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The Journal of the American Chamber of Commerce in Shanghai - Insight January/February 2022

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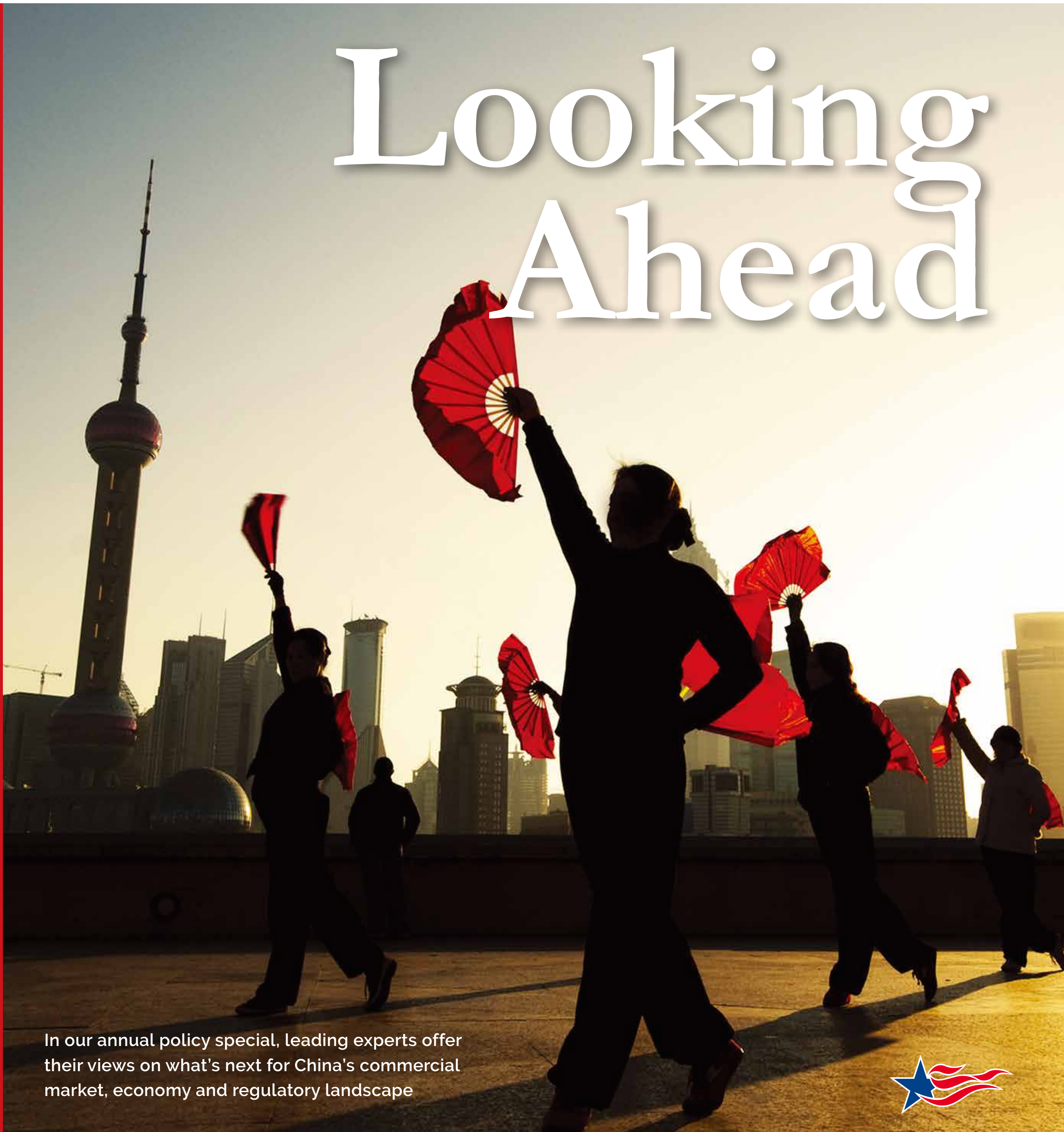

Looking Ahead

In our annual policy special, leading experts offer their views on what's next for China's commercial market, economy and regulatory landscape

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POLICY SPECIAL

FEATURES

MEMBER NEWS

PRESIDENT'S LETTER

ERIC ZHENG
President of The American Chamber of Commerce in Shanghai

As the new president of AmCham Shanghai, I feel privileged to write my first letter for *Insight* magazine. I would like to thank the Board of Governors for its trust in me to lead the Chamber in the next phase of its development. I also wish to express my appreciation to the last board chaired by Jeff Lehman for its leadership during most challenging times.

I have been active with AmCham Shanghai for over 15 years and served in a number of elected roles, including Chairman of the Board in 2018-19. I am very grateful to AmCham members for their past support while I served in those roles. I am also humbled by the responsibility of leading the largest American chamber of commerce in the Asia Pacific in increasingly challenging times. I will spare no effort to serve you.

In the past few years, amid the Covid pandemic, supply chain disruptions and heightened tensions between the US and China, American businesses in China have been confronted with unprecedented challenges. I believe that the role of the Chamber is more important now than ever.

The US-China bilateral relationship may be broadly characterized by two Cs: cooperation and competition. There are many areas related to commercial, cultural and educational exchanges in which the Chamber can assist our members, including market access, supply chains, R&D and other local partnerships. AmCham Shanghai will continue to play a proactive role in supporting our members as they pursue their China strategies. A few initial thoughts on our priorities this year include:

1. Helping members resolve mobility issues due to Covid-19 restrictions;
2. Assisting members in pursuing business opportunities in dual circulation, carbon neutrality and other areas that may offer significant opportunities;
3. Engaging with Chinese authorities on market access, IP and other critical issues;
4. Assisting members in working with Chinese partners; and
5. Pursuing a Yangtze River Delta strategy by expanding AmCham's presence in Jiangsu and Zhejiang provinces.

I will reach out to our members to seek their input on how the Chamber should better support them in 2022 and beyond. I am confident that by working closely with our stakeholders, AmCham Shanghai will continue to provide valuable services to our members for years to come.

February 2022 marks the 50th anniversary of the signing of the Shanghai Communique. Half of a century ago, President Richard Nixon and Premier Zhou Enlai signed the historic document in Shanghai, laying the foundation for the normalization of US-China relations. Since then, the two countries have not only established diplomatic relations, but have also seen their two economies become increasingly interdependent. Fifty years ago, there were essentially no commercial transactions between China and the US. By 2020, US goods exports to China reached $123 billion; its services exports to China amounted to $54 billion in 2019. China is the US's third largest market for goods exports and fourth largest for services exports. The US' combined exports of goods and services to China support nearly one million jobs in America.

China has also benefited tremendously from its growing economic relations with the US. Despite the recent trade war, China's goods exports to the US totaled $452 billion in 2020, growing nearly 8% from 2019. Since it joined the WTO 20 years ago, China's goods exports to the US have grown at a compound annual rate of nearly 12%. Meanwhile, China continues to attract foreign direct investment from the US, amounting to $2.3 billion in 2020. In the past 20 years, China has utilized over $60 billion in FDI from the US.

While US-China relations are undergoing significant changes, we should recognize the mutual benefits of cooperation over the past decades. As we commemorate the 50th anniversary of the signing of the Shanghai Communique, let's continue to seek areas of cooperation that will be beneficial to both countries, while managing our differences with good faith.

I wish you all a happy and prosperous 2022! I

CHINA'S 2022 GROWTH OUTLOOK

Threading the policy needle for economic stability

By Andrew Polk

Andrew Polk is a co-founder at Trivium/China and head of the firm's economic research. Before Trivium, he was a senior economist at The Conference Board China Center for Economics and Business in Beijing. Previously, Polk worked at the Institute of International Finance, where he conducted macroeconomic analysis on emerging markets in the Asia/Pacific region. Polk has held research positions at the East Asia Desk of the U.S. Treasury Department, the Woodrow Wilson International Center for Scholars, and *Foreign Policy* magazine.

2022 is set to be yet another challenging year for China's economy. Even while setting the global pace for post-pandemic growth in 2021, Chinese GDP growth has slowed rapidly since mid-year and looks set to further deteriorate in the first half of 2022, before supportive economic policies finally transmit to boost activity.

At the Central Economic Work Conference – the Party's most important annual economic strategy meeting – held in early December, Xi Jinping underscored the challenges policymakers are facing, saying, "We must see that the economy is facing the triple pressures of contracting

demand, supply shocks and weakening expectations."

As 2021 came to a close, policy advisors and financial media were already setting expectations of a freshly lowered GDP growth target for the new year – in the range of 5-5.5%. Such a goal would set China's economy up to see the lowest non-pandemic-year official growth rate in over 30 years. Even hitting this lowered growth target will require policymakers to offer fresh economic support measures in the coming months.

"We can be certain that economic support measures will be gradually ramped up to ensure a positive economic environment around those meetings"

Some positive signs

It's not all bad news, however. While the economy might be slowing more rapidly than officials would wish, many of the headwinds to growth are policy-induced. Monetary officials' decision in late 2020 to rapidly normalize policy by bringing down credit growth rates has meant that credit to the private sector was relatively constrained over the latter half of 2021.

What's more, officials chose to hold the line on tight property policy throughout last year – fearing that a runaway property market could cause social challenges due to high home prices and overheat the economy through a renewed bout of rapid debt buildup in the sector. Both policy decisions have meant that the steam of the post-pandemic recovery quickly dissipated after a rapid three-quarter resurgence of activity starting in Q3 2020.

"Upswings in Chinese growth will be weaker and shorter-lived than the growth accelerations we have seen over the last several decades – while the growth slowdowns will be deeper and longer-lasting"

Senior economic policymakers are starting to signal that policy will loosen at the margins in 2022. Central bank officials and banking regulators indicated in November that some banks seem to have over-interpreted a late 2020 instruction to cap lending to the property sector – banks are now being encouraged to recalibrate their approach to the sector.

Officials are also preparing for a fresh round of fiscal spending by reupping the quota for local government bond issuance, outlining another set of tax and fee reductions for companies and potentially raising the central government's 2022 budget deficit (as a percentage of GDP). These policies will take some time both to be implemented and to transmit through to better economic performance, but they should start to positively impact growth by the middle of 2022. That timing will be particularly welcome given that the 20th Party Congress will take place in the fall.

The right tools

Economic and social stability are always particularly high priorities around such important political events, and next year will be no exception. Xi Jinping said this explicitly at the Central Economic Work Conference in December. We can be certain that economic support measures will be gradually ramped up to ensure a positive economic environment around those meetings. Still, it is important for businesses to understand that the nature of what Chinese officials mean when they talk about economic stability has changed dramatically over the past few years.

In previous years when China's senior policymakers talked about economic stability, they were primarily looking to ensure high rates of economic growth. But over the past three or four years, that mentality has shifted decisively. Since 2017, one of Xi's top three policy priorities – which he has labeled the "three tough battles" – has included defusing and containing financial risks. This includes not only reducing excessive financial speculation, but also increasing scrutiny over local government debt, better supervising corporate governance at Chinese financial institutions and setting limits on property developers' ability to borrow. Xi has even stated that financial risk is a national security risk.

With this policy mentality as a backdrop, China's top economic policymakers now consider the containment of financial risk and debt buildup as a critical part of economic stability – and that a high GDP growth rate alone no longer cuts it. This change in perspective should be welcome to economists, business executives and investors, since ever-larger stimulus programs to meet arbitrary growth numbers have clearly become unsustainable. This reality, however, puts significant constraints on Chinese officials' ability to support the economy, and it is why we expect overall economic support in 2022 to be limited.

The key point here is not that officials don't have any tools to boost growth – nor that they can't manage to improve economic performance around the Party congress. They have the tools and are highly likely to succeed in boosting growth next summer and fall.

Instead, what businesses operating in China – not to mention Chinese policymakers – need to understand is that China's economic growth cycles are evolving. Due in large part to more targeted economic support policies, the upswings in Chinese growth will be weaker and shorter-lived than the growth accelerations we have seen over the last several decades – while the growth slowdowns will be deeper and longer-lasting.

> "The challenge policymakers face is how to offset looming weakness in consumer spending and export orders via more support for domestic infrastructure spending"

These changes are not simply due to policy constraints. They are thanks in large part to the fact that China's economy has long been undergoing a structural economic transition to slower growth – driven by more difficult gains in productivity and the transition to a more service sector-driven growth model.

Challenges in 2022

Growth challenges in 2022 will emanate not just from relatively weaker policy support and the structural evolution of China's growth drivers; cyclical growth pressures will manifest as well. In particular, the outlook for China's external sector and for household consumption is in doubt.

Chinese export growth has remained remarkably strong throughout the pandemic, but if other countries finally begin to bring Covid-19 under control next year, the long-awaited global shift towards services consumption should come to fruition. This means that households in other countries are set to spend more money on things like dining out and traveling, rather than continuing to purchase record amounts of manufactured goods from China.

Chinese households may also start to pull back on their purchases in 2022. The key concern here is that household income growth has still yet to normalize to pre-pandemic levels. The typical worker is seeing their paycheck grow at a snail's pace. The longer this situation persists, the more likely it becomes that households will look to restock their savings, rather than maintaining their current consumption levels.

The challenge policymakers face is how to offset looming weakness in consumer spending and export orders via more support for domestic infrastructure spending – without going overboard. Exports have been a key pillar of Chinese economic growth throughout the most recent recovery cycle, and while policymakers certainly have the tools to offset export weakness, doing so while avoiding a renewed bout of debt accumulation, financial risk and a pumped-up property sector will be difficult to pull off.

The upshot is that policymakers will indeed find a way to hit their 2022 growth target of 5% or 5.5%, but they won't surpass it by much. And while H2 2022 will see improved growth and solidified economic stability – by hook or crook – the first half of 2022 may be nerve-racking for many businesses. I

US-CHINA TRADE TENSIONS

When security trumps economics, everyone loses

By Yukon Huang

Yukon Huang is a senior fellow at the Carnegie Endowment in Washington, DC. He was formerly the World Bank's Country Director for China. He is an advisor to the World Bank, ADB, AIIB and various governments and corporations. His research focuses on China's economy and its regional and global impact. Dr. Huang has published widely on development issues in professional journals and the public media. He is a featured commentator on China and his articles are seen frequently in the *New York Times, Foreign Policy, Financial Times, The Wall Street Journal, Foreign Affairs* and *South China Morning Post*. His latest book *Cracking the China Conundrum: Why Conventional Economic Wisdom Is Wrong* was published by Oxford University Press. He has a PhD in economics from Princeton University and a BA from Yale University.

Many observers perceived the November virtual meeting between Presidents Biden and Xi to have lowered bilateral tensions, even as the major political and economic concerns in the relationship were left unresolved. On the trade war, President Biden's policies are broadly similar to those of his predecessor. The Trump administration's punitive tariffs remain in place and the Biden team has reaffirmed its commitment that China import an additional $200 billion of goods, per the January 2020 phase one agreement. Trump's restrictions on high tech exports to hundreds of Chinese firms, via the US Commerce Department's Entity List, are also largely intact. Together with measures that curb diplomatic, financial and research interactions, these actions can be seen as a decoupling of the two economies.

Economic tensions driven by three constituencies

How exactly Washington wants to address the trade relationship is complicated by contrasting concerns among three different constituencies. Trump idiosyncratically fixated on bilateral trade deficits with China, which he blamed for America's job losses. The business community is more concerned about China's unfair investment practices, theft of intellectual property and access to its gargantuan market. Finally, the US foreign policy establishment sees China as a rising technological power that threatens America's global economic and military dominance.

Trade experts were generally critical of Trump's policies. Trade deficits are not indicative of the state of the economy. Governments cannot simply legislate what another country's households or firms should buy. Tariffs also do little to address American firms' concerns about China's business environment. The only winners thus far are the security hawks, who ratcheted up assertions that China constitutes a strategic threat to a liberal international order created and nurtured by the United States; their advocacy for decoupling intensified toward the end of Trump's tenure. More recently under the Biden administration, mounting concerns about China's assertive foreign policies and alleged human rights violations have exacerbated such sentiments.

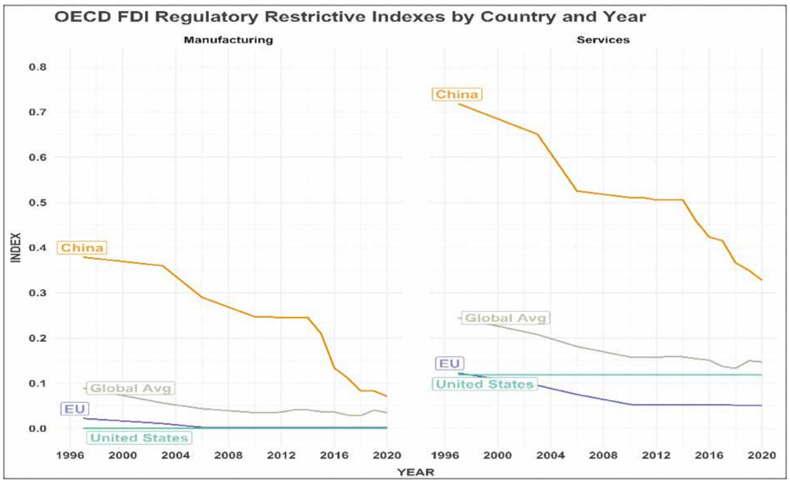
Impact of the trade war, pandemic and decoupling

Many in the US business community have expressed concerns over the tariffs, an unsurprising reaction given their negative effects. In a November 2019 study, the US Federal Reserve found that Americans paid for most of the tariffs, not Chinese firms, which did not significantly cut their prices as Trump had hoped. A 2021 US-China Business Council study found that 245,000 American jobs were lost because the tariffs increased the cost of production. On the phase one trade agreement, China has fallen far short of its import commitments, while America's trade balance has deteriorated. Meanwhile, China's trade surpluses increased as it found alternative export markets. Thus, the Biden administration has expressed less concern about trade deficits per se, even though there has been no change regarding the purchase commitments and tariffs agreed to in the deal.

Having its industrial champions, such as Huawei, ZTE and SMIC, placed on the US Entity List is a major blow to China's technological ambitions. But the consequences are not one-sided. The losses arising from a diminished China market will crimp the capacity of American firms to expand, since many of its leading high tech firms earn as much as 20-50% of their revenues from sales to China.

Others argue, however, that it is worth incurring these costs to pressure Beijing to reform its policies, particularly protection of intellectual property (IP). Creating a strong IP regime takes decades and China is a latecomer, having passed its first patent law only in 2001 when it joined the World Trade Organization (WTO). But there has been steady progress. AmCham Shanghai's 2021 China Business Climate Survey found that 48% of members did not feel China's IP protection regime hindered their business, compared to 36% in 2017.

China's effective, if draconian, handling of the Covid-19 pandemic facilitated a sharp industrial recovery based on exports to the US and Europe. This has made it less likely that US firms will relocate out of China, despite concerns about an overreliance on China for essential products. Moreover, despite US restrictions, foreign investment flows into China surged over the past year.



Data courtesy of the Organisation for Economic Co-operation and Development (OECD)

The broadening scope of sanctions on economic, security and human rights grounds, however, means that the consequences of decoupling are now felt widely across the United States and the world. Banning Huawei's 5G telecoms equipment means higher prices for American and European consumers. Delisting from US equity markets and restrictions on investment flows has curbed China's access to US sources of capital, but American investors lose out on profits. The ultimate cost, however, is the damage to long-term growth prospects for both sides by impeding the creation and transfer of knowledge. In short, the economic consequences of total decoupling would be catastrophic for both sides.

> "Trade deficits are not indicative of the state of the economy. Governments cannot simply legislate what another country's households or firms should buy"

Shifting the focus away from manufacturing to services

Even as the United States and China differ on many economic policies, both sides share a misconception that promoting manufacturing is key to innovation, growth and job creation. This obsession with manufacturing in the US is driven largely by political sensitivities associated with the decline in manufacturing jobs over many decades.

In China, Beijing sees the country's future as a high tech innovative economy. Yet over the past year, the leadership has repeatedly reined in the activities of many high tech firms — calling into question China's support for innovation. These actions reflect the assumption that an innovative economy depends more on "hard-tech" manufacturing such as AI-enabled robotics and electric vehicles, than on "soft-tech" services such as e-commerce and video platforms. Both sides fail to realize that the development of knowledge-intensive activities lies largely in services rather than manufacturing.

The OECD has developed a foreign investment restrictiveness index that measures whether a country is relatively open or closed to foreign investment by sector — manufacturing or services. The index ranges in value from 1 (totally closed) to 0 (totally open) to foreign investment. Decades ago, China was much more restrictive than other OECD economies, with index values ranging from 0.4 to 0.7, compared to values below 0.2 for most major economies. After joining the WTO, China began to liberalize its foreign investment regime. Its index for manufacturing is now approaching levels of other major economies. But for services, despite significant progress, China continues to be much more restrictive towards foreign investment.

China's reluctance to open up its high-value services activities to foreigners comes from fears that domestic entities would not be competitive or that national security could be jeopardized. But China's companies have matured and would benefit from robust foreign competition, especially since security concerns are often exaggerated and issues regarding access and misuse of information can be addressed through monitoring and regulatory arrangements.

Will Biden's administration handle things differently?

Biden is less concerned with trade deficits. Unlike his predecessor, he wants to work with allies to confront China. But Biden has similar protectionist sentiments in elevating the interests of middle-income workers above those of Wall Street firms that seek better access to China's market. He has promoted "Buy America" programs, incentives to encourage domestic production and industrial policies to support strategic industries.

Biden has been reluctant to "soften" China-related policies in the runup to the 2022 midterm elections. However, his administration seems more inclined to find ways to moderate tensions by allowing for more exceptions in the application of tariffs and export restrictions, such as for semiconductors. Moreover, Biden's advisors, unlike Trump's, are not denigrating multilateral institutions like the WTO or World Health Organization.

For decades, the guiding principle underpinning US relations with China was that economic and security issues could be addressed separately. In recent years, however, Beijing's more assertive foreign policies and tightening of civil liberties have fueled anti-China sentiments and made such siloing increasingly difficult. Economic issues have become deeply intertwined with security as well as human rights concerns, making the realization of mutually beneficial economic gains more difficult.

Beijing has targeted companies benefiting from first entry advantages, such as Alibaba, DiDi and Meituan, for monopolistic type behaviors. But China's digital giants have also received strong government support leading to unfair competition for new entrants, both foreign and domestic. These issues are similarly being debated in the United States for companies like Amazon, Facebook and Google.

Clearly both sides need to be involved in forging global principles to govern the interaction between security and economic concerns. Finding a more constructive approach begins with altering attitudes about great power rivalries and establishing a broader regional or global consensus to mediate concerns.

Moderating US-China tensions may require bringing in less conflicted nations to help forge compromises. Private partnerships, such as striking a 5G services partnership between Huawei and Nokia, for example, with the European firm handling concerns about data security, could help build trust in both Europe and the US. Regarding Asia, President Biden has thus far focused more on security than economic issues, as exemplified in the nuclear submarine arrangement with Australia. In contrast, he has shown no inclination to overcome domestic resistance to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, even though China has submitted a bid to join.

Dealing with US-China economic tensions will be a long-term affair. The underlying factors preceded Trump's administration and will endure well beyond Biden's. If the US-China trade war bears a lesson, it is this: when security concerns trump economic imperatives, both sides lose. I

The Social Trends Shaping Business in 2022

By Jayne Leung, Vice President, Head of Greater China, Meta

Every year, we see the new opportunities that are created when social trends intersect with business. 2021 was of no exception with businesses experiencing massive transformation in their ways of engagement with employees and customers. While many such trends will take years to reach their full potential, it is clear that at least the following five trends will only grow in popularity in the near-term:

Virtual and Augmented Reality

While many aspects of the metaverse will take shape over many years, we are seeing applications for AR/VR becoming mainstream, everything from trying clothes and shoes virtually before you buy them to working remotely in a virtual space.

Businesses are becoming aware of the immense potential of AR/VR to enhance the customer experience. For Example, Eugene Soh, an augmented reality artist based in Singapore finds that, over the last year, he has gotten commissioned by more businesses - both local and international - to design AR filters to engage customers. He is also excited by AR's potential to create community and shared meaning.

Social Commerce

Business is turning out to be more social than we thought. People discover products they love through their friend's feeds. A corollary of this discovery is the expectation that they can message a business just as they would a friend. Being a message-able business can mean the difference between growth and stagnation.

Take the story of VIVAIA - an eco-friendly fashion brand that recycles plastic bottles and turns them into comfortable and stylish shoes. VIVAIA uses Facebook and Instagram for brand and product promotion, interacting with customers to understand their needs and enables them to further optimize their products. In just over a year, this new brand successfully sells to 57 countries and regions around the world.

Mega Sale Days

Mega Sale Days are becoming the point of entry for a lot of first-time online shoppers. It's not just about discounts any more, people are choosing brands for the equity and what they stand for in people's minds. Besides, the entire consumer journey is becoming a lot more social and experiential in nature.

Based on such insights, Sapna Nemani, Chief Product and Solutions Officer, APAC, Publicis Groupe advises clients to plan ahead for the entire period and not just the sales day. And because it's not just about discounts, it's important to establish brand equity. This can only happen by thinking carefully about the relevant touch points to fuel social discovery.

Creators

As the pandemic raged, people had to stay home and find ways to entertain themselves over long periods of time. Naturally, home-based content surged across a range of topics and formats: cooking tutorials, family entertainment fitness hacks and yes, even business and finance creators.

As a new and more diverse form of media, creators are becoming brands in their own right and are driving engagement levels that make them powerful retail channels too. So in 2022, we're definitely going to see more brands co-creating products or sub-brands with creators.

Video

Digital video viewers in Asia Pacific will exceed 2 billion by 2022, a year earlier than previously projected, according to eMarketer. On our platforms, video is becoming the primary way that people use our products and express themselves.

From product tags that allow you to buy directly from video to trying on products before buying them using augmented reality - mobile video can allow for immersive experiences. Businesses now have lots of ways to reach people with video across Meta - from ads in Messenger, in-stream ads and Instant Experiences - it's an exciting space to explore.

Even as technology doesn't stand still, one thing remains constant - people prefer interacting with businesses in ways that are human, personal and seamless. This is why social trends will always have relevance for business.

THE EVOLUTION OF CHINA'S REGULATORY REGIME

Interview by Ian Driscoll

Nan Li received a PhD in Economics from the University of Chicago in 2005. She is an associate professor in finance at the Antai College of Economics and Management at Shanghai Jiao Tong University. Her research focuses on the pricing of uncertainty and long-run risk, and investment decision and policymaking under uncertainty. Her English-lanuage course, "Bank Management and Introduction to China Banking Industry" is available globally at iCourse163.com

Many in the international press report that China has reached a point in its economic development where property and construction represent too much of GDP.

However, transitioning to a more consumer-driven economy is difficult if property prices fall and consumption drops in response. If that assessment is correct, what should policymakers do?

The main policy idea behind the property market is to curb housing prices, especially in Beijing, Shanghai, Shenzhen and other cities where markets are overheated. Policymakers want to ensure that prices stabilize at their current levels, not drop sharply or grow unsustainably.

China is now trying to develop 'mega-city circles.' For instance, policymakers are connecting the outskirts of Shanghai and nearby cities in Jiangsu and Anhui provinces to build a mega-city circle. A network of high-speed railways, highways and subways makes it possible to build such developments. This change will attract people to live in these smaller cities in the circle and ensure housing prices remain stable or with only modest growth.

While we have built a lot of airports, high-speed railways and highways, the software and services for this infrastructure needs improvement. Improving the quality of goods and services and driving out less efficient or low quality producers can lead to economic growth. These

structural changes are important economic drivers and support housing prices. This is why I don't think China's housing market will collapse like Japan's did in the 1990s.

Many of the government's recent policy actions seem sensible – eroding the duopoly that is Tencent and Alibaba, curbing the hours children spend on video games, etc., – but some observers say that the policies seem rushed. What motivated the government to push through so many significant changes in 2021?

We should differentiate policy changes between industries. The regulations in the financial sector, especially for fintech platforms, are well-thought-out and planned. They have arisen naturally given the state of fintech development and the platform economy. They were not rushed or prompted by a singular event, such as Jack Ma's October 2020 speech.

Increased regulation of internet-based financial services had been carefully planned and implemented before Ma's talk, including in internet auto insurance, personal insurance, internet small and micro loans and financial holding companies. Before a new regulation is implemented or announced, the People's Bank of China (PBoC) or China Banking and Insurance Regulatory Commission (CBIRC) first solicits opinions. While these regulations were implemented after Ma's talk, they were discussed at least one or two years in advance.

Financial regulators' actions, especially their fintech regulations, make economic sense. They are tackling the fintech's core business model problems. Fintech companies like Ant Group were providing all sorts of financial services under the cloak of a tech company that evaded the appropriate financial regulations.

The anti-trust regulations aimed at internet platform monopolies are also reasonable. The State Administration for Market Regulation (SAMR)'s April 2021 Alibaba fine signaled that regulators are moving to more strictly regulate market players backed by economic analysis.

Previously, the documents announcing fines were simple and short. This document was unusually long and detailed the economic reasons behind the $2.8 billion fine. This was a milestone for market regulation in China. Regulators understand the importance of making their regulations transparent to market participants.

What about the changes in education policy?

Education is very different from other kinds of business and needs a careful policy change. Kids are taking too many courses and don't have time for play or sports. But what kind of policies will give kids play and leisure time? It's a difficult task for policymakers.

American economist Lars Peter Hansen suggests that policymakers should focus more on macro issues such as market design and the motivation incentive instead of micro or specific questions and problems. We should focus more on setting rules and regulations that align the interests of each market participant with our social aggregate motivation. Micro or specific administrative policies are more likely to introduce frictions in the market and regulators' good intentions might backfire.

I think the widely used "rank-order tournament" system for education in China is one of the fundamental factors driving the country's tutoring problems. We select "excellent" teachers and students at the school, city, province and national level based on their relative academic performance. This might motivate some people, but over-stratification at any level, especially during the early stages of education, distorts the incentive for students and teachers and pushes everyone to focus on grades rather than personal growth.

When you survey the Chinese economy, which other areas need closer regulatory oversight? Where do you expect more government intervention in the next year or two?

The development of the fintech industry and platform economy and subsequent regulatory changes are consistent with the idea of 摸着石头过河 (crossing the river by touching the stones). We allow the industry to grow during its infant stage and don't overly restrict it.

Once it matures and problems emerge, we think about how to deal with them. To know which industries face regulatory changes, look for industries that are growing too rapidly. In the past 10-15 years, we saw rapid growth in fintech. We also see this in peer-to-peer lending (P2P), Bitcoin, Ant, Meituan, Didi, Waterdrop and other internet-based platforms, the so-called "internet plus" businesses.

"Internet plus" was meant to improve production efficiency across industries. However, the network effect associated with internet platforms can lead to a natural monopoly. If monopolistic power is combined with financial intermediation without appropriate regulation, moral hazard and risky behavior will destabilize the market. Platforms might use their monopolistic power to exploit their users.

Without proper regulations, it is natural for platforms owners to bump up their

returns and maximize their profit margins using all sorts of leverage or capital manipulation. This kind of business sector will definitely receive special regulatory attention.

What are the biggest regulatory challenges in this space?

The key to regulating the platforms is separating information services from financial intermediation. Take P2P for example— the government should build a centralized information exchange platform that connects small entrepreneurs, shop owners and businesspeople who seek financing and with investors like venture capitalists, private equity and angels who have high-risk, high-reward appetites. Startups and entrepreneurs with innovative technologies should be directly funded by VC/PEs or angels as opposed to commercial banks.

For these types of high-risk projects, risk sharing is important. It is difficult to assess these projects' risks upfront, hence indirect financing through bank loans is not suitable. Direct financing with risk sharing between investors and entrepreneurs is better, as these players want returns above bank loan interest rates and can afford to take bigger risks.

The searching or matching costs of high-risk entrepreneurs and investors can be significantly reduced by establishing a centralized information exchange platform owned by a public, non-participant third party. A private owner might exploit the monopoly power and use leverage to bump up the profit margin, which is why all P2P was abolished in China by the end of 2020.

With Ant as a pioneer, most e-commerce, social media, ride hailing, food delivery and other service platform apps in China now offer loan programs, trying to embed financial services within information service platforms. The regulators have already noticed and held regulatory talks with these platforms in April 2021.

In many ways common prosperity appears to be aimed at ensuring China hews closer to a northern European market-socialist model, but with a deeper level of state ownership in strategic sectors. Is that a fair assessment or too simplistic?

The main idea of the common prosperity and northern European model is fairness that originates from Marxism. The "fairness" is not to ensure everyone earns exactly the same, but everyone is rewarded fairly for their efforts. Some people were concerned by "common prosperity," as they thought that common prosperity meant "seizing the wealth of rich people and distributing it to the poor," which is wrong.

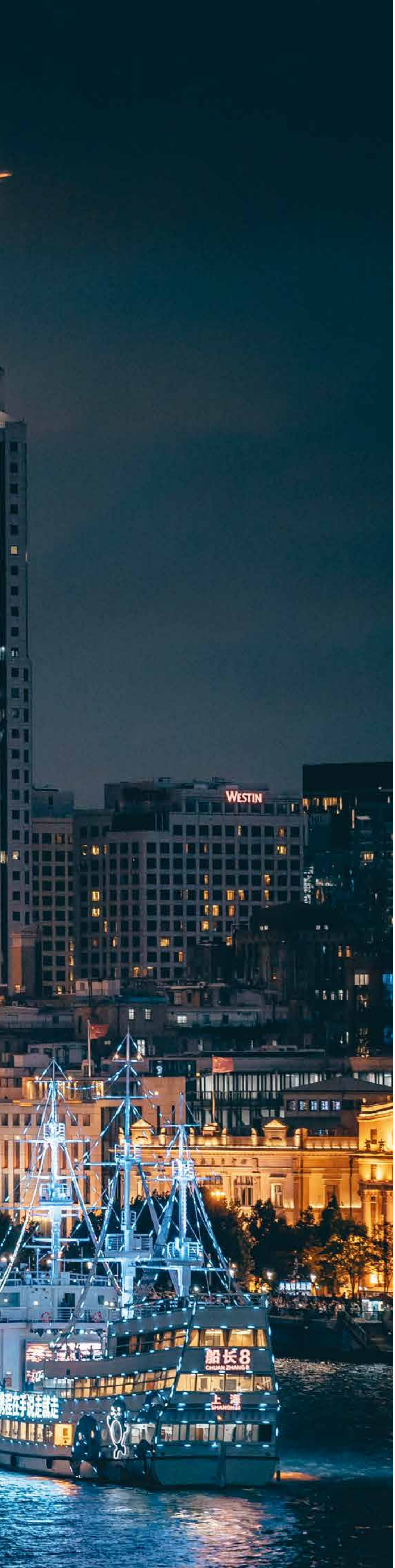
So, common prosperity is not Marxist in the sense of "From each according to his ability, to each according to his needs," nor is it socialist, it's somewhere in between?

Yes. A good market mechanism should reward people who put effort into their work. We should focus on a market design to ensure this kind of fairness, which is a valid path towards attaining common prosperity.

One of the problems laid out in Thomas Piketty's book *Capitalism in the Twenty-First Century* and exemplified by the US is the concentration of wealth due to the nature of competitive financial markets in a developed economy. They are like casinos. Imagine that you are wealthy and I am not. We get into a "flip a coin" game with infinite rounds until one of us broke. Both of us have a 50-50 chance of winning each round. But if your wealth is a thousand times more than mine, then you will win in the end. I will have to leave the table after ten consecutive losses, but you can afford 100 or more consecutive losses. I think this is one of the reasons behind today's wealth concentration.

Entrepreneurs in China have historically faced higher borrowing costs than state-owned enterprises. Is this still the case? And, if so, what can be done in the years ahead to lower those costs?

This is a common misconception about borrowing and bank loans in China, especially when we compare SOEs to private entrepreneurs. Yes, on average SOEs get more loans from commercial banks compared to private firms and entrepreneurs. But in the US, look at who gets loans from banks; it's always the large, mature companies with low risk and stable cash flows. It is small, new firms with high risk that go to the stock market, to PEs or VCs to get financed. Their financing costs, of course, are much higher than bank loans.



After the Law of Commercial Banking was implemented in 1995 and revised in 2003, China's banking industry has undergone important reforms. All commercial banks in China now operate according to the same business model of commercial banks from any other country.

Commercial banks focus on questions such as, "How can I maximize profits while managing risk enough to satisfy regulators?" Large commercial banks in China have professional credit analysts and credit officers experienced in managing credit risk. Commercial banks no longer give out policy loans at the request of the local government. However, the risk management of small city and rural commercial banks is poor in comparison.

What if you are a trader in Wuxi who has no ambition to go to the stock market, but you still want to grow. What can be done to help those people?

This is the reason why we have city and rural commercial banks. These are the commercial banks that resemble local or community banks in the US. They were established to serve local households and small enterprises because they have more information about local businesses and a better understanding of how to manage their credit risk.

Are entrepreneurs given the same interest rates as SOEs?

Loan and interest rates are determined by the credit risk of the borrower. If the commercial bank assesses the default risk is low or the company's credit quality is good, the company will get a lower interest rate. It is a purely economic question, not a discrimination question based on whether you are private or an SOE. In fact, some large private companies with good credit quality get lower interest rates from banks than SOEs.

More commercial banks in the US and China are using credit rationing for small retail loans. As small retail loans are large in number but low in value, it is more economical for commercial banks to set a default risk cutoff rate, with identical interest rates for all of these loans. If a Wuxi trader can provide information to local banks proving that he is a low-risk borrower, then he will get the loan.

> "Some people thought that common prosperity meant 'seizing the wealth of rich people and distributing it to the poor,' which is wrong"

You have written extensively about Chinese stock markets. Compared to markets overseas, do you see any need for further reform/reshaping of China's stock markets?

There have been a lot of changes to financial market regulation and how financial regulators convey information. One milestone is the recent 2.4 billion RMB court fine against Kangmei Pharmaceutical for accounting fraud. Small investors grouped together to sue the company because Kangmei manipulated their accounting books for three years.

The China Securities Regulatory Commission (CSRC) originally only fined the Kangmei CEO $900,000. But the fine was insignificant compared with the CEO's large dividends. After the slap on the wrist, around 1,000 investors filed a class-action lawsuit against the company. Now, after the first trial, the fine is 2.4 billion RMB. This was a big step towards protecting small investors in the stock market.

Another sign of change is the new IPO policy. Previously, IPOs were approved by the CSRC, but now it's a registration process. When the CSRC decided which firms could IPO, there was a lot of room for regulatory capture and rent seeking, which is part of the reason why it is difficult to get a special treatment (ST) firm delisted. Allowing ST (zombie) firms to stay in the stock market opened it up to moral hazard and speculative trading. Now the regulations are headed in the right direction.

Finally, in the case of Evergrande, the regulators (PBoC, CBIRC and CSRC) have made it very clear that a bailout is unlikely and that debt restructuring will be solved in the market. The regulators' statement conveys clear information against the bailout and reduces uncertainty in the market. I

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THE CAUSES OF A CRISIS

Understanding China's 2021 power crunch

By Jenny Zhang

Jenny Zhang is the Director of Sustainability at The Lantau Group (TLG) – China. With 24-years of experience with leading energy companies, Jenny's background is predominantly in the commercial sector. Jenny has developed gas pipelines, marketed LNG, traded oil products and basic polymers, built the economics modelling of investment projects in gas, solar and biomass assets, and advised on renewable energy sourcing. She has a strong understanding of energy and basic polymer value chains, the general commercial realm of energy, client procurement and analytics.

Beginning in late summer 2021, scores of China's provinces suffered power rationing and rolling blackouts, with the situation deteriorating suddenly in September. The impact on businesses (and individuals) was profound. Even companies that experienced no direct power shortages were forced to slow or halt production when their suppliers lost power and production lines stopped operating.

The electricity shortages were caused by a confluence of economic, political and weather factors, all of which precipitated cuts to coal supplies. The first signs of trouble appeared in late 2020, with some measured, administrative actions, but no corresponding increase in electricity prices. But in the early autumn of 2021, when the Dual Controls report card was released after coal prices had been rising for months, widespread power shortages occurred. The ensuing electricity cuts affected 20 provinces and many were unable to provide emergency supplies to neighboring provinces.

In this article we unravel the causes of the outages, policy responses and how companies might protect themselves from future electricity cuts.

Demand-side causes

China electricity consumption increased 4.5% year-on-year in the first three quarters of 2021. However, that consumption was not evenly balanced across geographic regions or industrial sectors. According to the China Electricity Council, power consumption in the high-end machinery, consumables and energy-intensive industries surged by 19.7%, 16.2% and 9.5% year-on-year respectively. The consumption increases occurred in the manufacturing provinces Jiangsu, Zhejiang, Fujian and Guangdong (hereafter known as the "four coastal provinces"). In the first three quarters of 2021, electricity consumption climbed at 14.9%, 18.1%, 16.8% and 16.5% respectively.

The appetite for more electricity came from factories in the four coastal provinces trying to keep pace with expanded overseas demand for precision machinery, consumables, electronics, chemical intermediates and construction materials. Previously, suppliers in Southeast Asia and APAC met a portion of that demand. But in the second quarter of 2021, the EU and US shifted their purchase orders to China after production and logistics capacity in South Asia and APAC was cut following an increase in Covid variant infections.

Amplifying the stress on electricity providers were above average temperatures in southern and eastern China in the first half of September. Temperatures in Guangdong were two to three degrees Celsius above historical averages, resulting in daily peak demand for an extra 5-6 gigawatts (GW) of electricity capacity.

Supply-side causes

Several supply side factors contributed to a rise in coal prices that drove electricity producers to cut back on unprofitable generation. Some were relatively long-term factors, while others, such as scarce, expensive coal were unique to 2021 and played a greater role in causing the crisis.

Short-term factors

The China Coal Transportation and Distribution Association reported that China's coal output in the first three quarters of 2021 increased by 3.7% year-on-year to 2.93 billion metric tons. The increase in production, however, could not make up for coal supply shortages or interruptions, particularly in the second and third quarters. The first problems arose in the four coastal provinces that import coal from China's interior or from abroad, a supply source that hit its own problems at the end of 2020.

In 2019, China's primary sources of imported coal were Indonesia, Australia and Mongolia. In late 2020 Q4, China suspended coal imports from Australia, a loss that in most years would have been manageable. However, Covid's impact in Indonesia combined with China's strict pandemic prevention measures at its Mongolian border contributed to a 10% drop in China's coal imports in the first eight months of 2021.

The impact of the coal shortage was not especially acute in the early part of 2021, but following Lunar New Year, demand for electricity accelerated due to a pickup in orders from Europe and the US for Chinese manufactured industrial goods.

By late summer several other factors were adding to China's coal supply issue. Railway lines carrying coal from Inner Mongolia to Henan, Hubei, Hunan and Jiangxi provinces were interrupted for weeks by July floods, driving coal prices higher.

Conversely, precipitation during the typical flood season in southwest China was much lower than average. Water levels at major reservoirs in Yunnan Province fell to a minimum. The fall in water supply triggered rolling blackouts in Yunnan province starting on July 20. The blackouts also impacted Guangdong, which imports up to a quarter of its power supply from its southwestern neighbor.

Finally, to achieve smog-free blue skies in Xi'an for China's 14th National Games in September, officials imposed 65-70% operational caps on coal-related industries.

These factors together had a profound impact on coal-fired power plant operators. By September, coal prices had more than doubled since the start of the year. Further adding to pricing pressures were hedge funds, which accumulated long positions in the commodities futures market and profited from the market anxiety that arose from coal scarcity.

Long-term factors

An important long-standing contributor to China's power problems is its effort to transition its energy supply away from coal and meet key emission reduction targets. In September 2020, China pledged to achieve carbon neutrality by 2060. The country launched a scheme to impose strict controls on total energy consumption and energy intensity per unit of GDP, better known as **Dual Control Objectives** The scheme includes a traffic light system to show if local governments have failed to meet these new objectives. Performance assessments are conducted quarterly and results are publicized.

In a more recent enhancement of this system, in August 2021 the National Development and Reform Commission (NDRC) issued its "Plan to Enhance the Dual-Control Scheme." This stated that Dual Control objectives would be a key indicator in the performance reviews of local administrations. Unsurprisingly, the policy elicited a knee-jerk response from provincial governors and municipal mayors who had received double "red-lights" on their 2021Q2 Dual Control scorecards, including Jiangsu, Guangdong, Fujian, Yunnan and Shaanxi provinces.

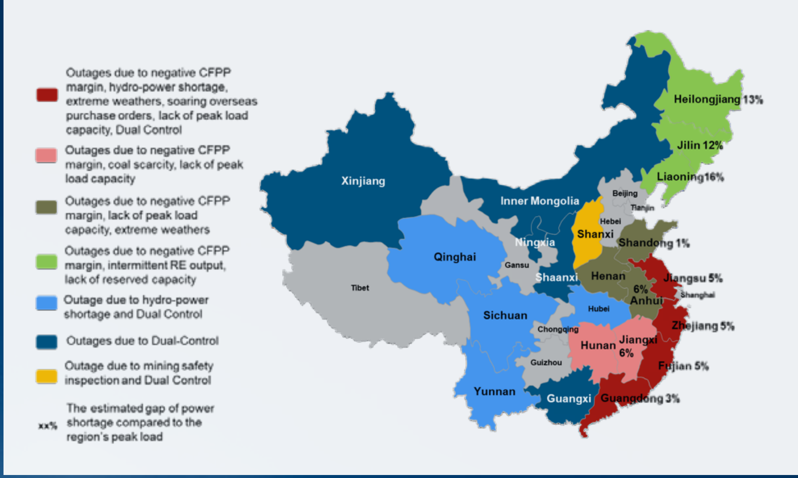
In most instances, officials imposed immediate power rationing measures on energy intensive industries to ensure their jurisdictions met the Dual Control targets by year's end. However, Guangdong's provincial government told industries that the province was experiencing power curbs due to a shortage of dispatchable power, not because of Dual Controls.

Another longer-term problem was mine closures or production interruptions. Between 2019 and 2020, 548 miners died in a series of coal mining accidents in China. In response, the central government imposed strict safety inspections in 2020 and forced many mines to suspend or slow operations until safety standards were adequately implemented. Furthermore, the permanent closure of over 400 mines in 2018 had cut coal supply by 78 million metric tons per year.

Despite the suspensions and closures, China managed to lift production by 3.7% in

the first three quarters of 2021, but it was insufficient to keep up with a coal-power demand increase of 12.9% year-on-year. One reason for the shortfall was that coal mine owners may face criminal prosecution if their annual coal production exceeds 10% of the approved design capacity. Many coal mines had used up their annual coal production quotas by September 2021 as they attempted to meet a surge in demand beginning in March.

The Causes of China's Power Crunch are Province Oriented



overhauls.

While a wide range of factors contributed to the fall's electricity crisis, it was the inherent conflict between the floating coal price and regulated on-grid tariffs that was most to blame. In response, the government moved swiftly to implement several alleviation measures.

Unwilling partners

For operators of coal-fired power plants (CFPPs), whose pricing was set within relatively narrow boundaries, the surging coal prices meant generating electricity at a large loss, an untenable position. Furthermore, as coal prices rose, the power generators started running out of capital to buy more coal.

CFPPs were unable to raise prices to make up the difference, as they were constrained to a power sales mechanism that stipulated a +10%, -15% fluctuation range for the "float price" compared to a benchmark on-grid tariff (the "base price"). While the float price policy was meant to absorb fluctuations in fuel costs, it was not triggered until Sept. 30, by which time the price of coal was far higher than a 10% bump in on-grid price could recoup. Moreover, coal plant inventories were nearly empty as they hadn't been restocking at their normal rate for weeks or even months, hoping for price relief before committing to longer-term coal supply contracts.

Unable to raise their prices due to regulations from local pricing bureaus and unwilling to explicitly tell customers that they would not supply electricity at a loss, the CFPPs resorted to other means. These included limiting their electricity production due to purported maintenance work or plant overhauls.

Alleviation measures

A coal production boost: By the end of October 2021, 153 coal mines had resumed operation after safety inspections, adding to China's total production capacity.

Diversification of imports: China opened new coal import channels from Kazakhstan, Colombia and South Africa.

Reform of the country's power tariff scheme: The NDRC published its "Circular to Further Deepen the Liberation Reform of the On-Grid Tariff for Coal-Power," which took effect on Oct. 1. Some portions of this reform package spoke directly to alleviating the power supply crisis, (particularly the second item), while other items were focused on broader, long-term sector reforms, apparently accelerated by the power crisis. Its four main elements were:

1) All CFPPs will sell their generation in the open market; the wholesale power market shall be priced at a "base price + fluctuation allowance." Prices of renewables will remain benchmarked to the base price.

2) The fluctuation allowance will expand from [-15%, +10%] to [-20%, +20%] compared to the base price. However, the increased fluctuation allowance ceiling does not apply to energy-intensive enterprises that purchase electricity in the open power market.

3) All commercial and industrial (C&I) customers that are connected to the grid via transformer stations of 10kV or higher were mandated to procure electricity in the market immediately. Other C&I customers connected to the grid via transformer stations of 1kV or below were mandated to enter the power market as soon as possible. If C&I customers did not identify their own power suppliers, the local grid company would act as their power aggregators for the transition period, and such last-course power supply by the grid company would be 1.5 times the average market price.

4) Retail power tariffs for the residential sector (including public welfare, education institutions, government services, etc.) and agricultural sector would remain unchanged.

Other government actions included measures to ensure that energy intensive industries would remain subject to power rationing and a crackdown on speculative trading in the coal futures market, beginning Oct. 18. This caused coal prices to tumble by 40% in the following two weeks.

By the beginning of November, the power supply had largely stabilized across the country and most industrial customers had their power supply restored, although rationing for certain energy-intensive industries remained. This lingering supply tightness is due to the need to prioritize coal for the winter heating season in the north, which has kept coal demand and prices relatively high.

"More volatility in power prices can be expected in the coming years, due to long-planned reform measures that have now been accelerated by the electricity supply crisis"

Looking ahead

As a result of the government's intervention, commercial and industrial customers nationwide were expected to see electricity prices increase 10-15% beginning in the fourth quarter of 2021. The government is unlikely to waver from its "dual control" objectives for the 14th Five-Year Plan period, which means reducing the energy intensity per unit of GDP by 13.5% and carbon emissions by 18%. Provincial governments will also continue to impose strict power rationing and EHS inspections on high energy-intensive and polluting industries, with possible high penalty power tariffs applied as punishment.

More volatility in power prices can be expected in the coming years, due to long-planned reform measures that have now been accelerated by the electricity supply crisis. Recommended action plans for companies include:

1) Collect energy consumption data by operation site.

2) Appeal to local authorities for power rationing waivers by providing proof that the company is energy efficient.

3) Draft energy saving and emission reduction roadmaps.

4) Look to replace coal-fired steam/power with low-carbon energy sources, such as renewables, nuclear electricity, natural gas, biomass pallets, geothermal heat, etc. For example, BMW entered a four-year Corporate Renewable Power Purchase Agreement (CPPA) with a grid-parity wind-power generator for its Shenyang Auto Base in Liaoning province.

5) Use innovative technologies and production facilities to reduce your energy intensity and the total energy consumption and/or carbon emission. For example, BASF plans to deploy a power-driven ethylene cracker at its Zhanjiang Petrochemical Base in Guangdong province.

6) Innovate product formulas with carbon-neutral materials.

Conclusion

While many domestic commentators have attributed China's coal crunch to long-term factors including Dual Controls, they are secondary in importance to the dominating short-term factors: scarce, expensive coal and the myriad reasons that contributed to this problem, such as extreme weather in several parts of China.

Policymakers also failed to spot the cumulative impact of the numerous external factors and did not raise power prices quickly enough. It was this mismanagement of coal supply and conflicting pricing regimes that led to the electricity shortages.

When policymakers did finally respond, their response was competent and effective, but improved communication with industries would help ensure there is not a repeat of the energy crunch.

A Look at China's Medical Devices Market for MNCs

By Carrie Xiao

Carrie Xiao is a Deloitte Consulting Partner focusing on Healthcare and Life Science industries. In the past 15 years working in the US and China healthcare industries, she has advised established and startup companies as well as leading investment institutions in topics covering growth strategy and operating model transformations through organic and inorganic methods. Carrie has advised on 40+ M&A and investment transactions with total deal value of $140 billion, including many iconic deals in the industry. Two projects she led won "M&A Advisor" awards in 2017 and 2018.

Strong growth momentum with shifting dynamics

The Chinese medical devices market has rapidly grown over the past several years, reaching $130 billion in 2020, with a projected 11% compound annual growth rate from 2020 to 2025. This growth will continue to be driven by rising chronic disease prevalence, increasing healthcare expenditures because of income growth and the proliferation of healthcare providers across China. It is estimated that by 2030, China will be the world's second largest medical devices market after the United States.

Market segments are shifting. Across the medical devices universe, medical equipment accounts for more than half of the overall market, with growth driven by imaging products (e.g., intravascular imaging) and high-tech products such as robotic surgery systems. High-value consumables represent approximately 20% of the market, and we expect that the impact from volume-based procurement (VBP), effective last year, will continue to put pressure on companies' top lines and profit margins. The rest of the market is made up of lower-value consumables and in vitro diagnostic products, which we expect to benefit from surging patient demands in lower-tier cities for medical care from smaller, municipal-level and county-level hospital systems.

Domestic players are catching up quickly. While Chinese companies have traditionally dominated the mid- to low-end medical devices product market, domestic players are now staking a larger presence in the high-end market. Domestic brands have increased their market share in the advanced diagnostic and therapeutic equipment market from 20% to 30% over the past decade. They have done so by exploiting favorable policies, such as local high and new technology status to accelerate product registration, embedded cost advantages driven by local manufacturing and swift operating models. In 2020 alone, the number of newly approved Class III domestic products (China's highest product level, which comes with strict controls) reached 1,020, three times that of imported products.

Investment in the industry is heating up. China's medical devices market is experiencing increased consolidation and investment interest as more stakeholders take notice of its rising value. In the first half of 2021, there were 33 medical device M&A deals in China, more than the total number of deals in 2020. In addition, investment in medical devices has reached a new high, with 217 deals completed in the first half of 2021, a 78% increase year-on-year. The deals were valued at $30 billion, a 51% increase year-on-year. Besides Covid-driven market segments such as in vitro diagnostics, investors have shown increasing interest in areas with great domestic market substitute potential. These include products such as cardiovascular devices and orthopedics devices, two of the first VBP categories in which competitive product pricing was the primary tool for winning a dominant share in the hospital market.

China presents a challenging regulatory environment for MNCs, but opportunities exist

Since its publication in 2016, Healthy China 2030 established the Chinese government's overall goal, vision and principles for healthcare. It clearly sets the tone for a policy framework that strives for higher quality, more affordable and more accessible health care. Given this overall direction, multinational corporations (MNCs) will continue to face a challenging regulatory environment, although opportunities remain.

MNCs will continue facing pressure on their top line and margins. Central or multi-local government-led volume-based procurement (VBP), in which the lowest price bidder is awarded at least 70% of a product category's procurement quota in participating markets, has only been in effect for a year, but its impact has been transformational. While losing bidders cannot rebid for one to two years, those that won cut their prices by more than 90% in exchange for promised volume.

Unfortunately for medical device companies, VBP will become the norm. Moreover, its scope has expanded from high-value consumables to large medical equipment, low-value consumables and IVD tests as new rounds of procurement started at the end of 2021. The uncertainly of VBP bidding and the significant impact on revenues is forcing companies to quickly rethink their strategies from product offering to channel coverage and is challenging their existing supply chains to be more adaptable and cost-efficient.

Besides VBP, hospital payment mechanism reforms are shifting from the traditional retrospective cost-based system to a prospective diagnosis-related-group (DRG) or diagnosis-intervention package (DIP)-based system. This change will even more profoundly impact hospital demand for medical devices. Under DRP and DIP, the National Healthcare Security Administration (NHSA) reimburses hospitals not based on actual costs, but rather on a patient group standard based on disease diagnosis. This payment mechanism requires hospitals to control costs under each group standard to earn reimbursement surplus and fund the hospital's development.

After two years of DRG/DIP pilots in select cities, the NHSA announced on Nov. 26, 2021, that DRG/DIP will be fully implemented nationwide by the end of 2025. With the broader adoption of DRG/DIP, hospitals will further scrutinize the usage of devices and consumables for cost/effectiveness. Medical device companies that fail to prove the clinical value of their products over their competitors will struggle to survive in China.

Import substitution is becoming a real threat. "Made in China 2025" was unleashed as an "umbrella" policy by China's government to support the development of domestic high technology products to replace imports. The speed of that substitution in medical devices will accelerate in the coming years as the Chinese government implements direct policies regulating hospital procurement.

The goal is ambitious. As set out in recent policy, it seeks to raise domestic medical device use in higher class hospitals to 70% by 2025 and 95% by 2030. In early 2021, more detailed guidance was unveiled to accelerate local procurement, proposing 137 medical device categories to be procured entirely domestically and 12, 24, and five medical device categories domestically procured at 75%, 50% and 25% respectively. Categories range from surgical devices and MRI equipment to patient care.

Meanwhile, China is still encouraging innovation. In 2020, a laundry list of new medical device products was added into the Foreign Investment Encouraged Catalogue, including the manufacturing of AI medical aid equipment, wearable intelligent health equipment and minimally invasive surgery medical equipment. In addition, the government has implemented a series of policies to encourage innovation. Under the fast-track approval pathway, the government granted locally invented medical devices the following: patents for core technologies, better application access and faster approval time for new devices.

These benefits allow domestic companies to take quicker advantage of investments in innovation. The other key example of the central government's innovation-friendly policies

is the separation of Marketing Authorization Holder status from manufacturing, which reduces the complexity and investment required for innovation as companies no longer need to own the entire value chain, enabling new partnerships and investment models for bringing new products to the market.

Winning in China requires a refreshed strategy

As a key priority of the 14th Five-Year Plan, "Dual Circulation" acknowledges China's gap in core technology innovation, implying ongoing opportunities for advanced foreign technology products. Despite stiffening price competition and increasing regulatory hurdles, foreign medical device makers can still thrive in China's rapidly growing market.

Localize. As volume shifts to lower-tier markets, there will be more calls for foreign companies to expand their footprints beyond MNCs' traditional tier-one and tier-two cities and Class III hospitals. Companies have adopted various models, ranging from locally dedicated teams, CSO-led demand generation marketing, to enhanced in-house digital channels to help them succeed as they build broader market capabilities. Expansion to new markets can deliver long-lasting competitive advantages and allows MNCs to sustain scale and relevance under VBP. Lower tier city investment needs to be a strategic imperative as MNCs explore a balanced approach in China.

While local infrastructure investments typically start from commercial operations, MNCs are increasingly localizing their R&D and manufacturing to respond to the market and capture financial, regulatory and market access benefits more quickly. In making investments to drive growth, MNCs have adopted approaches beyond traditional greenfield investment and acquisitions to balance investment risks and business impact.

Technology out-licensing, commercial partnerships and OEM services are common approaches to launch products faster and more effectively in China. Some companies have benefited from Market Authorization Holder regime changes, which now gives them the ability to register their products as local products through authorization to local companies. Minority investments with buyout options tied into distribution deals have also become increasingly popular for MNCs in China as the investments allow them to leverage their commercial platforms and capitalize on local innovation.

> "The uncertainly of VBP bidding and the significant impact on revenues is forcing companies to quickly rethink their strategies"

The risk of local threats exists in China but can be mitigated by increasing local country activities and operations. Companies that have great success in China are those with a global commitment to decision-making processes that involve China early on. They are often able to educate and lead the market by leveraging local partners. Finally, those that bring innovative products suitable for the local market will be subject to less competition from local copycats.

Build better business resilience. Geopolitical tensions, the pandemic and challenging local policies such as VBP all highlight the need for businesses to quickly adapt to uncertainties. While historically managed by a global headquarters, local government affairs teams are becoming increasingly vital to interpret the practical implications of regulatory or policy changes and to promptly interact with regulators.

Supply chain resilience is also critical when dealing with uncertain VBP outcomes and potential geopolitical tensions. Companies are evaluating local distribution network flexibility and identifying alternative global supply sources and product flows to ensure supply continuity.

Furthermore, when expanding to the Chinese broader market, companies must ensure proper control and maintain their corporate culture as the foundation of sustainable growth. For most companies, this is not only the time to enhance standards for ethical behavior and compliance with the company's non-disclosure agreements, but it is also the time to revisit internal control systems and craft new standards around government affairs, IP protection, cyber security, local finance and legal control measures.

The wide breadth of local investment scenarios can create risk and, in some instances, adversely impact the way MNCs want to operate in China. If done correctly, however, these solutions can present real opportunities and create shareholder value. I

Disappearing Act

How manufacturers are contending with China's shrinking labor force

By Kate Magill

It's no secret that China's population is shrinking. For over ten years, demographers have warned that the country was in for a crunch, with its population set to peak before 2030. The 2020 census, which showed 1.4 billion people living in China, revealed the slowest birthrate increase in 40 years.

Chinese demographer He Yafu wrote in November that 2021 could be the first year when deaths in China outnumber births. The worrying trajectory has politicians and economists alike sounding the alarm on what it means for the country's future.

Possible mitigation plans include raising fertility or labor participation rates, but neither looks promising. Women have so far ignored the government's entreaties to have more children, including the passage of the three-child policy in May. And while labor participation rates could be increased by lifting retirement ages, doing so presents considerable political challenges and is unlikely to significantly boost labor productivity.

Demographers caution that the looming population contraction will lead to widespread labor shortages as the elderly age out of the workforce and can't be replaced. The World Economic Forum estimates that China's working-age population will fall 23% by 2050, down from a peak of 925 million in 2011 to 700 million.

But even before the demographic decline leaves a major mark, factories in China have been feeling labor pains, exacerbated by the pandemic. Covid-19 made many laborers hesitant to work near one another on the assembly line, and more former migrant workers are seeking jobs closer to home.

Manufacturers are now strategizing over how to insulate their production from these threats, whether by beating out competitors for workers or by increasing productivity through automation.

Time for plan B

Decades ago, when China began opening its doors to foreign firms seeking cheap labor, multinationals found an abundant and willing workforce waiting. In the past ten years, however, the narrative has changed.

Workers today have more employment options, and rural migrants, the backbone of urban labor supply, can afford to be pickier. The flow of rural migrants to urban centers has slowed, with millions of workers opting not to return to their manufacturing posts after factories reopened in February 2020. The National Bureau of Statistics reported that there 2.46 million fewer migrant workers in March 2021 compared to March 2019.

Service sector work, ranging from jobs in delivery services to China's booming coffee shop market, has also expanded and given laborers more options off the factory floor. The sector surpassed manufacturing as the greatest contributor to China's GDP in 2013.

Jobs in the service sector can offer greater flexibility and the chance to stay closer to home, said Kyle Freeman, Partner at Dezan Shira & Associates and head of the company's International Business Advisory North China team.

"On manufacturing, this is something managers have been aware of for some time now," Freeman said. "Two of the most

challenging aspects of running a factory here are the availability of labor and the increasing wages to attract and retain workers."

Dr. Aiying Wang, President and CEO of China and Southeast Asia at the Swedish automated waste collection company, Envac, knows both these issues. Labor cost and availability problems have been growing over the past decade in Suzhou, where she worked most recently at electronics company KEMET and electrical firm Eaton. "The math hasn't been well balanced" at many manufacturing companies for years she said, where output pricing is falling but material and labor costs are rising.

"For the manufacturing industry, we definitely need to be a lot more efficient, open to automation and execute operational excellence," Wang said.

Rising wages stem from China's fast economic expansion and its labor supply and demand problem. The average annual manufacturing wage rose from 36,665 RMB in 2011 to 82,783 RMB in 2020, outpacing wages in many other production-heavy countries. As the labor pool shrinks, wage pressure will increase and so too labor demands.

Manufacturing companies are rapidly developing new hiring strategies to secure talent. Sng Yih, vice president and general manager for Asia-Pacific e-systems at auto parts manufacturer Lear, said his company has increasingly turned to recruitment agencies for help.

"It's now very hard to hire labor on our own for 2,000 people," Sng said. "Programming is hard for mass labor production. It's hard for us to employ workers ourselves without using a labor agency."

When managing manufacturing sites in the past, Wang said her companies used similar strategies to hire portions of their large-scale workforces. These companies increasingly used outsourced, shared or temporary labor for common-skill positions during busy times. The days of large, company-employed labor pools are over, Wang said. Foreign companies need to be more innovative about their recruitment strategies to keep up with domestic competitors.

"Foreign companies have less leverage than before. Local companies have really learned quicky and responded faster," she said. "As a foreign company we cannot play the big guy, we need to be more down to earth and adapt to what the China market needs, what people need. [Employees] need to learn, they need growth."

New strategies

When opening new plants, Sng said Lear now more carefully considers location. Executives want to build in cities where a stronger labor supply already exists in the region, as opposed to traditional hubs that require migrant workers. It's also looking to share laborers across plant locations, moving contract and temporary workers depending on regional needs.

> "Two of the most challenging aspects of running a factory here are the availability of labor and the increasing wages to attract and retain workers"
>
> *-Kyle Freeman, Partner, Dezan Shira & Associates*

While in the past it was more economical for Lear to establish new plants when the company forged a joint venture, given China's rising labor and logistics costs, this is often no longer the case. Instead, Lear is strategically focusing efforts on increasing capacity in existing plant locations with locally available labor.

Manufacturers are increasingly looking at second-tier cities for factory locations, where laborers can stay close to home and pay is lower than in the major metropolitan hubs, Freeman said. He added that such a move is favored by many manufacturers who use an "in China, for China" production strategy and want to stay in the country while remaining cost-efficient.

This idea is part of a long-term China strategy for American industrial manufacturer Intralox. The company currently keeps two assembly sites in Shanghai, but is planning to consolidate the plants into one location for improved productivity. Shanghai remains Intralox's preferred location but given the city's high living costs and laborers' increasing dislike for migratory work, Asia Pacific General Manager Rebekah Lemm said that could change in the future.

"Our focus is on our customers, even if costs us a little more. However, it is likely that as we grow larger, we will consider various options, including locating another facility in a city where it is easier to find assemblers as well as considering an outsourcing or subcontracting strategy for some of our simpler products," she said.

Utilizing automation

Like many companies, Lear is investing more in automation to make up for labor shortages. Lear began automating its manufacturing process several years ago and is looking to automate the materials handling in its wire plants, which Yih said would help make the plant more cost efficient.

Wang noted that at more niche companies like Envac, mass automation can be difficult given the technical and customization-focused nature of the business, but that there are still ways to reduce human labor redundancy.

"Automation is definitely necessary for mass production. You no longer can see 2,000 people at manufacturing sites," she said.

"Each company I've worked for cannot automate everything, but it's about figuring out which part we could. It's another level of being relevant."

A pivot to the use of robots, including industrial robots in manufacturing and collaborative robots that work in tandem with laborers, began in China several years ago, said Dr. Susanne Bieller, general secretary of the International Federation of Robotics (IFR).

China is leading the world in robot installation. In 2020, the country installed 168,377 robots, or 44% of global installations. The country's stock of robots is also up, increasing 30% on average per year, according to IFR.

As factories continue to automate, Bieller said it will create new, more technical job openings in robotics engineering and product development.

"[In China we see the idea that] 'we don't want people to do these dangerous jobs, we want to get them out of the factories and give them better work and make them more satisfied,'" she said. This is a priority that automation can help achieve.

Talent retention

Freeman said the future priority for manufacturing companies should be retention. Firms should focus on employees' holistic needs, such as insurance, childcare and work-life balance.

Many companies are exploring enhanced healthcare benefits and childcare resources rather than compensation growth, Freeman said. They're also seeking greater input from employees to learn about their needs and conducting market research to better understand competitors' compensation packages.

"Increasingly what we hear is that employees want access to training and education, clear understanding of career opportunities and open channels of communication to speak with managers and voice concerns," Freeman said.

The need to focus on staff retention is being felt at smaller companies like Intralox, which employs roughly 50 manufacturing workers in China. Lemm said the main issue her company is facing is finding talent with the right skillset for their production needs.

"Many of our plant workers have been with us since 2006 when we opened the factory. But as our need to add capacity has grown, we see that it is increasingly difficult to find the right people for this work," she said. "Until now, it means that it takes us a little bit longer to find people, not that it is impossible."

> "Each company I've worked for cannot automate everything, but it's about figuring out which part we could. It's another level of being relevant"
>
> *-Aiying Wang, President & CEO of China & Southeast Asia, Envac*

At Lear, the company emphasizes a career growth path from the assembly line to critical and sought-after factory roles. The allure of upward mobility can be an effective way to hold onto much-needed talent.

Wang said a growing number of companies are also formalizing and executing non-compete and confidentiality clauses into work contracts. But for those looking to stand out to workers in a competitive market, firms need to more carefully consider company culture.

"Culture is created by leadership; that part has become more and more important," Wang said. "I see many people leave companies because they don't like the culture, not because they don't like the benefits."

As for China's long-term prospects as a production powerhouse, Wang doesn't believe the changing demographics are cause for manufacturers to panic. Companies need to be creative when it comes to recruitment and retainment, but foreign manufacturing in China will remain.

"Some level of manufacturing in China is always going to be there," Wang said. "People shouldn't just decide, 'Oh time to leave.' How can you still leverage China's many advantages, such as workers' responsiveness and efficiency and the availability of key raw materials? How can you leverage these, introduce automation and make operation excellence work?" I

AMCHAM SHANGHAI WELCOMES NEW MEMBERS

November New Members

NOVEMBER
Beijing CEFOC-CARE Facility Management Co., Ltd
Blueprint
Gelide Information Consulting Yangzhou LTD
Ideal Tridon Clamps (Suzhou) Co., Ltd.
SB China Capital (Suzhou) Limited
Scientific Design Company, Inc. Shanghai Representative Office
Shanghai Lianbio Development Co., Ltd
Shenzhen Crown (China) Electronics Co., Ltd.
Sports Entertainment (Shanghai) Co., Ltd
Wickeder Group Asia Co. Ltd
ZTO Express (Cayman) Inc.

AMCHAM SHANGHAI Since 1915

Access members' contact details in the Member Directory

Scan the QR Code below

Or visit www.amcham-shanghai.org/en/directory/

AMCHAM SHANGHAI'S

SUSTAINING MEMBERS

Baker McKenzie. 贝克·麦坚时国际律师事务所

CISCO

Coca-Cola

COOPERTIRES 固铂轮胎

Deloitte.

Ford

General Mills

KPMG

LANCASTER Investment & Consulting

PayPal

Takeda

TE connectivity

ThermoFisher SCIENTIFIC

TOPGOLF 拓高乐

The Chamber in 2021

This past year presented AmCham Shanghai members with unique challenges. The ongoing pandemic, bilateral tensions and a rapidly changing regulatory environment were among the top issues facing companies in 2021. To help tackle these issues, the Chamber remained committed to providing timely content, programming and advocacy to help members understand the latest Chinese market trends, policy changes and opportunity areas.

Government Advocacy

High-level meetings: Chamber leaders met with many influential American and Chinese officials this past year, sharing their top concerns and hearing first-hand what each country is doing to address these issues. In May, Chamber leaders held a roundtable discussion with US Chargé d'Affaires Rob Forden, focusing on some of the key concerns facing member companies, including employee mobility, market access, supply chain disruptions and US-China tech relations.

In July, members met with Vice Foreign Minister Qin Gang on the eve of his departure to the US to assume his post as Chinese Ambassador to the US. Ambassador Qin discussed the business environment in China and learned how American businesses view the market. In addition to the meeting, he visited AmCham Shanghai member companies including J&J, Honeywell, Disney and GM.

Mobility advocacy: AmCham Shanghai continued to assist members and their families to return to China amid tight border restrictions. We helped members secure PU letters and navigate the reentry process and worked with them to use the recent fast track process to expedite PU letter approvals.

China Business Report: As part of our efforts to learn how members view the China business climate, we published our annual China Business Report in September, based on the results of the 2021 China Business Survey, one of the longest running surveys of US business in China. This year 338 members responded to the survey, which included questions about company performance, economic outlook, investment, operational challenges, hiring conditions, mobility, trade policy and tariffs.

The report received widespread coverage in both the local and international press, including stories in the *Financial*

Times, *New York Times*, *The Wall Street Journal*, *South China Morning Post* and Reuters. The report serves as an important source of data to present to policymakers in China and the US, pinpointing the challenges that companies face.

Programming

We were excited to bring back our annual AmCham Ball with the theme "Carnaval de las Americas." This year's ball, held at the Pudong Shangri-La, celebrated the collective cultures, cuisines and colors of the Americas. The charity event raised 439,600 RMB for the World Health Organization's Covid-19 Solidarity Response Fund.

Industry events: We continued to provide near daily forums, workshops, mixers and conferences focused on each of our 22 industry committees. Major conferences this year included our Food and Beverage Conference, the sixth annual WeForShe Conference and the Auto Conference, bringing together industry leaders to share best practices and offer market outlooks.

The Chamber hosted its first Global Mobility Conference in September, focused on issues related to employee mobility and the evolution of the workforce. The sold-out event included 140 attendees and more than 25 exhibitors.

> "The Chamber hosted its first Global Mobility Conference in September, focused on issues related to employee mobility and the evolution of the workforce"

We launched our first joint Shanghai-Seattle webinar conference in December in partnership with the Washington State China Relations Council. The half-day webinar featured leaders from the US business community in China and leading China experts to discuss and debate the future of US business in China.

In addition to our large-scale events, we held smaller workshops and panels that gave attendees opportunities to speak directly with experts on issues ranging from supply chain and economic forecasts to the state of China's real estate market.

Education forums and industry fairs brought together dozens of businesses and industry professionals to network, learn and exchange ideas. Industry fairs included our Learning and Development Fair as well as the Compensation and Benefits Fair, events which featured roundtable discussions, open booths and small group sharing sessions. The education fairs gathered more than 30 exhibitors from the region's top bilingual and international schools to help parents support their child's success at all levels of education.

Finally, we launched our Retail Committee this year, serving as a platform for members to share best practices and examine emerging industry trends. Retail in China has exploded thanks to the use of ecommerce and social commerce, bringing new opportunities for foreign brands.

Trade and Investment Center: The AmCham Shanghai Trade and Investment Center (TIC) continued to serve as a hub for assisting both Chinese and American companies to explore new opportunities in each country, including at China's newest industrial parks. The center regularly organized delegation trips to visit the parks and facilitated meetings between US companies and local business leaders and officials.

In June, President Ker Gibbs led a delegation to the 23rd China Zhejiang Investment and Trade Symposium Zhejiang Forum, during which members met with the Zhejiang provincial governor and other leaders. TIC also hosted a roundtable event with Wuxi Vice Mayor Zhou Changqing and high-tech business leaders, exchanging views on their industries' performance.

2021 was an exciting year for the Chamber to build on past success, launch new initiatives and embrace change. We were pleased to safely hold in-person events throughout the year and to continue to serve members by providing a variety of innovative programming and vital resources. We look forward to 2022 and to providing companies with the tools they need to succeed in China. I

AMCHAM SHANGHAI 2021 DC DOORKNOCKS

AmCham Shanghai's 2021 Virtual Doorknock took place in late October and included meetings with nearly 20 Washington, DC policymakers and thought leaders. The virtual doorknock was the first portion of the 2021 doorknock programming, followed by an in-person doorknock delegation trip on December 8-9.

This year's virtual doorknock was led by AmCham Shanghai Chairman Jeff Lehman and President Ker Gibbs and included 14 other Chamber members. The delegation met with several key policymakers including leaders at the Department of State, White House, Department of Commerce and USTR.

For the virtual doorknock, delegation members had several meetings with members of Congress, including Senator Ted Cruz (R-TX), Senator Steve Daines (R-MT), Senator Todd Young (R-IN), Representative Rick Larsen (D-WA), Representative Darin Lahood (R-IL), Representative Carol Miller (R-WV), as well as with staff from the offices of Senator Chuck Schumer (D-NY), Senator Mike Crapo (R-ID), Senator Ron Wyden (D-WA), Senator Bob Menendez (D-NJ), Representative Earl Blumenauer (D-OR-3) and Representative Dina Titus (D-NV-1). In addition, the delegation was briefed by US-China Business Council (USCBC) President Craig Allen and former AUSTR Ambassador Robert Holleyman.

The December in-person doorknock was also led by Jeff Lehman and Ker Gibbs. The second delegation held follow-up meetings with the Departments of State and Commerce, Representative Larsen, Representative LaHood, and Craig Allen from USCBC. In addition, the in-person delegation met with the Department of the Treasury, Department of Agriculture, staff from the office of Senator Rubio (R-FL), Scott Kennedy from Center for Strategic and International Studies and Chinese ambassador to the United States Qin Gang.

During both rounds of doorknock meetings, members stressed the importance of the China market to the US economy and the need to review technology restrictions. The delegation urged that the US government adopt a careful approach to the relationship, work with like-minded countries and re-consider the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). In addition, the delegation encouraged the US government to explore areas of cooperation with China, particularly regarding improving international travel and mobility. The lack of mobility in and out of China is a critical issue for member companies in China.

US officials appreciated hearing from the delegates and acknowledged the importance of the China market. They raised concerns about the Chinese government's policies and asked how tariffs, export controls and other trade restrictions affected member companies. They were sympathetic on mobility issues and acknowledged the need for more travel to China. They welcomed having more interaction with AmCham Shanghai members and hearing from the business community.

The 2021 AmCham Shanghai Doorknock was led by Chairman Jeffrey Lehman and President Ker Gibbs, and it included 14 other members: Julian Blissett, President, GM China; Dan Brindle, President, Novartis Group China; Paul Marks, Executive Chairman and CEO, Argosy International; Ed Zhao, Asia Managing Director and Senior Vice President, Milliken & Co.; Curtis Ferguson, Managing Partner, Ventech China; Joseph Chan, Chief Legal Officer, Yum China; Jarrod Ward, Chief Business Development Officer for East Asia, Yusen Logistics Co.; Jean Liu, Executive Vice President, EF Education First China; Don Williams, Partner, Hogan Lovells; Brinton Scott, Partner, Holman Fenwick Willan; Han Shen Lin, Capstone Project Director, NYU MS in Quantitative Finance Program; Tim Klatte, Partner and Head of Forensic Advisory Services, Grant Thornton Shanghai; Cameron Johnson, Partner, Tidal Wave Solutions; Benjamin Wang, Chairman, AmCham Southwest.

Board of Governors Election & Presidential Appointment

AmCham elects seven new Board members

The 2022 Board of Governors election results were announced at AmCham Shanghai's Annual General Meeting on Nov. 24. Newly elected board members took office on Jan. 1. Four board members remain in position to serve the second year of their term. Seven new members join the Board for 2022-2023.

Continuing board members are:
• **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**, Assistant Professor of Practice in Finance, New York University Shanghai

Newly elected board members are:
• **Dan Brindle**, President, Novartis Group (China)
• **James Chou**, Managing Director & CEO, Microsoft for Startups, North Asia
• **Curt Ferguson**, Managing Director, Ventech China
• **Helen Hu**, Chief Financial Officer, Duke Kunshan University
• **Cameron Johnson**, Partner, TidalWave
• **Sean Stein**, Senior Advisor, Covington & Burling
• **Michelle Yan**, President, Crane China

▲ Members of the 2022-2023 AmCham Shanghai Board of Governors

Eric Zheng named AmCham Shanghai president

▲ Newly appointed AmCham Shanghai President Eric Zheng has been involved with the Chamber for over 15 years

AmCham Shanghai was also pleased to announce the appointment of Eric Zheng to serve as the Chamber's next president. Zheng succeeds Ker Gibbs, who stepped down at the end of December at the conclusion of his three-year term as president. Zheng began his presidential term on Jan. 1.

Eric is well known to AmCham Shanghai. He has been involved in the Chamber for over 15 years as a member, committee leader, Board member, Board treasurer, Board secretary and Board vice chair, before serving as Board chair from 2018-2019.

Eric brings a unique combination of private and public sector experience to the presidency. He worked in management consulting with PwC in the US and later served as the principal commercial offer for the US Department of Commerce at the US Consulate in Guangzhou. Eric had a long career with AIG in Greater China, including as CEO of AIG China. He currently chairs the board of Heng An Standard Life Insurance Company.

In volunteer roles, Eric serves as the Greater China regional chair of the Committee of 100 and as a board director of the Shanghai Make-A-Wish Charity Foundation. The Shanghai municipal government granted Eric its Gold Magnolia Award in recognition of his significant contributions to the city. Eric holds a BA from Fudan University and an MBA from Georgetown University. I

The 2021 CSR Conference and Awards on Dec. 1 at the Peninsula Shanghai

AmCham Moments

AmCham's Annual General Business Meeting at the Pudong Ritz-Carlton Shanghai on Nov. 24

The Tax committee's Chinese Tax Changes Seminar on Nov. 29

AmCham staff celebrate Thanksgiving at the Andaz Xintiandi Shanghai

AmCham's 2021 Fall Education Fair on Nov. 12 at the Andaz Xintiandi Shanghai

November & December

The 2021 Government Affairs Conference on Nov. 19 at AmCham Shanghai

What You May Have Missed

2021 AMCHAM SHANGHAI CSR CONFERENCE & AWARDS CEREMONY

AmCham Shanghai hosted its 2021 Corporate Social Responsibility (CSR) Conference and Awards on Dec. 1, highlighting some of China's top innovators in corporate community outreach and sustainability programming. There were four award categories this year: CSR Innovation Award, CSR Impact Award, NGOs/Social Enterprise of the Year Award and the Changemaker Award.

The conference included a keynote panel from Daniel Delk, Deputy Consul General at US Consulate General Shanghai, Meng Liu, Head of Asia and Oceania Networks at United Nations Global Compact and Roderick Peek, Managing Director and Head of Global Subsidiaries Group at Citi (China). The speakers noted that in recent years, CSR has gone from a fringe portion of companies' strategic plans to a vital component, one that consumers, investors and lenders take note of and expect to see.

Other panels during the conference focused on the shift to China-centric CSR programs, strategies and partnerships, as well as how to create corporate purpose-driven communication strategies.

Throughout the day, Chamber leaders announced the winners of the 2021 CSR awards, which included Shanghai Disney Resort for the CSR Innovation Award, HSBC Bank (China) for the CSR Impact Award, Stepping Stones for the NGO/Social Enterprise of the Year Award and Aptar China for the Changemaker Award.

Jonathan Woetzel, Senior Partner at McKinsey, closed the conference with a keynote speech exploring the challenges both the Chinese and global economies will face in the years ahead because of climate change.

2021 GOVERNMENT AFFAIRS CONFERENCE

The 2021 Government Affairs Conference focused on providing government affairs practitioners with the information needed to successfully manage the China market. The conference included sessions on the US-China relationship, China domestic policy trends and a CEO panel discussion.

The conference was kicked off by keynote speaker Chris Allison, the Political and Economic Chief of the US Consulate in Shanghai. Allison shed valuable insight on the recent state of US-China relations. His remarks were followed by a panel discussion on managing conflict in US-China relations headlined by Fudan Professor Shen Dingli, Brunswick Partner St. John Moore and former US Consul General in Shanghai Sean Stein.

Haiqing Lu, Chief Corporate Affairs and Strategic Relations Officer at Intercontinental Hotels Group presented a nuanced analysis of China's domestic policy trends and provided advice for multinational corporations on managing uncertainty. Lastly, Jean Liu, Executive Vice President and Chief Corporate Affairs Officer at Education First, moderated a panel on internal communications. The panel provided advice on successfully managing C-Suite and headquarter relationships, specifically, helping HQ executives to understand the opportunities and challenges of operating in China. I

国家级·嘉兴经济技术开发区

JXEDZ National Level Jiaxing Economic & Technological Development Zone

Transportation

> High-speed Railway	Distance	Time
To Shanghai	75km	25min
To Hangzhou	75km	23min

> Airport	Distance	Time
To Shanghai Hongqiao Airport	90km	60min
To Shanghai Pudong Airport	120km	75min
To Hangzhou Xiaoshan Airport	90km	60min

> Highway	Distance	Time
To Highway Entrance	5km	10min
To Shanghai	90km	60min
To Hangzhou	85km	60min

> Port	Distance
To Jiaxing Port	30km
To Shanghai Port	130km
To Ningbo Port	250km
To Yangshan Port	70km

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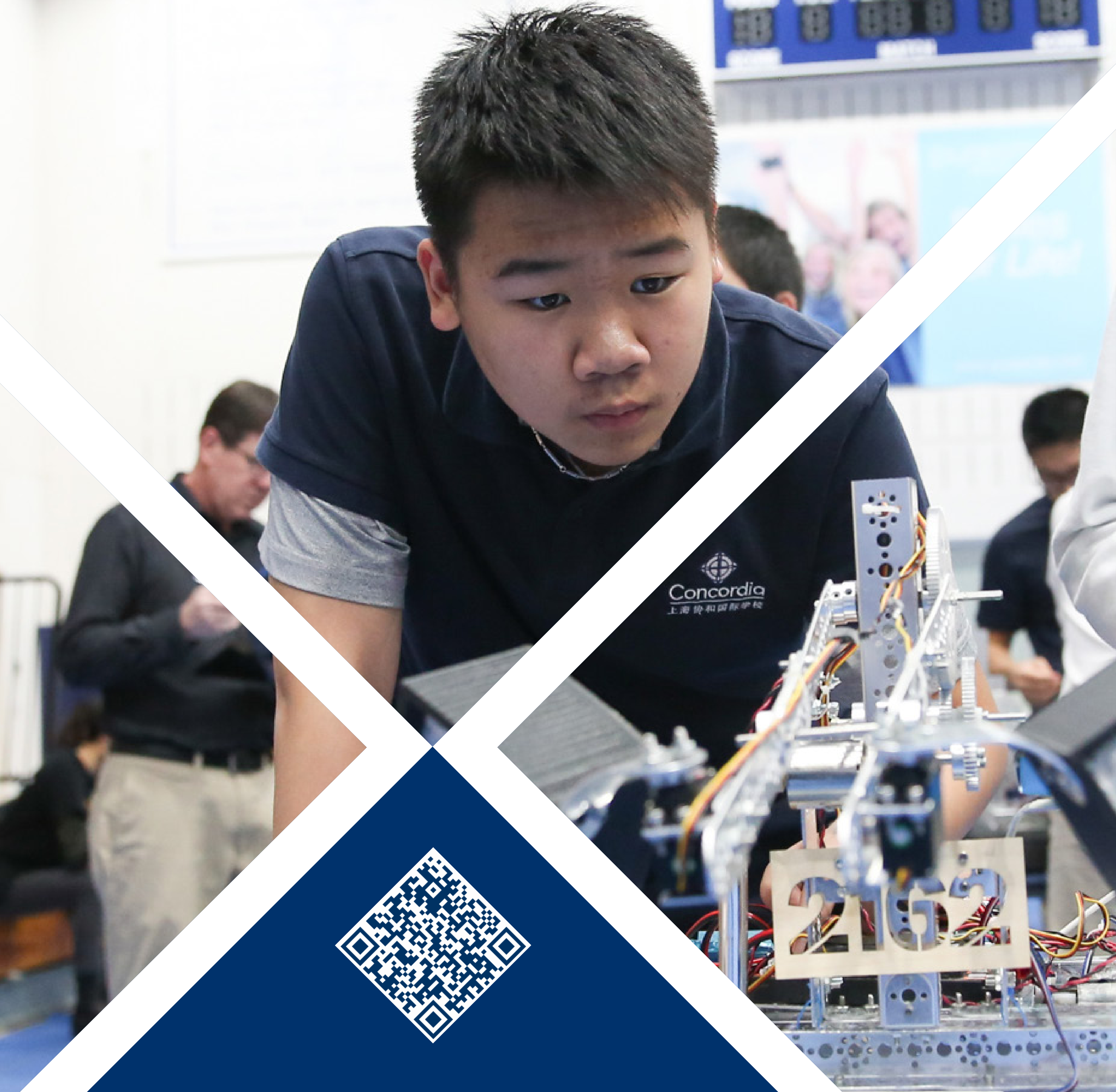

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