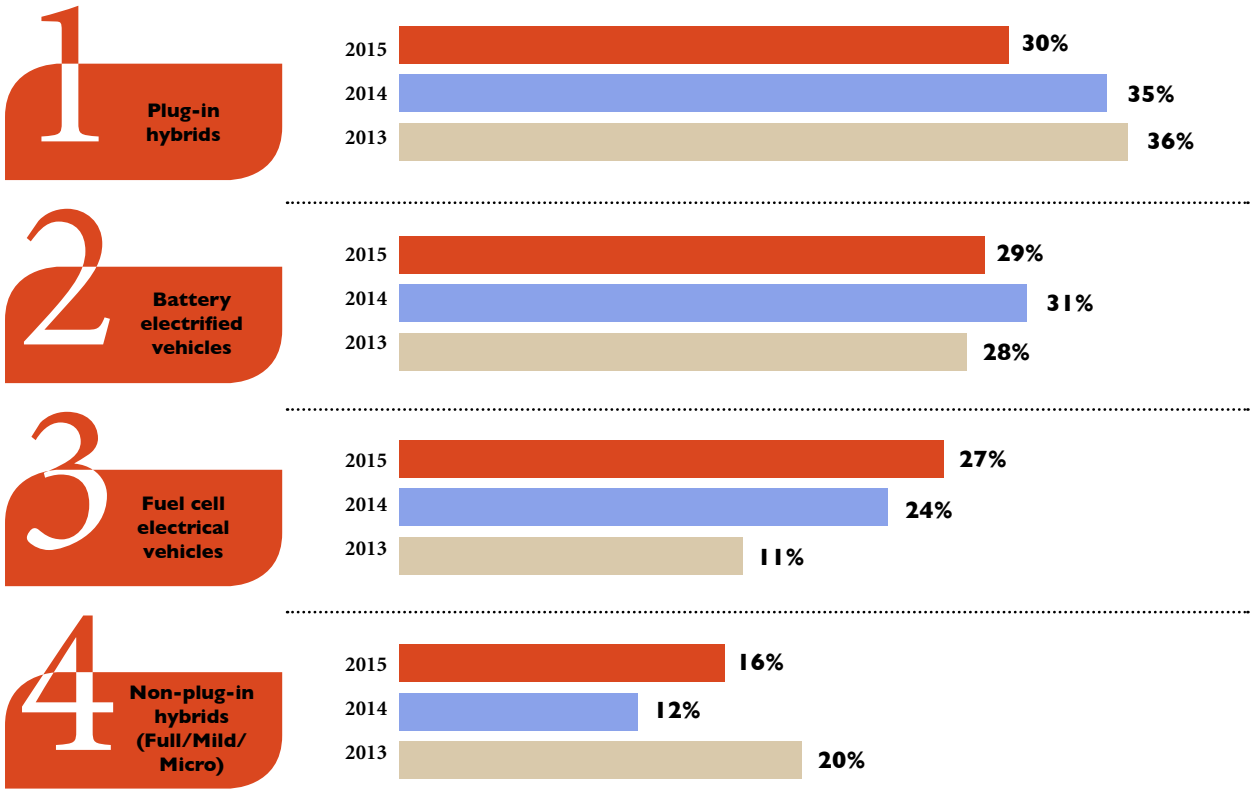
One of the questions that's often raised refers to the role electric cars will play in the largest automotive market in the world and their potential impact on this industry. The KPMG Global Automotive Executive Survey 2015 reflects the current perceptions of automotive leaders in China and globally in terms of expectations of the share of electric vehicles in the Chinese market.

Auto executives see an increasing role for battery electrified vehicles in China (2014-15 change from 24 percent to 28 percent) while other forms of propulsion technologies, e.g. plug-in hybrids (from 44 percent to 36 percent) while fuel cell electric vehicles (from 32 percent to 20 percent) are losing ground. However, plug-in hybrids are seen as number one and the dominance of gasoline engine is still unchallenged. In terms of market penetration, nearly 70 percent of executives believe that by 2025 the share of e-vehicles in China will be between 11 to 15 percent. This is, however still a considerable distance from the targets for the e-car market in China.

IMAGINECHINA


A charging station for electric vehicles in China

Plug-in hybrids are seen as number one, although losing ground



SOURCE: KPMG'S GLOBAL AUTOMOTIVE EXECUTIVE SURVEY 2015.

Auto executives were asked to pick the most popular type of electric technology in 2020 and they picked plug-in hybrids, according to the KPMG report.

Although China has the right reasons and drivers to adopt e-vehicles, including climate change, air quality worries, urban congestion, future oil prices and oil dependency, as well as infrastructure advances, its plan to have 500,000 e-vehicles on the street by 2015 and 5 million by 2020 is likely to fall short. The roadmap for e-vehicles and its execution have been lackluster, suffering from lack of sufficient infrastructure, ineffective supporting policies (subsidiary), limitation of competition (e.g. availability of vehicle models), lack of enforceable regulations, and technology issues such as the battery lifetime and unsatisfactory vehicle performance.

Value and cost

In order to increase acceptance of e-vehicles in China, a number of factors need to be considered. Chinese consumers are pragmatic and value oriented. The cost of daily use as well as maintenance costs must be transparent and avaiable to consumers. There is no depth of experience regarding services and maintenance costs for electric vehicles. This is also the case for specialized service networks or standardized service models, which, if available, could provide consumers with a transparent cost model.

Chinese customers also prefer the same practicalities when using e-cars as they do with gasoline-powered cars. Due to the fact that property developers and management remain unmotivated to install charging infrastructure in parking spaces, charging stations in public areas is currrently insufficient. Consumers are unsure of the extent to which they would have access to

recharging facilities when required, and whether the charging durations would be workable.

Additionally, consumerism and digitization are emerging in China. User-centric designs will be key to promoting sales and acceptance of electric vehicles. An e-car has to be recognized as such and it has to differentiate itself from its gasoline counterparts. The convergence of car mobility and digital lifestyles will be critical and will have an impact on how the electric vehicle concept will be brought to consumers and the market. Multinationals and domestic IT players will attempt to enter this new business, which is expected to expand the take-up of digital features and specific driver experience.

To conclude, the emergence of electric vehicles in China is still facing challenges. Its success will be dependent on a combination of government-led incentive programs (including subsidaries and tax incentives as well as privileges for e-car owners like license plates issuance, parking zones, and charging infrastructure access), creation of competition and innovative environment for new business and services (e.g. car sharing) and the integration of mobile technologies.

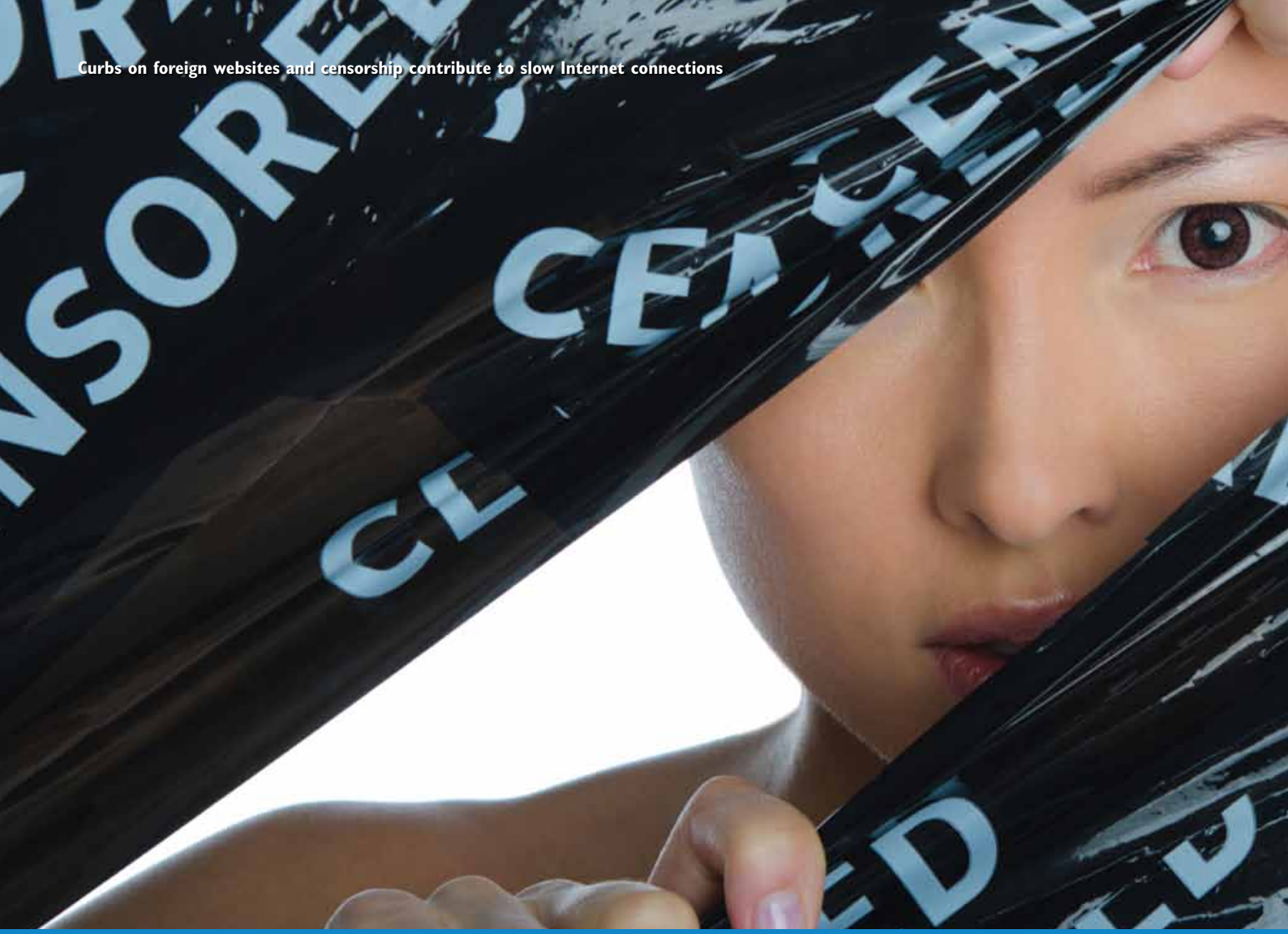
We have seen an eco-system around e-car and digitization starting to form and believe this trend will continue to develop. Therefore, along with many of the automotive executives surveyed, we remain optimistic that China is still set to become one of the largest market places for electric cars.

Huu-Hoi Tran is the Director of the Automotive Sector and Head of Digital Auto at KPMG China



IMAGINECHINA

Electric buses



Curbs on foreign websites and censorship contribute to slow Internet connections

THE FORBIDDEN

China's slow and increasingly unreliable Internet is frustrating many business executives who interact regularly with overseas colleagues and clients

BY KATHRYN GRANT

For a growing number of foreign executives based in Shanghai, life here could be described as "a tale of two cities" with clashing themes: a modern, fast-paced cosmopolitan city filled with ambitious and adventurous people, while the second sits under a domed wall with one gate that opens and shuts with no rhyme or reason.

Whether they've lived here for decades or just a few years, life in China is hardly dull and they understand that there are certain things – annoying or pleasant – that become part of a daily routine they learn to live with, some more than others. In recent weeks, however, the everyday annoyance of loading a website or





SHUTTERSTOCK

ZONE

downloading an email has turned into an obstacle that is getting in the way of everyday life, play and most recently, work.

Whether it's a Western bar owner trying to stream the Super Bowl for an anxious crowd, an executive trying to download a contract he needs to review right away, or an educational services firm trying to download a college application from a U.S. university, the government's recently unveiled plan to target VPNs has left many scratching their heads wondering to what end.

Ryan Chang, founder of Candzen, a software startup in Shanghai focusing on mobile app and website development with customers in the United States, is among those who feel a sense of helplessness, especially after the stepped up efforts to block the use of VPNs that help connect to blocked websites such as YouTube or Gmail.

"It's just infuriating and very detrimental to our business," says Chang. "It takes twice, if not three times as long to post articles, use a search engine, and attach and send files. It's becoming unacceptable, but there is nothing we can do about it."

In recent weeks, some AmCham Shanghai members have been wondering aloud about what, if anything, can be done about the slow or blocked Internet connections. Many willing to discuss their experiences have requested their names be withheld as they don't want to be seen as criticizing Chinese authorities.

> *"It's just infuriating and very detrimental to our business,"*
>
> – Ryan Chang, founder, Candzen

One American executive and veteran of China's supply chain industry, feels that while it's easy to use websites based in China, it's a headache once he attempts to launch YouTube using a VPN – and he isn't trying to watch funny cat videos.

"Previously, we used YouTube to share videos. We also used Gmail as an archive for emails and these are both blocked," the executive says. "The censorship of global sites has a major impact on the utilization of global solutions, such as YouTube hosted training videos and webinars, as well as the sending of files through blocked methods, such as Dropbox or Google Documents."

Emotional impact

A Shanghai-based manager at a major U.S. healthcare company said he feels the shifting policy is an attack on multiple levels and he's unhappy. "Adjusting to Chinese Internet policies takes resources such as time, people and money that would be better spent elsewhere to make our company more competitive," says the manager who also asked not to be named.

It's also personal for this manager. "Not only does it make it more difficult to do business, but China's Internet policies limit

access to a life we've all gotten quite used to – using Skype to connect with friends and family back home, reading the latest headline in the *New York Times* or pulling up Google Translate to work out a tricky phrase in Mandarin," the manager says. "The latest new technology is too often beyond our reach and there is a feeling of being cut off, out of touch. Worse yet, I don't see things getting better. Will it make us all pack up and go home? Probably not, but like pollution and food safety, China's Internet limitations have an emotional impact that is in some ways more penetrating than rising costs, a lack of transparency and IPR."

David Turchetti, who has a long affiliation with the Chamber and who is now a senior adviser for a television station with an expat audience, says he was forced to change his routine thanks to the country's Internet policy.

Turchetti isn't a fan of the alternative, which is to have a domestic server.

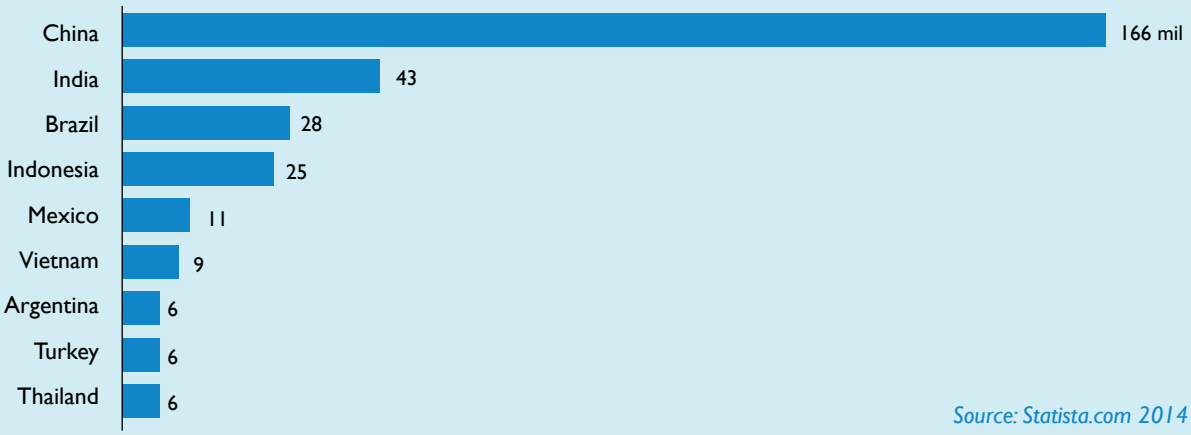
"Hosting your website from within China has a major impact when it comes to speed because users don't need to go through the Great Firewall," he says. "However, many foreign companies do not wish to host from within China for reasons related to legality, privacy rights and the fear of having content



Ryan Chang, founder of Candzen

Countries where VPNs are common

(Figures represent users in millions)



Source: Statista.com 2014



taken down. Besides these issues, many foreign companies lack the resources or time to switch websites to one that is locally owned," states Turchetti.

He added: "In recent months, I've been unable to work from my office because of the slow shared Internet connection. I've been researching foreign media, and I just couldn't get the job done from within the office. I had to request special permission to work from home, where I have my VPN set up and can access the net at a reasonable speed. This is a major problem, as it is far more efficient to work from within the office and have daily interactions with colleagues."

Refresh again

Guangxi native Phoebe Mok who recently came to Shanghai to run a food magazine, is often required to stay in touch with writers and advertisers from across the globe before each issue goes to print. She's had a tough time staying up to date with her colleagues in Belgium.

"When I had to switch my email provider from Gmail to a locally based email service, I lost all of my old contacts. For days I couldn't access Gmail and I lost out on a very important advertising contract that was supposed to be for the front page of the magazine," says Mok.

There may be an unintended consequence to China's Great Firewall. Some economists worry that the long term effects of Internet restrictions will ultimately hurt China. A former executive from Cisco, the technology company agrees. "In the short term it may not be a big deal, but in the long run, once the Chinese companies have to expand abroad they will not know how to deal with the competition outside. Then they will face severe obstacles," he says.

Miriam Shapiro, a Senior Fellow in the Global Economy and Development Program at the Brookings Institution in Washington D.C., said the move could backfire.

"China's latest effort to exert more control over the Internet is disappointing and counterproductive at a time when the government is trying to boost lagging growth," Shapiro says. "Instead of encouraging innovation and entrepreneurship, the crackdown is likely to slow the economy even further. A key function of the Internet, of course, is to share information and create connections. As that becomes more difficult, it becomes harder for Chinese and U.S. companies to do business within China and with other markets."

'Nice bonus'

Derek Scissors, research fellow for Asia Economic Policy at the American Enterprise Institute in Washington D.C. and a scholar with expertise on U.S.-China economic issues, says that while the motivation may be political, there's an economic angle as well.

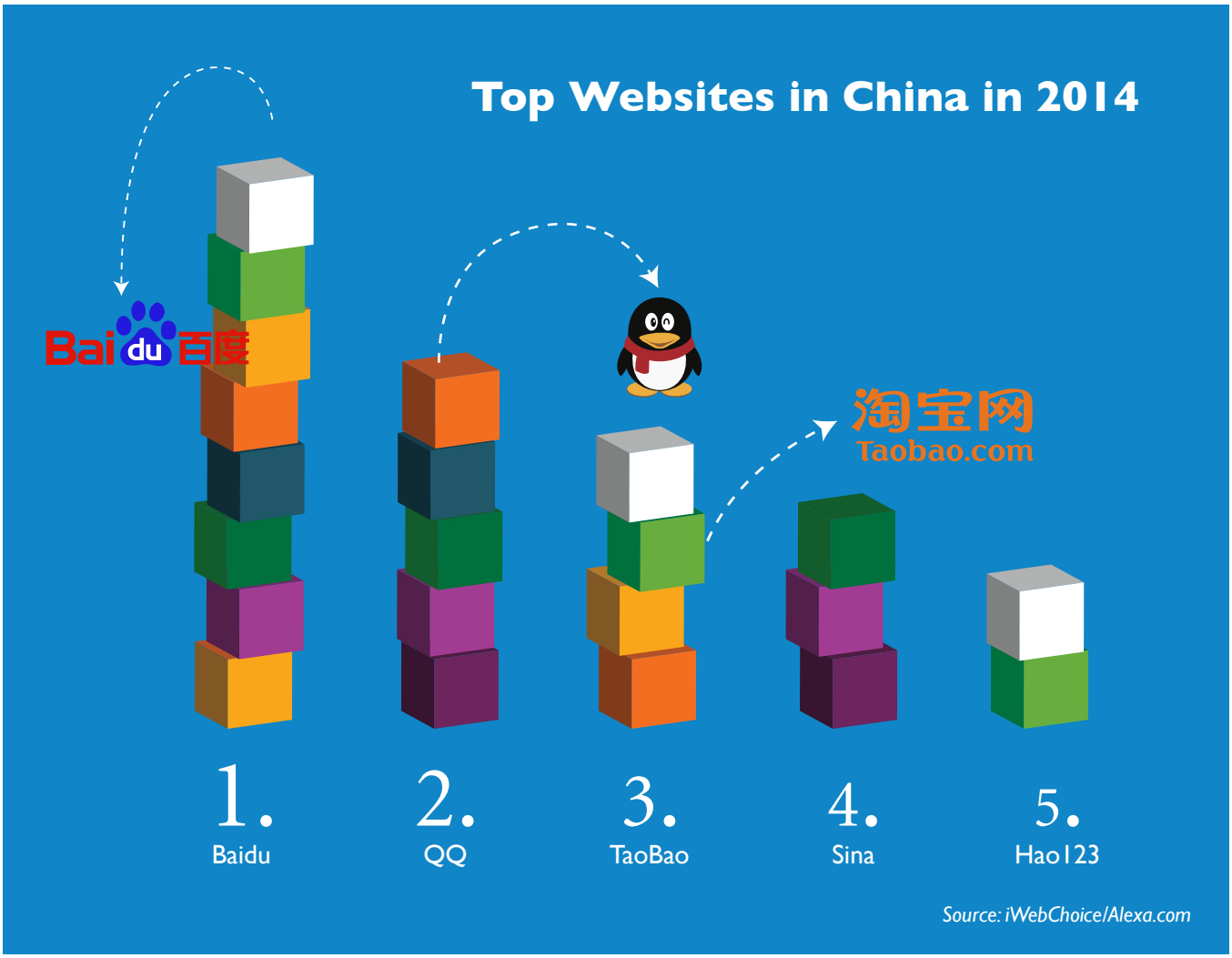


Derek Scissors of the American Enterprise Institute

"China's motives are political first and commercial second. That is, the Party wants to better control information flow and, as a nice bonus, gets to interfere in the technology equipment and service markets," Scissors says. "As for China's commercial relations with its partners, I don't want to overstate this particular case but there have been multiple steps backward in the past two years. It's very hard to negotiate an improved business environment when there are considerable hurdles to just returning to where we were."

It's technical

The blocked sites often work with a VPN but are harder to access according to IT experts.



The co-founder of a Shanghai-based IT company with local and international clients explains the issue: "Since November 2014, the Great Firewall has deployed new technologies to keep the existing restrictions working better by blocking platforms like Astrill. These interruptions in VPN connections are constantly attempting to reconnect and this is causing the average speed of the Internet to slow down significantly."

Another expert, a program developer who works for an international IT company in Shanghai, says that "before November, the firewall blocked two out of 10 connections. Now it's six out of 10 and this means slower Internet."

While this is a challenge for companies of all sizes, it's a bigger problem for small businesses, according to the former Cisco executive based in Shanghai. "For big companies, this issue might not affect them as much. Where it really impacts a lot is the smaller companies and entrepreneurs without the resources needed to get around certain issues," says the executive.

Need for speed

China's average Internet speed is 3.8 Mbps (megabytes per second), which ranks it as the 75th fastest in the world in 2014, according to a recent report by AKAMAI, one of the world's largest content delivery networks for distributed computing platforms. While this may sound impressive considering that



China boasts the world's largest Internet usage with nearly 700 million users, the country lags behind its Asian neighbors -notably South Korea, Japan and Singapore.

There are significant alternatives to centralized platforms like Astrill, however. Larger companies with the appropriate IT resources are able to buy outside lines, which are distributed and customized. These tailor to individual companies needs, and are much harder to interrupt.

In addition to recent restrictions affecting Internet speed through VPN blockage, China's Internet infrastructure lags far behind the United States. The average connection speed is five times faster in the U.S. than in China.

The government, however, is taking steps to change this. In October, the government unveiled a RMB2.92 billion plan to upgrade the Internet infrastructure. This is intended to increase speed, but it's unclear whether it will improve access to foreign based sites.

Foul ball

A handful of bar owners surveyed were quick to complain that the quality of the Internet has been brewing trouble for them. Beijing bar owner Yao Gan, who has been streaming sports live for more than 15 years, has witnessed recent changes.

"Streaming live games was the main draw for people to return to my bar. I have found that if I don't show games live, people don't care about coming in. When Internet speed is slow, the game is constantly stopping and my customers get very upset. This has been a growing problem over the last six months," says Gan.

Another executive in the sports industry says streaming high definition NFL games is a challenge as the slow speed makes it unviable.

The issue is especially difficult for sports bars because they tend to depend on high profile matches to lure in patrons at odd hours in China including overnight, due to the time difference.

Michael Jordan of Boxing Cat Brewery in Shanghai says the crowd can get upset if there are interruptions during the game. "The level of unrest is made worse by the fact that usually these odd game hours occur anywhere between midnight and 6 am. To completely rearrange the staff and operating hours on a regular basis is a big deal, so it's really bad when the Internet cuts out. In a perfect world we'd have a satellite, but most management companies in Shanghai don't allow this when you're renting the property, so we really rely on Internet speed," Jordan says.





Victor Teo, assistant professor at the University of Hong Kong

'Cut off'

Not only do slow Internet and restricted websites have a negative impact on conducting business in China, but they also add to a growing list of road blocks discouraging foreign businesses from moving into the China market, according to a survey from the European Chamber of Commerce in 2015. The survey indicated that 13 percent of members have recently deferred Chinese investment and research and development or have become unwilling to set up operations in China as a direct result of Internet speed and censorship issues. Perhaps most revealing was that some 86 percent of respondents said that the blocking of certain websites and tools is having a negative effect on their business, a 15 percent jump from June 2014.

Another sector seeing a negative impact is human resources. Gloria Poelz, a social media assistant from the PTL Group, which offers management resources and operational infrastructure to foreign companies in China, is frustrated by the slow Internet.

"From an HR perspective the current restrictions make

Chinese Internet Fast Facts

The following is a timeline of major policy changes on the use of the Internet in China, according to published reports

- 1987: China's first Internet connection was established
- 1998: The beginning of the Golden Shield Project (aka the Great Firewall)
- 2005: Google.cn created for mainland China
- 2009: Facebook, Twitter, and Blogspot blocked in China
- 2010: Google.cn changes to Google.hk
- 2010: China blocks *New York Times*
- 2012: China blocks all access to Google
- 2014: Gmail is blocked for good
- 2014: Restrictions on VPN tighten



> *China's Internet limitations have an emotional impact that is in some ways more penetrating than rising costs, a lack of transparency and IPR."*
>
> – U.S. Healthcare Manager

China far less attractive for highly qualified foreign specialists to come here." she says. "Adapting to these changes for many companies means investing less in China and going somewhere else. These worrying trends illustrate how excessive tightening of Internet controls can choke business growth and stifle investment in technology and R&D."

Values

Victor Teo, assistant professor at the University of Hong Kong and an expert on Asia-Pacific relations who often comments on China's censorship issues, sees another risk.

"What the government wants is stability and regime longevity: they see that it is in the interest of the State, the people and certainly the party. They face a critical irony in this: the more they control and filter, the less trusting the people become of anything that is channeled through the sources."

Teo believes the government wants to and knows how to prevent Western values from seeping into China.

"The government aims to control the communication infrastructure of the single most important device in all Chinese people's lives: the mobile phone, the prime vehicle of Internet access for most Chinese. This would endow them with the ability to control and influence the narratives, news and messages."

World's Most Visited Sites



Source: Mozscape Web Index January 2014

How China's Internet Policy Hurts its Own Economy

BY ROBERT ATKINSON



ROBERT ATKINSON is President of the Information Technology and Innovation Foundation

Digital connectivity has the power to continue China's explosive growth over the past two decades, but without further steps to upgrade its infrastructure, increase network speed, and reduce latency, China will continue to lag behind the rest of the world.

While China has brought hundreds of millions of users online and connection speeds have increased somewhat, the country faces a number of policy challenges of its own making. Slow speeds and limited connections in and out of the country pose a severe handicap to any businesses located in China. If China continues to isolate itself in terms of international interconnections and domestic infrastructure, its internal network speed and reliability will suffer as well—ultimately compromising economic growth.

It is well established that productivity gains from the Internet and the digital economy drive economic growth in both developing and developed countries, and China is no exception. China's Internet has facilitated its emergence as a hub of global value chains, enabled new investment, and helped local and foreign businesses boost productivity. Studies by ITIF, McKinsey Global Institute, the OECD, the World Bank and others have shown the critical importance of the Internet as a tool for growth around the world.

However, China's Internet still has a long way to go before it can fully drive commerce and growth. One problem: Internet speeds are relatively slow throughout much of China. China's average Internet speed is 3.8 Mbps, the 75th fastest in the world in 2014. Building out this much capacity for as many as 700 million users is admittedly an impressive feat, but average speeds are still quite slow compared to many of its Asian neighbors. South Korea boasts the world's fastest speeds at 25.3 Mbps. Japan and Singapore are rated at 15 Mbps and 12.2 Mbps, respectively. The U.S. and most European countries average over 10 Mbps. Of course, China is a large country and its major cities have faster data rates, but even Shanghai, with some of the fastest connections outside of Hong Kong, is barely competitive at 5-6 Mbps on average.

The overall capacity of China's networks will continue to improve, but these slow speeds are only part of the story. Because of steps China has taken to isolate its domestic Internet from the rest of the world, it is increasingly difficult to conduct online business that crosses China's borders. For one, three state owned communications companies have a limited number of interconnections to the outside world, meaning that global connections are slower than they otherwise could be.



SHUTTERSTOCK

More concerning is the incredibly high latency and packet loss of these networks. Packet loss and latency, or the delay it takes for packets of information to be routed through the Internet, are important for many Internet applications, including VOIP and cloud-based services. Advanced cloud services generally require latency under 100ms and little packet loss to function. This simply isn't achievable on a connection crossing China's border today—delays of several seconds are common when reaching outside of China. Likewise, international connections out of China are reported to see packet loss rates upwards of 30 percent. Many attribute these delays to China's "Great Firewall."

Many readers are no doubt familiar with these problems, and the traditional solution: a VPN. VPNs, or virtual private networks, connect a group of computers over a public network as if they were on the same local area network. There are all sorts of good reasons for using a VPN, but an additional advantage to the technology when reaching outside from China is a significant improvement in the connection. Unfortunately, recent reports indicate that China implemented a more dynamic and automatic system for blocking VPN connections, significantly hampering the ability to effectively communicate internationally from within the country. With an Internet architecture that sees latency and packet loss this high, Internet users in China will be cut off from a whole set of next-generation services that will be key in driving continued gains to productivity, trade, and growth.

Without faster and higher quality access to the rest of the world, China will have a hard time keeping up with other nations. Both domestic and foreign businesses in China need Internet speeds that are competitive with speeds in other countries. New technologies dependent on fast broadband connections, from cloud hosting to collaborative working platforms to telehealth services are becoming essential to modern business. The Chinese government does recognize this and is enacting a range of policies to facilitate greater use of the cloud architecture by businesses, however this will be extremely difficult to achieve if Chinese networks are not able to use the most advanced hardware available around the globe and if the Chinese Internet is not able to effectively connect to the rest of the world. In short, China needs to balance its interests in security and cultural sovereignty with the need to have a robust broadband system that supports the tools of the 21st century.



Pedestrians in Shanghai stay connected with their smartphones

'Totally Unaffected'

The curbs on Internet access are not seen as a nuisance by some Chinese

BY ANNE MEREDITH

Mention the Internet and foreigners in China roll their eyes. For executives who need to be in constant communication with colleagues in the United States, it's a different ballgame altogether. Do Chinese citizens feel the same? Are they concerned about not being able to freely use Google, Facebook or Twitter?

Moffy Ma, 29, a businessman from Anhui, had no real issues with the quality of the Internet.

"I have a lot of friends in the export business who export goods abroad to places like Brazil. I haven't heard them say anything," Ma says.

Ma said he previously attempted to create a Facebook account but gave up after he was unable to load the page. Even though the ban has not affected his work, he still feels that websites like Facebook should be accessible from within China. He expressed frustration that many seemingly inoffensive websites have been blocked, since "Most of these things don't even have anything to do with national security."

Kelly Lee, 32, originally from Xi'an, said she often needs to connect with her overseas Western clients for her clothing business and didn't have any complaints.

Lee feels that banning some websites is acceptable because having access to more information won't make a difference.

"Even if we know about those things, what use is it? We can't change anything. It's best for the majority of people not to know," she says.





> *If you don't care too much about stuff like freedom or privacy, you're fine."*
>
> – Xu Chao, 20

Several young people, students and recent graduates said their favorite VPN was the fqrouter, an app which can be downloaded from Google Play and is readily available for free in China.

Soya Chao, 22, a fourth-year university student from Shanghai who was sitting inside a coffee shop on Yuyuan Road, said that she uses fqrouter to access Facebook and Instagram, and to watch American TV shows to improve her English. She noted that she used to use Google, but since it was blocked, she thinks it is "too much trouble" to turn on her VPN every time she wants to use it, so she has started using Baidu instead.

Xu Chao, 20, a recent graduate from Jiangxi, said he has noticed that foreign websites such as Wikipedia which are not blocked have slowed considerably in recent months. However, he said the overall speed and quality of the domestic Chinese Internet is improving rapidly.

According to Chao, "most people are totally unaffected" by recent restrictions. "Despite the fact that we live inside the Great Firewall, we actually feel quite content. If you don't care too much about stuff like freedom or privacy, you're fine."

While some may chaff at the loss of access to the foreign parts of the web, the vibrancy of the Chinese Internet within what Sinocism's Bill Bishop calls the "gilded cage," ensures that the effect on many ordinary Chinese is minimal.

BY SILVIA FENG

Conference Sheds Light on Workforce Challenges



The Human Resources Conference and Fair

Contrary to the belief that only smaller companies find it difficult to recruit workers, speakers at the 2015 AmCham Shanghai Human Resources Conference shed light on the issue. They stressed that in recruiting talent, major multinational companies are now also being pushed to think harder about how and where they find skilled workers.

The day-long conference on March 19 was held at the Four Seasons Hotel and included several panel discussions and nearly two dozen speakers who addressed a wide variety of issues. Representatives from such companies as Yum! Brands Inc, LinkedIn, State Street and FedEx Express joined the conference.

China has been through an array of political, economic and societal changes over decades of rapid development. Demographics, which is of the most concern to the HR specialists, is having a major impact on the labor force.

"There is going to be a problem to sustain a talented workforce," said Robert Treme, the human resources director of General Motors China in his opening remark at the one-day HR conference.

"Multinational companies are also fretting over how to firm their stance against the backdrop of an ever more volatile business environment," said Treme. While it is not easy

to get seasoned workers to fit into senior level positions, HR managers also shared setbacks in hiring the younger generation. Some recent graduates with top-notch education often still require two to three years on-the-job training in order to become qualified staffers. Meanwhile, they often want the same salary as a professional with five to 10 years experience.

"I hate to admit, but Chinese are not good at communication in an international setting," said Sabrina Ma, Senior Director of Leadership Talent and Learning at Philips. "I believe the education system should do something about it."

Talent retention practices were also a major issue of discussion at the conference. Companies have concluded that they choose to retain employees physically by taking care of their future needs such as location, welfare and pensions, psychologically by creating a strong company culture or professionally by sending staff to talent development programs.

"We are undergoing a change of recruitment model," said Treme. "Company HR heads should start thinking about what is the return on investment and how we shall handle the risks."





Event Sponsor

KEYSTONE GROUP

Training Partner

Achieve Wise

Lunch Sponsor

MSH CHINA

Bag Sponsor

招商信诺 Cigna & CMB

Booth Sponsors

CEIBS | GEMBA

招商信诺 Cigna & CMB

DELTA HEALTH 德达医疗

LMI LEADERSHIP MANAGEMENT INTERNATIONAL INCORPORATED 美国领导管理发展中心

ParkwayHealth™ 百汇医疗

中国平安 PING AN 保险·银行·投资

CTG

talento

上海耀中国际学校 YEW CHUNG INTERNATIONAL SCHOOL OF SHANGHAI YCIS

Name Badge Sponsor

the people at work 金才堂商务咨询(上海)有限公司 Asia Pacific Executive Search

Networking Sponsor

RED FORTUNE 红银财富

Media Partners

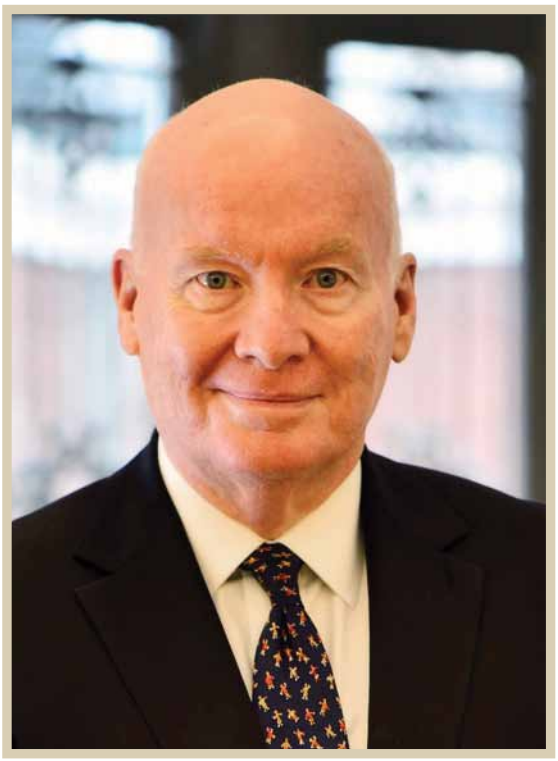
PR Newswire 美通社

HR 智享会 HR Excellence Center

HRoot

HRsalon

Shanghai Daily 上海日报





Robert Theleen
Chairman of the Board of Governors

Coping with Change

AmCham Shanghai recently hosted a Congressional Delegation that was returning to the U.S. following a trip to India. We had a very impressive group of the Chamber's senior members from the auto industry, banking, consumer products, chemicals, and healthcare at the morning meeting. What was striking to me was the generally positive attitude of the members of Congress and their reaction to our recently published annual China Business Report.

In contrast to previous years, it is obvious that the message of American business success in China is resonating with American leaders. I believe that this positive attitude was created by the reaction of U.S. Governors and Mayors to the economic recession of 2008. Those leaders beat a path to AmCham Shanghai's door to solicit our assistance in bringing much-needed investment to their communities. Members of Congress who, until recently, viewed China negatively were quickly "educated" by their local business and government leaders.

The same thing is happening in China. As the infrastructure, urban development and the Internet have meshed together, mayors and governors have embraced the arrival of American and other international investors who bring "quality of life" products and services demanded by the growing middle class.

I had a meeting last week with a very senior government official in Beijing who told me, "For 25 years, the Government controlled and, therefore, led the economy. But today, the economy leads the Government." What he meant by that is the rapid expansion of a knowledge-based economy that has simply outpaced some national agencies and ministries' ability to cope with change.

"Big Data" consumer analysis, Internet sales and a further demand for access to the best products in the world make it nearly impossible to keep pace. Look for these trends to continue, but remain vigilant and remember that we all have to be faster and more flexible as we develop our businesses across the entire country of China.

And to think how far we have come from our forbearers 100 years ago on the Shanghai Bund when they formed our unique and growing American Chamber of Commerce in Shanghai.

Board Gets Briefing on China Business Report and 100th Anniversary Program

Highlights from the March 2015 Board of Governors Meeting

China Business Report Launch

Stefanie Myers, the Committees Director at the Chamber, briefed the Governors on the March 4 China Business Report release. The report has been distributed to AmCham Shanghai members and key stakeholders including Chinese government officials, U.S. government officials and academic contacts. President Kenneth Jarrett pointed out that all of the data are available online and users can create unique reports based on a company's size, industry and years in China. Myers noted that AmCham Shanghai is looking at the timing of next year's report, possible changes to the survey and whether to conduct top line surveys on key issues during the course of the year.

100th Anniversary Update

Jarrett provided an update on the 100th Anniversary program. The industry forums are starting to take shape and there will be forums on healthcare, building construction and media and marketing. Jessica Wu updated the Board on the April 11 Charity Ball. She told the board that tickets were selling quickly and encouraged everyone not to wait to buy tickets. She also noted that there will be some big ticket items at the auction including a luxury car, a special carpet, and American Airlines air tickets.

Budget Approval

The Board also approved the Chamber's budget for the new fiscal year, April 2015 – March 2016.

MEETING ATTENDANCE

Present: *Jimmy Chen (via phone), William Duff, Jun Ge, Ker Gibbs, Cecilia Ho, Aina Konold, Ning Lei, Robert Theleen (Chairman), Cameron Werker, Helen Yang (via phone), Shirley Zhao*

Apologies: *Curtis Hutchins, Glen Walter*

Attendees: *Veomayoury Baccam, Kenneth Jarrett (President), Li Qiang, Stefanie Myers, Helen Ren, Scott Williams, Jessica Wu*

The AmCham Shanghai 2015 Board of Governors

Chairman



Robert Theleen
ChinaVest

Vice Chairman



Ker Gibbs
BW Ventures

Governors



Jimmy Chen
FedEx Express



Curtis Hutchins
Eaton (China) Investments



Glen Walter
Coca-Cola



Jun Ge
Apple



Aina E. Konold
GAP Inc.



Helen Ching-Hsien Yang
DuPont



Cecilia Ho
International Paper Asia



Ning Lei
Navistar



Shirley Zhao
Allergan

AmCham Shanghai





U.S. Congressional Delegation visit to AmCham Shanghai







China Business Report event



American Jazz talk at Monthly Member Briefing

Month in Pictures





From Bling to Well-being event





View on the Chinese Economy



Future Leaders Salon



National People's Congress Results





BY LOIS DELHOM

DMG, Valiant Entertainment in Superheroes Pact

DMG Entertainment, a Chinese company which co-produced popular movies such as *Iron Man 3* and *Looper*, has partnered up with independent American comic book publishing company Valiant Entertainment, in order to bring its supernatural characters to the big screen. The two companies started discussions in 2013 and made the official announcement March 8 in Beijing.

Under the plan, the films will be screened simultaneously in the U.S. and China, where the audience accounts for the biggest share of the international box office, grossing more than $4.8 billion last year.

It was not clear what the financial value of the partnership between the two companies will be but reports said it will support Valiant's international growth and finance the production of movies, television programs, apparel, toys and theme parks to satisfy the demand of "superhero-crazed consumers" in China and the U.S. DMG will produce the films based on Valiant's characters, providing the plots and writing the scripts.

Unlike DC and Marvel characters, which were created in the 1930's and 1960's respectively, there is more gender diversity with Valiant superheroes. The sociopolitical atmosphere Valiant was influenced by results in a more responsive audience around the world, as readers can identify themselves more with the characters.

"Global markets, like China, offer the greatest opportunities for monetization from merchandizing, licensing, and revenues from film and television properties," states DMG CEO Dan Mintz, according to Valiant's official website. This is a strategic partnership, as nowadays, comic superheroes are "The most lucrative and sought after IP for movie franchises," he says.



Some of Valiant's most acclaimed superheroes

With over 2,000 characters in its library, Valiant has more than what it takes to keep a global audience entertained. The independent comic book publisher will make a huge entry and most certainly deal a big blow to its main competitors, Marvel and DC.

U.S. Congressional Delegation Visits Chamber



A high-level bipartisan congressional delegation visited AmCham Shanghai on March 11 for a briefing that touched on major commercials issues facing members of the Chamber. The delegation was led by Rep. Ed Royce, chairman of the House of Foreign Affairs Committee, and they were joined at the meeting by U.S. Ambassador Max Baucus and Consul General Hanscom Smith.

Several prominent members of the Chamber, including some representatives of the 2015 Board of Governors, shared their views about what's happening in China and how some of the recent regulatory laws and proposals are impacting U.S. companies here.

The representatives of U.S. companies identified a handful of challenges they face in China. They impressed upon the delegation the importance of the Chinese market and supported more efforts to promote free trade including the Trans-Pacific Partnership Agreement and the Bilateral Investment Treaty with China. The delegation agreed that market access remains a key issue.

Royce, a Republican from California, was accompanied by six other lawmakers including Rep. Nita Lowey of New York, Rep. Luke Messer of Indiana, Rep. Pete Sessions of Texas, Rep. Matt Salmon of Arizona, Rep. Ami Bera of California and Rep. George Holding of North Carolina.

Additionally, AmCham Shanghai members briefed the delegation on a number of topics such as new banking regulations, e-commerce, genetically-modified crops, environmental standards and cyber security. Although the topics were serious, there was an optimistic tone at the meeting and among the members. They expressed a consensus that the conflicts between the two countries should not overshadow the important areas of cooperation. AmCham Shanghai members expressed support for the Bilateral Investment Treaty which they said would protect American investments and open up the Chinese market. Before arriving in Shanghai, the delegation also stopped in New Delhi.

The visit to AmCham Shanghai was just one of several stops in Shanghai. They also met with prominent government officials, academics and other influential actors in China.

National People's Congress Impact and Results

Mary Boyd, the Economist Corporate Network Director, offered her insights into the results of the recently concluded National People's Congress (NPC) and the Chinese People's Consultative Congress (CPPCC) sessions during an event at JW Marriot Hotel on March 17.

Members of AmCham Shanghai and the U.S. China Business Council (USCBC) attended a briefing during which Boyd provided some context of the meetings, commonly known as the "*lianghui*." She began her briefing by laying out the role that the NPC and CPPCC meetings play in the Chinese government. The NPC is China's highest legislative body and meets annually to pass legislation.

Boyd spent a large amount of time highlighting points made during the Prime Minister's Work Report – an address made by Li Keqiang to the NPC. Boyd said that the biggest take away from the report was China's targeted growth of 7 percent, down from 7.5 percent last year. Li attributed this to systemic, institutional, and structural problems, to which he calls "tigers in the road," hindering economic development.

Boyd's summary and analysis of the NPC prompted questions and opinions from the audience. Some of the questions for Boyd touched on a handful of topics, such as China's recent crackdown on western textbooks, the implications of Made in China 2025, and what future reform regarding state-owned enterprises might look like.



Mary Boyd

Importing Food via the FTZ

Members of AmCham were treated to an event hosted by the Food, Agriculture and Beverage Committee on March 5 about new procedures for Food and Beverage imports to China under the Free Trade Zone.

Launched in April last year, the Shanghai Waigaoqiao Direct-selling Center of Imported Goods (DIG) offered a myriad of overseas products, with attractive prices that wooed over 12,000 customers to shop at its peak.

Credits go partly to the China (Shanghai) Pilot Free Trade Zone (FTZ). Though duties were not waived when importing goods, DIG worked closely with only first-tier suppliers to save time and cut fees imposed by agents at different levels. Fresh produce with a much shorter shelf life was sold at a price of 10 percent to 20 percent lower than even some good deals from online merchants.

The relatively high retail price of imported goods consists of duties, the margin earned by the dealers, and also the cost of exhausting import procedures. Not all food and beverages can be granted with a permission to be shipped inbound. Importers have to meet with strict compliance rules in regards to the product type, ingredients, quality inspection, label and even its position, to name a few.

There are also a meticulous set of labeling rules that even regulate the size and font of the Chinese characters on the label. For genetically modified food that contains sensitive contents, it takes at least a month on average for importers to eventually get the green light from the authorities, with the application fees and cost all paid by the companies themselves.

"You must be very careful with the specifics," said Liser Liu, General Manager of the Shanghai T&G Supply Chain Management at the event. "Different food has different standards. You must check if this type of product has special requirements on the content of the label," he states.

She added: "I think chocolate and biscuits are the most difficult ones to deal with. There are usually over 30 types of ingredients in these products and you are required to check them one-by-one."

When asked if these regulations will be eased up somehow in the future, Liser remained cautiously optimistic.

"It could be possible that a third-party inspection is likely to be introduced in the future to facilitate import and reduce costs," said Liser. "All in all, regulations on food import is always a headache to countries around the world."



Yukon Huang on the Chinese Economy

Members of AmCham Shanghai were treated to a presentation given by accomplished economist and Carnegie Endowment Senior Associate Yukon Huang on March 5 at the Portman Ritz-Carlton Hotel.


Yukon Huang discussed conflicting views on the Chinese Economy

In his talk, Huang challenged popular assumptions about the impact of innovation and debt on the Chinese economy as well as the need to reduce the size of Chinese cities. According to Huang, these assumptions are fundamentally incorrect and are causing people to adopt the wrong strategies and policies with regard to China.

China generates widely conflicting economic views around the world, and notions of who is the world's leading power vary dramatically. Europeans perceive China to be the world's leading economic power, where as the rest of the world believes that the United States is the predominant economic power. Huang explained why there were so many conflicting views and offered some economic analysis to answer these questions.

For example, many people assume that China needs more innovation to grow its economy. However, innovation in technology is not necessarily directly linked to economic growth. The progressive innovation that exists in Western countries has lead to significant growth in wealth but not to these countries overall economic growth. China continues to grow despite the low level of innovation because of its undeniable ability and success in adopting foreign technology. Focusing on innovation might not be the best way of promoting growth in China.

Further examples of Huang's challenge to assumptions on the Chinese economy include the perception that Chinese cities are too large. In fact, China's largest cities have lower densities than their peers and the problem lies not in urbanization, but in poor urban connectivity. China's largest cities are poorly laid out and this poor city planning is the cause of traffic and pollution. For example, Turin in Italy has an average of 152 intersections per kilometer in comparison with Beijing New Area, with an average of 14.

A further perception Huang discussed was the notion that China is facing an imminent financial crisis. While the magnitude and speed of China's debt increase suggests this, China's debt ratio is not that extreme. In fact, debt surge is not a servicing problem for industrial firms. The level of government and consumer debt is actually much lower than in other countries.

Huang also discussed the assumption that China needs to increase its consumption levels. He noted that consumption levels have increased overall but consumption as part of GDP has decreased. Understanding this anomaly is the key to understanding consumption in China. As China becomes more urbanized, people are moving to the cities for higher wages. As they make higher wages, the percentage of consumption as part of GDP decreases, even though their actual levels of consumption have increased. Although consumption levels as a percentage of GDP have decreased, people are better off and consuming more.

Huang's challenging analysis of economic perceptions provoked questions from the audience regarding government corruption and stock market liberalization. Huang concluded the event with the thought provoking statement that while most observers take China's unbalanced growth numbers at face value, there are serious statistical distortions. On the issue of corruption, he predicted that China will adopt more political reforms once it becomes more urbanized, its services industries grow, and its per capita income hits US$13,000. Based on his calculations, this will occur in 2022.

Event Highlights

Shanghai Jazz Age - A Soundtrack to the Modern Age



Mario Cavolo and Roy Thomson

Nearly 100 AmCham Shanghai members turned out for a special presentation on the history of jazz in Shanghai on March 3 at the Four Seasons Hotel. The event, which was part of the regular Monthly Member Briefing, was also the kickoff to a history-themed series celebrating the Chamber's 100th Anniversary year.

Andrew Field, Associate Dean at the Shanghai Hult Business School, talked about jazz in Shanghai and its connection to the U.S. and the West. His presentation included several black and white photographs of the jazz scene in the city taken nearly a century ago. His talk and PPT were followed by a performance by a two-piece jazz duo, RM2 with long time AmCham Shanghai member, Mario Cavolo on piano and Roy Thomson on trumpet.

As the accomplished author of "Shanghai Nightscapes: A Nocturnal Biography of a Global City," Field is a leading expert on this fascinating time in Chinese history. Field began the night discussing the significance that Western-style dancing had in Shanghai, and the initial reactions of Chinese viewers as ones of shock and also deep curiosity. After preliminary introductions to this style of entertainment, however, Shanghai quickly embraced jazz and went on to "sinify" the style with their own adaptations and fascinating blend of Chinese and Western music.

Field discussed the four individuals who he said had a massive impact on the Shanghai jazz age. These individuals lived and performed from the late 1920's up until the late 1940's, before Shanghai dwellers were forced to put away their dancing shoes until the reemergence in the 1980's.

For further reading on this fascinating time in Shanghai history, check out Field's book, "Shanghai's Dancing World: A Study of the City's Cabaret Industry in the 1920's-1940's" on Amazon. Keep an eye out for more history-themed events as part of AmCham Shanghai's year-long 100th Anniversary celebration.

China Business Report Release Draws 200

Nearly 200 guests turned out for the release of AmCham Shanghai's *2015 China Business Report* on Wednesday, March 4 at the Portman Ritz Carlton Hotel.

The event included a panel discussion and presentation. The report is based on a survey of Chamber members conducted late last year. Some 377 companies participated in this year's survey, and panelists from different industries offered key feedback based on the results. The majority of U.S. companies are optimistic and continue to enjoy revenue and investment growth, although some key challenges found in the report included rising costs, HR constraints, and domestic competition.

Kent Kedl, Managing Director for Control Risks and AmCham Shanghai's partner for the report, conducted a presentation of key findings.

"Many foreign companies in China are starting to find themselves 'stuck' between a slowing economy and a still-challenging commercial environment. Many companies are growing at a slower rate and they still need to deal with the difficulties of the lack of transparency and corruption issues in China," Kedl said.

Although these challenges face nearly all sectors of foreign private business in China, Kedl also made clear the general optimistic outlook of the business climate. The results show that 73 percent of U.S. companies are profitable and 75 percent experienced revenue growth in 2014. At the same time, 96 percent said their companies had increased or maintained investment levels.

Following Kedl's overview of the report, a panel offered insight and discussed their view of how things are going in China. Carl Wegner, Head of GTB Greater China for Deutsche Bank of the financial sector commented that the speed of reform is the biggest challenge his team is facing in China today.

The Emergence of the Luxury Market



Panelists Margie Chiang, Jeni Saeyang, and Prof. Pierre Lu

The Marketing and Media Committee hosted a roundtable event on March 12 that touched on the impact of the upper and middle classes on the Chinese luxury market.

The panelists were Prof. Pierre Lu of Fudan University, Jeni Saeyang of Eco and More, and Margie Chiang of the Living Room by Octave.

Lu discussed the luxury trends in China as similar to those in countries throughout the world. The first wave of upper class consumers in China was a reflection of the Chinese market's new openness to the world, and the purchased items were often considered status symbols.

This stage was coined as "The Luxury Seekers," with consumerism based on the purchasing of brands that were associated with status. There was no relevance to substance; rather it was entirely about possessing "the look." This was seen during the first five years of the millennium, when the upper class consisted of less than five percent of the population.

In 2005, the spending power amongst the upper class rose, leading to the emergence of the massively affluent individual in China. With the overall growth of the upper class, the luxury market in China went into the "Premium Seekers Stage." Consumers in the "Premium Seekers Stage" are primarily concerned with the most expensive brands and the experience of owning them.

In 2010, many saw the emergence of the upper middle class and there was a significant change in the demands of consumers who began to desire higher quality products relating to increased quality of life and well-being. At the "Quality Seeking Stage" of the luxury market, consumers placed an emphasis on knowledge. They wanted to know about value propositions and what products offer rather than just the name.

Saeyang further discussed the lifestyles of health and sustainability, or "LOHAS." Various factors in China, such as pollution and questions about food safety, are under constant scrutiny and have driven Chinese luxury markets to place an emphasis on knowledge and quality of life. His comments were backed with extensive data showing that the Chinese luxury consumers have more of an interest in products that promote health and well-being.

For example, 49 percent of the luxury market is interested in products related to promoting health and well-being, as compared to only 40 percent in the U.S. Furthermore, research has shown that 17 percent of consumers in first-tier cities in China consider themselves "LOHAS," with strong emphasis on products that promote health.

Finally, Chiang reflected on how this "LOHAS" trend is similar to the luxury market in Los Angeles. The current luxury market in L.A. was shaped by the dynamics of the high levels of pollution throughout the 1980s, which led to a strong desire for healthy living. Chiang further argued that this history of pollution caused the current luxury market in L.A. to be centered on the experiences and lifestyles that promote good well-being rather than the possession of material things.

For more information on AmCham Shanghai's 23 industry-specific committees, please contact committees@amcham-shanghai.org.



EXECUTIVE INTERVIEW

We asked executives to reveal their favorite question to ask a job applicant during an interview and here's what they told us.

Benjamin Baker, Director of Asia Operations, Blu Dot Design & Manufacturing

Question: ***"Tell me about a time you disagreed with the actions or direction of company leadership. How did you approach the situation and what was the outcome?"***

Remarks: "I ask this, first, because I truly want to know the answer. I am imperfect, and the world is an imperfect beast; no doubt they will at times take issue with the actions or direction I send down. I want to know how they believe they have dealt with this in the past. Second, and most importantly, I want to see how they will communicate with me. If they dance around the question or answer in an anecdote, it tells me that we will have communication issues if they work for me.

Gina Li, Former Managing Director, Corporate Planning & Development, APAC at Eaton Corporation

Question: ***"My favorite question for job applicants is 'tell me five key elements in a joint venture term sheet that are most difficult to negotiate with the partner."***

Remarks: "The reason I ask this question is that I have found that people love to be strategic but are unable to be hands-on. In other words, lack of execution. Asking this question would help me to judge if the candidate did what he or she claimed, and if they really understand the other party's perspective to create a win-win solution."

Shirley Zhao, President, Allergan China

Question: ***"What is the biggest mistake you have made in your career or what would be the worst decision that you've made in your career and why? If we had a time machine and could turn back time, what or how would you do differently?"***

Remarks: "I often ask this question to get to know the candidate's reflection on their prior career life. This is to test the candidate's self-awareness and his/her ability to learn from failures, which is as important as lessons learned from successes. Based on the answer provided on what could have been done differently, we can assess the candidate's analytical capability, learning agility and motivation/ passion for change."



SHUTTERSTOCK

Rob Abbanat, CEO, Ivy League Management Consulting

Question: ***"What was your most impressive accomplishment at your last (or current) job?"***

Remarks: "If I'm not impressed with the answer, I probably won't be very impressed with the candidate's performance at my company. For most people, past performance is the best indicator of future performance."

Jacky Cheng, General Manager – Greater China, Accor Advantage Plus

Question: ***"What is your career development plan for the future?"***

Remarks: "I may know whether this candidate has a strategic plan or thinking."

Ningling Wang, Managing Partner, Finnegan, Henderson, Farabow, Garrett & Dunner, LLP, Shanghai Representative Office

Question: ***"What's your hobby?"***

Remarks: "I think an effective worker is one who has some hobby to relax and recharge during off-work hours. Different hobbies can also reflect people's personalities."



Find a Better Fit Yet ?

Mapletree Business City Shanghai

Modeled after Mapletree's flagship development in Singapore, Mapletree Business City is the group's first premier business franchise in Shanghai. Strategically located directly above MRT, this new landmark development is built to international Grade-A office standards with a total GFA of 200,000 sqm and precertified at LEED Gold level.

Further complemented by the adjacent VivoCity mall, Mapletree Business City Shanghai creates a seamlessly interconnected hub for work, leisure and lifestyle.



Business has a new centre

Project Location
Junction of Qixin Road and Gudai Road, Minhang District, Shanghai

Leasing Hotline
86-21-6037 8186

www.mbcshanghai.com

The above information is subject to change during porject development.

mipimasia awards 2014

LEED

mapletree
BUSINESS CITY
SHANGHAI

4 STAR AIRLINE SKYTRAX

Best Airline in North America five years in a row

AIR CANADA

A STAR ALLIANCE MEMBER

EVERYTHING YOU DREAMED OF.

Welcome to a new flying experience onboard Air Canada's Boeing 787 Dreamliner airplane.



International Business Class



Premium Economy Class



Economy Class

