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China Council Quarterly

221 NW 2nd Avenue, Suite 210J, Portland, OR 97209
www.nwchina.org

LETTER FROM OUR PRESIDENT

Dear Northwest China Council members,

I hope that you are all enjoying the beautiful summer weather.

As my 10th year of service as a Northwest China Council board director comes to a close I reflect upon the experiences and relationships that I have enjoyed as part of our community. It has been my honor and privilege to be a part of this important organization, and I thank each and every one of you for your support and participation in our shared passion.



As is true with most things in life, the Northwest China Council has had its ups and downs over the past decade, but we have persevered and I am excited about where we are at as an organization. I look forward to the Northwest China Council's continued growth in our community as a resource for information and understanding of things Chinese, as well as being a catalyst for positive and ever increasing Sino-Oregon relations.

The work of the Northwest China council has been at the forefront of promoting a better understanding of the greater China region since 1980, and in my opinion, the need for understanding and cooperation with regard to the relationship between The U.S. and China has never been greater. As China evolves, the Northwest China Council evolves as well. In order for our organization to serve the community effectively, it is important for us to hear from you, our members, as to how we can best serve you.

As always, we welcome input as to what types of programs and activities are of most interest to you, and we have many opportunities for volunteers to get involved more directly.

I am truly grateful for having had the opportunity to work with such dedicated colleagues over the years. As I complete my second and final term as President, I thank you sincerely and look forward to the continued growth and strengthening of our fine organization.

- David W. Kohl, President

BUSINESS PROGRAMS

The business programs committee has been active. Our team has planned monthly events for the rest of 2013, starting with an August mixer, being organized by Merrill Keane and Shiao Yen Chin-Dennis. The mixer will be held on August 29th at Miller Nash. Details can be found on our website (www.nwchina.org). We thank Miller Nash for the support of our activities.

On September 18th, Joe Soroka from US Bank will be our guest speaker at the next China Business Network luncheon event. Joe is Vice President for International and Foreign Exchange, and will be speaking on foreign exchange and foreign trade related topics.

In October, a luncheon event will take place on Portland Development Commission's activities on exports and foreign investment topics; and on November 6th, a China Business Network luncheon event is planned on the Foreign Corrupt Practices Act.

Additionally, planning is in progress for a luncheon event on "Chinese Foreign Investment in Oregon." The committee is exploring this further and talking with potential speakers.

All readers are encouraged to participate in the events. We look forward to seeing you and thank you for your support of the Northwest China Council.

- Jeff Smith, Chair, Business Programs

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AVOIDING BUSINESS FRAUD: TRICKS, TIPS, AND TOOLS

On Tuesday, May 14th, as part of the World Trade Week Program, Paul Swenson, president of China Hand, Oregon's representative agency in China, spoke at Portland State University's Smith Center. His topic, *Avoiding Business Fraud: Tricks, Tips, and Tools*, highlighted how overeager business people, seduced by the promise of large profits, can be cheated by criminals in China.



Anyone who has done business in China can easily envision exactly what is going on in the following case study. In the course of doing legitimate business there, we have dealt with elusive chairmen, been to the drunken banquets, and had 'deals' delayed until the last minute, like signing contracts in the car on the way to the airport.

Swenson's bit of take-away wisdom for the day was "***if it sounds too good to be true, it probably is!***" He gave us a case study, in which he outlined a fraudulent deal, how and why it worked, and how the scammers made money on it. He divided the case study into sections:

The Bait - You are a successful medium sized business making formed metal parts. Common industrial research would turn up your company information; you have a website, and perhaps a catalog.

You receive an email titled "Request For Quotation" from a new Chinese customer to purchase a large quantity of the type of products that you make. It will have drawings and very good specifications. You reply, offering competitive pricing.

The Chinese side replies with a purchase order—the terms are great, and the amount is equal to or larger than the initial order. The accompanying documents are stamped and sealed.

Seeing if You Will Bite - The Chinese side asks if you can come to China to sign a contract. Apologetically, they tell you their chairman cannot make the trip to meet you in the U.S. because he is very busy and visas are hard to get. The signing must be as soon as possible.

By this time you are talking to them on the telephone or over Skype, they may let slip, "because you are already a friend," that a competitor has expressed serious interest or is coming to China soon. They send you an invitation letter, you get a rush visa, and off to China you go.

Setting the Hook - You arrive in China, and are met at the airport by an attractive young woman or a personable young man, either of whom speaks excellent English and immediately takes you in hand. Your liaison will be your guide and translator for your entire stay in China. You are booked into an upscale hotel with very attentive staff.

You are taken to an impressive office. You have a brief meeting with "the boss," who has just come from a meeting with a high official. He will be very busy, but very happy to see you, and instructs the escort to take good care of you.

Somehow the contract isn't quite ready, so you have some open time. You visit tourist sites, perhaps with an engineer or middle manager from the company accompanying you. Maybe he/she will speak some English. You share meals and become friends.

Suddenly, it becomes necessary to move fast.

Reeling You In - You decide to sign. You ask the guide to set up a meeting with the boss. He is so busy with foreign customers that the only time he can see you is at dinner. Either you ask, or the guide volunteers to make reservations. She recommends one of the best restaurants, suggesting it is the boss's favorite.

The guide almost forgets that you should probably also bring a gift. You've heard that it was a Chinese custom, so are not surprised. Either the guide will take you to a suitable gift shop or volunteer to shop for something. Either way, it is more expensive than you expected.

Into the Net - The dinner goes very well. The gift is a huge hit. The boss may give you a small one in return. Lots of pictures are taken.

There may be a surprising number of people around the table—other managers involved in the deal, but none speak English. There is a lot of drinking, especially of Baijiu, a sorghum based white lightning. The food is delicious, and the courses keep coming. There are many toasts: to our friendship, to Chinese-American friendship, to our future business, and to world peace. Drinking games and contests are possible. Before long you are so drunk you forget there is a contract to sign.



The guide has demurely said she does not or cannot drink alcohol. She drinks tea or soda.

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AVOIDING BUSINESS FRAUD: TRICKS, TIPS, AND TOOLS (CONTINUED)

The boss swears lifelong friendship. The guide tells you everything is going very well. In your exuberance you order more food and wine; or perhaps a specialty of this restaurant, town, or province that the boss recommends.

The boss says he must go, and thanks you effusively for the meal. Everyone else gets up and goes with him. Warm handshakes and boozy farewells all around. It has been a wonderful time.

The bill arrives, and it is a whopping \$3,000 to \$5,000, maybe as much as \$10,000. You express amazement; the guide looks embarrassed. She says she discussed the menu with you, and you did order the extra food. A little embarrassed, and quite tipsy, you pay. After all, it is deductible.

Filleted - You awake with an immense hangover. The guide picks you up for your trip to the airport, signed contract in hand. You pay your hotel bill. It may seem a bit high, but it *is* a great hotel.

She tells you the boss is very happy, and will place another order soon. You get out of the car, with an ache in your head, but also pleasant memories and visions of profits. You check in for your flight. Your guide bids you fond farewell, reassures you of how well it all has gone, and says she hopes to see you again soon.

Cooked - You will never hear from them again. Your phone calls and emails go unanswered. There is no letter of credit or wire transfer. If they do call, you may be told you need to pay a stamp tax before they can import the products. You have agreed to pay all or part of it in the signed purchase order. You either pay the tax or not; it doesn't make any difference because you never see or hear from them again.



So why go to all this trouble for no great apparent gain? Here's the grift:

The gift is returned	\$300 - \$500
A commission on the meal	\$500 - \$2,000
A commission from the hotel	\$500
8% Stamp Tax on \$5 million	\$40,000
Total for a week's work	\$1,300 - \$43,000

The impressive office was borrowed from a friend or rented by the day. If you saw a factory, it was someone else's; a confederate might know someone who lets you take a brief look around and small side payments go a long way in China.

The Profit - A well practiced group will run several of these simultaneously. A good group can run two or three cases a day over a two or three week period. The cash flow is somewhere between \$3,000 to half a million dollars per week.

Swenson also covered some more routine scams:

The domain name scam - You get a message from the Chinese domain name agency. You respond. They tell you your domain name has been registered in China by someone else, but you can buy it back. Similarly, you may be told your trademark has been registered and must be bought back.

Do not respond. The best defense is to register domain names and trademarks in China yourself.

The misrepresentation scam - Someone claiming to work for a large State Owned Enterprise (SOE), such as China Overseas Oil Corporation, contacts you telling you they want your products. They then run a version of the first scam, or get your trademark and sell it back to you. Because the SOE's are so huge, and secretive, it is very difficult to verify if someone is an employee there.

How does a small to medium sized firm protect themselves against this kind of chicanery? It is easier to prevent a problem than get out of it once you are in it.

- First, there is always time for due diligence. Respond to any approach as you would in the U.S. Does the contact only have a cell phone? Is there no landline to the office? Is the contract contain misspelling or badly worded?
- If you wouldn't do something in New Jersey, don't do it in China.
- You can get help from the U.S. Commercial Service in Portland who will contact their counterparts in China to investigate a company. Swenson's company, China Hand, can also help, as can Business Oregon or a law firm with offices in China.

Swenson covered a variety of other issues small to medium sized companies may have.

- Beware of inquiries from websites that are badly designed or contain English spelling and grammar mistakes. A website will have a registration number.

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AVOIDING BUSINESS FRAUD: TRICKS, TIPS, AND TOOLS (CONTINUED)

Go to China's the International Domain Agency to make sure a website is actually related to the company it purports to be.

- If your product is easy to reverse engineer, patent it in China. If it is not easy to reverse engineer, do not register it. It will be copied from the filing. Register your trademarks and domain names immediately when you start any business discussions there.
- If your product lends itself to it, work with a partner or distributor in China. There is a national Distributor Association that will vouch for its members.
- If you don't have to do a joint venture, don't do it. Profits splits can be manipulated. The JV partner will run up costs that reduce the divisible profits.
- Don't let the joint venture partner only donate land as their share. Land prices, low when they are for agricultural use, are greatly inflated when converted to residential use. The residential price then becomes the going price for industrial use. This makes it easier for the partner to claim the inflated value as part of their contribution, while the U.S. partner contributes the building, imports the equipment, and sets up the management systems.

Swenson was asked how to protect intellectual property and proprietary information from being copied and sold by employees in your own factory. He advised:

- Do not to supply computers with USB ports; or else use software that tracks who uses a flash-drive or other device to copy files.
- If you can black box your product, e.g. have a proprietary component in a sealed box that you ship from the U.S., do so. Make it so that if the box is opened, the data inside will be destroyed. He used the example of a controller for HVAC systems.
- If you travel in China, assume your hard drive will be hacked and copied if you leave it in your hotel room. Travel with a blank phone and blank computer; be sure to wipe it clean before plugging into your home network.
- If you have employees in China, the easiest way to prevent IP theft is to make the employees feel valued and part of the corporate family. Take pictures. Have an employee of the month. An ice cream social for the families, awards and recognition, performance bonuses, off-site training, trips to the home office, an

annual dinner, will go a long way to solidifying their relationship with your business.

- If you are manufacturing in China, be sure you have U.S. based managers on site at least monthly. You need to mind the store. If left unsupervised, the local management will be tempted to cut corners. There should be regular external audits.

He touched on available recourse if you need to take a partner to court. His first advice was to call an attorney. He went on to say that the Chinese legal system was "a work in progress." There is little case law. The court tends to be a negotiator, rather than an adjudicator. The attitude is that the company is rich and can afford to give a little more, while the defendant can take a little less.



If you are suing an employee, you will not be able to deny him or her a livelihood, so non-compete cases can be hard to prosecute. You will not be able to force a company into bankruptcy because too many employees will lose their jobs.

There have been improvements, especially in non-competition cases. Contract enforcement is as good as your relationship with your partners or employees; and as good as interpreted by a judge. Again, there is little case law.

The better structured your contract, the easier it will be to enforce it. You must provide for compliance with the Foreign Corrupt Practices act.

The place of adjudication, if there is a dispute, is important. It will be difficult to get the Chinese side to agree to go to court in the U.S. or Europe. Distance, expense, and the difficulty of getting visas all play into that. Hong Kong and Singapore are common, and favored, law venues.

Swenson went on to say that Chinese companies don't do business on credit as we do in the west. If they acquire goods on credit, they are free. If your contract is under \$20,000, transfer the money by wire, if more than \$20,000, use an irrevocable letter of credit.

All that being said, Swenson closed by saying, for all of the problems, if you get good advice, follow your own best practices, and keep your eyes open, the opportunities in China usually outweigh the risks.

- Paul Millius

RECIPE: JIAOZI (POT STICKERS)

Ingredients

Wrapper: 3 cups all-purpose flour
1/4 t salt
1 cup boiling water
1/4 cup cold water

Filling: 1/2 lb napa cabbage
1 lb ground pork and/or beef
1 Tbsp green onion, minced
2 tsp salt
1 Tbsp soy sauce
2 tsp ginger, minced or ground
1/8 tsp white pepper
1 Tbsp sesame oil
1 Tbsp wine

Cooking: 6 Tbsp oil
1 cup water
2 tsp white vinegar
2 tsp corn starch



Hot dipping sauce: 1 Tbsp soy sauce
1 tsp chili paste
1 tsp vinegar

Ginger dipping sauce: 2 Tbsp shredded ginger
1/4 cup vinegar
1 tsp sesame oil
1 Tbsp soy sauce

Filling Preparation

1. Rinse cabbage and mince. Stir in salt. Let sit for 10 minutes, then squeeze to extract moisture.
2. Mince the green onion and ginger.
3. In a large mixing bowl, combine meat with the green onion, ginger, and all the seasonings. Stir to mix. Add cabbage. Stir in one direction until all the ingredients hold together, about 5 minutes.

Wrapper Preparation

1. Sift the flour and salt together in a large mixing bowl. Make a well in the center and add boiling water. Stir with a wooden spoon to combine.
2. Add the cold water slowly, continuing to stir. Cover and let sit for 15 minutes.
3. Turn dough out on a floured board. Knead until smooth, sprinkling additional flour on the board as necessary.
4. Divide dough into 4 equal parts. Roll each part by hand into a rod shape, then cut each rod into 12 small pieces.
5. Roll each small piece into a ball. Using a rolling pin, flatten the ball to an approximately 3" diameter.

Assembly

1. Place a Tbsp of filling in the center of wrapper.
2. Fold the wrapper in half and pinch the edges together at the center of the arc, leaving the 2 ends open.
3. Make 2 to 3 pleats on both sides of the pinched center, moving along the dough to the 2 ends. Pinch all along the edges to seal.
4. Place the finished pot stickers on a floured tray. Keep covered with a dry cloth as you continue assembling.



Cooking

1. Set a heavy 10" skillet over high heat until drops of water sprinkled onto it sizzle and dry up. Add 3 Tbsp oil and spread it around evenly.
2. Add half the pot stickers, arranging them closely together with pleated sides up. Pan fry over medium heat for 2 minutes or until the bottoms are lightly browned.
3. Meanwhile, mix 1/2 cup of water with 1 tsp vinegar and 1 tsp cornstarch. Add the mixture to the skillet and cover. Let cook for 8 minutes or until the liquid has evaporated.
4. Remove cover and continue to pan fry until the pot stickers can be moved around easily.
5. Remove skillet from heat and cover with a 12 inch serving platter. Flip skillet to turn the pot stickers out, showing the browned sides up.
6. Pan fry the remaining pot stickers in the same manner. Serve hot with sauce.



Alternate Cooking Options

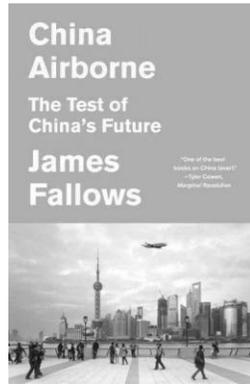
1. Steamed - Place jiaozi in a steamer and steam over high heat for 12 minutes. Serve in steamer or remove to platter. Serve hot with sauce.
2. Boiled - Substitute cold water for the boiling water when making the dough. Using a 6 quart or larger pot, bring water to boil. Place jiaozi in boiling water and stir occasionally with a wooden spoon. When the water comes to a boil again, add 1 cup of cold water. Cook for approximately 5 minutes or until jiaozi float to the top. Remove jiaozi with a strainer to serving dishes, keeping them in 1 layer to prevent sticking together. Serve hot with sauce.

- Maihwa Li

CHINA AIRBORNE: THE TEST OF CHINA'S FUTURE

China Airborne: The Test of China's Future by James Fallows (Vintage, 2013, 288 pages) was the latest book club selection.

Cirrus Aircraft is an innovative aircraft maker whose small planes have in recent years supplanted better-known small planes such as Cessna or Grumman. Its small passenger planes have a built-in airframe parachute system that can be deployed when the plane loses power. According to the Cirrus Owners & Pilots Association (COPA), as of May 20, 2013, there has been 33 saves with 69 survivors in aircrafts equipped with this system. Cirrus is an American company founded in 1984 in Duluth, Minnesota. What is little known is that the company was sold in 2011 to a state owned subsidiary of the Chinese government.



As many readers know, James Fallows lived in China for a few years around the time of the Beijing Olympics, and is a frequent visitor to China since then. What you may not know is that he is an avid private small plane pilot and has written an earlier book, *Free Flight*, regarding aviation developments in the U.S. In *China Airborne*, he combined a tour of China's growing aviation industry with economical, cultural, societal and political narratives of China.

The book began with a harrowing experience with Fallows co-piloting and ferrying a Cirrus demonstration plane in China. Instead of a routine flight as Fallows expected of such flights in the U.S., it turned out to be one near-miss after another: aviation gas for the plane was not available and questionable fuel had to be siphoned from old Soviet transport planes; an air traffic controller did not respond to requests to ascend when impact with a mountain was imminent, and the plane was not supposed to deviate from its designated flight path; landing lights for guidance at the airport went off just before landing under low visibility conditions. That was a white-knuckle opening!

Some memorable quotes in the early chapters:

“‘Outsiders think of everything about China as multiplied by 1.3 billion, we have to think of China as divided by 1.3 billion,’ said government official in Shanghai.”

“How much is 1.3 billion? The U.S. and China have about the same geographic area. But China has about

4 times the population and significantly less arable land. Put all the people in North and South America...from Japan and Nigeria, that is almost 1.3 billion. Feeding, governing, housing and employing that population all within the borders of the existing 50 states would be quite a challenge.”

“China expects to have 221 cities with population over a million by 2025, versus 35 in all of Europe and 9 in the U.S. as of 2010.”

Because the concentrated population centers are separated by vast distances, mountains, gorges, and other barriers, China is a natural for air travel.

Most of us are aware of the lopsided U.S. balance of trade with China. But Fallows pointed out, that China is working very hard to escape the “smiley curve” in its economy. The smiley curve, named after the smiley-face symbol, represents the value chain of a product. On the left end are patents, design, and technology; and on the right end are branding, sales, and service. In the middle low point of the curve are commodities and assembly work that much of Chinese manufacturing has been stuck in. For example, Apple iPhones are assembled in and supposedly made in China. However, if one examines the component value, most is in the electronics made in Japan and Korean (e.g. Samsung chips, LG retina screen, etc.), and in profit to Apple for design, branding, sales, and service. Assembly at the Foxconn factory only accounts for a small percent (~3%) of the value of an iPhone, although the total value of iPhones is accrued to China. Multiply this with other consumer electronics, such as Dell and HP, and one can see how balance of trade numbers may be unfairly skewed in China's favor.

In order for China to advance beyond the low point of the smiley curve, it has targeted areas of focus such as aerospace. The Aviation Industry Corporation of China (AVIC) has more than 480,000 employees. As Japan, Taiwan, and South Korea have done earlier; China must begin to innovate, design, manufacture, brand, market, sell, and service in targeted sectors.

The second part of the book goes into detail about China's many contradictions, advantages, and disadvantages in its likelihood in breaking through the smiley curve.

For information on the Northwest China Council book club, please contact johnw@nwchina.org.

- Gabe Zee and John M. Wong

CALENDAR OF EVENTS

China Business Network's Summer Networking Social

Thursday, August 29, 2013, 5:00 - 7:00pm

Miller Nash LLP, US Bancorp Tower, 34th Floor, 111 SW Fifth Ave, Portland, OR 97204

\$10 members, \$15 non-members, \$5 students. Register by Wednesday, August 28, 2013.

Movie Night: Shanghai

Tuesday, September 10, 2013, 6:00 - 9:00pm

Red Robe Tea House, 310 NW Davis St, Portland, OR 97209

Free (food and drink available for purchase). Register online, as space is limited.

China Business Luncheon

Speaker: Joe Soroka, US Bank Vice President for International and Foreign Exchange

Wednesday, September 18, 2013, 12:00 - 1:30pm

Multnomah Athletic Club, 1849 SW Salmon St, Portland, OR 97205

Lunch & Talk: \$25 members, \$32 non-members, \$18 students.

Northwest China Council's 2013 Annual Meeting

Election of new members of the Board of Directors

Wednesday, September 25, 2013, 6:00 - 7:00pm

Wong's King Restaurant, 8733 SE Division St, Portland, OR 97266

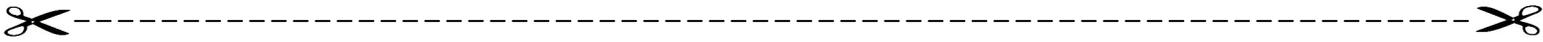
Mandarin Chinese Language Classes (10-week Fall Term)

September 30, 2013 - December 13, 2013

Northwest China Council, 221 NW 2nd Ave., Portland, OR 97209

Registration and tuition online.

**For more information and updates on these programs, and to register for any event, please visit www.nwchina.org or email johnw@nwchina.org.*



Northwest China Council Membership Application Form

Northwest China Council Members receive invitations to China Council events, a subscription to the quarterly newsletter and discounts on admissions fees and books.

Name _____
 Address _____
 City/State/zip _____
 Home Phone _____ Work Phone _____
 Email _____
 Occupation _____
 Special Interest in China _____

I would like to volunteer to help the China Council with:

_____ Assisting at events
 _____ Publicity
 _____ Hosting/Escorting speakers/Chinese visitors
 _____ Office Work
 _____ Fund-raising
 _____ Recruiting members
 _____ Research

Membership Category — Please check the category you wish:

Individual	_____ \$40	Major Donor	_____ \$250+
Family	_____ \$50	Patron	_____ \$500+
Full-Time Student	_____ \$15	Phoenix Circle	_____ \$1000+
Sponsor	_____ \$125+	Dragon Circle	_____ \$5000+

Please detach and return with a check payable to the Northwest China Council. To use MasterCard or Visa, please complete the following information.

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The Northwest China Council is a non-profit, non-partisan organization primarily supported by its members. Our mission is to increase understanding of Chinese culture, contemporary affairs and business in Greater China, i.e. China, Taiwan, Hong Kong, and the Chinese Diaspora.



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