INSIGHT.

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This year's Policy Issue features relations under the Biden administration, US-China decoupling, China's economic growth and challenges, the significance of RCEP, cross-border payments, and the country's food security issues. Contributors include Susan Shirk, Dan Wang and Arthur Kroeber, Zhu Ning, Peter Drysdale and David Messenger.

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POLICY SPECIAL

MEMBER NEWS

CHAIRMAN'S NOTE

JEFF LEHMAN

Chairman of The American Chamber of Commerce in Shanghai

The coming of a new year often brings a sense of possibility and renewal, and that is especially the case this year. After some challenging months for all members of the AmCham Shanghai community, we look to 2021 with an attitude of cautious optimism.

This issue of *Insight* is our annual policy issue, in which we feature contributions by renowned experts that analyze policy issues that affect our members and their business endeavors. Some years, these policy analyses appear during periods of expanding interdependence between the United States and China. This year, however, they appear following a period of heightened tensions.

As we go to press, President-elect Biden and his advisors are mapping out plans for the first year of a new administration. They have said quite clearly that their attention during that time will be focused primarily on COVID-19 and bringing the pandemic and the economic damage it has brought under control. The new administration's primary foreign policy objectives are to re-engage the country in the world's most significant regional and international organizations.

It is also expected that the first year will bring a fresh look at the bilateral relationship with China. We are emerging from a period that featured an unusually high degree of acrimony and mutual recriminations. The transition team has signaled its intention to adopt a different tone in shaping fair and healthy engagement between the world's two largest economies.

Reasonable paths forward do exist. Many commentators have observed that, in the business world, competing enterprises often have spaces in which they can cooperate for their mutual benefit and that of their customers and stakeholders, a concept known as co-opetition. Twenty-five years ago, Professors Adam Brandenburger and Barry Nalebuth used game theory to analyze the phenomenon in their book, *Co-opetition*. In the current issue of the *Harvard Busines Review*, the two professors update their analysis and describe how the phenomenon has been exemplified by rivals such as Apple and Samsung, DHL and UPS, Ford and GM, and Google and Yahoo.

Co-opetition is a useful concept for nations as well as companies. Last month, China's former vice foreign minister Fu Ying published an op-ed in the *New York Times* entitled, "Cooperative Competition Is Possible Between China and the U.S." She argued that if the bilateral relationship is to be refreshed, "each side must accurately assess the other's intentions."

Minister Fu is surely right that such an assessment is necessary. It might also be helpful for both sides to reach an early agreement for how they will approach situations where such an assessment reveals conflicting intentions.

In recent years some have argued that if China and the United States cannot converge on common approaches to governance and industrial policy, they should decouple. Superior intermediate possibilities exist, however, between those two extremes.

Last year, Dean Yao Yang of Peking University, Professor Dani Rodrik of Harvard University and I convened a working group of economists and legal scholars to develop a proposal for how the two countries might engage in a joint exploration of those intermediate options. Our proposal was endorsed by 37 economists and legal scholars from around the world, including five Nobel laureates and three former chief economists of the World Bank.

In a nutshell, our approach goes like this. Each country should be free to choose its own industrial policy, as long as that policy is not designed to simply redirect benefits to itself and away from other countries. At the same time, each country must recognize that domestic industrial policy can sometimes cause "extraterritorial" harm to others, even if such harm is not the goal. When extraterritorial harm occurs, the two countries should work together in good faith to see whether it can be mitigated. If they cannot agree, the injured country should be able to adopt policies to prevent that harm, as long as the policies are well calibrated and not acts of retaliatory escalation.

No doubt many such approaches are available; what matters is that one be chosen. If businesses are to provide maximum benefits to their stakeholders, they need a stable environment where citizens of all countries can engage with one another creatively and efficiently.

Let us hope that 2021 will move China and the United States onto a new path forward to respectful, cooperative and competitive coexistence. I

Photo Credit - David Starkopf / Office of Mayor Antonio R. Villaraigosa

READY FOR A RESET

Technology, Climate and Multilateralism in the Context of a New US-China Relationship

By Ian Driscoll

Susan L. Shirk is the chair of the 21st Century China Center and a research professor at the School of Global Policy & Strategy at UC San Diego. From 1997 to 2000, Shirk served as deputy assistant secretary of state in the Bureau of East Asia and Pacific Affairs, with responsibility for China, Taiwan, Hong Kong, and Mongolia. Shirk holds a PhD in political science from the Massachusetts Institute of Technology.

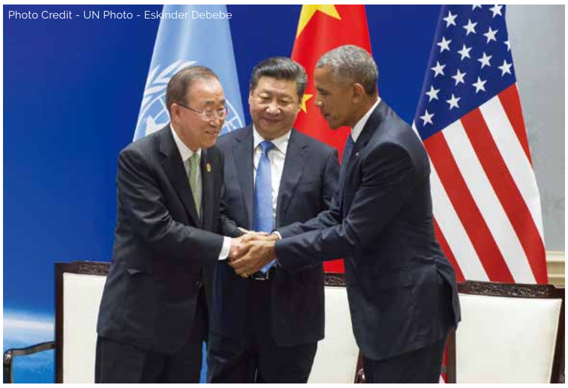
How important will China be to a Biden administration? Where would it rank on the Biden administration's list of global concerns?

I would rank it as the number one foreign policy challenge. The Biden team will make China a front burner issue and they will continue to invest a lot of effort in it. The economy and technology will be in the forefront. Human rights will be more prominent than it was in the Trump administration. They will also try to find some common ground in other foreign policy areas; in addition to carving out space on climate change and health, they will try to work again on non-proliferation, especially in Korea and Iran, and encourage some greater restraint on China's part in the South China Sea and East China Sea.

There is considerable expectation that China and the US will find common ground on issues like climate change and health. How realistic is this view? Where won't the countries find common ground?

On climate, both countries are motivated to make new commitments for the next round of climate talks. The way interational climate change policy works now, the effort and commitment are mostly from individual countries; we are not expecting to get agreement on international rules, instead we are trying to inspire greater effort by different countries. Signs are that both Chinese and American governments are interested in working together on climate. John Kerry is now the climate czar, with cabinet rank and National Security Council rank. He and the [former] Chinese minister Xie Zhenhua worked together effectively under the Obama administration so that the joint efforts of the US and China, their joint pledges, were very important in motivating greater ambition by other countries. I think both governments will be keen to replicate that. The two governments also recognize that there will be positive spillovers from this cooperation, that it's not just about climate, but will also help to restore a more constructive tone to the overall relationship.

On COVID, Chinese defensiveness about being blamed for the beginnings and spread of the virus will make it harder for them to cooperate with us. They will be overly sensitive about it. Look at their reaction to the call by Australia and other countries for an international research effort to understand the origins of the virus. Also, the Chinese side has shown that it has the tendency to play politics with COVID aid, from personal protective gear in the beginning [and now] to the provision of vaccines. On the US side, the Biden administration is, of course, highly critical of the failure of leadership under the Trump administration, so will be self-critical of our own performance and open to working with China on the pandemic.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▲ Happier days

> We can get China to modify its behavior if we work with other countries. Our alliances are part of our asymmetric advange. China has nothing at all similar.

If the Biden administration reverts to multilateralism, particularly as it pertains to Western Europe, how will this impact China?

We can get China to modify its behavior if we work with other countries. Our alliances are part of our asymmetric advange. China has nothing at all similar. But the Biden administration needs to revive our alliances with a deft hand. If they do it with an explicit agenda of trying to unify policies against China, it could backfire, because Beijing will see this as another effort to contain them and refuse to bend. It's fine to try to set high-level standards with the Europeans, say on technology policy, and to develop the technical standards setting process for AI, 5G and other technologies. I hope that the Biden administration will be a lot more active on that and will coordinate with the Europeans and others and not cede the ground to China – we don't want China to dominate these processes. I think it's possible to do this with a deft hand, especially if we communicate well with the Chinese as we do it.

Until about a year ago, China was having success winkling countries like Italy out of the EU's embrace. Now Italy has rejected Chinese overtures around Huawei. What has prompted European countries to rethink their China links?

China's own overreaching. Pompeo's campaigning has created some pressure on these other governments, but in the end it's because China's behavior changed [so] that the Europeans and others developed a new more negative narrative about what kind of rising power China is. First, the coercive diplomacy that China utilized to try to pressure other countries to adhere to Beijing's political line on what are essentially domestic political issues. And then there is wolf warrior diplomacy of threatening other countries. Foreign policy under Xi Jinping may have nice rhetoric about cooperation, but in reality it is too narrowly self-interested. It has sparked lots of suspicions about China's long-term intentions. And, of course, domestic policies, especially regarding Xinjiang, Hong Kong and Tibet have also contributed to that more negative sentiment.

Under the Trump administration we appeared headed toward a dual-technology world. The recent UCSD/Asia Society report *Meeting the China Challenge* offers good reasons for avoiding a dual-technology future and suggests that this is possible if the US adopts a more nuanced approach to sharing technology with China. Can you explain how this is achievable?

Our report recognizes that we are competing for global leadership, including in technology. China is coming on strong although it is still behind the US in all these cutting-edge technologies. America will compete best by building on our asymmetric advantages. We should strengthen our own innovation capabilities, tighten risk management targeted on how specific technologies will evolve in the future, and maintain the benefits of openness, because the United States is uniquely capable of operating in the global knowledge economy. We do better than other countries at attracting the most talented people from all over the world to study and do research at our universities and companies.

We have to pay attention to the risks of China engaging in illicit practices to acquire technology and also using technological advances to increase their military capabilities. The other thing we highlight is that security risk management goes a lot beyond China. All of these new technologies in the long-term present security risks – hacking, subversion, interference – so we can handle those things through a layered defense, similar to what we do on cybersecurity.

The other important point is that protecting ourselves against national security risks is different with every technology. It's not like China presents a uniform risk to the United States; we have to be smart and think through each technology in its own way.

Another issue raised by the report is how to "counter the market-distorting subsidies" that benefit companies like Huawei. Remedies include working through the WTO or aligning with like-minded nations to discourage China's subsidization of

Photo Credit - Prachatai - 2018

strategic industries or other countries from purchasing subsidized products. This, however, would challenge China' state-capitalist model. So how would this work?

We have potential domestic allies in China in the private sector. It's based on the premise that all this talk about marketization and market reform and opening up is not just talk. Some people in China are genuinely unhappy with the current model. So some things could change. We don't believe that China's current statist industrial policy is part of China's DNA and can't be modified, especially if the costs to China are recognized, [including] the international cost of losing the enthusiasm of international business, which has always been such an important constituency in the United States and Europe for engaging with China. One positive sign is that even Xi Jinping is talking about having China take steps to meet the requirements to join the CPTPP. Let's see if they really do it.

We don't believe that China's current statist industrial policy is part of China's DNA and can't be modified, especially if the costs to China are recognized, [including] the international cost of losing the enthusiasm of international business, which has always been such an important constituency in the United States and Europe for engaging with China.

Charlene Barshefsky thinks we can address the subsidies [through the WTO]. Of course, we have a lot of work to do to revive the WTO. We also think that another way of doing this is to have some mini-lateral agreements, especially related to technology, trade and investment or other areas. You create these alliances of smaller groups of countries and they agree to operate with one another according to these standards, and you hope to snowball this effort to bring in other countries and that it creates pressure on China to conform. That was actually the concept behind CPTPP.

Your report suggests that the US government, in conjunction with universities and industries, should spend the equivalent of 3% of GDP each year on research. That edges America closer to state involvement in industry, something the US has avoided in the past few decades. Does the US need to adopt some of China's methods in order to stay ahead of China?

Photo Credit - David Starkopf / Office of Mayor Antonio R. Villaraigosa

Our report recommends more investments on R&D, to a level of 1% GDP for federal government funding, which is what is had been in the past. The goal of 3% of total R&D (including universities and industries) is aspirational and doesn't imply that the government should steer all this non-governmental investment as China does.

I feel strongly that we shouldn't try to mimic China's statist approach to technological advancement. It isn't a good fit for the American system, which is freer and more market oriented, although of course the defense department has made critical investments in the past. We flourish in a system like Silicon Valley that encourages new entrants to emerging industries instead of building national champions. Instead of seeking to become more like China, America should become a better version of ourselves.

We flourish in a system like Silicon Valley that encourages new entrants to emerging industries instead of building national champions. Instead of seeking to become more like China, America should become a better version of ourselves.

If you were advising the CEO of an American company in China, what future pitfalls would you highlight?

There are two kinds of pitfalls. One is the kind within China, but of course it depends what kind of business you are in. It's conceivable that American companies in China could be punished by regulation or officially organized consumer boycotts, or even spontaneous consumer boycotts if US-China relations deteriorate sharply.

On the US side, to the extent that you are weaving fabric or making shirts in Xinjiang, then the American consumers and the American government may punish you from this side. So, you may get caught between consumers and regulators and pundits in the two countries in a way where you end up becoming the victim. And in China, of course, there's so much uncertainty about something like this happening as well as about regulation more generally, as we see now as the Chinese regulators start to go after their own big internet companies.

On the US side, we had that same uncertainty about new restrictions under a Trump administration, and I think it will be reduced somewhat under Biden but not entirely, because the relationship is going to continue to be competitive.

Would China have been happier with four more years of Trump?

I can't see why. The Biden administration will be more practical and more effective in its China policy. We will continue to compete, but these people – Tony Blinken, Jake Sullivan, John Kerry, Joe Biden himself – all believe that we should communicate with China, that we should negotiate using a combination of carrots and sticks and show a modicum of goodwill. And if the Chinese leadership is willing to make some compromises, we are also willing to get back to a more or less normal relationship. I

AGENCIES THAT MATTER

A GUIDE TO THE FOUR US AGENCIES TASKED WITH ENFORCING US SANCTIONS AND RESTRICTIONS ON CHINA

By Dan Wang and Arthur Kroeber


Dan Wang and Arthur Kroeber are respectively technology analyst and head of research at Gavekal Dragonomics, the Beijing-based economic research firm.

President-elect Joe Biden has pledged to "restore" the US, implicitly to its pre-Trump state. This will not be possible for China policy. In almost no area of the US-China relationship can there be a decisive reversal of the much tougher approach that President Donald Trump instated. Instead of a full reset of Trump's tariffs and technology restrictions, the Biden administration will deliver recalibrations, mainly by choices about whether and how to enforce existing regulations. It will also try to strike a more careful balance between economic and security interests and rely more on working with allies. None of this will be easy.

Under Trump, the fundamental stance of the US towards China changed, permanently. Previously, American elites largely believed that it was in the national interest to enable China's development and encourage its integration with the US and global institutions. Now, the core view is that China is a strategic rival, one that the US should constrain where feasible. The question is how to decide what is feasible.

Decisions on China policy come out of a tussle among three major groups. Security hawks would like to limit technology and financial flows and constrain China's global influence. Business interests want to sell and do more in China, but also want the US government to push Beijing to cut back discriminatory regulations and subsidies for state-owned competitors. Economic nationalists demand that policy cater to the US manufacturing base and US workers, not just the profits of multinationals.

It is simply not possible to return to the pre-Trump status quo, when business interests largely drove policy. The security consensus around China-as-rival is now too strong. Equally though, the strong form of the "decoupling" agenda is unrealistic since US businesses have too much at stake. Despite immense pressure over the past few years, multinationals show few signs of trimming their commitment to China. Economic nationalists will be somewhat diminished under Biden, but the questions they raised under Trump will not go away.

The complexity of this balancing act—combined with the political risk for Biden of being tagged as "soft on China"—means that the new administration will step carefully as it reviews its China policy.

The next steps in US-China decoupling

With the US election over, the outgoing Trump administration has intensified pressure on China on all fronts: political, business, technological and financial. Some of it is maneuvering by administration hardliners, who want to put in place as many measures as possible ahead of a Biden administration that may pursue a more restrained China policy. Some of it is also driven by Congress, where there is bipartisan support for measures to punish Beijing for its policies in Xinjiang and Hong Kong, and to cut flows of American money and technology to China.

Some of this intent has been turned into action. Measures in place by mid-December 2020 included:

- Financial sanctions against Chinese officials involved in the imposition of the new national security law on Hong Kong—which in the worst case could also extend to banks serving those officials.
- Restrictions on visas for CCP members. Under new rules, visas for CCP members and their immediate family members into the US will be one month, single entry visas.

• A law that will now force Chinese companies not in compliance with US audit standards to de-list from US stock exchanges.

With just a few weeks remaining in his presidency, Trump's final actions are hard to predict. Easier to anticipate are the actions of the individual executive-branch agencies tasked with implementing sanctions and restrictions on China. Four are key: the Commerce Department's Bureau of Industry and Security (BIS), which oversees technology controls; the Treasury's Office of Foreign Assets Control (OFAC), which administers financial sanctions; the interagency Committee on Foreign Investment into the United States (CFIUS) which is the gatekeeper for direct investment flows; and the Justice Department's National Security Division.

On the whole, these bureaucracies will be reluctant to engage in adventurous policy-making as the Trump administration leaves office, although just how reluctant will depend on the balance of technocratic and political forces within each department. What follows is a user's guide to these four agencies, and the role they have played in the rivalry with China and what actions they might take under a Biden presidency, especially if large parts of Trump's polices remain intact.

BIS: Limiting technology flows

BIS's main job is to enforce export controls. This once-obscure agency got new life with the 2018 Export Control Reform Act (ECRA), which expanded the scope of export controls; and with the Trump administration's aggressive use of the "entity list," which forbids foreign companies and agencies from buying US technology without a special license. BIS is the sharp tip of the American spear in the technology war.

Management of the entity list has been a key BIS task over the past two years. Telecoms firm ZTE and memory-chip maker Fujian Jinhua were both crippled when put on the list in 2018. ZTE was subsequently rescued by a political deal between presidents Trump and Xi; other Chinese firms have not been so lucky. Over the last two years, BIS has added new tranches of Chinese firms to the list, most prominently Huawei in May 2019, Hikvision in October 2019, FiberHome in June 2020 and two subsidiaries of BGI.

These designations started to lose their effectiveness when Huawei showed that it could keep buying products from the non-US production sites of US tech firms. In May, BIS tightened the screws by crafting a new rule to prevent semiconductor foundries like TSMC from selling chips to Huawei, on the grounds that this chip production involves the use of controlled, US-produced equipment. Huawei is now in deep trouble; within a few months, it may be forced to stop production of phones, though it will be able to produce base stations throughout 2021.

BIS imposes a license requirement for exports of certain US products

BIS is juggling a lot of other balls. In late June, it started to administer a rule targeting China's military-civil fusion strategy. If BIS finds that a Chinese firm works with military items, then it could revoke the firm's ability to import US technology. The agency is devising new rules to block electronics imports or unwind completed transactions, if it finds that an import threatens national security. And it is working out rules on "emerging" technologies like artificial intelligence and "foundational" technologies like semiconductors, which could result in them being controlled as nuclear secrets and fighter jets.

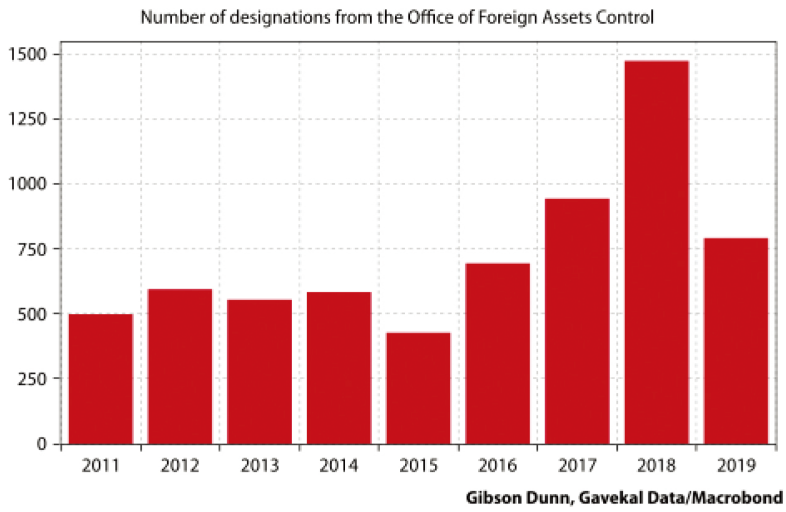
Historically, BIS was quiet and technocratic. Since the Trump administration discovered its powers, BIS has become a battleground between the China hawks and doves. Its career civil servants have a culture of tailoring export controls narrowly, to avoid making US tech firms uncompetitive in global markets. Under the Trump administration, they have had to contend with hardliners (including their ultimate boss, Commerce Secretary Wilbur Ross), who wanted tighter limits on tech exports to China. Sometimes the career staff find allies in odd places. When hawks in the administration sought tighter controls on Huawei in January 2020, the Department of Defense vetoed the plan, on the basis that it might cut the revenues, and hence the R&D capacities, of the US technology companies it relies on.

OFAC: Weaponizing the dollar

OFAC's remit is broader than that of BIS. It is the main enforcer of US financial sanctions, including various programs targeting Iran, North Korea, Cuba, Russia, Venezuela and so on. OFAC can enforce sanctions against individuals as well as corporate entities, and often asserts extraterritorial jurisdiction.

OFAC sanctions include comprehensive embargoes, sectoral sanctions, secondary sanctions and specific designations. For a company, an OFAC designation is usually a death sentence, because most firms need di-

Financial sanctions have ramped up in the Trump era (2017-19)



rect or indirect access to US banks to conduct trade anywhere in the world. Whereas BIS became active mostly in the Trump administration, OFAC has been enforcing sanctions for the last two decades, although its activity stepped up after President Trump ordered maximum-pressure campaigns against North Korea, Iran and Venezuela. Trump preferred financial sanctions, because they did not involve military action and were mostly ignored by the US stock market.

Like BIS, OFAC is populated by career civil servants who are coming to terms with a rapidly changing world. First, it has had to deal with greater political pressure. Treasury Secretary Steven Mnuchin personally announced 25 sanctions orders in his first year in office; his predecessors Jack Lew and Timothy Geithner announced around a half-dozen, total, in their combined eight years. Second, there are ever louder complaints both at home and abroad that the US is abusing its financial power to achieve political ends. This criticism has sharpened since Trump renewed US sanctions on Iran, angering European allies.

OFAC has already begun to sanction Chinese officials and it will probably sanction more. Two recent laws require the president to identify and sanction Chinese officials involved with the incarceration of Uighurs in Xinjiang and with the formation of policy on Hong Kong. In July, OFAC announced sanctions on the party secretary of Xinjiang (a Politburo member) and three associated officials, the first time that the US has sanctioned high-level Chinese officials. Sanctions against individual officials involved in the decision to impose the new National Security Law on Hong Kong have been implemented, as required by the recently passed Hong Kong Autonomy Act (HKAA).

But secondary sanctions on financial institutions that do business with those officials are unlikely. HKAA calls for them, but neither Trump nor OFAC has displayed much appetite. It's one thing to exclude an Iranian or North Korean bank from the dollar system, or to prevent US persons from buying the securities of Russian financial institutions. Chinese banks — or international banks like HSBC and Standard Chartered with a huge Hong Kong presence — are so globally connected that to sanction one of them would risk triggering international financial instability and harm the many US businesses that interact with those banks.

CFIUS: Mission accomplished

The Committee on Foreign Investment in the United States (CFIUS) is an inter-agency group, chaired by Treasury, that reviews foreign investments into the US for national security concerns. Like BIS, its parameters used to be narrow, but have been expanded by Congress. At the same time it passed ECRA, Congress passed the Foreign Investment Risk Review Modernization Act (FIRRMA). This widened CFIUS' powers to review deals involving non-controlling stakes, or where high technology is involved, even if there is no direct national security threat. The intent was to stem a wave of Chinese investments in US semiconductor, artificial intelligence and other tech firms.

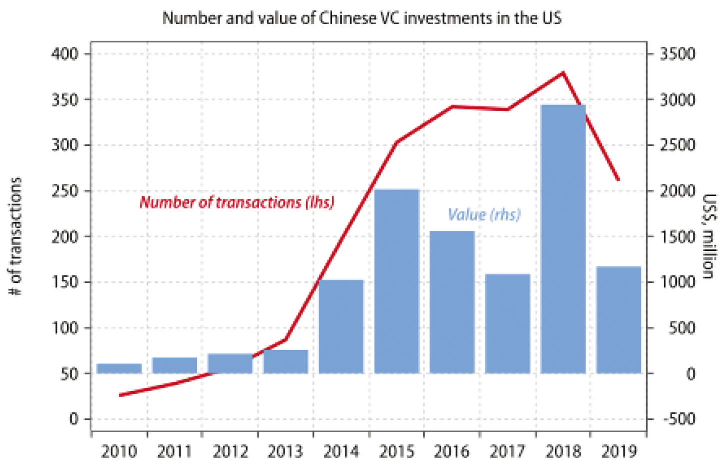
Since then, CFIUS has expanded the scope of mandatory disclosures, denied more investments into the US and unwound a few completed deals. Chinese direct and venture-capital investment into the US has mostly evaporated, partly because of direct CFIUS action, but moreso because of a general chilling effect of higher regulatory scrutiny and tighter controls on capital outflows by China. Since Chinese investment in the US is now so low, there is not much CFIUS can do to reduce it further.

The major China-related issue on its plate is an investigation into TikTok, the short-video app made by ByteDance Technology Co., which grew after it acquired US-based Musical.ly. TikTok is now in the sights of administration hardliners because of suspicion over any Chinese app that could transport American user data to China. CFIUS is not the only mechanism for disciplining TikTok; another option would be for the president to ban it by executive order, under the International Emergency Economic Powers Act (IEEPA). This seems unlikely, given ongoing efforts to sever the US operations from TikTok China.

Justice: Laying criminal charges

The final layer of the Trump administration's effort against China has been to charge individuals with crimes and try them in court. This is the focus of the Department of Justice's "China Initiative," announced in 2018 by then-Attorney General Jeff Sessions and run by the department's National Security Division.

Chinese venture capital investment in the US fell sharply in 2019



Rhodium Group, Gavekal Data/Macrobond

The initiative focuses on prosecuting cases involving theft of trade secrets. Officials are also trying to convince US universities and companies to take Chinese covert influence operations more seriously. So far, the most prominent cases have involved researchers at universities. Justice has zeroed in on the "Thousand Talents Program," a Chinese effort to recruit professors from overseas. District attorneys have indicted several researchers, mostly for undisclosed financial ties with Chinese institutions. The most prominent indictment is that of Harvard University's chair of chemistry on a charge of fraud. Another indictment worth noting is that of Huawei's CFO, which led to her detention in Canada under a US extradition request. The US attorneys in charge of both cases are two of five members of the China Initiative's steering committee. (Meng Wanzhou's case may be resolved before extradition proceedings are complete, according to some media reports.)

The criminal investigations will continue. The assistant attorney general in charge of the National Security Division has said that each of the country's 94 district attorney offices should be bringing China-related cases. These prosecutions are meant to have an intimidating effect. The US attorney who indicted the Harvard professor has said expressly that he intends for these prosecutions to frighten people into being aware of national security risks and to follow the law. Since then, scientists in both China and the US are saying that collaborations have become more difficult given the chilling effect of these prosecutions. It remains to be seen if a Biden administration will take a less aggressive stance with such prosecutions. Biden's openness to keeping foreign graduates of US PhD programs in STEM fields in the US suggests it is not impossible. I

CHINA'S ECONOMIC OUTLOOK

Q&A WITH SHANGHAI ADVANCED INSTITUTE OF FINANCE'S NING ZHU

By Ruoping Chen

Ning Zhu is a professor of finance and deputy dean at the Shanghai Advanced Institute of Finance, Shanghai Jiao Tong University. He is also a faculty fellow at Yale University and General Secretariat at the International Finance Forum. Previously, he was a chair professor at Tsinghua University and tenured professor of finance at the University of California. He is the author of *China's Guaranteed Bubble* and *The Investors' Enemy*. He frequently advises government agencies and asset management companies, and from 2008-2010, he led award-winning quantitative strategies and portfolio advisory teams at Lehman Brothers and Nomura.

How do you think the Chinese economy will fare in 2021?

I think the economy will do very well in 2021. In terms of a growth figure, growing to above 8%. It will have quite a strong rebound from the sluggish growth of 2020.

There are a couple of reasons why the economy will probably do better than expected. One is the low base – there was a retraction in the first half of 2020, therefore, any growth in 2021 will seem pretty big. But more fundamentally, with the introduction of vaccines, the global economy will pick up in 2021. Given how China's economy is integrated with the rest of the world, that's going to lift China's GDP growth in 2021. With the pandemic under control and production and consumption almost back to normal, China can take advantage of the global rebound and maybe enjoy even faster growth in the first half in exports.

Infrastructure and real estate, which have been the traditional stimulus channels, will probably give way to export and consumption. I'm still very optimistic about exports. Consumption will be much better this year, but it is still somewhat confined by the growth of labor income. That is a real test of whether China can sustain consumption growth in the few years after 2021.

▲ Demand meets supply

What is the main economic objective of the 14th Five-Year Plan, and how achievable is that objective within that timeframe?

The headline objective will be to achieve high quality growth and to help China become a medium-developed country by 2035, so preparing for a 15-year plan. In the back of its mind, the government is trying to double GDP per capita by 2035. This is the premise for the next three five-year plans. My speculation is that even if there will be no numeric growth target for the 14th Five-Year Plan, the central planners are doing calculations about what would be needed to achieve that goal – something like 4.7% annualized gross. And then how do we incorporate that 4.7% into three five-year plans? We'll want some wiggle room for the first of those five-year plans, so we'll probably set the target a bit higher.

What measures will China use to stimulate the economy?

I don't think they will follow the old stimulus of infrastructure and real estate spending. There's definitely been a change in thought on how to use the so-called "dual circulation." The eventual goal is to boost two things: One is China's R&D capacity and China's ability to overcome some of the constraints imposed by foreign countries in key technological areas. Second is to boost the growth of China's domestic consumption. For that I've been recommending to policymakers that they: (1) Try to continue their efforts to reduce taxes and burdens on both corporations and households. (2) Instill better social welfare programs in things such as education, social security and health care, so that people have greater confidence when it comes to consumption. (3) Align manufacturing better with domestic investors' needs and preferences.

What impact will dual circulation have on foreign businesses in the coming years?

It will have a long-lasting impact on foreign companies in the following areas: Chinese consumers' preference for foreign brands over domestic brands is changing, so that is chipping away at the natural advantage that some foreign brands have enjoyed for a long time. On top of that, foreign companies will find domestic competition increasingly capable or even more aggressive than before, with support from the consumer and support from the government and capital markets. But foreign companies still have quite a bit of capital and technological advantage when it comes to very big projects. One thing to watch out for is that China is becoming more confident and assertive. It may be that China will expect more technology transfers or certain management know-how. That will be the key question facing foreign companies going forward: Will they be willing to trade their intangible assets for greater success in the China market.

The OECD projects China's population to decrease to about 700 million people within 80 years, about half the size of the current population

Where are the main challenges or pitfalls for China's economy in the medium to long term?

From a long-term perspective, I'm quite concerned by demographics. The OECD projects China's population to decrease to about 700 million people within 80 years, about half the size of the current population. This was bound to happen due to the one child policy and the escalating cost of living. China's large market was the biggest attraction for foreign companies to come here. But if the market is no longer booming, if the population shrinks, that will affect the advantage that China has had over the past four decades.

▲ The end of a population pyramid

My second and third points are related: housing prices and debt, in particular as a symbol for financial risks. I'm concerned that housing prices in many Chinese cities will not be as high as they had been for the past couple of years. The downturn in housing prices will have a big and widespread impact on household income and household consumption, confidence, and also on local government fiscal sustainability, as well as the stability of financial institutions. In the aftermath of this year's COVID, though we still hear about hot markets such as Shenzhen, Ningbo, Hangzhou, and to a certain extent Shanghai, it is no longer a nationwide housing boom, which had been the typical cure for an economic slowdown. Given how severely the economy has been hit and given how little the national housing market has recovered, we are reaching a tipping point where housing prices are probably reaching their limits. I'm a strong advocate for containing the housing price increase, but a housing price decrease is scarier – because of the debt.

Because of the pandemic, China's national debt-to-GDP ratio increased by another 35 to 40 percentage points, and this is starting from a very high debt-to-GDP base of 260-270% three, four years ago. This ratio is now somewhere around 300%, giving China the second highest debt-to-GDP ratio after Japan. We know what happened with Japan.

The last risk is the relationship between China and foreign countries. While the election of Joe Biden is encouraging to the improvement of US-China relations, we have to be realistic. This is all happening in a grander narrative in which China is gradually being perceived as the cause of many troubles in the world. The level of collaboration between China and many foreign countries is coming to a pause, if not a reversal.

Is China at risk of falling into the middle-income trap?

To a certain extent China has already surpassed that by some standard; so far, it's following the right trajectory of pulling itself out of the middle-income trap. That's quite impressive for a country of this size and this many people. That being said, we have to keep in mind that the so-called middle-income trap is not a static standard; it changes over time. And it is not rare in history for countries to have gone beyond the middle-income trap only to then retreat back into it. Argentina is one example. China's four areas of pitfalls or challenges remain. Until we can solve these problems, I think it is too early to draw any definitive conclusion about whether China will or will not go beyond the middle-income trap.

▲ Traditional stimulus channel

Even though I'm very optimistic with growth in 2021, I still have my share of reservation and concern with more sustainable growth over the next five to 15 years. A big reason is my concern about the advancement of the state at the expense of private enterprises, both in terms of growth and employment.

You've characterized China's policy changes as being either voluntary or involuntary. Can you explain further?

I was specifically referring to dual circulation, the reason why China is pushing out that policy at this particular moment. The voluntary part means that China feels more confident with its economy and international influence. It is trying to put more emphasis on how to better utilize its domestic market, its market power, not just for domestic R&D and technological development, but also for collaborating and opening up to foreign companies.

The involuntary part comes from the fact that while US-China relations have reached a freezing point over the last two years, it's not just confined to the US. The West has gradually turned against China, so China understands that no matter how hard it tries, it may not be included in some of the more exclusive clubs, which includes access to some key Western-developed technologies. Therefore, China feels compelled to be more self-reliant. That's why it is also putting more emphasis on the domestic market and domestic ability in creating next generation technology.

There's talk about furthering RMB internationalization. To what extent is that possible given China's capital controls?

It will remain challenging for some time. Capital control is one very important reason why the RMB may not be widely accepted or utilized outside China. Restricted flow between China and the rest of the world is one impediment, but another is, what would foreign entities do with RMB overseas? That area is seriously lacking, but one that China is working even harder on – building an offshore market for the RMB so that RMB holders can have a proper way to invest and manage their RMB-denominated assets.

Do you see the spate of defaults by state-backed companies as part of a continuing trend? What will it mean for banks when the incentive is no longer there to lend SOEs?

This trend will spread, but in a more controlled and gradual way, as there is no way China's local or central governments can bail out all of the non-performing, low-return SOEs. But banks still have an incentive to make loans to SOEs for two reasons. One is because of internal compliance and risk management requirements. If you make a loan to an SOE and it defaults – too bad. If you make a loan to a private-owned enterprise and that POE defaults, you can go to jail. The punitive system is very different for bank personnel when they're making a loan to a POE versus an SOE. Let's not forget that there's still, even with the defaults, a behind-the-door negotiation mechanism between state-owned banks and provincial governments or SOEs. Banks still would have a stronger chance of recovering by either imposing themselves on the local government or by using their other government connections to persuade the defaulting companies.

What is the implication of that, given how much of China's growth is driven by private enterprise?

Reforming China's financial system is probably the key to China's further development and sustainable growth. A deeper reform of China's financial system hinges on the reform of certain parts of the legal system. That's why, even though I'm very optimistic with growth in 2021, I still have my share of reservation and concern with more sustainable growth over the next five to 15 years. A big reason is my concern about the advancement of the state at the expense of private enterprises, both in terms of growth and employment. The misallocation of national resources can hurt China's growth in the long-term. Once the economy grows at a slower pace, this would loom even larger and more menacing. I worry that the defaults will make the financing and rolling over of SOE debt much more difficult in the future. Many of the SOEs are on lifelines from the financial and bond markets, or through bank loans. And if those lifelines are cut off, that's going to hurt the SOEs and, more importantly, the millions of people working in them.

How effective have China's industrial policy initiatives and state subsidies been? Will they continue to have a large role?

In certain sectors, I think the role of industrial policy is gradually shrinking, if not a coming to an end. I have been a very strong opponent of industrial policy all along. I think industrial policy holds primary responsibility for China's debt problem, for China's overcapacity problem, and for the misallocation of resources into certain wrong areas of development. For key technological areas, such as big data, AI or NEVs, I think industrial policy will still play a very big role. For other areas such as 5G, I think the jury's still out. People have a more realistic and balanced view about industrial policy. They don't blindly believe industrial policy can build you a global leadership role. They've gradually come to realize that there are still technological, economic and environmental constraints to industrial policy. I

CHINA AND RCEP

MORE THAN A TRADE AGREEMENT

By Ian Driscoll

Peter David Drysdale AO is Emeritus Professor of Economics in the Crawford School of Public Policy in the College of Asia and the Pacific at The Australian National University. The recipient of several international and domestic awards, he is also the author of many books, including *International Economic Pluralism: Economic Policy in East Asia and the Pacific.*

In the context of other trade agreements that include Asian nations, how important is the Regional Comprehensive Economic Partnership (RCEP)?

In terms of its sheer scale, this is a very important agreement. It is the biggest regional trade agreement there has ever been in the world. RCEP comprises about 30% of the global economy, it includes all the major trading nations in East Asia, and it's more than twice the size of the CPTPP in terms of the scale of the economies involved and trade volume. It's not just a trade arrangement; it's an economic cooperation arrangement, so it incorporates elements which will see the partners continuing to deepen the economic integration between their economies.

China has historically been hesitant to join big trade agreements. Why the change of mind?

I think the shift in emphasis in China goes back quite a few years, at least to 2014, when China hosted the APEC summit in Beijing. At that summit China embraced the idea for the first time of pursuing a region-wide free trade area of the Asia Pacific, FTAAP. That was because China saw that it had problems working with the United States, and that it was important to try to negotiate those problems by pursuing whatever trade arrangements were possible that embraced the United States, not only in the global theater but also regionally. China's strategy was to avoid the isolation that announcement of the Trans-Pacific Partnership (TPP) initiative then threatened.

For RCEP, which was initiated by the ASEAN group also in response to TPP about eight years ago, China has always been an active and willing partner in the negotiations. It saw from the outset the importance of the arrangement, not only economically but also politically in engaging with its East Asian partners. The idea of some kind of East Asian free trade agreement had been in the cards since the failure of the Seattle WTO meetings in 1999.

There was elevation of China's interest in the conclusion of this arrangement since things got rough between the United States and China under the Trump administration. This arrangement has been an important part of China's statement of its commitment to liberalization and multilateralism in the context of what has happened to the global trading system in the past four years. This wasn't just a Chinese interest but a strategic interest of all RCEP members in conclusion of the agreement as a statement of the importance of an open multilateral system to their prosperity and security.

Analysts argue that RCEP will not lead to a large reduction in tariffs. If this is true, why did countries get on board?

While this arrangement doesn't have some of the disciplines of other agreements such as CPTPP, for example, it represents a big commitment to liberalization. The difference between this agreement and many free trade agreements is that the developing countries in the arrangement can phase in their liberalization over quite a long period of time, in some cases up to 20 years. But the endpoint is substantial liberalization.

RCEP extends the ASEAN-plus free trade arrangements with each of their partners in the region significantly. It means a much larger proportion of trade within the region is now subject to low tariffs or no tariffs. It is comprehensive for about 90% of trade, and that proportion was as low as 60% in some of the other arrangements. For particular countries, especially China, Korea and Japan, which didn't have any free trade agreement among them (except a low standard agreement between China and South Korea), there's significant liberalization too.

Most importantly, the RCEP arrangement has a comprehensive rules of origin framework within which value added within the region can be accumulated across countries. The 40% local production requirement in RCEP relates to production within the whole group of countries, not just to bilateral trade among the partners. In the TPP arrangement, or the North America agreement, all those rules of origin are settled bilaterally, making it very complex and difficult for business to navigate and use efficiently. In RCEP the rules of origin are com-

Photo Credit: DFAT

prehensive and reinforce the opportunity for deeper regional integration through production networks and value chains.

Someone always loses when trade is opened up. Are any signatories to RCEP likely to benefit more than others? Which industries in which countries will suffer most?

The trade gains within the region are conservatively estimated to be something in the region of $438 billion, through to 2030. Our guess is that it could be much higher. For countries not in the arrangement, the loss through trade diversion is estimated at $48 billion. Overall, that's a significant net benefit, but there are some countries and some industries outside the region from which trade will be diverted.

The United States doesn't join agreements; it frames them.

Within the region, lower end producers in China will suffer as a consequence of the shift of production to lower labor-cost countries in Southeast Asia. But upper-end goods exports from China should expand under the arrangement. There will be some big adjustments over time, which will tend to follow where comparative advantage lies across the region and that boost incomes.

Do you expect the Biden administration to respond to RCEP with a commitment to join the CPTPP?

There are some big choices for the new US administration to make here. I think it's not insignificant that President Xi flagged China's interest in joining the CPTPP down the track. That won't be easy and would require new commitment to reform (of SOEs for example). That relates to the choices that the American administration will have to make in this theatre. I don't think it's a question of the United States ever joining CPTPP, because the United States doesn't join agreements; it frames them. The idea is not that the US will join CPTPP but that it may reopen the TPP negotiations and then what's been achieved in CPTPP might then be folded into that.

Analysts from Citibank have said that the "diplomatic messaging of RCEP may be just as important as the economics — a coup for China." Has China sacrificed economic gains for diplomatic wins by signing on to RCEP?

This is an arrangement that is consistent with China's economic interest and consistent with China's geopolitical interests in that it reinforces the underlying framework of multilateral

Photo Credit: DFAT

▲ Australian Federal Minister for Trade, Tourism & Investment Simon Birmingham with Chinese Vice Premier Hu Chunhua, RCEP Intersessional Ministerial Meeting, 2019

dealings within the region where it is located. It's also important to the continuing industrial transformation of China and the region. From the viewpoint of the region and China's diplomatic interests, this was both an economic and diplomatic plus. It pushes back against the bilateralism in trade, and it strengthens multilateralism within the region and globally. The hope was to include India in the arrangement and that failed. But China, and others including Japan and Australia, are keeping the door open to India's participation in the long term and to continuing engagement in the meanwhile.

RCEP was signed when Australian trade with China has been struck by a broader chilling in the two countries' relationship. Does RCEP have any implications for that dynamic?

RCEP does establish an important set of reference points in managing the big difficulties currently in the relationship between Australia and China. And it reinforces the reference points that need to be reinforced from the viewpoint of settling those difficulties amicably. It provides another framework for raising issues and considering issues, a multilateral context that could be helpful to their resolution.

There's a final but important point to make about RCEP. As I said at the beginning, RCEP isn't just the biggest free trade agreement in the world, it's also an ongoing economic cooperation agreement. A secretariat is being set up in Jakarta to coordinate that agenda. That will involve officials and ministers meeting regularly on implementation of the agreement but also on issues not yet covered in the agreement that require regional cooperation. So this is more than your usual FTA. It is a living cooperation agreement. That gives it a significant political dimension too because it will require not only ministerial but leaders' involvement in developing the broader agenda not only of regional cooperation but also projection of the region's interests in global affairs. So RCEP is not just about the economy. It is potentially about political stability and security. RCEP should contribute to shared prosperity and political security in the Asia Pacific by building political certainty and trust. This will be the real test of RCEP. I

THE FUTURE OF CROSS-BORDER PAYMENTS IN CHINA

WHAT YOU NEED TO KNOW

By David Messenger

David Messenger is CEO of Hangzhou-based LianLian Global, part of the LianLian Group, which provides merchants with payments, financing, and other services, including logistics, marketing, and compliance service. A veteran of scaling and transforming organizations during disruptive industry transitions, he previously founded Nuna Network and Mast Mobile (both acquired) and held senior roles at American Express, Virgin Mobile, Towers Watson and Price Waterhouse.

It is one of the great learnings of the pandemic that, at a time when physical cross-border travel has collapsed, the growth of cross-border payments continues to rise – and has the potential to reach new heights. With planes still grounded on runways and social distancing an enduring reality for billions ahead of a widely available vaccine, the rapid transformation of business processes through software has never been timelier. Whether processing payment for PPE between Wuhan and Bergamo, or transferring funds from an SME in Hong Kong to a microbusiness in Ohio, cross-border payment technology has proven a lifeline for millions during COVID-19. We are now at the dawn of a long-term shift in business models — the move towards digital is only just beginning.

The well-established growth of business-to-consumer (B2C) cross-border e-commerce has been accelerated by COVID-19, and business-to-business (B2B) transactions are also rapidly digitizing due to the pandemic. For example, the Zhejiang province city of Yiwu, a significant location for traditional B2B offline commerce, is transforming with the support of LianLian Global *(see sidebar).*

The cost benefits of shifting from an offline to an online business model – including lower overheads on office space, reduced or eliminated travel times and the cost to do business – are well documented. Less obvious, but equally important, are the benefits e-commerce brings to an increasingly diverse client and customer base. A vaccine will not slow the global revolution in working practices caused by e-commerce.

A graph of China's cross-border e-commerce export growth from 2011–2019 would resemble a steep flight of stairs, totaling a heady 10.5 trillion yuan. The statistics speak for themselves: in 2019, the market share of Chinese export cross-border e-commerce players accounted for 76.5% of the global total – an astonishing percentage that sheds light on the opportunities at stake. The US is the dominant partner, buying 58% of China's e-commerce exports.

Despite the trade war, the US-China trade deficit has moved only marginally over the last four years, with China's trade surplus with the US increasing slightly. However, a side effect of this trade friction is the perception that B2B wholesale selling is more complicated because of increased regulatory requirements and overall costs spurred by tariffs. Direct selling through e-commerce arose as a way to avoid these complications by evenly distributing costs, such as by allowing absorption into financial margins, as afforded by retail markups. The proliferation of digital payment providers in China results in digital as the de facto choice. Alibaba and Tencent continue to drive consumer demand and dominate the consumer side of payments, a trend that is increasingly influencing B2B payments. The commonality is that digital payments make cross-border transactions much simpler to navigate for everyone.

▲ Coining it

At the national level, the Chinese government is continuing its commitment to digitize the economy, with a new wave of disruptive innovation arriving via China's National Digital Currency DCEP (Digital Currency Electronic Payment). An initiative pioneered by the People's Bank of China could become the world's first Central Bank digital currency, built with blockchain technology pegged 1:1 with the yuan. DCEP has the potential to increase the renminbi's international reach and circulation to compete with the US dollar and the euro.

This "acceptance" of digital is now driving even more adoption, particularly of fintech. Historically, banks have handled payments compliance for Chinese businesses, but the traditional banking sector is now opening up to fintech propositions. Fintechs have developed an 'application layer' that sits atop the core banking infrastructure to ease the flow of cross-border payments. The layer is a user experience improvement, connecting disparate systems to reduce the difficulties of completing complex transactions. By embedding payments in the business process, fintechs have provided a new type of solution, particularly for small and medium-sized businesses.

For SMEs with limited internal operational and technical resources, this has brought significant benefits in efficiency and better access to financing and other value-added services. Size implications can work both ways: by being smaller and nimbler, and often with less bureaucratic management levels than China's largest companies, SMEs are well-positioned to maximize the technological benefits of fintech propositions in a post-COVID world.

US businesses expanding into China

If you want to expand your business in China and take advantage of cross-border and economic opportunities, you must consider a few key areas. Perfecting these will help to scale a US business in the Chinese market, eliminate compliance risk, and support due diligence of suppliers.

Get financial compliance right

As you develop more digital business processes, getting compliance right is critical. You should treat a payment as you would treat a physical shipment – with paperwork and clear legal intent. All customers must go through a Know Your Customer (KYC) check, the process of formally verifying the identity of a client. As well as providing peace of mind for business owners about the integrity of a prospective client, together with comprehensive transaction monitoring, these checks are a mandatory part of global anti-money laundering legislation.

KYC checks tend to be more difficult for foreign investors and businesses in China due to the limited volume of accessible information on Chinese businesses and the stringent regulations required by China's financial system on external transactions. Partnering with a Chinese fintech is important in overcoming such cultural and bureaucratic barriers. It ensures that accurate and legally authoritative information is sourced digitally to mitigate your business' risk exposure. Above all, working with a Chinese fintech is a proven way to ensure complete financial compliance.

Check and verify your suppliers

Foreign investors looking to expand in China should be mindful that finding the right supplier to support you demands time. Due diligence on suppliers and companies, as in any jurisdiction, is vital to ensure your business has a credible network and supply chain. Previously, it was left to "middle-men" or lawyers to verify a company's legitimacy before a foreign company signed on the dotted line. Sadly, many foreign businesses fell afoul of scams and mismanagement from "middlemen" in China due to language barriers and the distortion of truth for their financial gain.

However, these problems are now being solved by fintechs that ensure automated access to business-level data across multiple Chinese data sources to check and verify a supplier. As well as onboarding a supplier, this automated technology efficiently monitors a supplier on an ongoing basis, supported by alerts should any supplier suddenly get a mark against their record – for example, getting into murky legal waters on working conditions or pay.

Remember: choosing a fintech partner in China that can ensure compliance and digitize your business is critical. As a result of rapid digitization in China, finding a fintech that also customizes its proposals to your business needs is easier than ever.

A new dawn

Challenges to e-commerce as a dominant business platform remain. Until recently, business to consumer e-commerce has been more solitary and transactional than person-to-person commerce. Human beings are intrinsically social, but diverse cultures pose a difficult challenge to technology platforms. Technology is providing solutions to create 'social-commerce', but the right solution for each country needs to fit the local culture and social patterns. Livestreaming and infomercials actively involve and engage consumers in China, as evidenced by the success of TikTok. More fulfilling technology experiences and out-of-hours tech support add color to increasingly personalized e-commerce experiences.

It is not a coincidence that the World Health Organization was founded in the ashes of World War II in 1948. When the dust settles on the Great Pandemic of 2020, we may see a similar resurgence in internationalism in geopolitics, health and business. Far from being an added bonus, digital payments and compliance are now critical ingredients for digitizing business models, keeping many businesses and organizations running at a time of unparalleled uncertainty. Embracing the enormous potential of secure and compliant cross-border payments is vital to bolster business growth this decade.

Disruptive digital innovation is happening across China, and we are on the cusp of huge change. As China's new digital currency's rollout gathers pace, it signals that market barriers to entry are falling and digital opportunities abound. I

Yiwu, Zhejiang, China: Yiwu International Trade City **(义乌国际商贸城)**, better known as the Yiwu Market, has a strong reputation for small commodity trading in both the domestic and international market. For much of the last 30 years, Yiwu Market has hosted exhibitions and trade fairs to help pair buyers and suppliers. However, with COVID curtailing business travel significantly and overseas buyers relying more on business-to-business e-commerce for suppliers, the local government faced a significant challenge: How to limit the pandemic's economic impact by pursuing digital transformation. The Yiwu government turned to LianLian for help. With deep expertise in cross-border transactions, we began to innovate Yiwu's critical payment process and infrastructure.

An important issue was how to ensure transparent tracking and status of each payment — critical for the many new relationships established by Yiwu. Leveraging years of experience working with business to consumer marketplaces, LianLian helped implement a uniform processing system — enabling clear accounting for each payment. This didn't just enable tracking for each payment, but also enabled LianLian to share order and logistics information with the local bureau platform and complete the regulatory filing on behalf of the exporter. In addition to a fast, cost competitive foreign currency conversion, our system settled the payment directly to the seller's bank account in local currency within minutes—significantly faster than the previous processing time of 3-5 days.

THE NEXT PHASE OF CHINA'S FOOD SECURITY STRATEGY

THE PANDEMIC BROUGHT THE ISSUE OF HUNGER TO THE FOREFRONT AROUND THE GLOBE. AS THE WORLD'S LARGEST FOOD CONSUMER, CHINA IS WORKING TO RE-FORTIFY ITS FOOD SECURITY REGIME TO ENSURE FOOD — AND SOCIAL — STABILITY FOR YEARS TO COME

By Kate Magill

In an opinion piece in the People's Daily last August, China's Agriculture Minister Han Changfu laid out the country's philosophy on food security: "Chinese people's rice bowls must always be held firmly in our own hands, and should be full mainly of Chinese grain." In a country with a checkered history of food sufficiency, the statement underscores the state's priority to keeping stocks plentiful and stomachs full.

After suffering among the worst famines in human history during the Great Leap Forward, China is now one of the world's largest food producers and consumers. The nation's food prosperity is tied to multiple policy areas, ranging from agriculture and rural revitalization to environmental policy, putting it at the center of Chinese domestic policy.

The past year has seen a renewed focus on food security and supply, thanks to a pandemic that sent millions more people around the globe into hunger, a trade deal heavy on agricultural purchases and a swine flu that decimated the country's pork supply. The public is being warned against food waste and State Council guidelines are encouraging farmers to increase their grain planting. Food security was also a major policy focus of the 14th Five Year Plan, a decision consistent with the state's prioritization of security and self-sufficiency.

"This idea that food security is important and one of the major priorities of the government has been well communicated much before any of the political tensions or food crises," said Jiayi Zhou, a researcher at the Stockholm Peace Research Institute who studies food security in China. "This has been a long-standing policy for almost three decades. It has become more prominent with these very public-facing campaigns that change consumption and lifestyle, that's a difference."

Now as the central government launches a wide-scale self-reliance campaign to spur greater domestic production, the goal of feeding its population without the help of unreliable trade partners is informing government decisions. As China enters the new decade, it will weigh how to maintain its food security with a renewed push for food self-sufficiency, a task easier said than done.

Areas of concern

China's recent food worries began in 2019 with the African swine flu, which killed or caused the culling of more than 100 million pigs, 41% of the country's total hog herd, according to government reports. The state was forced to release tens of thousands of tons from its pork reserves and import record amounts of the meat, driving up pork prices more than 100%. The issue gave a glimpse into both consumer and state anxiety when a food commodity runs short, concerns compounded by the US-China trade war.

"It's very clear that the swine flu and trade deal] stimulated some thinking about the political nature of trade and the need to diversify suppliers," Zhou said. "With the phase one trade deal, it made China obliged to purchase even more, but I think the thinking is that we can no longer sit easy on the fact that economic relations are not related to politics."

China has become "irreversibly dependent" on the US for its soybean supply, according to Zhou, Prior to the trade war, in 2016 China purchased $33.98 billion of soybeans in total, $13.76 billion of which came from the US. While Brazil is China's top supplier of soybeans (it supplied $15.55 billion worth of soybeans in 2016), the country's appetite for the staple exceeds the production capacity of Brazil and most of the world combined. China relies on the US to fill the gap. Following the trade war standoff, China's US soybean purchases are forecast to reach record amounts by the end of 2020.

Adding to food security concerns are surging corn prices, amid predicted shortfalls for the 2020/21 season of up to 10% of the total crop. The shortage is stoking China's highest levels of food inflation in over a decade as corn imports rise to a more than four-year high. As a result of the shortage, the US Food and Drug Administration forecasts that China's imports of US corn will jump from 7 million metric tons to 22 million metric tons in the 2020/21 season.

This past year's volatility compounded the already hefty existing food security challenges the country is facing as its economy grows, said Matthew Funaiole, a senior fellow for the ChinaPower Project. Even if the upheaval subsides as vaccines bring the COVID pandemic under control and a Biden administration takes over, many of China's food security issues will endure, including an increasingly demanding consumer base versus a lack of arable land.

China's meat consumption has steadily increased over the last several years, as household incomes rise and allow people to keep meatier diets. By 2026, the Organization for Economic Cooperation and Development and the U.N.'s Food and Agriculture Organization forecast the average Chinese citizen will consume 55 kilograms (121 pounds) of meat per year, up 10% from 2017. That amount of meat means the need for more grains to feed livestock, and with it land on which to keep both, something China is in short supply of — China has only 0.21 acres of arable land per capita, according to CSIS.

"China's still going to face huge food security hurdles ... its middle class is going to continue to grow and their dietary habits are going to continue to change," Funaiole said. "That middle class has developed an appetite for those labor intensive, agriculture intensive foods like dairy and meat, so that's going to keep happening."

Building an impenetrable food fort

The combination of the country's pork woes and the protracted trade war has helped spur China to diversify its imports, looking to emerging economies such as Kazakhstan and other countries in the Black Sea region and central Asia — many of which are a part of the Belt and Road Initiative — as new suppliers of proteins and grains. The recent push, Zhou said, is a pragmatic move by China to ensure a "safety valve" for its food supplies, should its current trade partnerships ever fall through. While currently these smaller economies don't have the capacity to replace the US' import supply, China is hedging its long-term bets.

"It's a diversification strategy for the long term. They're building up these connections and these networks," Zhou said. "For soybean supply, they're looking at Russia, they're looking at Ukraine, they're seeing if they can be suppliers. These kinds of suppliers are not going to displace the US, but China is looking at them over the long-term as enhancing the Chinese import security."

China is also purchasing land in foreign countries to make up for its own lack of arable land. China was the fourth largest buyer of foreign land in the world between 2000 and 2018, buying up farmland primarily in Australia, where it owns 2.3% of the country's soil, most of it used for cattle farming.

On the domestic side, China is investing heavily in its agricultural R&D in both the public and private sector, aiming to make more efficient use of the country's farmland and produce higher yield crops through new agricultural technology and genetically modified crops. GM corn and soybean species passed domestic biosafety evaluations in January 2020, paving the way for commercialized GM crops.

An integral part of increasing food production power will be through producing higher yield crops, said Robert Ash, professorial fellow in the China Institute at the University of London's School of Oriental and African Studies. To do so, officials are pushing for greater innovation and use of technology, such as putting smartphones in the hands of farmers.

Companies including Baidu and Alibaba, as well as central and provincial government bodies, are investing in everything from new drone technology to expanded weather modification capabilities. The State Council released a circular in December 2020 that it would expand its experimental weather modification program over five years to cover 2.1 million square miles in artificial rain or snowfall, meant to safeguard farm production in case of extreme weather or other disasters.

"Xi has been very explicit about that, he said that the key to modernizing agriculture lies in scientific and technological progress and innovation. And I think that's the key direction in which China has been trying to go for quite some time and I think the process will accelerate," Ash said. "We'll see future productivity improvements coming from what I think of as basic technology, but also more and more advanced technologies, for example biotech and genetic engineering."

What's next?

Like in plans past, the 14th Five-Year Plan makes agriculture and food security a central part of the directive. The central government is drafting a food security plan to increase domestic capabilities and diversify sources for agricultural imports. The measures support China's broader dual circulation strategy and goal of becoming less reliant on the US as a trading partner. The plan will also make provincial governors responsible for grain diversification measures, putting more responsibility in local hands to fulfill food security plans.

Zhou said it's likely that new food security plans will also include more talk of the battle against excessive food waste. "Waste is really low hanging fruit. If a third of the meat production is being wasted or anything like that, that's low hanging fruit for enhancing self-sufficiency."

China's prosperity and size make it unlikely that it would ever face a significant food shortage, Funaiole said, but its current trading status and environmental limitations mean that it is also unlikely to achieve food self-sufficiency in the near-term.

"I think they have identified a desire for food self-sufficiency, [but] I think they could face some real issues with where they're trying to go," Funaiole said. "The soybean issue sort of highlighted that, where amid the trade dispute China was not as able to get access to soybeans as they had been getting from the US to fuel their growing livestock industry. So there was a disruption; not a catastrophic disruption, I'm sure it affected prices in some areas and created some amount of very targeted stress on some supply chains in certain industries, but this isn't something that's going to cripple the functioning of the government. It's about putting things into perspective."

At its core, the next phase of China's food security structure is meant to ensure that food supply stability continues, and with it social and political continuity. An old Chinese saying, "without agriculture, there's no stability; without grain, there's chaos," continues to drive policy, with the Communist Party fearing that unless it can feed its people, it could lose control of the system. Leaders are shoring up the country's plans for both building up its own reserves and production as well as an expanded network of trade partners, to position its food security regime to weather any future tumult the likes of this year.

"Food's a very human element of existence," Funaiole said. "I think there's a genuine concern among Chinese leaders over ensuring that they can maintain stability on this front. Especially since economic growth has been such an important part for the Party's legitimacy."

Ash remains confident that China is not facing a looming food crisis. Harvests in the country are buoyant overall, and despite tensions, agricultural trade relations are unlikely to sever entirely. And yet, he understands officials' need for caution. China's relationship with food security has evolved over the years from one of scarcity to safety and now to self-sufficiency, always keeping the issue at its policy center.

"It's part, I imagine, of the mindset of policymakers, just this knowledge that if you look at Chinese history going back hundreds of years, but also recent history, indeed when food security has collapsed, then there have been social consequences and those social consequences have sometimes had political consequences," Ash said. "They've precipitated the downfall of regimes, of imperial dynasties. And I do think that is part of the mindset of officials, this awareness that you must never forget food security." I

The Chamber in 2020

ADVOCACY AND GOVERNMENT RELATIONS

As the COVID-19 pandemic and heightening US-China tensions impacted American companies in China, we helped members navigate the shifting operational and policy environment:

- **WeChat executive order advocacy:** Formed a task force and conducted a flash survey on the economic impact of the proposed US government ban on WeChat use by American companies. AmCham Shanghai delivered the views and recommendations of our members to the US administration, both directly and through the media. The US government has reconsidered the proposed ban; for now, US companies operating in China are not affected.
- **Repatriation flights:** Worked with US and Chinese government agencies to explore repatriation flights for AmCham members in the US, before working with Delta and United Airlines to secure seats on commercial flights for our members' employees.
- **Visa services:** Worked with local and Shanghai municipal government officials to accelerate the Chinese visa application process and the return of expats and their families to China. The Chamber is now writing invitation letters for our members and their business partners, which are needed to apply for China entry visas.
- **COVID information:** Beginning in early February, the Chamber released a daily COVID update during the height of the pandemic, with information on local policies, US government announcements, COVID infection numbers in China and other helpful data.
- **PPE assistance and procurement guide:** Worked with several member companies and donors to facilitate the transfer of more than 1 million masks and other pieces of PPE from China to the US. We also created a guide and contact list to help US entities procure PPE from China. The guide was widely distributed across the world and assisted many private and public procurement efforts.

Going forward, AmCham Shanghai will continue to advocate on behalf of our member companies. We have recently formed a COVID taskforce of member companies to help shape decisions around vaccines and travel requirements, as well as press for transparency and consistency in how policies are communicat-

ed. Parallel to the taskforce, the Chamber will also create a resources page on our website as well as 2021 programming around COVID. We will commission and publish articles, interviews, podcasts, as well as host speakers and webinars on a range of COVID-related topics.

MEMBER SURVEYS & MANAGING THROUGH COVID

This was arguably the most commercially demanding year many of our members have faced. Understanding members' challenges and conveying them to a wider audience formed an important part of the Chamber's outreach this year. In February and March, two surveys of industrial companies allowed us to better understand and measure factory openings, local government assistance, production capacity and usage, anticipated product demand and staffing levels.

The surveys garnered international attention, with coverage in a variety of publications, including in the *Financial Times, New York Times* and *Wall Street Journal, as well as Bloomberg and Reuters.* More importantly, they signaled to company headquarters just how profound the impact of COVID had been on production in China and would soon be elsewhere.

Given the unprecedented nature of 2020, our annual China Business Survey was a much-watched barometer of business sentiment. Produced with our partner PwC, the data collected from members pointed to a late summer recovery. Three months later, a follow-up mini survey confirmed that optimism, with revenue projections improving as fresh demand buoyed many companies. Both surveys also offered empirical confirmation that very few of our members planned to move much production out of China, a fact reported by scores of media outlets.

This year, many of our senior members generously offered their time to reflect on how they managed their companies during the worst days of COVID and the lessons they learned. These included Jan Craps of InBev, Jolyon Bulley of IHG, Mark Israel of Value Retail, Anna Pawlak-Kuliga of IKEA and Todd Wilcox of HSBC. Webinars with these senior executives drew audiences in China and overseas, with people at US headquarters especially interested in how companies adjusted and innovated in the time of COVID.

PROGRAMMING

During the initial COVID lockdown in China, AmCham Shanghai's Committees team brought our members vital sector updates through webinars and other digital programming. The variety of events allowed us to host roughly 15 more industry-specific events in 2020 than in 2019. Quickly adopting the use of webinars (we sincerely apologize for all of the "can you hear me nows") enabled our team to reach yours, bringing you the latest best practices from business leaders.

While keeping a close eye on local regulations for large gatherings, the Chamber brought people back together in June for our fifth annual WeForShe Conference. Nearly 200 people gathered to celebrate and support women in business, while still maintaining health and safety guidelines. This event also pointed to a new trend we expect we'll see at conferences beyond 2020 — a remote keynote speaker; California State Treasurer Fiona Ma Zoomed in for a fantastic presentation.

To help shake off work-from-home fever, our monthly Marketing Café gave early risers a reason to get dressed before noon. This inspiring and informal meeting began in April and continues to grow in popularity. An average of over 65 attendees RSVP each month to hear sharp minds discuss the increasingly important role of marketing in business.

The Marketing Committee and the Education Committee held their first industry conferences this year. Recognizing the need for insight into the disruptions their industries faced, our team worked with committee leaders to create and host important events. In the Education forum, top educators ranging from primary school to the university level helped members through a very difficult year for education planning. The Marketing Summit not only provided presentations on the pivotal importance of digital integration, but also hand-on workshops to develop the audience's skillsets.

In the coming year we will build on our recent success to bring members more programming that offers best practices and analysis from leading industry experts, as well as information vital to running a business in testing times. I

SUMMARY OF AMCHAM SHANGHAI'S 2020 DOORKNOCK

AmCham Shanghai successfully concluded its 2020 Doorknock in mid-December. The meetings took place amidst a period of sharpened US-China tensions and immediately following a US presidential election in which the incumbent, President Donald Trump, lost to former Vice President Joe Biden. Because of COVID-19, we could not travel to Washington DC this year and instead hosted a virtual Doorknock via Zoom and Microsoft Teams in the first two weeks of December.

Delegates this year met with representatives from the Department of State, USTR, Treasury, Commerce and Agriculture as well as leaders in the Senate and House of Representatives. This year's Doorknock also included public meetings with leading academics, including Kurt Campbell, Ryan Hass, Scott Kennedy, Paul Haenle and Wendy Cutler. Although the meetings occurred after the 2020 US election, AmCham met with members of the Trump administration as well as the 117th United States Congress as the post-election transition does not occur until January 20, 2021.

Administration officials were interested in discussing tariffs, the US-China phase one trade agreement and market access issues. Congressional leaders focused more on human rights issues, upcoming legislation and PPE supply chains. The delegation discussed these issues and requested that the US (1) "Build Back Better" globally to restore America's competitiveness and international image, (2) restore America's cooperation with both China and American allies, (3) move beyond blunt tactics like tariffs and change negotiation tactics with China when pushing for necessary reform, and (4) provide a detailed roadmap if selective decoupling is required to promote national security or fair trade so that American businesses can plan.

Altogether AmCham met with 16 government officials and academics. We will hold follow-up meetings with some officials in spring 2021 and plan to travel to Washington for our traditional in-person Doorknock in he fall. As a new administration and Congress formulates its 2021 China policy, AmCham will continue to advocate on behalf of member companies and ensure their voices are heard in Washington.

The 2020 AmCham Shanghai Virtual Doorknock was led by Chairman Jeff Lehman and President Ker Gibbs and included 17 other members: Julian Blissett, President, GM China; Han Lin, Deputy General Manager, Wells Fargo Shanghai; Curt Ferguson, President, Greater China and Korea, The Coca-Cola Company; Jan Craps, Co-Chair and CEO, Anheuser-Busch InBev; Helen Hu, CFO, Duke Kunshan University; Joanna Zhu, Regional Managing Director, North Asia, CEVA Logistics; Allison Cui, VP & General Manager, Milliken Floor Covering Asia; Lü Qiang, Divisional Vice President of Global Government Affairs, Abbott; David Basmajian, Senior Advisor, Public Affairs, Takeda Pharmaceutical Company; Jonathan Woetzel, McKinsey Global Institute Director and Senior Partner, McKinsey; Don Williams, Partner, Hogan Lovells; Bob Theleen, CEO, ChinaVest; Cameron Johnson, Partner, Tidal Wave; Mike Crotty, Founder and President, MKT & Associates; Tom Ward, President, PIM China; Ben Wang, Chairman, AmCham Southwest; Al Beebe, President, AmCham China.

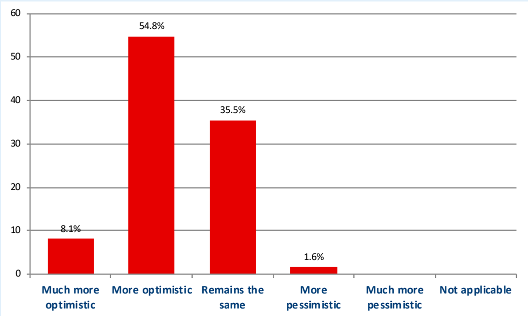
AmCham Shanghai's Post-Election Survey

With a change in US administration in January 2021, COVID-19 contained in China, and China's dual circulation policy getting considerable attention, AmCham Shanghai and our partner PwC conducted a 12-question business sentiment survey of the AmCham Shanghai membership. The survey was taken November 11-15.

Responses were received from the leaders of 124 companies, 50 of which declared global revenues in excess of $1 billion. For comparative purposes, some questions were first asked in our annual China Business Climate Survey (346 respondents), conducted June 16 to July 16, 2020.

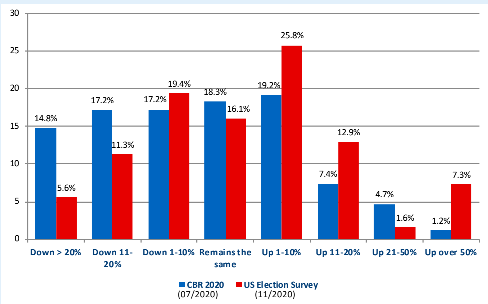
Highlights from the report can be found below. To read a full report on the survey, please visit the publications page on our website.

How has the US election result affected your thinking about doing business in China?



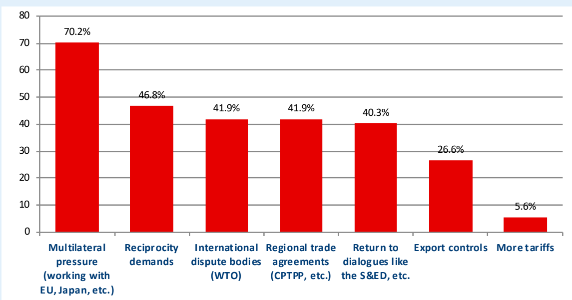
• **62.9%** of respondents are more optimistic about doing business in China
• Only **1.6%** of respondents are more pessimistic
• Service sector is most optimistic at **64%** with a further **9%** highly optimistic. Retailers responded as **15%** being highly optimistic

How does your estimated China 2020 revenue now compare to your 2019 results?



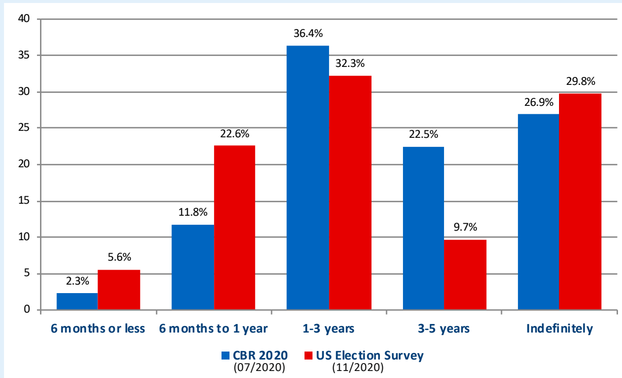
• Respondents are more optimistic about their expected 2020 revenue in November than they were in July (see China Business Report survey)
• **47.6%** of respondents now expect their 2020 revenue to grow compared to 2019, versus **32.5%** who expected so in July
• Manufacturers' estimated revenue shifted considerably for the better with **55%** expecting growth over 2019

Which policies do you expect the US administration to adopt for trade relations with China? (Check all that apply)



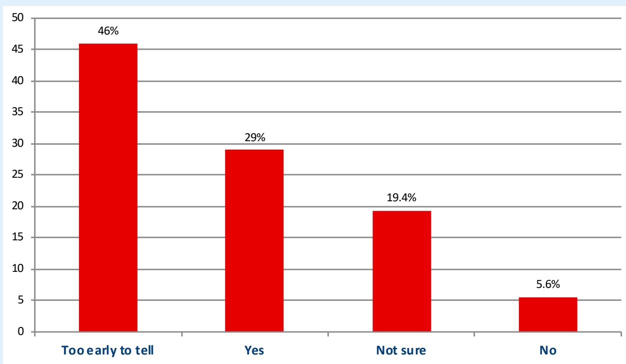
• **70.2%** of respondents believe the Biden administration will use multilateral pressure in managing trade relations with China
• Only **5.6%** think there will be more tariffs

How much longer do you think the current US-China trade tensions will continue?



• **28.2%** of respondents now believe that US-China trade tensions will last one year or less, compared to 14.1% who thought so in July
• The percentage of respondents who believe tensions will last indefinitely increased slightly from 26.9% to **29.8%**
• For retailers and services, sentiment shifted roughly **20%** toward indefinite resolution versus easing within 6 months to 3 years

Do you believe Dual Circulation will help your business in China?



• Almost half of respondents believe it is too early to tell if their business will benefit from dual circulation
• **29%** of respondents believe they will benefit from the policy
Those responding most favorably include **54%** of the retailers and **41%** of companies with revenue between US$1 and 5 billion

AmCham Shanghai Holds Annual Government Appreciation Dinners

AmCham Shanghai expressed its appreciation for the Chinese and U.S. governments' support of the American business community at the 19th annual Shanghai Appreciation Dinner on November 18. U.S. Charge d'Affaires Robert W. Forden, U.S. Consul General James Heller, Shanghai Vice Mayor Zong Ming and 300 guests, including nearly 100 officials, attended this year's event at the W Shanghai.

▲ Gan Bei!

Top-level Shanghai municipal officials from departments including the Foreign Affairs Office, Commission of Commerce, and Shanghai Customs, as well as representatives from Jiangsu, Zhejiang and Anhui provincial governments, joined AmCham Shanghai members at the dinner to celebrate continued bilateral cooperation and share their views on the latest in the China business environment.

▲ Shanghai Vice Mayor Zong Ming

At the beginning of the evening, Shanghai Vice Mayor Zong Ming delivered a statement on behalf of Vice Premier Han Zheng.

"The Chinese government appreciates all the long-term efforts and contribution by AmCham Shanghai to promote economic and general relationship between the two countries," Vice Premier Han Zheng wrote in the statement. "The Chinese government is committed to deepening reform and opening-up, and accelerating with its new development pattern where domestic circulation is the mainstay and the domestic and international markets complement each other."

AmCham Shanghai Chairman Jeff Lehman spoke about collaboration between American businesses, AmCham Shanghai and government agencies in Shanghai, Jiangsu, Zhejiang and Anhui provinces in not only helping American businesses and institutions to safely reopen following the February shutdown, but to send personal protective equipment from China to hospitals in the US. Lehman also spoke of his optimism for future collaboration between the US and China under a Biden administration.

▲ AmCham Shanghai Chairman Jeff Lehman

"We look forward to working with our American government friends and the Biden administration to learn more about how American companies in China can continue to support an accurate understanding of how committed Americans are to a healthy and productive partnership," Lehman said. 'We look forward to working with our friends in both governments as they strive to address areas of genuine difference in a spirit of honesty and mutual respect, one that promotes an economic ecosystem that is defined by fair and open competition."

U.S. Consul General James Heller then introduced Charge d-Affaires Robert Forden to give remarks.

The Shanghai Appreciation dinner took place as a tumultuous year for both the global economy and the US-China relationship came to a close. Despite challenges presented by the trade war and COVID-19, American businesses in China remain strong and committed to the market. Like its members, AmCham Shanghai has been resilient amid the challenges of the past year and is more dedicated than ever in our mission to serve members and provide vital resources and services. The success of both Chinese and American businesses present at this year's dinner underscores the prosperity that is possible when the two countries focus on our shared goals and opportunities.

Thank you to all of our sponsors, speakers and attendees for participating in this year's event. AmCham Shanghai would not be the thriving organization it is today without the generous support and participation of our 3,000 members. We look forward to continuing our work to provide the latest industry insights, policy advocacy and exclusive events in the new year.

The Shanghai Appreciation dinner was sponsored by numerous long-

▲ U.S. Consul General James Heller

▲ Charge d-Affaires Robert Forden

time AmCham Shanghai members, including Stars Sponsors Bristol-Myers Squibb, GM, Honeywell, HerbaLife and Johnson & Johnson, as well as Stripes Sponsors Nu Skin and Thermo Fisher Scientific and Platinum Sponsors ExxonMobil and FedEx. Corporate Table Sponsors included Citi Bank, Coca-Cola, Dow Chemical and Duke Kunshan University, and our Networking Sponsor was APCO. We were pleased to work with Dark Horse and E&J Gallo Winery as our exclusive wine sponsors.

AMCHAM SHANGHAI HOSTS 2020 JIANGSU GOVERNMENT APPRECIATION DINNER

AmCham Shanghai held its 2020 Jiangsu Government Appreciation Dinner on December 9. US Consul General James Heller, Jiangsu Vice Governor Hui Jianlin, Deputy Secretary-General Huang Lan and 140 guests including nearly 40 senior officials from the Jiangsu Provincial and Nanjing Municipal People's Government

attended this year's event at Nanjing Golden Eagle World Hotel.

Top level Jiangsu Provincial officials including officials from the Foreign Affairs Office, Department of Commerce, Jiangsu CCPIT as well as representatives of the Nanjing Bureau of Commerce and Bureau of Investment promotion joined AmCham Shanghai members at the dinner to celebrate continued bilateral cooperation.

The event also featured a photo exhibition of efforts by American companies to combat the COVID-19 pandemic. The

exhibition showed how AmCham Shanghai and member companies worked to provide PPE and support government efforts to control the pandemic.

In the opening remarks, U.S. Consul General James Heller and AmCham Shanghai's Chair Jeff Lehman applauded the Jiangsu government for its support of U.S. businesses especially as they struggled to reopen this year. In his speech, Vice Governor Hui Jianlin thanked AmCham Shanghai for its long-term efforts and contributions to the promoting the Jiangsu economy.

The Jiangsu Appreciation dinner was sponsored by Honeywell and Johnson & Johnson as Platinum Sponsors and Celanese and Golden Eagle as Gold Sponsors. Booth Sponsors included Transcell, Herman Kay and Northern Illinois University. I

Board of Governors Briefing

AMCHAM SHANGHAI 2021-22 BOARD OF GOVERNORS

At the Chamber's Annual General Meeting on November 25, the Board of Governors election results were announced. Newly elected board members took office on January 1, 2021. Six board members remain in position to serve the second year of their term. Five new members join the Board for 2021-2022.

CONTINUING BOARD MEMBERS ARE:

- **Curtis Ferguson**, President, Greater China, Korea & Mongolia, The Coca-Cola Company
- **Christine Lam**, CEO, Citi China; President, Citibank China
- **Jeffrey Lehman**, Vice Chancellor, NYU Shanghai
- **Fang Li,** President & GM, Corning Greater China
- **Qing Meyerson**, Project Leader, Global LE Integration PMO, Bristol-Myers Squibb
- **Michelle Yan**, President, Crane China

NEWLY-ELECTED & REELECTED BOARD MEMBERS ARE:

- **Tony Acciarito**, President, Thermo Fisher Scientific China
- **Allison Cui**, Vice President, Milliken & Company, General Manager, Milliken Floor Covering Business, Asia
- **Norman Gu**, General Manager, Hormel Foods Greater China
- **Kent D. Kedl**, CEO, Control Risks Greater China
- **Han Lin**, Senior Vice President & Deputy General Manager, Wells Fargo Bank, N.A. Shanghai Branch

We welcome these business leaders to the AmCham Shanghai Board of Governors and look forward to working with them in the upcoming year. We were fortunate this year to have a skilled and broad field of candidates and appreciate the contributions of all members who stepped forward to offer their services as board members. Our thanks also go out to all Chamber members who served on our board during 2020.

Event Report

US TAX POLICY FORECAST FOR THE 117TH CONGRESS

On Dec 10, the Tax Committee provided a closer look at US tax policies that are likely to come in over the next two years with the incoming administration. The discussion covered both business tax proposals and proposals relevant to individual taxpayers. Speakers for event were Deloitte Partner David Allgaier and Director Judy Xie, both of the International Tax and M&A Tax Services team.

INAUGURAL CAPSTONE CONFERENCE

From Dec 1-3, AmCham Shanghai brought together experts from across industries at its inaugural three-day Capstone Conference to discuss the many changes and market shifts brought by 2020.

The conference's first day highlighted healthcare and featured several prominent industry leaders, including a presentation on the latest healthcare policy developments from Jianwei Xuan, the Head of the Institute of Economics for Medicine at the School of Pharmaceutical Sciences at Sun Yat-Sen University. Day two of the Capstone Conference focused on supply chain, with a keynote on the 2021 economic outlook from Shaun Roache, APAC Chief Economist and Managing Director of S&P Global Ratings and a presentation on the changing China environment by Dr. Edward Tse, Chairman and CEO of Gao Feng Advisory Company Limited. The final day of the conference focused on both retail and corporate responsibility, with a keynote speech from Jason Yu, MD, Greater China at Kantar Worldpanel, who spoke about how companies can navigate the changing trends in a post-COVID marketplace. It closed with a presentation from Yemeng Li, an independent curator and founder of Yu Xuan Cultural Creativity Ltd.

Thank you to our sponsors Bristol-Myers Squibb and Thermo Fisher Scientific for helping to make our first-ever Capstone Conference a success.

THE HOSPITALITY MARKET'S 2021 OUTLOOK

On Nov 25, the Real Estate, Design & Construction Committee held a panel discussion on how the hospitality industry had been coping with the challenges brought by COVID-19, how they modified their operations since, what trends they saw for the 2021 market and how they have been preparing for those possible changes. Panelists included Amane Karazawa, GM of Hyatt Regency Shanghai Global Harbor, Manoj Mehta, CEO of naked Group, Edison Chen, GM of Destination Marketing & Government Relationship (Overseas) at Trip.com Group and Susan Guo, business development manager for China of STR.

2020 GOVERNMENT AFFAIRS CONFERENCE: US-CHINA POST-PANDEMIC, POST-ELECTION

The annual government affairs conference was held at the Langham Hotel on November 13, bringing together over 120 government relations leaders.

The morning began with a 30-minute recorded interview between AmCham President Ker Gibbs and former Australian Prime Minister Kevin Rudd, a China scholar who is now president of the Asia Society Policy Institute. Rudd spoke at length about the US-China relationship and what to expect once Joe Biden assumes the US presidency.

Timothy Stratford, managing partner in Covington & Burling LLP's Beijing office, gave a keynote address from the American perspective on where the US-China relationship is headed. Stratford's remarks were followed by DingDing Chen, professor of International Relations at Jinan University and a non-resident fellow at the Global Public Policy Institute in Berlin. Chen spoke about the Chinese view on the next phase of US-China relations. Chen and Stratford came together for the panel "Relations after COVID and the 2020 Elections," alongside Yue Su, principal economist at the Economist Intelligence Unit and moderated by Ivan Rasmussen.

Guo Bai, assistant professor of strategy at CEIBS, gave the final keynote speech of the day, focused on some of the strategic and commercial transformations spurred by COVID. For the final panel, Bai served as the moderator for the discussion "Forging Strategies for a Changing World," and was joined by panelists Kent Kedl, senior partner at Control Risks, Jamie Shen, vice president of Government Affairs for Marriott International and Haobo Liang, senior IP counsel at Danaher Innovation Center China. The speakers discussed each of their industry's recovery from the initial COVID shock.

Thanks to our Stars Sponsors Bristol-Myers Squibb, GM, Herbalife, Honeywell and Johnson & Johnson; Stripes Sponsors Nu Skin and ThermoFisher; and Platinum Table Sponsors ExxonMobil and Fedex for helping to make this year's conference possible.

JIANGSU GOVERNMENT BRIEFING ON POST-COVID ENTRY POLICIES FOR FOREIGNERS

On Nov 10, AmCham Shanghai, in partnership with the Foreign Affairs Office of Jiangsu Provincial People's Government (Jiangsu FAO), hosted a briefing on the government's post-COVID policies for foreigners to enter China. During the session, foreign affairs and public security officials provided detailed briefings on pre- and post-entry policies including invitation letters, fast track arrangements, COVID tests and quarantine policies. Sixteen member companies also attended the briefing. I

Committee Chair's Corner

Q&A WITH TIM KLATTE

CHAIR OF THE ETHICS & COMPLIANCE COMMITTEE

By Ruoping Chen

Dr. Tim Klatte is a partner and head of the Shanghai Forensic Advisory Services practice of Grant Thornton China. With more than 26 years of China-related experience, and nearly 15 years working in Shanghai, Klatte has conducted over 500 investigations across multiple industries and in all regions of China. He holds both an MBA and DBA, with concentrations in international business. He is currently co-authoring a book on corporate compliance in China titled *Ethically Powered.*

What are the objectives of the Ethics & Compliance Committee, and what do you hope to achieve for 2021?

The Ethics & Compliance Committee strives to be a leading repository of information and a transparent exchange platform related to ethics and compliance matters in the Shanghai business community. Our mission is to enable AmCham members' success through the committee's commitment to delivering timely, accurate, and authoritative insights on the latest developments in ethics and compliance-related issues here in China. We are focused on addressing compliance issues, including proactive and reactive strategies, compliance training, creating an ethical culture, developing local and sustainable compliance programs, enforcement updates, and an overview of local compliance-related rules and regulations. A committee that naturally cuts across the other 20, as compliance is a strategy for all businesses and industries. In 2021, my vision for the E&CC is to become a trusted platform of compliance-related content and either organize or support regular information-sharing events for the AmCham community.

Could you tell us a bit about your background and area of expertise within Grant Thornton?

I first arrived in China in 1994 as an ambitious college student from the U.S. Midwest on a semester abroad program. At that time, I was a history major, focused on Chinese history. After my experience at Henan University in Kaifeng, I immediately changed my major to business and focused on Chinese language study. Academically, I have obtained bachelor's (1995), master's (2000), and doctorate (2018) degrees in business management and began my career working in the U.S. government for the State Department. I spent two years in the United Nations (New York) addressing US-China economic issues before transitioning to the accounting industry. I spent ten years with Deloitte, which moved me from its N.Y. office to its Shanghai office in 2006. I joined China Minsheng Investment Group in 2014, where I worked with the president and shareholders on several strategic "One Belt One Road" investments before joining G.T. in 2016. I now lead the forensic advisory services team in G.T. Shanghai that covers forensic accounting, forensic technology, and integrity due diligence services for clients seeking to enhance their compliance programs across China. Now, more than ever, China-based organizations must invest in sustainable corporate compliance strategies to fortify their market position with ethical policies and procedures.

What are currently some of the biggest ethics and compliance issues companies are facing in China?

In my view, there are two significant ethics and compliance-related challenges facing U.S. subsidiaries in China – one is inward-facing while the other is outward-looking. Foreign companies operating in China must achieve a delicate balance of achieving strong performance results under the guise and approach to doing business locally while at the same time guarantee standards expected by overseas headquarters. On many occasions, ethics and compliance can be found at the crossroads, which is not necessarily good. The structured policies and procedures of an organization exist for a purpose and remain intended to safeguard the organization from any violations that will disrupt its business strategy. The key to any organization's compliance strategy is clear and consistent interpretation – transparent and applied equally to each stakeholder. Another evolving issue is to ensure that executives develop China-based strategies implementing ethics and compliance features to make it an intricate part of the company culture. As local rules and regulations continue to evolve, ethics and compliance policies must also change with the times to remain relevant for all organization levels.

Could you guide us through some of the different regulatory authorities in charge of managing corporate compliance?

Locally, several regulations touch on compliance matters, such as the cyber-security law, the anti-unfair competition law, and the state secrets law. These laws continue to be updated, revised and enhanced to keep up with the changing environment of doing business in China, which is positive. In terms of global regulatory authorities, the U.S. Foreign Corrupt Practices Act (FCPA) enforced by the U.S. Department of Justice and the U.S. Securities & Exchange Commission has set the standard. It was passed in 1977 and still serves as the leading benchmark globally and watchdog for corporations' ethics and compliance positions. Since its inception, over 500 enforcements (more than 100 China-related) have occurred in over 100 countries. In fact, the U.S. government has collected over $20 billion in fines associated with FCPA enforcements, and this trend does not seem to be slowing. Penalties have increased in both amount and frequency, as five FCPA settlements have now reached a billion dollars or more. And now, it takes at least $585 million to even appear in the current top ten. Companies headquartered in France, the Netherlands, Germany, Russia, Sweden, Brazil, and the U.S. represent these top 10 enforcements. Other nations have regulatory enforcement agencies. We are witnessing an increase of enforcements globally to crack down on white-collar crime – a trend that I foresee will continue in the coming years.

For a company that finds itself under investigation, broadly speaking, what are important things to keep in mind when dealing with regulators?

Simply stated, cooperation is the key. Cooperating with the authorities during an investigation will better position the organization to reduce the financial impact, better manage reputational blowback, and better facilitate a smoother path to remediation. On the tactical level, cooperation means sharing all facts in a timely and transparent manner during the investigation. It also means wholly and voluntarily producing documents to avoid back and forth struggles for the authorities to obtain actionable information. Also, it means proactively and professionally translating documents for the authorities to speed up the investigation process overall. Finally, it means guaranteeing that former and current employees are available to speak to the authorities if required. Both parties are working towards completing the investigation in a timely and fair way, so it is imperative for full cooperation. There have been FCPA-related cases in which collaboration played a leading factor for the authorities to reduce the penalties, and as such, it pays to cooperate!

What is a common misconception about being compliant in China that you often see from companies?

In a September 2020 survey conducted by the Association of Certified Fraud Examiners (ACFE), 77% of respondents said they had observed an increase in the overall level of fraud, with one-third noting that this increase has been significant. Also, 92% of respondents expect to see a further increase in the general level of fraud during the next year, and nearly half expect that increase to be significant. Even with these statistics as the backdrop, companies often feel “it won’t happen to them” or “fraud is an isolated case,” leaving much space for complacency. The COVID-19 pandemic has given way now for increased ways of fraudulent activities not only at the headquarters level but also in China.

When asked how COVID-19 is affecting the ability to fight fraud, respondents overwhelmingly indicated that activities are more difficult now than they were previously. More than three-quarters of respondents indicated that preventing fraud is more challenging in the current environment (26% significantly more challenging). In comparison, 74% of respondents indicated investigating fraud is more difficult (31% significantly more challenging). Finally, 68% of respondents stated fraud detection is more difficult (21% significantly more challenging). Fraud detection and mitigation is no longer a matter of if but when for MNCs operating in China. Companies must remain proactive, vigilant, and keep compliance as a boardroom strategy, no matter the company size or industry.

What types of mechanisms or procedures should companies here employ to guard against fraud?

In general, five considerations would be advantageous for organizations to consider to guard against fraud.

a) The first is training. In today’s operating environment, all employees need a thorough understanding of FCPA and Chinese anti-bribery laws. Educate employees on not only what bribery entails but the penalties, fines and punishment meted out to the company and its employees that committed the act. Employees must understand that if they observe violations, it is their responsibility to appropriately report. Compliance training should be a continuous strategy conducted in person throughout the year and based on new examples of possible bribery situations.

b) The second is integration. Compliance activities should be built into an overall anti-fraud and regulatory program, such as international trade compliance and general fraud exposure. Matters related to the FCPA are legally distinct from other regulatory areas, but in practice, they share many parallel issues. Integration of similar compliance activities is logical, less expensive, and more likely to be effective than multiple independent stand-alone activities.

c) The third is communication. It is essential to communicate on a local level, in the local language, and often at a facility-by-facility basis, that the company has zero-tolerance for violations of its anti-fraud policy. Focus on what is expected of each employee regarding compliance; specifically, how to report potential wrong-doing and the consequences for failure to live up to those expectations.

d) The fourth is due diligence. Due diligence has become more challenging to complete, given current limitations on obtaining company records in China. Nevertheless, it is still required as a fundamental element of an effective compliance program. All contracts, agreements, policies and other compliance-related documents must explicitly require adherence to all applicable laws and regulations. Knowing your business partners before professionally engaging them will mitigate future risks that impact the organization’s financial and reputational market position.

e) The fifth is proactive testing. A key to staying one step ahead of white-collar criminals is to think like the fraudsters. One approach is to incorporate aggressive programs, tools and tests designed to identify high-risk transactions instead of waiting for them to be discovered through other means. Developing a data analytics platform and implementing standard fraud testing are two proactive strategies worth considering. The key is to leverage local data in the high-risk areas and tailor the tests to frauds commonly encountered in those areas.

While there are multiple other strategies to consider when guarding against fraud, those five mentioned above will ensure that the organization is moving in the right direction from a compliance point of view if implemented.

Finally, what is your favorite place to go in Shanghai?

Shanghai has transformed so much since when I first arrived in 1994. At that time, places like Yu Garden, The Bund, and the Nanjing Road Pedestrian Street left the most profound impressions, due to their historical significance. However, since I moved here in 2006, the modernization of the city has been unprecedented. Each corner of the city is thriving to develop and grow into a true international hub in Asia. I often reminisce about Shanghai before all of this massive development and find myself circling back to Yu Garden, The Bund and Nanjing Road. So, from the perspective of retaining the “Shanghai of yesterday,” I still prefer these nostalgic places that take me back to my first impressions of the city from the early 1990s.

▲ Yu should see this garden

Zhejiang provincial government appreciation dinner

AmCham Shanghai

Tim Stratford at the Government Affairs Conference


A room divided


GR workshop questioner

100 most valuable brands in China event

Annual sponsor appreciation night

Discussing China's corporate social credit system

Month in Pictures

Attentive attendees

Joint marketing mixer with BritCham

Art mixer

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