

# China's challenge: Moving from copier to innovator

BBC NEWS

When Brent Hoberman, the founder of online interior design and furniture store Mydeco.com, visited China one man in particular was keen to meet him, offering to meet any time of day or night.

When they got together, the man explained that in 2007 he too had wanted to launch some kind of web business but had had no idea how to go about it.

Then he'd found Mydeco.com and simply copied it, very successfully, and he wanted to express his gratitude personally to Hoberman, perhaps best known as co-founder of online travel firm Lastminute.com.

"From his perspective it was flattery. And from the cultural perspective I understand that imitation is the sincerest form of flattery," says Hoberman. But to a Westerner this kind of imitation seems pretty outrageous.

In China, though, it is hardly unusual. In 2011, a US blogger discovered a fake Apple store, prompting an official investigation that uncovered a further 21 such stores in the south west of the country.

The set-up was so convincing that even some of the staff believed they worked for the US tech giant.

There are also Chinese hotels with similar or identical names to well-known Western brands such as Marriott Hotels or Hyatt, and the US embassy estimates that 20 percent of all



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Staff at one fake Apple store in Kunming was dressed to resemble staffers at the genuine stores.

consumer products in the Chinese market are counterfeit. "If a product sells, it is likely to be illegally duplicated," it warns.

The practice of copying and producing fakes is so entrenched in Chinese culture there's even a word for it - Shanzhai.

So far this hasn't been a problem. The world's second largest economy has expanded at a blistering double-digit pace for almost three decades, making it the envy of its Western rivals.

But with growth slowing - last year China's economy expanded at its weakest pace for 24 years - Chinese businesses will need to innovate if they want to succeed not only at home but even more importantly abroad.

Joe Baolin Zhou, chief executive of private education firm Bond Education, believes firms are already beginning to make the

shift. He says the copying trend partly stemmed from a sort of gold rush when the Chinese government first began to open up its economy in the 1980s, allowing the creation of private firms.

Spending time and money on research and development simply wasn't an option for these pioneers, who had limited resources and inexperienced staff.

"For business owners who seek instant success, they usually copy. At that time it was rigid or mechanical copy, they just copied everything," he says.

In contrast, Zhou says the second generation of start-ups have already started to innovate, pointing to firms such as e-commerce giant Alibaba and Tencent's messaging service WeChat as having learnt from their Western rivals but then developed and improved their ser-

vices for the Chinese market.

But ensuring innovation becomes more widespread will require a radical shake-up of the way firms are managed. In China, typically, the word of the boss is absolute and for an employee lower down the ranks to suggest another way of doing things can be seen as disrespectful.

Deng Feng, chair of Chinese venture capital firm Northern Light Venture Capital, describes the current style of leadership as "managing" rather than leading.

"Managing in China means how to control people. We have to change the mindset, myself and all these Chinese entrepreneurs, to encourage and lead people rather than just manage or tell them what to do," he says.

One way that firms can help shift these cultural norms is to recruit from a

variety of backgrounds and cultures.

Chinese computer giant Lenovo, the world's largest PC firm, has offices in more than 60 countries and 40 percent of its board members are non-Chinese. Many of its overseas businesses, including those in Europe, the US and Japan, are also led by local staff.

"For Lenovo, it's crucial that in the future it will blend the cultures of both the West and the East, because for the markets they have entered they are facing very strong rivals and fierce competition. So they will have to combine Western innovative power with Eastern culture," says founder Liu Chuanzhi.

The early signs from the second wave of start-ups founded since China opened up its economy, frequently led by people educated in the West, are encouraging.

Viktor Koo, chief executive of video-sharing giant Youku Tudou, often dubbed China's YouTube, studied in the US and subsequently worked in Silicon Valley before returning to China.

Right from the beginning, when he founded the merged entity's predecessor Youku, Koo said the firm built its own proprietary technology, and also did original programming, well before its international counterparts.

"We innovated to really adapt to what is happening in our local market. Well you have to adapt. Or else you won't win. That's really, the essence of it."

# Asian airlines slash fuel surcharges but fares likely to rise

REUTERS, Sydney/Singapore

Asian airlines are slashing fuel surcharges as oil prices hover at six-year lows, but passengers hoping for cheaper tickets will be disappointed as carriers are likely to bump up fares to maintain margins.

Australia's Qantas Airways Ltd became the latest airline to eliminate the surcharge on Tuesday, but at the same time said it was raising base fares as oil was not cheap enough to offset the impact of competition on international routes.

Aviation experts say other airlines are likely to follow suit, because any drop in ticket prices would erode profit margins which, globally, are as low as \$6 a passenger.

"During the 2008 financial crisis, for example, low demand meant that airlines lost money despite the fuel costs," said Brendan Sobie of aviation consultancy CAPA.

"Last year in Southeast Asia, airlines faced an unsustainable situation with low fares and high fuel prices. Fuel costs may have come down but fares remain low. Ticket prices need to be higher for airlines to make money."

Airlines started adding fuel surcharges onto fares in 2004 in response to rising oil prices. Brent crude oil futures, however, have fallen some 60 percent since mid-2014 and Singapore jet fuel prices <JET-SIN>, a key regional benchmark, have dropped by about half from a year earlier.

Cheaper oil could result in airline profits increasing by \$5 billion to \$25 billion this year, but profit per passenger will rise by just \$1 to \$7, showed estimates from the International Air Transport Association, because of intense competition.

At least two consumer groups are crying foul.

Earlier this month, the Australian Competition and Consumer

Commission said it would investigate airlines suspected of misleading consumers through fuel surcharges. Choice Australia also criticised airlines for what it called "dodgy surcharges".

"Most people would expect the cost of fuel to be included in the base price of a ticket. Stripping out part of the fuel cost and calling it a surcharge was little more than a communications ploy during the discounting airfare war," Choice Australia said.

Qantas' decision to axe fuel surcharges came a day after Malaysia's AirAsia Bhd, Asia's largest low-cost group, said "removing fuel surcharges and reducing travel costs will be a huge boost to the tourism industry."

Philippine Airlines Inc and Cebu Air Inc also removed surcharges last month, while Taiwan's China Airlines Ltd and Eva Airways Corp have cut surcharges about 40 percent over the past six months.

Qatar Airways is planning to cut surcharges, and Emirates Airline last week said it was considering likewise. Singapore Airlines Ltd (SIA), on the other hand, said it would continue to levy its surcharge, which is among the highest in Asia.

"It should be noted that while fuel prices have come down in recent months, the fuel surcharge continues to provide only partial relief against SIA's high operating costs from the price of jet fuel," said the airline in a statement.

Flag carrier PT Garuda Indonesia (Persero) Tbk is equally determined to stick to the surcharge. Its chief financial officer said there was little incentive to cut fares when rivals like Singapore Airlines and Korean Air Lines Co Ltd continue to charge the same, regardless of oil prices.

"If they set a high price, why should we reduce? We have to look at the market too," said Ari Askhara on the sidelines of an industry event.



SIBL

Rezaul Haque, chairman of Social Islami Bank Ltd (SIBL), hands over blankets to SK Sur Chowdhury, deputy governor of Bangladesh Bank, at a programme on Wednesday for the cold-affected poor people in the country. Md Sayedur Rahman, vice chairman of SIBL, was also present.

## IMF begins work on 'Plan B' as US blocks reforms

AFP, Washington

The International Monetary Fund said Wednesday it would begin working on alternatives to its stalled, five-year-old reform program after passing another year without the required ratification by the US government.

In a proposal mapped out by the IMF executive board, the global crisis lender will take six months to see what can be salvaged from the 2010 reforms, originally backed by Washington, the IMF's largest shareholder, but now blocked in the US Congress.

The IMF did not say what the so-called "Plan B" could entail. And it appeared hopeful that the 2010 package, which doubled IMF funding and increased in a small way the voting power of emerging economies

like China, could be completed.

But the 24 member executive board said in a statement to the broader board of governors of the Fund that it "deeply regrets" that the 2010 reforms remain blocked, adding that this has caused it to miss deadlines in work on a subsequent, more sweeping quota review.

The executive board proposed taking until June 30 to come up with new measures "that represent meaningful progress towards the objectives of the 2010 reforms."

The United States, as one of the key founders of the IMF and the world's largest economy, controls 16.7 percent of voting rights in the Fund.

That gives it an effective veto over any major initiative, as reforms require 85 percent of total voting power to pass.

## Nearly 100 trade probes against China in 2014

AFP, Beijing

China's trade partners launched nearly 100 investigations into its exports last year, Beijing said Thursday, blaming rising protectionism due to a lacklustre global recovery and the country's growing economic clout.

The Asian powerhouse was targeted by 22 countries and regions with 97 trade probes, including 61 anti-dumping cases and 14 anti-subsidy investigations, commerce ministry spokesman Shen Danyang said.

"To a certain extent, the intense trade friction is a by-product of China becoming the world's biggest trading country in goods and second-largest economy," he told reporters at a briefing.

He also put it down to governments strengthening protection of their own domestic industries at a time when the world economy is lacking momentum.

The number of trade investigations targeting Chinese products was expected to "continue to be high" this year as manufacturers become ever more competitive, he added.

Products affected last year ranged from wind power generators to mobile phones and food, he said.

A 2013 trade row with China over solar panels sparked the EU's biggest-ever trade probe covering a market worth some 21 billion euros (\$25 billion) at its zenith.

Last month, EU trade authorities opened an investigation into alleged Chinese dumping of solar glass, a key component of solar panels.

"China hopes the European side will strictly comply with the law in their investigation, give Chinese companies adequate chances to defend themselves and... come to a fair and just ruling," Shen said.

# Uber steers anti-taxi idea to become global phenomenon

AFP, Washington

Unlike many American startups, Uber was not founded in someone's garage, but was conceived instead on a cold night in Paris, when two tech entrepreneurs could not find a taxi.

Uber chief Travis Kalanick and co-founder Garrett Camp were attending the technology conference Le Web in late 2008, where they were brainstorming ideas for a new venture -- in Kalanick's terms, "jamming" like jazz musicians.

"There are two cities in the world that I think are the worst to get a cab -- Paris and San Francisco," Kalanick, now 38, said at a 2012 presentation in Chicago.

"The idea of pushing a button and getting a ride was a magical one," he said at another event.

The plan that began as a "timeshare limousine" service using luxury vehicles has allowed San Francisco-based Uber to grow into one of the world's largest startups, valued at some \$40 billion, with operations in more than 200 cities in 54 countries around the world.

But Uber's growth has also generated frictions with existing taxi operations, and posed challenges for regulators.

While the idea began as a way for Kalanick and his friends to get a high-class ride, Uber and its chief now see their venture as a crusade against an entrenched taxi industry that, according to the startup, fails to serve consumers.

In cities around the world, the regulated taxi industry "feels threatened by our high quality service and quick response time," Kalanick said in a 2013 interview with AFP.

In most areas, "the taxi industry is used to being protected by rules and lobbying efforts that shield them from competition," he said.

Uber does not employ drivers or own its vehicles, but instead uses independent contractors with their own cars. As such it has become a key player in the "sharing economy", which allows the drivers to operate their own business, along with its risks and profits.

A study commissioned by Uber and led by Princeton economist Alan Krueger found Uber drivers "generally receive higher earnings" than taxi drivers -- about \$6 per hour more in the United States -- but that comparison is difficult because Uber drivers



AFP/FILE

Uber CEO Travis Kalanick speaks at a ceremony at the Baidu headquarters in Beijing on December 17, 2014.

must pay certain expenses.

The study concluded that "most driver-partners do not turn to Uber out of desperation or because they face an absence of other opportunities in the job market... but rather because the nature of the work, the flexibility, and the compensation appeals to them."

Uber allows consumers to use a smartphone app to locate a driver -- in some cities with several classes of service -- and instantly book a ride. The company motto vows to be "everyone's private driver."

Since launching in 2010, Uber has also been the prime example of a "disruptive" economic force. Taxi drivers in dozens of cities have staged protests against Uber, and regulators in many cities have sought to shut it down.

New Delhi banned Uber from operating in the Indian capital after a passenger accused one of its drivers of rape. South Korea indicted Uber's founder for operating illegally.

The company has also seen its image tarnished by executives' gaffes, and concerns about privacy.

Critics argue that Uber has fallen short on issues such as liability insurance and criminal background checks. In December, Uber said it would step up its safety measures.

John Breyault of the National Consumers League said firms like Uber "don't fall neatly into the regulatory buckets we've seen in the past

century. So it's difficult to see how to deal with events like in what happened in New Delhi, and to know where liability lies."

Despite that uncertainty, Uber raised a fresh \$1.2 billion in venture funding in December to push its market value to \$40 billion, and it now looks to continue expansion around the world.

While a number of taxi and ride-share apps are also competing in the market, Kalanick said Uber has succeeded because of its investment in technology.

"People see they can push a button and a Town Car magically appears, but they don't realize all the math and logistics in making that occur," he told AFP.

Kalanick says Uber has been a positive force, and in 2015 "will generate over one million jobs in cities around the world." He brushes aside criticism of its business model.

In Europe, where Uber faces numerous regulatory issues, Kalanick claims the company can take 400,000 cars off the road and create 50,000 jobs in the next year.

"When you do something successful, not everybody is happy, and the older the industry you are tackling, the more protected it is by corruption or by government or by both," he said at a 2012 event at Stanford University.

"I'm not sure who gets hurt from this other than a particular incumbent industry."

## Samsung posts first annual profit decline in 3yrs

AFP, Seoul

Samsung Electronics posted its first drop in annual net profit in three years Thursday and saw resurgent arch-rival Apple barge in on its pole position as the world's top smartphone maker.

The South Korean firm, whose key mobile phone operations have struggled in the face of intense competition from cut-price Chinese rivals, also warned that it expected 2015's "business environment... to be as challenging as 2014."

The tech giant said Thursday it recorded a net profit of 23.4 trillion won (\$21.45 billion) in 2014, down 23.2 percent from a year ago and the first decline since 2011.

Operating profit fell 11.7 percent to 25 trillion won in the year and sales also tumbled 10 percent to 206 trillion won.

Under growing pressure to boost shareholder returns, the company still managed to announce an increased dividend of 19,500 won a share, up from 13,800 won a year earlier.

The Samsung results contrasted sharply with the triumphant surge in the fortunes of California tech titan Apple, which reported a fourth quarter net profit of \$18 billion -- the largest ever made by a public company.

Apple's performance was driven by the sale of 74.5 million iPhones, which included a doubling of sales volume in the crucial Greater China region.