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EURObiz

Journal of the European Union Chamber of Commerce in China

THE CHINESE ECONOMIC SLOWDOWN


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中国欧盟商会

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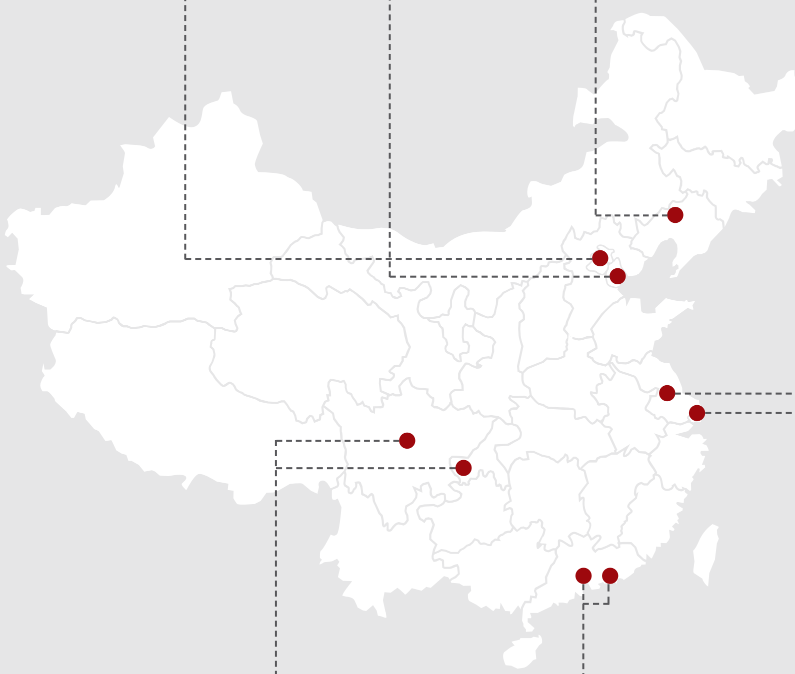

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President's Foreword

Reshaping the discourse to move the needle

Jörg Wuttke

President

European Union Chamber of Commerce in China

As I approach the 37th anniversary of my first trip to China, I am once again honoured to be entrusted to take the reins of the European Chamber presidency. My long history in this market, coupled with six years' experience as Chamber president, will now be put to the test. Even in the two years since I last held this position, the challenges and opportunities facing European businesses operating here have changed dramatically. The fact that BASF could mastermind a 100 per cent foreign-owned United States dollars (USD) 10 billion project in Guangdong shows that anything is possible if approached the right way. It is therefore all the more important that we not only watch the road ahead to steer our companies past tumultuous times and towards profitable business, but that we also look in the rear view mirror and reflect on hurdles already overcome. To do that, I plan to focus on eight key areas:

1. It's time to sharpen our messaging and boost the Chamber's profile thorough our publications. Content matters, and our work is widely read by policymakers the world over. We mustn't shy away from the pressing issues of today, or ignore those on the horizon. That requires a strong *Position Paper* and thematic reports.
2. We need a rejuvenated media profile to relay our messages to the EU and Chinese leaderships and shape the public discourse. China's leaders and elites follow top international media closely, and we can get our message to them through greater engagement with journalists and powerful op-eds.
3. Coordination with other chambers is also key to our success. We need to align our publication schedules to avoid speaking over one another and synchronise our lobbying activities to push hard on the biggest issues.
4. Preserving a fair and undistorted home market is also of paramount importance. As the state-owned sector in China extends its reach abroad, it is paramount that Europe establish mechanisms to address the distortions brought by state-directed investment. This should happen through bilateral means, such as a robust Comprehensive Agreement on Investment (CAI), as well as unilateral moves in the EU, like the investment screening mechanism.
5. It is essential that we make concerted efforts to establish strong bonds with the new European Parliament and incoming European Commission from day one.
6. Expanding our influence to provincial and local governments is critical for serving our members across China. We need to strengthen the communication toolboxes of our seven chapters to provide them with stronger engagement opportunities to shape local policy.
7. The Chamber is only as good as the people working in it. To that end, we must sharpen our HR policies and improve working conditions for the secretariat to stop the brain drain that is holding back the Chamber's potential.
8. The Chinese and global economic slowdowns are also top concerns for the Chamber itself. It is time to consider how to prepare for tougher times ahead so that we can continue to serve our members in spite of macroeconomic difficulties.

I look forward to serving our members and believe that these eight priorities can guide us over the coming two years. Fortunately, we have a strong team moving forward into 2019 and beyond. Our executive committee has the energy and experience to lead, and our working groups have reliable leaders and deep expertise to bring to the table. Together we can reshape the discourse and get things moving in the right direction. Let's move the needle.

Coping with Unprecedented Uncertainties

by Frank Mei

We've all heard that a butterfly flapping its wings in one part of the world can cause a tornado many miles away. In recent times, many businesses and industries have seen this trope become a reality, as turbulence sends ripples along global supply chains and communications networks. **Frank Mei**, an advisory partner with **KPMG China**, outlines the best approach to decision-making for managers amid all this unpredictability.

The age of unpredictable change

We are in an era of unprecedented uncertainties. Regulatory changes, geopolitical development, shifts in customer behaviour, technological advancements, emerging players and market segments and new stakeholder dynamics, to name just a few, are creating complex layers of perplexity for future business. A recent global CEO survey, showed Chinese CEOs are more concerned about geopolitical, environmental and technological uncertainties than their global peers.[1] Recent developments in China-US trade negotiations have certainly exacerbated the complexities.

While there is no doubt that uncertainties create significant challenges, they are also often the source of profit in a competitive market. Hence the challenge is not changes per se, but rather how companies cope with them.

How should companies develop strategies to succeed in the future? Can the recipe that worked for past successes guarantee similar future results or even survival? In this fast-changing world, the status quo is constantly being questioned. Decision-making based on past experience and, in many cases, a qualitative approach may not necessarily be the optimal approach to addressing complex uncertainties.

Decision-making more challenging, calls for innovation and change of mindset

Daniel Kahneman, the winner of the 2002 Nobel Prize for Economic Sciences for his work on decision-making and behaviour economics and author of *Thinking Fast and Slow*, said that "whatever else it produces, an organisation is a factory that produces judgements and decisions."[2]

Decision-making in this complex world is becoming more difficult. For companies to survive and succeed in the future, a shift of mindset is necessary; our view of uncertainties and corresponding strategies needs to be flexible, dynamic, forward-thinking, adaptive and robust.

Developments in decision-making theories and practices

Companies face difficult business decisions all the time: How to quantify the risk value and strategic value of an acquisition? How to assess the value of each asset in a portfolio, considering future uncertainty, fluctuation

1. *Collaborating and Innovating for Growth: 2018 China CEO Survey*, KPMG, 2018, viewed 23rd May 2019, p. 8 < https://home.kpmg/cn/en/home/insights/2018/05/china–ceo–outlook.html>

2. Kahneman, D., *Thinking, Fast and Slow.* Farrar, Straus and Giroux, New York, 2011, p. 408.

and strategic options? How to quantify the impact of potential regulatory changes and determine the optimal strategy?

There have been significant developments in theories and innovative practices across industries and sectors in decision-making under uncertainty, which offer deep insights and innovative tools that provide better support for companies.

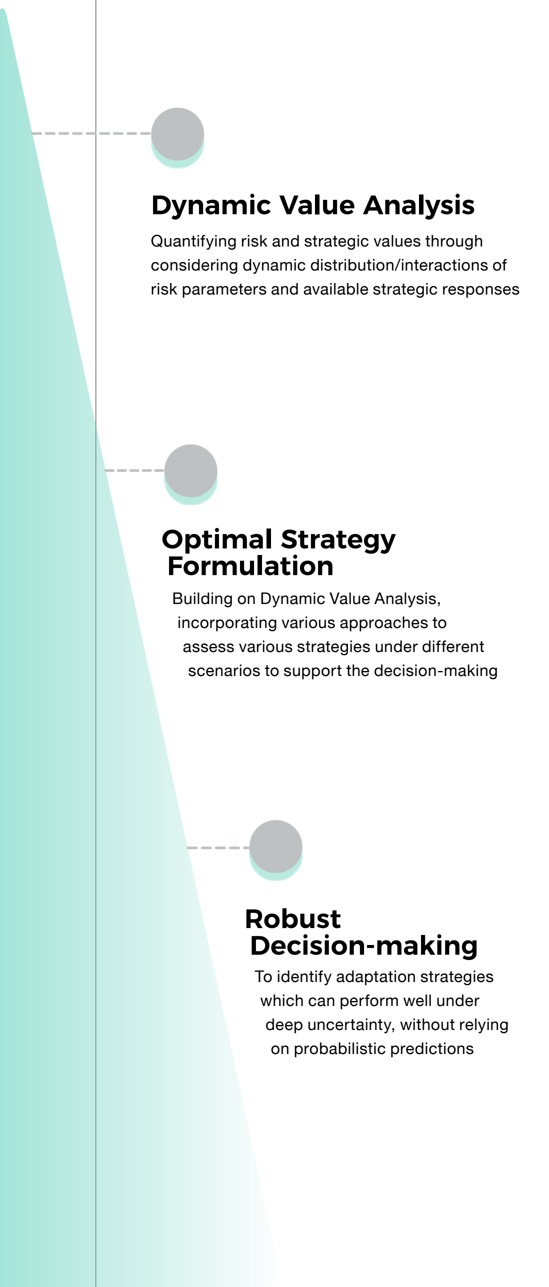
Behaviour economics challenges the assumption that the human mind is rational and explains how we make decisions when facing uncertainties. Game theory shows how we behave in competitive settings. Finance theories such as real option theory and financial modelling are often applied beyond the industry. Scenario planning and simulation are being used by leading organisations. By combining those approaches with developments in artificial intelligence (AI) and computing power, companies are increasingly moving rapidly beyond heuristic-based decision-making—strategies based on little information that often still turn out to be accurate—to an analytic-driven, AI-led and algorithm-augmented style.

Improve decision-making – a quantitative analytical approach

When re-evaluating a decision-making approach, the following six guiding principles may be helpful:

- **Future Scenarios:** Consider not only the assumed future, but also all plausible future scenarios to make strategies adaptive.
- **Strategic Flexibility:** Consider how uncertainties evolve and management's flexibility (and the value of such).
- **Multiple External Players:** Multiple stakeholders and players add extra complexities. Game theory would help better understand the dynamics and the most suitable strategies.
- **Understanding of Behaviour:** Behaviour economics have been proven to be effective in helping to understand, predict and influence how people act.
- **Deep Uncertainty:** With complex and sometimes deep uncertainties, we need to evaluate not only the optimal strategy but also a robust one to address them.
- **Internal Stakeholder Alignment:** Engaging stakeholders in a deliberation over the analytical process is crucial to determining an optimal/robust strategy.

In a nutshell, companies need a more accurate representation of the complex and ever-changing future to maximise the probabilities of success. This is where forward thinking, models and algorithms hold the advantage over heuristic approaches.



The diagram above demonstrates a sample layered, iterative three-step quantitative approach to sophisticated decision-making. The goal is to address the limitations of traditional processes and significantly improve the quality of decisions by clarifying strategic visions and developing more precise roadmaps.

The steps are as follows:

1. **Have a dynamic view of value:** Quantifying risk value and strategic values through considering dynamic distribution/interactions of risk parameters and available strategic responses to clarify tactical vision.
2. **Formulate optimal strategies:** Based on the quantitative risk value and strategic value, incorporating various approaches to assess various strategies under different scenarios to support the decision-making. Competitive games should be incorporated into the model when appropriate.
3. **Robust decision-making under deep uncertainty:** This is based on the concept of 'robustness' rather than 'optimality'. It emphasises the ability to be effective over a range of possible future conditions where uncertainties are difficult to quantify or be agreed upon.

Building AI-enabled decision-making capabilities

Companies globally are now pivoting to an algorithm and AI style of decision-making, and the paradigm shift is obvious. In his book *Principles*, Ray Dalio, the founder and co-chair of Bridgewater Associates—the largest and one of the best-performing hedge funds in the world—said that the company's investment decisions are mainly made by computers, and management override the system "less than 2 per cent of the time". The new paradigm will require organisations to transform their current business, cultural and technical set-up. In order to do this, companies will have to work on these six aspects in particular:

- **Understand current strategic decision-making processes:** How are strategic decisions made, based on data, evidence or intuition? How much confidence does management have in these decisions?
- **Assess existing organisational capabilities as 'math houses':** Data in isolation is not useful. It is the ability to process data using math house capabilities of mathematics, algorithms and modelling rather than the traditional business and management capabilities that makes all the difference.
- **Conduct any pilot project with an engineering mindset:** Developing AI decision-making requires a combination of data/computer scientists and business insight. An engineering mindset will help standardise the use of these applications while ensuring that they are scalable and extensible.
- **Develop models, algorithms and data structure:** Each business decision is unique and may require different models, algorithms and datasets. The process is also an iterative one, where knowledge and experience can be accumulated and captured.
- **Transparent, consistent and relevant:** For management to accept and be comfortable with analytics-based and AI-enabled decision-making, the logic, model and algorithms need to be explainable and consistent, with addressing business issues as their main goal.
- **From 'what happened?' to 'what will happen?' to 'what should we do?':** AI-assisted decision-making support will move from description (past event) to predictive and prescriptive (see and shape the future). Eb

KPMG

KPMG is a global network of independent member firms offering audit, tax and advisory services. The firms work closely with clients, helping them to mitigate risks and grasp opportunities. Clients include business corporations, governments and public sector agencies and not-for-profit organisations. They look to KPMG for a consistent standard of service based on high order professional capabilities, industry insight and local knowledge. KPMG member firms can be found in 152 countries. Collectively they employ more than 189,000 people across a range of disciplines. Sustaining and enhancing the quality of this professional workforce is KPMG's primary objective. Wherever our firms operate, we want them to be no less than the professional employers of choice.

Reasons to be Cheerful

Why the slowdown in the Chinese economy is not all bad news by Frederic Derbaudrenghien

China's economy may be slowing down, but it is still recording GDP growth figures that are the envy of many developed economies. Meanwhile, the Chinese business environment is slowly seeing improvements in regulation and has a technology sector that's getting ever more innovative. As **Frederic Derbaudrenghien** of the **EU SME Centre** explains, there are still many opportunities for any small and medium enterprises that are prepared to embrace the challenges of the 'new normal'.

Over the past five years, the double-digit growth rates of China's GDP have been replaced by the 'new normal' of less than seven per cent. And while many economists will congratulate China for retaining control over this transition to more sustainable growth, the worry now is how much further this deceleration will go. Even at rates of just over six per cent, China remains the growth engine of the world. The value of the current increases in its GDP is still equal to the double-digit period, when the economy was smaller. But what will happen if China's GDP growth drops below 6.2 per cent (often mentioned as the 'bottom line') to five per cent or even four per cent?

Let there be no doubt that China's current GDP is 'not bad' (不错). We frequently hear how focus on GDP as a measure for the health of an economy is too abstract. Add to this the fact that there are important differences between the mega-cities in China—sectors, uncertainties about trade wars, and so on—and our European companies are left with more questions than answers about how to cope with the current situation. And that applies not only to companies based in China but also anywhere else in the world, because the major economies, and their GDPs, are interdependent.

Enterprises should look at expanding in China today

So, let's agree that the current status of the slowdown is not that troublesome; China's GDP growth is still three times that of many developed economies. We are even confident that, in 95 per cent of cases, it's even a better proposal for European companies to expand business in China now than five or ten years ago. Below I present some additional arguments to enforce that statement:

1. European companies have a competitive edge in dealing with a complex and slower economy

The years that foreign companies were assumed to provide better quality are indeed over, as Chinese companies now are increasingly competitive at almost every level and all sectors. However, European companies can now benefit from their experience in competing in a tighter and more complex market, in particular those companies that stayed away from the previous 'Wild West' business environment in China.

2. Laws and regulations have improved to become an advantage

The European Union Chamber of Commerce in China has long called for a legal environment that is stronger and treats foreign enterprises equally. Though there's still room for improvement, if an enterprise is well prepared and guided, it is at least as well protected by (enforceable) law in China as in other countries. Let that more stringent regulatory environment now become another competitive edge for European companies with experience in navigating this aspect.

3. Today's China offers advantages in technology

China's determination to lead on innovation and technology is unstoppable. And while understandably this can be a threat to some, it certainly offers unique opportunities to others. Certain sectors are still in need of enabling technologies from outside of China. We suggest using this advantage to build a solid position for the future. In other sectors, especially new technologies, China is already ahead or even the world leader, which means that now is a good moment to build strong partnerships.

4. SMEs, especially in the consumer market, have easier access and more chance of success

2019 will be the year that sees China surpass the United States (US) as the world's largest consumer market. There's also increasing demand for quality products (from outside of China). If we also consider the improvements in IPR protection, one could state that staying away from the Chinese market is absurd. Access has improved thanks to reliable (international) service providers offering help in

Over the past five years since the Negative List was initiated, the Shanghai Free Trade Zone has attracted more than 100 billion US dollars in contractual foreign investment.
Photo: Fang Zhe, Xinhua

areas such as market entry, efficient logistics and localised marketing. Think also of the booming cross-border e-commerce.

Worth noting is that geographical targeting can be a useful part of one's strategy. Some of China's middle-tier cities show over 10 per cent year-on-year (y-o-y) GDP growth, which brings with it drastic improvements in the disposable income of their millions of residents.

Embracing the challenges

We all know that establishing a solid footing in China, be it in manufacturing or selling, can be an expensive adventure. In the past, this meant it was only within reach of multinational corporations (MNCs). However, we are convinced that these days a well-planned, long-term entry strategy offers the best results, by balancing investment requirements as well as guaranteeing positive results.

So even if a more drastic slowdown lies ahead, we strongly advise companies to establish a presence in China. Textbook business strategies teach us that the best things to do during a deceleration or even recession is to take more time to plan your strategy, pay the most attention to your cash flow, get lean, and review your sales pipeline (It might be worth reconnecting with any of those old Chinese leads still around). Marketing expenditures traditionally also tend to increase when economic times are worsening.

Keep in mind also that competition in China will only increase over time. Even with an unlevel playing field, European companies should face up to the challenge. The imbalances can only be evened out at the political level, but businesses cannot sit still in the meantime, or they may lose more now and end up weaker in the future. Eb

The opinions expressed in this article are those of the author and not necessarily those of the European Chamber.

EU SME Centre

EU SME Centre

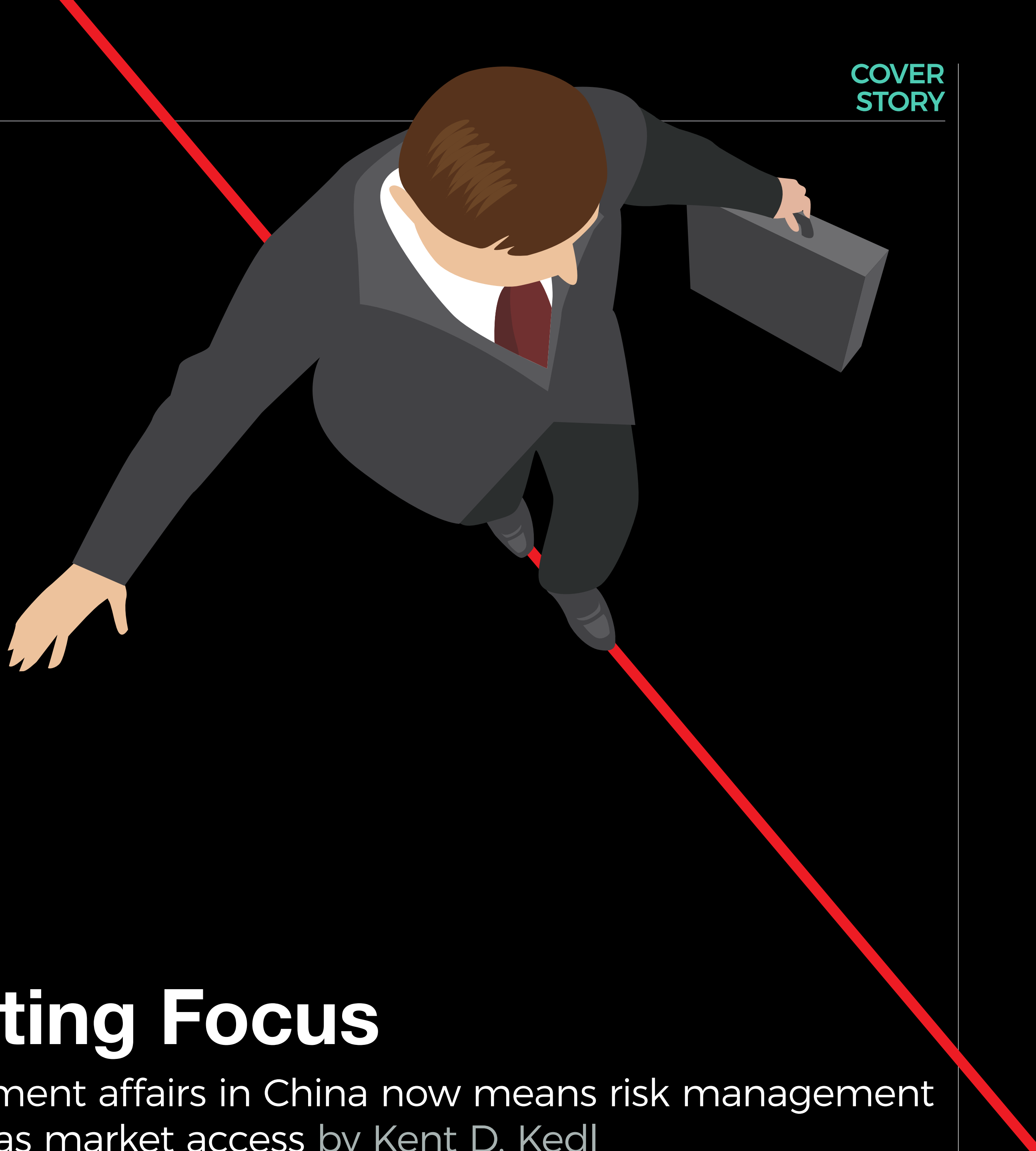
Frederic Derbaudrenghien is serving a short-term tenure as an expert at the EU SME Centre. He is also CEO of the consultancy firm EU Sino and the trading advisory KNG Asia. He also spent four years as vice-chair of the Benelux Chamber of Commerce in China, Beijing Chapter.

EU Sino Beijing is a consultancy offering a full range of professional services built around China expertise and trustworthy partners. Its Suzhou office cooperates closely with the local government of Xiangcheng and focusses on location selection and landing services.

KNG Asia started as a trading company in 2008, and now specialises in market entry and distribution services.

Party, government, military, civilian, and academic; east, west, south, north, and centre; the party leads everything.

Xi Jinping (2017)



Shifting Focus

Government affairs in China now means risk management as well as market access by Kent D. Kedl

In the early days of foreign investment in China, good relationships often got you far. Foreign business people in China traded good relationships like gold – saying "I know the guy who can get that done…" was a sign of local credibility and expertise. **Kent D. Kedl** of **Control Risks** explains that while relationships are still important in China, they can now be classified as 'necessary but not sufficient' for success.

China has radically changed in the last five years, most significantly in the role, function and market-power of government agencies and regulators. The Communist Party of China (CPC) is now firmly out in front. As Xi Jinping famously said in late 2017 about China's New Era, "The Party leads everything." Also true is that regulators are starting to enforce everything and just 'knowing the guy' does not help any more.

It used to be about market access

When China first re-opened to foreign investment, its regulators were mostly concerned about market access. Foreign investors sought to establish connections with government in order to enter—and get established in—the market. Government affairs (GA) at that time were primarily about government access – getting approvals, licences, land, utilities and so on. The success of a GA programme was measured by how widely a company could access the market. Sales teams and GA teams worked together to go after the market; the GA team preparing the road and the sales team handling the vehicle driven along it to customers. In fact, even today some GA teams are called 'market access teams'. This is particularly true in healthcare as restricted access to public tenders makes provincial-level government contacts critical to a company's success.

The most powerful government agency regulating access was the Ministry of Commerce (MOFCOM). This was followed by a variety of industry-specific agencies, for example the Ministry of Health and the State Food and Drug Administration (FDA) for healthcare. For many foreign companies in China today, their GA teams are still very focused on stakeholders that grant government access. Here is a quick test to assess your GA team: how many have a background in MOFCOM or other industry-related regulators? If it is more than 20 per cent, you have an access GA team.

The days of market access are emphatically not over. Those agencies are still critically important; however, a GA team now needs to widen its focus.

The rise of the regulator

When Xi Jinping came to power in late 2012, one of the first speeches he gave was on anti-corruption. He told his fellow CPC members that corruption was threatening the future of the party and its credibility with the Chinese people and he vowed to clean up the house. On the face of it, this was not so different from past Chinese leaders – or, really, from any other politician around the world starting a new administration. What was new was the aggression and thoroughness with which he and his chief enforcer, Wang Qishan, pursued this goal. For the first year of his new administration, Xi went after CPC leaders and managers of state-owned enterprises. He said he did not care whether an individual was at a high or low level, both 'tigers and flies' would be pursued. Then, nearly a year into his administration, Xi started to go after foreign companies for corruption. The biggest of these was GlaxoSmithKline, the British pharmaceutical company which eventually confessed to corporate bribery under Chinese law and was fined nearly half a billion dollars. But Xi's newly empowered regulators did not stop at anti-corruption: anti-competition, environmental protection, food safety, tax evasion, data privacy have all been subject to aggressive regulatory enforcement.

During the spring CPC meeting in March 2018, Xi announced a new ministry-level organisation, the State Administration for Market Regulation (SAMR). This would combine many regulators enforcing the issues listed above into one super regulator. The SAMR has just begun to get aggressive in the market, focusing mostly on anti-competition and data privacy issues; but the structure is now there to effectively and—as far as bureaucracies go—efficiently enforce China's laws.

It's now about risk management

Obviously, GA is even more critical in China now that regulators are increasingly active in the market. However, a GA team focused only on market access is completely unprepared to understand and manage the stakeholders foreign companies need to expand its scope in China's 'new era'. These new stakeholders focus on regulatory enforcement, so your GA team needs to its scope beyond market access to deal with risk management. This means understanding regulatory threats to your business, closing the vulnerability gaps in your strategy and operations, and running an effective crisis-response team should you face regulatory investigation.

There are several ways in which foreign MNCs are addressing this:

1. Re-assessing the threat landscape: Commercial threats such as bribery, conflicts of interest and intellectual property theft are still prominent in China. However, the regulators themselves have become a potential source of threat, and you need a fresh view on what they might be interested in for your sector and why. For example, how does the National Development and Reform Commission (NDRC, now part of the SAMR) define 'anti-competitive' behaviour in your sector? Is it pricing? Control of distribution? If Chinese regulators are not prominent on your list of threats, you are missing something.
2. Re-mapping stakeholders: The regulatory environment has shifted, so the old maps cannot be your guide. In addition to the players influencing market access, you need to understand the regulators enforcing the rules in your sector. For example, who in the NDRC is responsible for regulating your sector (and your company) and what are their goals and motivations? Do they share the same understanding of how your market works as you do? For example, do they know why you have the mark-ups in your distribution channel that you do and, in their minds, are these reasonable?
3. Identifying vulnerabilities from this new landscape: You need to penetration-test your China strategy and operations. If the NDRC were to do a dawn raid to investigate you for anti-competitive behaviour, how would you respond? Do you know what your pricing policies are? More to the point, do you know if they are actually being followed by your sales team and distributors? Have you had any recent complaints from distributors that they lack flexibility to decide on end-user prices? These are all questions the NDRC will be asking you, and you will need a ready answer.

Been there, done that

Complacency is a common trait among foreign companies that have been in China for some time. It is these companies that have the most difficulties when they face regulatory scrutiny. They do not see it coming and are not prepared for it. A more aggressive regulator is now part of 'New Era China' and companies need to ensure that they are able to handle the challenges of the 'new normal' economy.

Control Risks

Control Risks is a specialised risk consultancy committed to helping clients build organisations that are secure, compliant and resilient in an age of ever-changing risk and connectivity. Clients include national and multinational businesses in all sectors, law firms, government departments from many parts of the world, NGOs and SNBs, both national and international.

What Slowdown?

by Fiducia Management Consultants

Despite all the doom and gloom about the future of China's economy, most international firms involved in the market remain committed to their investment. Market experts from **Fiducia Management Consultants** explain why China's allure isn't disappearing, and go on to introduce the top digital ecommerce platforms that every consumer goods business operating in China should be aware of.

It might seem paradoxical that while China's slowing economy makes headlines many international businesses selling to China continue to experience and project double-digit growth. But there are several trends that support and help explain their optimism.

Rising consumption

With consumption accounting for three-quarters of GDP growth in 2018, China is leaving behind government investment and exports as its main growth engines, and is on track to becoming a consumption-led economy. A closer look at consumer goods sales in China also shows that the much-discussed woes of the automotive sector don't reflect the general trend: growth in other categories has actually sped up.

Douyin (TikTok)

- A social network for sharing short videos
- First Chinese app to go global (over 1 billion downloads worldwide)
- 500 million monthly active users (MAU), 80 per cent of whom are <29 years old
- Brands using it: Adidas, Airbnb, Audi

Kaola

- One of China's top 3 cross-border e-commerce platforms*
- Opened two physical stores in 2018, 15 more planned for 2019
- 5 million MAU, mostly white-collar consumers aged 20 – 40
- Brands using it: Evian, Hape toys, Orangegarten (by Migros)

Meituan-Dianping

- China's #1 e-commerce company for services* (group includes food delivery app Meituan and restaurant reviews/reservations app Dianping)
- Named World's Most Innovative Company 2019 by Fast Company
- 290 million MAU in 2,800 cities; mass market focus
- Brands using it: KFC, McDonald's, Pizza Hut

Pinduoduo

- China's #3 e-commerce site*, specialising in group discounts
- Average order value: USD 6 (vs. USD 60 on JD and USD 30 on Taobao/Tmall)
- 230 million MAU, of whom 65 percent live in third tier cities or smaller
- Brands using it: Few foreign brands due to low-end focus

Vipshop

- China's #4 e-commerce app*, specialising in flash sales model
- Tencent and JD invested USD 863 million in 2017
- 130 million MAU, of which 70 per cent are female
- Brands using it: Calvin Klein, Fendi, Marc Jacobs

Xiaohongshu

- Social network and e-commerce platform, featuring user-generated content (e.g. product tutorials and reviews)
- Started out as a platform to share overseas shopping experiences and tips
- 30 million MAU, mostly from the 'post-90s generation'
- Brands using it: Braun, MAC Cosmetics, Philips

* Ranked by sales value

Premiumisation

A growing middle-class is driving premiumisation, which favours foreign brands that sell higher-end goods. Average foreign-made consumer goods prices, for instance, are rising faster than inflation, as steeper price tags become a selling point rather than a turn-off.

Generational change

With a savings rate of 46 per cent, compared to the United States' 18 per cent, China is known for its thrift. But generational change is shaking things up. China's Generation Z, born after 1998 into an already prosperous country, are keen spenders. They already account for 15 per cent of all household spending, versus just four per cent in the US.

Online retail

China's e-commerce market is another cause for optimism. It continues to be the world's fastest-growing, offering new and lower-risk avenues for foreign companies to reach consumers.

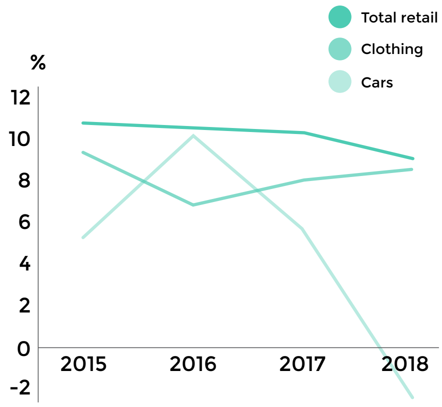
China's digital landscape

Rather than its slowing economy, what concerns most foreign companies is China's dizzying digital landscape. Being familiar with WeChat, Tmall, and JD is no longer enough to stay ahead. On the left are six digital platforms worth looking into for sales and/or marketing purposes.

For all its promising signals, China's maturing consumer market also holds new challenges for foreign companies, including a complex digital ecosystem and highly demanding consumers. There is still a positive outlook for China as a growth market, but there are also many pains and pitfalls market entrants are likely to face on their path to success. Preparing in advance for all possible outcomes and learning from the experiences of businesses and stakeholders already established in the market may help reduce these growing pains.

Growth in Chinese Retail Sales

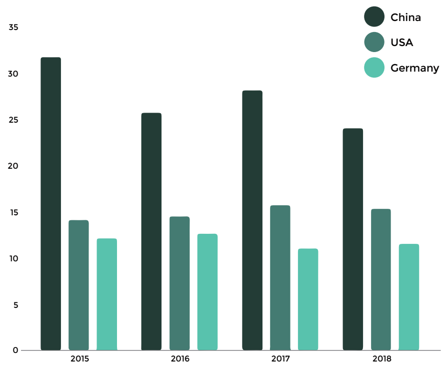
(% change over previous year)



Source: National Bureau of Statistics (NBS)

Growth in Online Retail Sales

(% change over previous year)



Sources: NBS, US Census Bureau, BEVH

When Slowdown Meets Tariffs

by Jacob Gunter

European companies in China are increasingly feeling the pinch of two converging forces: the Chinese economic slowdown and the US-China trade war. Unfortunately, neither display any indications of letting up in the near future. **Jacob Gunter**, **Policy and Communications Manager** at the European Chamber, walks us through the intersection of these issues using some behind-the-scenes info from the recently published *European Business in China Business Confidence Survey (BCS) 2019*.

Economic slowdown

Operating in the late stages of a business cycle is always concerning, but is particularly so when in the uncharted waters of China's economic slowdown. The BCS 2019 found that the Chinese economic slowdown was a top concern of European companies, with 45 per cent listing it as a top three issue, 12 percentage points higher year-on-year (y-o-y). The global economic slowdown ranked second, with 27 per cent viewing it as a top three issue.

Why the gap?

I'd argue that the novelty of the Chinese economic slowdown is the biggest reason. We have pretty clear expectations for when the world economy goes through the business cycle, but less so for the Chinese economy. During the 2007/2008 global financial crisis, China flooded its market with stimulus through infrastructure and construction to keep things afloat. That may no longer be an option in a country with fewer resources at its disposal and infrastructure built far beyond demand. In a market where knowing the direction of upcoming policy is often key to success, this uncertainty is a major risk factor.

Furthermore, we have no basis from which to project changes in Chinese consumers and their spending habits in a proper slowdown. What happens to consumer spending when entire generations that have reliably seen rising salaries and steady employment suddenly lose confidence in either, let alone both? This is particularly concerning to many European companies that rely on the quality of their products to compensate for their higher costs. Everyone from French wine producers to Polish game developers will be challenged by this unprecedented shift in consumption.

Trade war

If the economic slowdown is the anvil on which European companies are being struck, then the US-China trade war is the hammer. A quarter of respondents export products to the US that are affected by US tariffs. They found the rates—mostly 10 per cent—challenging but manageable; only 14 per cent of affected members said they lowered prices. That becomes much less feasible at 25 per cent tariff rates.

The same goes for China-based European firms that rely on supplies produced in the US. Just over a quarter of respondents import supplies from the US, three-fifths of which said prices had gone up as a result of the tariffs. Of those, 38 per cent raised prices on their products, 34 per cent kept prices the same, and 28 per cent changed suppliers. Again, these numbers will likely change considerably for the worse after the Chinese retaliation which occurred on 1st June.

On the other hand, a potentially long-term disruption to supply chains stemming from a trade war between two major economies would encourage companies caught in the middle to consider how to mitigate the situation. For many, that would demand greater onshoring into either the US or China, or perhaps the establishment of a dual system that serves the two markets separately.

The intersection of the economic slowdown and trade war, while challenging for most European companies, will create new hurdles, and even some opportunities, for many.

EU chemicals producers, for example, are tightly squeezed by these issues. Most have highly diversified supply chains that inevitably cross the US-China trade 'border', which might push them to invest in supply chain mitigation. However, this is an extremely capital-intensive industry that requires long-term planning and stability; you can't simply relocate a plant worth half a billion dollars to another market overnight.

> **The intersection of the economic slowdown and trade war…will create new hurdles, and even some opportunities, for many.**

The ongoing conflict was the fourth most common concern for future business in the BCS 2019. This is surprisingly high for a new issue, especially considering the survey was conducted in January, a more optimistic time. Even then, some respondents were already taking action in response to the trade war. Delayed investment/expansion decisions (six per cent), changed supplier (six per cent), moved/moving production out of China (six per cent) and moved/moving production out of the US (two per cent) look small, but together they show an impact that can't be overlooked.[1]

Intersection

Standard business practices encourage companies to be more conservative in their investment and expansion plans in the late stages of the business cycle, and instead consider how to slim down and prepare for lean days.

Medical device producers often rely on highly specialised components made by only one or two suppliers. If those components happen to cross the US-China trade 'border', the supplier is unlikely to eat the costs. That may look like an insurmountable challenge to affected companies, but consumers are much less likely to compromise over the price of their healthcare as they would for something less critical. That is doubly the case if a company's medical devices target China's ageing population, as one of the strongest Chinese social expectations is to take good care of your parents as they age and provide them with the best money can buy.

1. All of these responses were among the options (multiple responses possible) available in answer to the BCS question on how respondents were taking action in response to the US–China trade war.

The opinions expressed in this article are those of the author and not necessarily those of the European Chamber.

Nothing Ventured, Nothing Gained

Why 'coopetition' will be the new norms for MNCs operating in China by Keat Lee

As China adapts to slowing economic growth, foreign investors are focusing on 'quality growth' over mass expansion. Though many industries have seen foreign equity caps lifted, **Keat Lee** of **Deloitte Consulting** explains how overseas firms continue to put more emphasis on merging strengths with local partners rather than merely acquiring market access.

Views on inbound investment

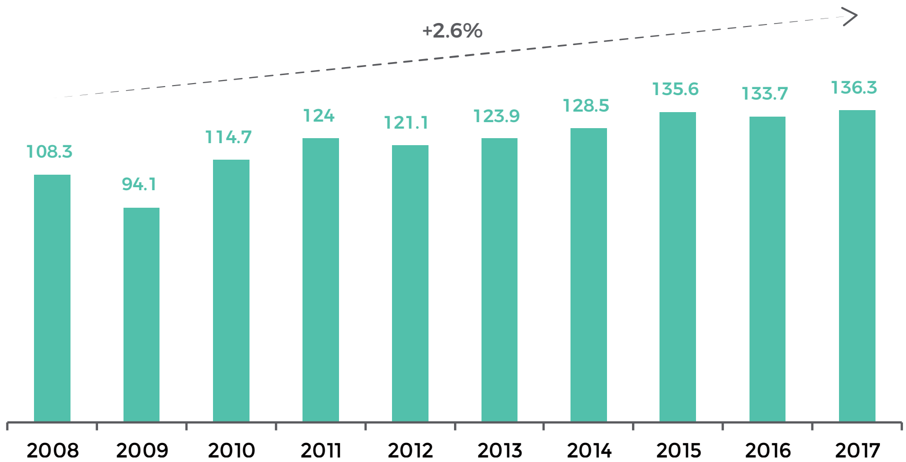
Foreign direct investment (FDI) in China has grown steadily over the past decade, reaching United States dollars (USD) 136 billion in 2017 (see Chart 1). This has been attributed to the country's increasingly favourable regulation and policy environment and stable economic growth. That same period also saw investment gradually shift from labour intensive/resource-orientated industries to high-tech/artificial intelligence-related sectors.

FDI in high-tech manufacturing has increased, with compound growth rates averaging at 12.4 per cent over the past ten years.[1] That comes as leading players in innovative technology—such as telecoms (5G), semiconductors, smart manufacturing, smart health care and future mobility—build up their presence in the Chinese market. Meanwhile, the increasing FDI in tertiary industries, especially high-tech services such as information and intellectual property (IP)-related services, indicates a more tech-orientated Chinese investment environment.

One key driver of the upward trend is the Chinese Government's policy of opening up the market more, enabling overseas firms to participate in industries once reserved for domestic players. One typical example of this is the *Special Administrative Measures for Admittance of Foreign Investments*, revised in 2018 to confirm that foreign equity limits in automotive joint ventures (JVs) will be gradually removed. The easing of restrictions will apply first to electric and commercial vehicles, and expand to passenger vehicles by 2021.

Trends in FDI into China from the European Union have also had an upwards slant. 2017 saw investments worth USD 8.3 billion, up from USD 5.1 billion in 2008 – that's an increase of more than 50 per cent over the decade. In contrast, US investment rates remain relatively stable, which is partially due to the negative impact of the trade war. The tension between the two giant economies has also led some US companies to minimise risks by selling part of their China operations. For example, Eli Lilly sold the rights to two types of antibiotic medicines along with a manufacturing facility in China to avoid any negative impact from new policies that are more favourable to generic drugs.

Inbound Investment in China[2] (Chart 1)



Unit: billion USD

Meanwhile, as trade tensions still persist, it is worth noting two trends in particular currently emerging in the business market: joint ventures and 'coopetition'.

Joint ventures

Although foreign equity limits have been lifted in certain industries, for multinational corporations (MNCs), the joint venture model will persist. This system can help firms adapt to and navigate the complex China regulatory landscape by cooperating with long-term domestic partners. For instance, observers may have noticed waves of semiconductor companies setting up JVs with local partners in order to seize expansion opportunities in China.

'Coopetition'

'Coopetition' is going to be the new norm in the Chinese business environment. Up until now, the JV model was one of 'loose cooperation' with the theme of 'offering market access in exchange for management superiority and technological know-how'. Previously, it was common for foreign companies to deem local partners simply as a sales channel, which resulted in low levels of integration between the entities. As local companies develop their own R&D capabilities, the investment environment in China is becoming more competitive for MNCs. Therefore, a once competitive relationship may turn collaborative through deeper cooperation in R&D areas. Specifically, it means:

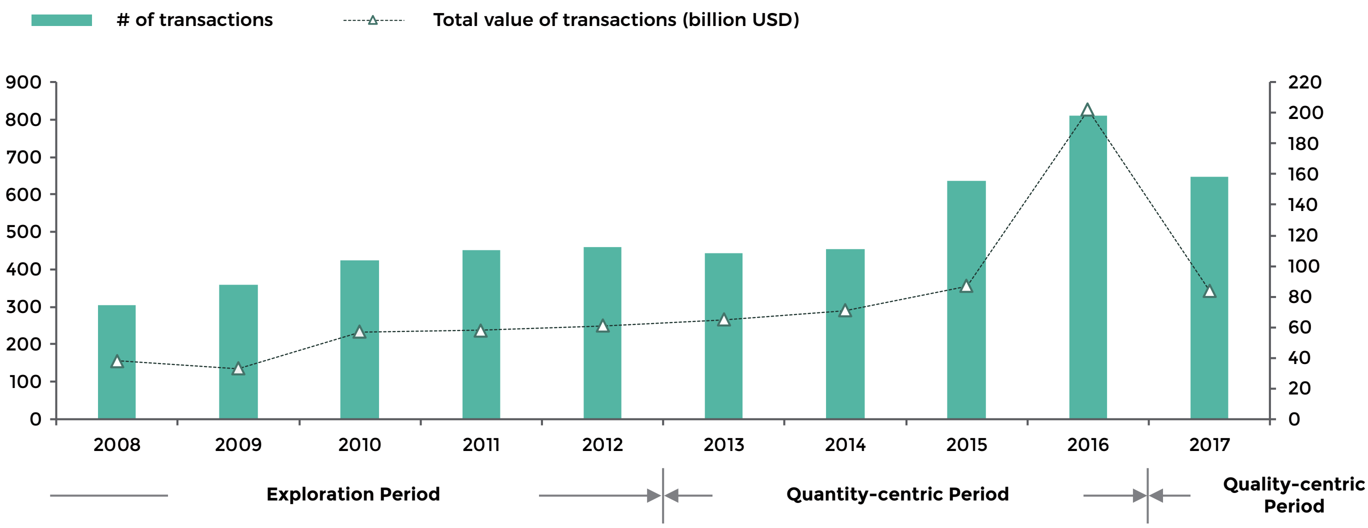
- From a product development perspective, 'co-development and co-owned IP' orientated to the China market will become the new norm; and,
- The ability to cultivate local teams with local market know-how, compliance and technology requirements will be vital.

Proper execution of the 'coopetition' model could help MNCs avoid cannibalisation of their existing global products.

For many MNC executives, the top concern over the co-development R&D model is IP infringement. Many fear that this, coupled with China's data privacy and security requirements, will erode their global competitiveness. While the Chinese Government has stepped up its efforts to protect IP, there is still a strong belief among MNC executives that data security would offer insufficient protection. This leads to hesitation in

1. *MOFCOM Yearly Foreign Investment Reports*, MOFCOM, viewed 20th May 2019, http://wzs.mofcom.gov.cn/article/ztxx/; *Ministry of Commerce: 60,533 New Foreign–invested Enterprises set up in China in 2018*, *Sina Finance*, 14th January 2019, viewed 20th May 2019, http://finance.sina.com.cn/roll/2019–01–14/doc–ihqhqcis6126351.shtml
2. Ibid.

China Cross-border M&A Transactions[3] (Chart 2)



Number of transactions refers to all transactions made in the year; the total value excludes undisclosed deals.

investing or bringing the latest technology or IP into the Chinese market.

Views on outbound investment

China's cross-border investment can be broken down into three main periods. The initial phase began in 2008, and can be defined as the 'exploration period'. At that time, large state-owned enterprises focused on accumulation and expansion in pillar industries such as oil and gas or mining and steel, with the aim of securing global commodity resources.

Since 2013, as the economy remained strong and with the introduction of the Belt and Road Initiative, mass numbers of Chinese companies have participated in cross-border investment to gain brand and technology competitiveness. This era could be regarded as the 'quantity-centric' period, with investors prepared for potentially low returns. This trend reached its peak in 2016 as diversified investors (stated-owned/private companies and local funds) penetrated a variety of industries.

More recently, the 'quality-centric' period has seen more rational investors take the stage. With more experience in overseas deals and risk control, this group focuses on assets with synergy value. A growing number of Chinese companies realise the importance of post-deal integration, risk control, culture alignment and talent cultivation.

Meanwhile, government policies and regulations are also playing a part in cooling down the global market. Protectionism has led the US and certain European countries to restrict foreign investment in high tech and state security-related areas.

In this new 'quality-centric' period, China's cross-border M&A investments have evolved to be more market-orientated, diversified and with more emphasis on strategic planning and achieving synergy. Compared to SOEs, private enterprises—or 'people enterprises' as they're called locally— have become more involved in consumer products, industrial goods, travel and entertainment industries in recent years. Many Chinese companies are now seeking minority shares in foreign players to improve customer experience and enrich their product portfolio. For example, China Eastern Airlines formed a tripartite alliance with the Air France-KLM group in order to offer an ever-expanding range of services and share non-aviation resources. Another case is that of Tencent obtaining the rights to publish Ubisoft's PC and mobile games, after purchasing a five per cent stake in the French game company.

In summary, while trade tensions will persist, the fact that the US business community is increasingly putting pressure on their government to reach a deal is building hope that commercial rationale will ultimately prevail. However, this may still not make doing business in China any easier. The data privacy and security rules that require data residence in China may make MNCs hesitant to bring their most valuable or latest IP onto Chinese soil. Having said that, China is putting effort into opening up its market, particularly regarding accelerated easing of restrictions for the financial industry, and reducing JV requirements for the automotive industry. MNCs will still be prepared to plough their tech know-how into the large Chinese market to capture a piece of it. In many Chinese industries, local insight is still essential for success, and therefore JVs as a market-entry approach will persist. Eb

The opinions expressed in this article are those of the author and not necessarily those of the European Chamber.

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3. Dealogic, <https://www.dealogic.com/>

Living it Large

A post-90s child's perspective on China's rising 'singles economy' by Tracy Chen

In China, the marriage rate is declining and the age at which people first tie the knot is going up, suggesting that the institution is losing its allure for the youth. This group, mainly born after 1985, also has a reputation for being happier spending instead of saving. As increasing numbers remain unfettered by marriage, they become a crucial force in fostering new consumption trends. **Tracy Chen**, the **European Chamber's Publications Coordinator**, gives us an insider's account of what makes her peers tick.

Born in 1991, I am one of the post-90s generation. I am single and have no plans to get married anytime soon.

In my spare time, I like watching Netflix series, going to gigs and exercising.

Bags from Loewe, lipsticks from Tom Ford, facial cream from La Mer...I have an endless wish list.

In recent years, I travelled two to three times a year, with at least one of those trips abroad.

I am allergic to cats' fur, but I am still jealous of my peer Andrew who owns two. 'Having dogs and cats when you are young' (年纪轻轻猫狗双全) has become a symbol of financial success for many young people because the costs of raising pets can be surprisingly high. Andrew lives with his girlfriend and is an enthusiastic fan of Dyson, Delonghi and Xbox products.

It came as quite a shock to me when I found that our hobbies and consumption needs are all precisely reflected in a survey recently conducted by the Sinolink Securities Consumption Research Centre.[1] Titled *China's Rising 'Singles Economy' Stimulates New Consumption Trends*, their survey results are based on 2,000 young unmarried adults born in the 1985 – 1995 period.

Data shows that the number of single adults in China reached 220 million in 2017, making up 15 per cent of the total population.[2] The ever-increasing group of singles has given rise to China's 'singles economy'.

According to the survey, young singles are more willing to consume as they do not have family responsibilities or the financial burden of raising children. Their spending is basically to meet their own needs – to save time, please themselves, seek spiritual comfort or achieve self-improvement. This means convenience stores and online shopping (with delivery to the consumer's door) will see consumption rates rise. The popular Chinese social media concept of 'looking good with an interesting soul' will drive consumption of cosmetics, tourism, household appliances, pet care and vocational training. Sinolink Securities also predicts that e-sports, animation, comics and videos will become essential elements of singles' consumption.[3]

Andrew and his girlfriend holding their two cats at his apartment in Beijing. The young couple personalised the cats by naming them Zhipeng and Haiyang.

Four of the industries in line for a 'singles' economy' boost will be explored in this article.

Travel: to cultivate an interesting soul

One of the main reasons young singles travel is to immerse themselves in another living environment for a while with the hope of finding balance between body and mind. In other words, this is a spiritual need and a life experience. Therefore, the survey does not see a big difference in the travel frequency of young singles living in different tiers of cities. Whether they live in China's biggest and most developed cities, or in the less well-known third- to fifth-tier cities, all travel once or twice per year, despite the big gap in income.[4]

Aside from money, their desire to get on the road is far less restricted by time as well. Young travellers now are happy to use their annual leave to travel during the off-season, so they can spend less and enjoy less crowded locations. Even having a travelling companion is not as important as before. The number of people travelling alone rose by 10 per cent in 2018, according to the Chinese online travel service provider Tuniu.[5]

Cosmetics: looking good makes me happy

The boom in the cosmetics industry can be seen as a direct result of Chinese youngsters' pursuit of being 'good-looking'. Unlike their parents, the new generation first gained access to cosmetics in high school or even earlier. Once the habit of using cosmetics is formed, it can last a lifetime.

Not only has the industry's 'lifespan' has been extended, customers' needs for cosmetics and skin care are becoming increasingly diverse

1. *China's Rising 'Singles Economy' Stimulates New Consumption Trends*, Sinolink Securities Consumption Research Center, 12th February 2019, viewed 18th May 2019, <https://mp.weixin.qq.com/s/BmioJyo4ev11sRX4B7HmMQ>
2. Ibid.
3. *China's 'Singles Economy' Stimulates New Consumption Trend*, People's Daily Online, 14th March 2019, viewed 19th May 2019, <http://en.people.cn/n3/2019/0314/c90000–9556084.html>
4. *China's Rising 'Singles Economy' Stimulates New Consumption Trends*, Sinolink Securities Consumption Research Center, 12th February 2019, viewed 18th May 2019, <https://mp.weixin.qq.com/s/BmioJyo4ev11sRX4B7HmMQ>
5. *Tuniu Released its Report on Travel Consumption of the Single Post–90s*, 199IT, 12th November 2018, viewed 20th May 2019, <http://www.199it.com/archives/795062.html>

and specific. For example, a beginner might only want BB cream to adjust skin tone, while an experienced user would need primer, foundation, concealer and setting powder for a flawless finish.

Males are no exception in investing more in their appearance. Statistics released by Alibaba's Tmall indicate 2018 sales of men's grooming and cosmetic products grew at an average annual rate of 56 per cent. Year-on-year (y-o-y) growth of male cosmetics sales alone reached as high as 89 per cent.[6]

Beautifully-designed household appliances are good, but better in miniature

Customers' pursuit of beauty is not limited to their own appearance, but also expands to the household appliances they buy. Appliances with a sharp and minimalist design, such as those by Muji, or in a modern industrial style like Dyson products, are in vogue among young singles. This reflects the aesthetic standards among the youth of today.

Another significant trend is miniaturisation. Daily necessities are being produced in smaller sizes to cater for solo use, and these mini products are becoming increasingly popular. For example, over the last 10 years, sales of mini-microwaves increased by 970 per cent, mini-washing machine sales by 630 per cent, and sales of personal hot pots by 200 per cent.[7]

Pets: a new family member

Statistics from the *2018 Chinese Pet Industry White Paper* show that the pet care market reached over CNY 170 billion last year, a 27 per cent y-o-y increase. Among China's 73.5 million pet owners, post-80s and 90s generation account for 75 per cent.[8]

An animal is a way to compensate for the loneliness of being single. Knowing that their pets are waiting for them to come home is also a spiritual comfort for young people after a long day of stressful work. Even when young people find love, Chinese couples tend to delay marriage and children due to the associated costs and responsibilities. A pet has therefore become a perfect substitute for children, as dogs or cats will not significantly change the lives of their owner while still creating a family atmosphere.

As owners treat their pets as a family member, they spend more on making sure the animals are in good health. Spending on pet care—such as health checks, vaccinations, vet bills—grew by 15 per cent in 2018, indicating a upgrade of consumption in this industry.

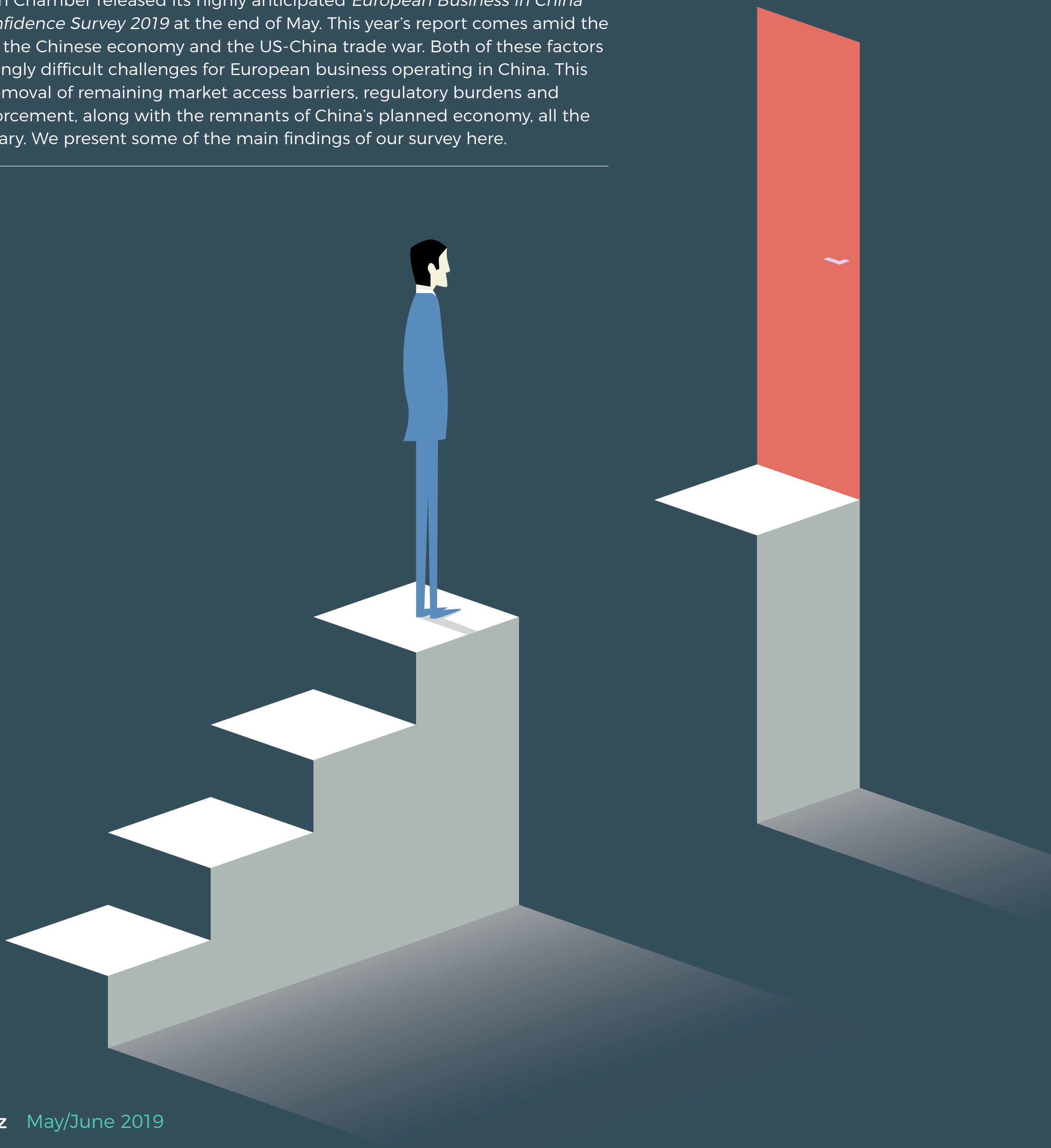
Looking back at 2018, total consumer goods retail sales grew by nine per cent year-on-year to CNY 38.1 trillion, though that was still a 1.2 per cent drop compared to 2017.[9] In the first four months of 2019, the growth rate slid further to eight per cent.[10] However, high-speed growth can still be found in the abovementioned industries. Although the business opportunities in these sectors are not necessarily a panacea for the economic slowdown, it definitely shows us where the future lies.

6. *TMALL Released Report on 'Appearance Economy': Sales of Cosmetics Grew by Over 60% in 2018*, Sohu, 4th March 2019, viewed 20th May 2019, < http://www.sohu.com/a/299017033_674975>
7. *China's 'Singles Economy' Stimulates New Consumption Trend*, People's Daily Online, 14th March 2019, viewed 19th May 2019, <http://en.people.cn/n3/2019/0314/c90000–9556084.html>
8. *2018 Chinese Pet Industry White Paper says the Market Size has Reached 170.8 billion yuan*, Goumin.com, 30th August 2018, viewed 20th May 2019, <http://news.goumin.com/a/2018–08–30/0011535649660.html>
9. Total Retail Sales of Consumer Goods up by 9.0 percent in the First Twelve Months of 2018, National Bureau of Statistics, 24th January 2019, viewed 21st May 2019, <http://www.stats.gov.cn/english/PressRelease/201901/t20190124_1646614.html>
10. Statistician from the National Bureau of Statistics Analysed the Total Retail Sales of Consumer Goods of April 2019, National Bureau of Statistics, 15th May 2019, viewed 21st May 2019, <http://www.stats.gov.cn/tjsj/sjjd/201905/t20190515_1665104.html>

Committed Yet Concerned

European business says increasing global challenges make reform an imperative

The European Chamber released its highly anticipated *European Business in China Business Confidence Survey 2019* at the end of May. This year's report comes amid the slowdown in the Chinese economy and the US-China trade war. Both of these factors pose increasingly difficult challenges for European business operating in China. This makes the removal of remaining market access barriers, regulatory burdens and unequal enforcement, along with the remnants of China's planned economy, all the more necessary. We present some of the main findings of our survey here.



China's significant market opening announcements made in 2018 were received with mixed feelings by the European business community. Despite bringing some improvements, positive impacts have been diluted by stagnation, or even backsliding, in other areas. Scepticism remains as to whether reform promises will become a reality, as there has been a lack of consistency in the signals coming from the Chinese leadership. While European businesses have heard that China's door will continue to open wider and wider, they have also witnessed sustained support for state-owned enterprises, higher incidences of unfair technology transfers and the strengthening of the Communist Party's role in business.

Added to this, pressure caused by macroeconomic challenges—with the global and Chinese economies continuing to slow—coupled with the slow pace of regulatory reform, mean that many European firms are facing increasingly difficult times while tied up in red tape that should have been cut years ago.

Increased market access in their respective industries was reported by 40% of respondents to the *Business Confidence Survey* (BCS) *2019*. This is largely due to the June 2018 revision of the negative list for foreign investment, in which the number of sectors previously restricted or prohibited to foreign investors was reduced. Timelines were also published for the gradual lifting of ownership caps in the financial services and automotive sectors. As a result, a quarter of members reported feeling more welcome than when they first entered the Chinese market, citing increased market access as the most significant reason.

This is certainly progress but it is far from universal or complete. While meaningful change was seen in cosmetics, for example, which had the largest share of respondents (82%) report opening up in the past twelve months, other industries reported market closing. It is highly concerning that closing was seen in legal services (23%) and information and communications technology (ICT) (26%). These industries assist companies operating in multiple sectors of the economy, thereby amplifying the negative impacts.

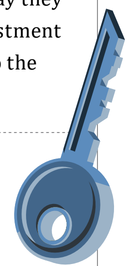
In addition to market opening, the foreign business community is increasingly focussing its attention on other issues in need of improvement, such as regulation, equal treatment and SOE reform. Nearly half of the survey respondents say they believe regulatory obstacles will continue to increase over the next five years. The top three issues are: ambiguous rules and regulations (48%); the unpredictable legislative environment (33%); and administrative issues (29%).

Unequal treatment is reported by 45% of respondents, with the most frequently cited areas of discrimination being market access (43%), administrative issues (28%) and communication with the government (26%). Chinese firms operating in the EU are afforded equal treatment, and it is high time that European companies with a base in China can also count on reciprocal treatment.

The shadow of the state-owned economy continues to loom over the Chinese market, with 70% of European enterprises reporting that SOEs are present in their industries. Respondents also say SOEs hold advantages in most areas of doing business, including public procurement, the ability to influence policy, and access to financing and licences. Despite official announcements that competitive neutrality will be implemented, European firms have a mixed outlook: a third believe it will be realised in the next two to five years, while another third expect it will never happen.

One of the more significant shortcomings of China's reform agenda is that certain high-level promises to improve its business environment for international companies have failed to translate into concrete action. For example, many European firms report that unfair technology transfers have continued to take place, despite official assurances this practice would be stopped: 20% of BCS respondents said they have felt compelled to transfer technology in order to maintain market access, up from 10% in 2017. Of this group, 63% felt compelled to transfer technology within the last two years, and a quarter said the transfer was still taking place at the time of the survey in January 2019.

Yet in spite of these substantial challenges, the Chinese market remains a top-three destination for current and future investment for 62% of respondents, a reminder that the business community is not inclined towards decoupling between Europe and China. At the same time, there remains vast untapped potential in the EU-China investment relationship. Two-thirds of members (65%) say they would be likely to increase their investment if they were granted greater access to the Chinese market.



26%

of BCS respondents said they have felt compelled to transfer technology in order to maintain market access.

65%

of members say they would be likely to increase their investment if they were granted greater access to the Chinese market.

China's market is also increasingly important for European companies because of the ideas and technology being created in the country. In 2019, a majority of respondents said Chinese firms were equally or more innovative than European firms, the second consecutive year this has happened. The vast majority (81%) of European enterprises see opportunity in domestic Chinese innovation. This is likely because they expect to benefit from both better suppliers and stronger competition, which can spur them on to deliver higher quality goods and services at the best possible prices.

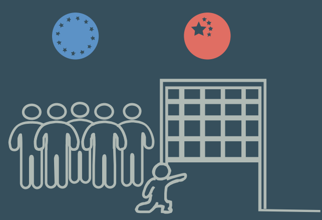
China would do well to capitalise on this situation, and foster a more competitive economy. This will necessitate continued market opening in conjunction with complementary regulatory reforms to eliminate direct and indirect investment barriers, and a commitment to ensuring rules are properly implemented. By doing so, China can deliver on its promises to create an open, fair and well-regulated economy, thereby increasing foreign investment and achieving its goal of successfully transitioning to an economic model based on sustainable development.

Scan the QR code to download *European Business in China Business Confidence Survey 2019*

Business Confidence Survey 2019 Findings

European businesses see progress in some areas

40 %
of respondents saw market opening for foreign companies in 2018
... but only **9** %
of those said it was significant



26 %
feel more welcome than when they first entered the Chinese market (+4% y-o-y)

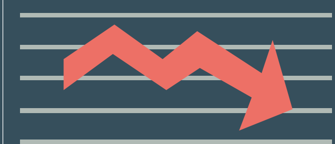
33 %
of respondents increased their share in a JV

38 %
of respondents see China's R&D and innovation environment as more favourable than the worldwide average

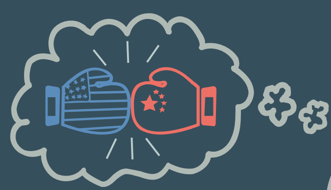
81 %
of respondents see opportunities in Chinese innovation

74 %
of respondents said they saw improvement in air quality in 2018

Business outlook remains mixed



27 %
of respondents said the Chinese economic slowdown is the number one challenge to future business



4th
The US-China trade war is now the 4th major challenge to future business

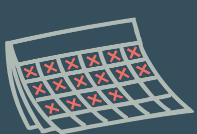
56 %
of respondents say Chinese firms enjoy better market access in Europe than European firms enjoy in China

Regulatory reform needed now more than ever

40 %
of respondents say regulation had a negative impact on their net profit margin

30 %
of respondents say they face indirect market access barriers (e.g. access to licences)

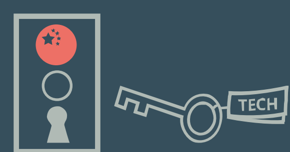
20 %
of respondents have been compelled to transfer technology (up 10 percentage points from 2016)



32 %
of respondents said it took them over six months to set up a business

50 %
of respondents rate the ease of doing business as difficult

41 %
of respondents believe regulatory obstacles will worsen over the next five years



...and **63** %
said the transfer happened within the last two years

Internet access

51 %

of respondents say ease of access to internet services is unfavourable compared to worldwide average

Data regulations

24 %

of respondents say data localisation requirements raise security concerns

...and

24 %

say it may increase costs

Cybersecurity Law

67 %

of respondents believe the Cybersecurity Law will lead to increased operational burdens

...and

29 %

believe it will lead to market access restrictions

Unequal treatment

45 %

of respondents say they are still treated unfavourably compared to domestic Chinese companies

SOEs are present in

70 %

of respondents' sectors

Top three areas where SOEs hold the advantage over private firms

- Access to government contacts
- Access to cheap financing
- Ability to influence policy

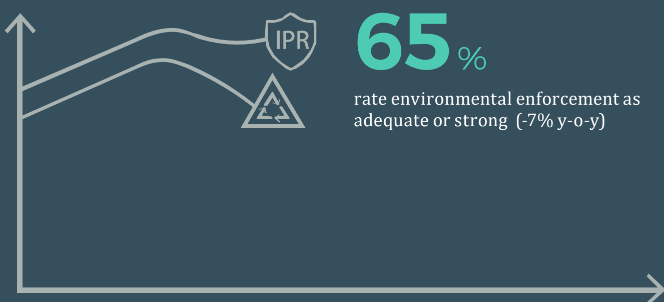
Some progress stalls

35 %

rate IPR enforcement as adequate or excellent (+1% y-o-y, vs +5% the previous year)

69 %

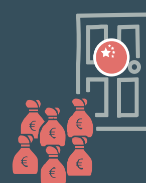
of respondents that suffered IPR infringement said it happened in the past two years



65 %

rate environmental enforcement as adequate or strong (-7% y-o-y)

European firms remain dedicated to Chinese market



65 %

of respondents would increase their investment in China if given greater market access

SME wakeup call

40 %

of SMEs' EBIT margins increased y-o-y vs 50% for large firms

50 %

of SMEs said they are treated unequally compared with domestic firms

39 %

of SMEs do not expect to ever see meaningful opening in their sector

26 %

of SMEs' net profit margins negatively affected by access to financing, vs 14% for large firms

34 %

of SMEs do not expect to ever see a level playing field through national treatment

24TH APRIL
BEIJING

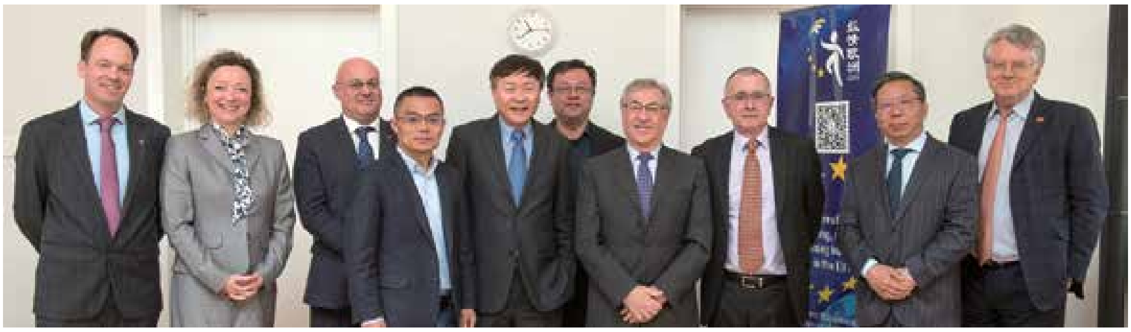
Advisory Council Meets with European Commission Vice President Šefčovič

VP Sefcovic meets with members of the European Chamber before the Belt and Road Forum in Beijing, China.
Photo: Dan Sandoval

On 25th April, European Chamber Vice President (VP) Charlotte Roule led a delegation of members of the Advisory Council to meet with European Commission Vice President (VP) Maroš Šefčovič and EU Ambassador to China, Nicolas Chapuis. In Beijing to attend the Belt and Road Forum, VP Šefčovič and members of his cabinet were eager to hear the on-the-ground perspectives of European companies operating in China. VP Roule provided suggestions for VP Šefčovič's ongoing discussions with the Chinese authorities on the topics of the circular economy, China's energy sector and the BRI. The discussion was then opened up to all participants who shared their experiences on a wide variety of topics. The meeting ended with VP Šefčovič encouraging the European Chamber to reach out to the next commission after it has formed so as to help provide early insight on China to new leaders.

3RD APRIL
BEIJING

Chamber Delegation Discusses Environmental Issues with Commissioner Vella

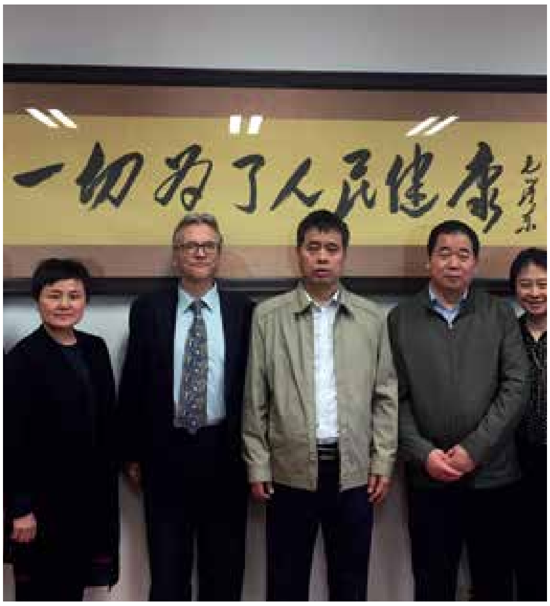


Representatives from the European Chamber meet with Karmenu Vella, EU Commissioner for the Environment, Maritime and Fisheries.
Photo: Aaron Berkovich

On 3rd April, European Chamber Vice President (VP) Massimo Bagnasco led representatives from the European Chamber to a meeting with Karmenu Vella, EU Commissioner for the Environment, Maritime and Fisheries. VP Bagnasco presented on the work of the Chamber before various representatives discussed developments in China in areas like the evolving circular economy, energy efficiency and coal to natural gas transition. They also brought up safety and environmental concerns stemming from the recent chemical plant explosion in Jiangsu. Commissioner Vella thanked the Chamber representatives for their continued support and input. He went on to say that the issues raised during this meeting would be taken into account during his engagement with the Chinese leadership, and would also help inform the European side during the then-upcoming EU-China Summit.

15TH APRIL
SHAANXI

Chamber Advocacy Reaches Shaanxi to Ensure Member Interests are Advanced



A European Chamber delegation meets with Zhao Yuehu, deputy director general of the Shaanxi Provincial Health Security Administration and other HSA officials.
Photo: European Chamber

Nancy Chen, vice chair (VC) of the Consumable and Disposable Medical Devices (CDMD) Advisory Committee (AC), led a European Chamber delegation to meet with Zhao Yuehu, deputy director general (DDG) of the Shaanxi Provincial Health Security Administration (HSA) and a group of other leading officials from relevant offices on 15th April. Following a call for feedback from the provincial HSA, the CDMD working group submitted recommendations regarding the centralised procurement of disposable medical devices. As Shaanxi is the leader of the Western Procurement Alliance (WPA)—a group of western provinces that coordinate procurement—policies in Shaanxi heavily influence the entire region. VC Chen made recommendations such as: more frequent updating of procurement catalogues; lowering the threshold for including new medical devices in the catalogue; exchanging updates and catalogues with other provinces in the WPA; and a more flexible approach to pricing that considers order quantities and logistics.

17TH APRIL
SICHUAN

European Chamber's Sichuan Tour Meets with Province's Vice Governor

On 17th April, European Chamber Vice President Massimo Bagnasco and Southwest Chapter Chair Paul Sives led a delegation of business leaders to meet with Wang Yihong, the vice governor of Sichuan Province. Vice Governor Wang outlined recent developments in Sichuan, as well as plans for future efforts to improve the business environment in the region. VP Bagnasco thanked Vice Governor Wang and his colleagues for their efforts and presented him with a copy of the *European Business in China Position Paper 2018/2019*. Chair Sives then outlined recent activities of the Southwest Chapter, after which the delegation discussed issues raised in the recently published *Southwest China Position Paper 2018/2019*. Following the meeting, the provincial government contacted the European Chamber to follow up on several issues, most notably recommendations on developing better skilled workers in the region.

19TH APRIL
SHENYANG

Shenyang Chapter Helps Forge City Ties with Vienna to Boost Local Attractiveness

Harald Kumpfert, chair of the Shenyang Chapter, brought visiting Ernst Woller, first president of the Vienna State Parliament, to a meeting with Li Songlin, vice mayor of Shenyang, on 19th April. Chair Kumpfert began the discussion by making several recommendations on how to improve the local business environment for European enterprises in Shenyang. Vice Mayor Li outlined some of the current plans for the city. He also thanked the local chapter for the constructive recommendations found in the *Shenyang Position Paper 2017/2018*, which he said have been useful for local authorities. For his part, Mr Woller shared Vienna's municipal development history so Shenyang might draw on the experiences as it tries to improve its own image and quality of life. Vienna has been selected as the most attractive city in the world for the past ten years. Mr Woller said this was in no small part due to its convenient public transportation, limited traffic, cultural diversity and environmental protection. The meeting concluded with an agreement to exchange information on city energy and waste management.

Innovation

The key to addressing NEV charging pain points in China

by Yong Teng, Eric Wang, Yiru Lou and Dennis Ding

China's new energy vehicle (NEV) ownership had reached over 2.6 million (including both passenger and commercial vehicles) by the end of 2018, with a compound annual growth rate of 120 per cent over the past five years. However, the construction of charging facilities in China is not keeping pace, which is impeding further development of the NEV industry. Most owners of large NEVs in China rely on public charging stations. As a result, their charging experience is far from ideal and, unfortunately, also unlikely to improve significantly in the short term. Can original equipment manufacturers (OEMs) improve customer experiences through innovative business models, service offerings and app functionalities in order to continue driving NEV adoption? **L.E.K.'s Yong Teng**, **Eric Wang**, **Yiru Lou** and **Dennis Ding** compare mainstream approaches adopted by OEMs and propose corresponding strategies to improve customers' charging experiences.

Charging infrastructure issues

China's charging infrastructure is severely lagging relative to the rapid growth of NEV ownership. Currently, each charging point needs to serve around three and a half NEVs (see Figure 1).

Due to infrastructure constraints, the penetration rate for private charging points is still low—at just 22 per cent—and is expected to remain so in the short term. The National Energy Administration set a target of building 700,000 private charging points by 2017, but only 40 per cent of that goal was realised. Two factors are restricting the establishment of private charging points: insufficient private parking spaces in which to build private charging points and insufficient power capacity at residential communities.

The public charging infrastructure market is still in an early 'cash burning' model, with low profitability posing a serious challenge to charging point operators (CPOs). This will make it difficult to achieve the government's target of 4.8 million charging points and a one-to-one NEV-to-charging-point ratio by 2020. Therefore, despite most NEV owners relying on public charging points, they are facing significant pain points in the 'locate', 'charge' and 'pay' process of their charging journey (see Figure 2).

What's needed: a sustainable charging service model

Major market players adopt various strategies to improve charging experiences. Below is an analysis of their approaches from three aspects: business model, service offering and app functionalities.

1. In terms of business models, more and more OEMs choose a light-asset model and stay away from construction and operation of charging facilities.

Fewer and fewer OEMs choose to self-build a large-scale charging network. This is due to traditional OEMs facing sales and profitability challenges, and emerging NEV OEMs facing capital constraints in the current market.

Nevertheless, a light-asset model does not mean completely giving up all control of the physical charging network. Effectively leveraging third-party charging resources, obtaining real-time charging information, and launching innovative value-added services based on collected data will be key for OEMs.

2. In service offerings, some OEMs have made a few innovative attempts, from mobile charging vans, valet charging and battery swapping, to wireless charging and robotised charging solutions. However, the actual economics are rather questionable.

It is challenging for mobile charging vans and valet charging services to become mainstream. These services are more applicable to special use case scenarios such as emergency road assistance. Examples of the difficulties include:

- **They require high capital and labour investment.** The cost of a single trip by a mobile charging van is Chinese yuan (CNY) 250 – 300, while customers usually pay less than CNY 200 at a charging station. A typical mobile charging van runs three cycles per day and can charge six cars per cycle. As the number of mobile charging vans increases, the total cost grows proportionally, making it difficult to achieve economies of scale. For OEMs that currently provide such services, the utilisation rate is only 20 – 30 per cent.

- **Although unlikely to become mainstream services, mobile charging vans and valet charging services can be positioned as a marketing tool that alleviates customers' range anxieties.** For example, a mobile charging van can deliver charging services across different geographical locations. It provides an alternative for NEV owners in emergency situations, easing range anxiety.

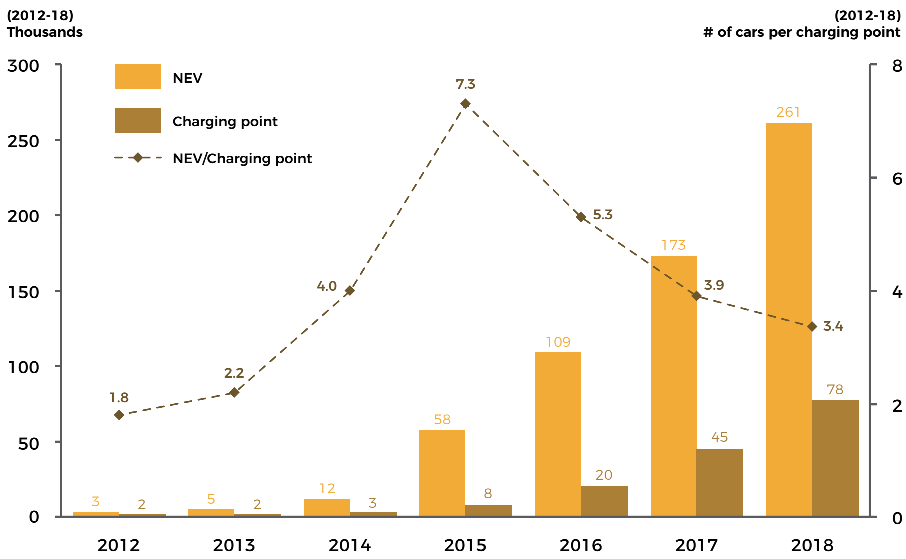
A battery-swapping service is more suitable for fleet owners, such as taxi or ride-hailing service providers. There are several challenges when applied to private vehicle owners:

- **Operation mode:** Battery packs do not have a standard design, which means the battery-swapping machinery can be used for specific vehicle models only.

- **The investment is big, making it hard to realise a profit:** The upfront investment includes CNY 1 million construction costs, CNY 80,000 – 100,000 per battery pack, CNY 20,000 – 30,000 per month site rental fee and CNY 8,000 – 9,000 per month in labor. A typical battery-swapping station also needs around 10 backup battery packs. Furthermore, training, R&D and security require large capital investment.

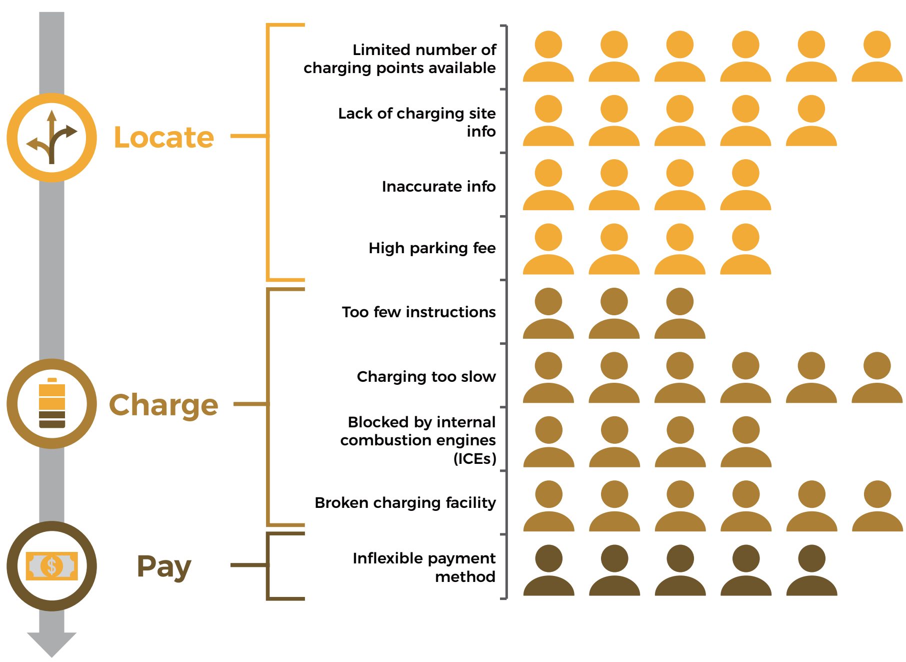
- **Opportunities exist for fleet owners, such as taxi, bus or ride-hailing service providers:** Fleet operators use identical car models, providing economies of scale. For instance, BAIC has completed eight million battery-swapping services for taxi and ride-hailing fleets across four cities and 116 stations in China.

Number of NEV car park and charging points in China (Figure 1)



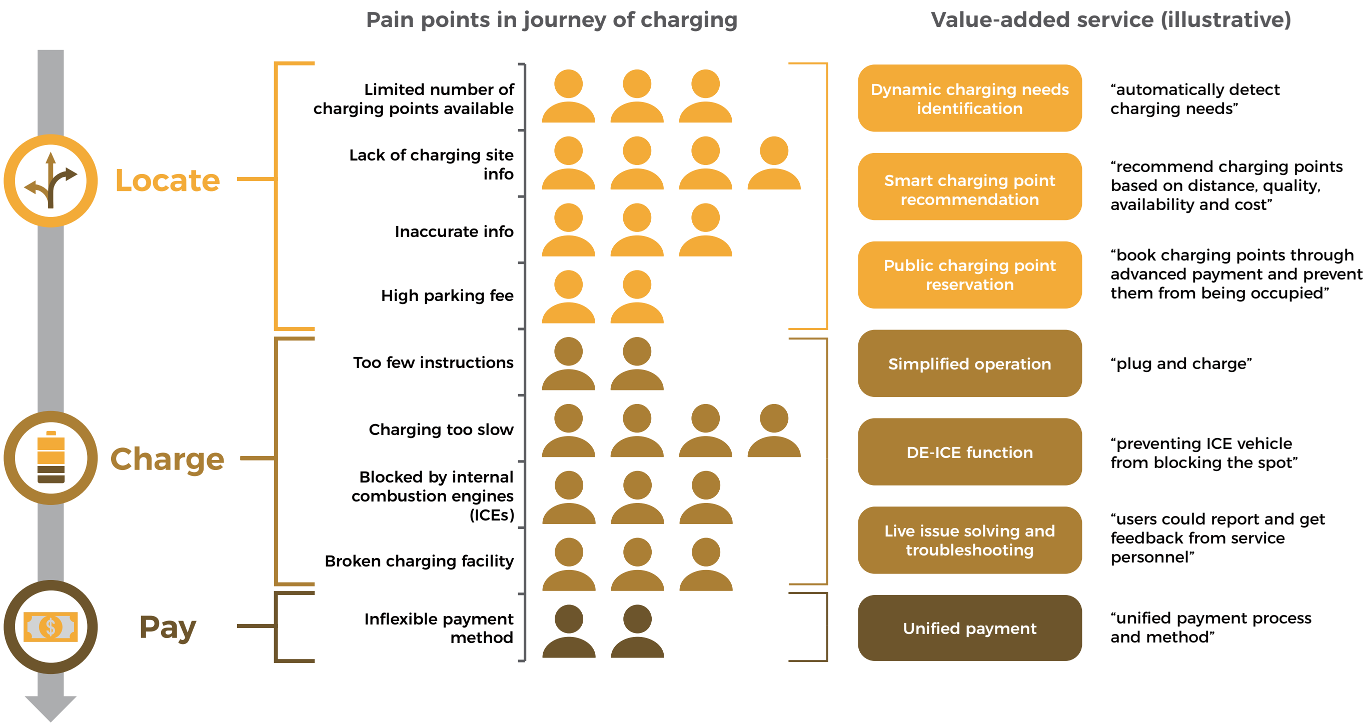
Source: Annual report of electric car charging infrastructure in China 2017; Development Guideline for EV charging infrastructure (2015-2020); China Electric Vehicle Charging Infrastructure Promotion Alliance; L.E.K. analysis

NEV owner charging experience and unmet demand (Figure 2)



Source: L.E.K. analysis

Examples of functionalities (Figure 3)



Source: L.E.K. analysis

3. In-app functionalities all have rich features, but they lack a differentiating design.

Most available apps provide highly similar functions, concentrating on charging point searches, charging information collection, smart charging, multiuser management and remote payment to meet basic customer demands.

There are many innovative charging app functions recently launched in the market, including charging point locating, remote problem-solving, and intelligent time management of private charging points. Nevertheless, customers still want functions that directly address their pain points, such as a de-internal combustion engine (ICE) function, and operational public charging point recommendations and reservation (please refer to the last section of this article for more details). Although a few OEMs have made some attempts, such functionalities have not been widely promoted because they require close collaboration between the OEM, CPO and parking lot operator.

Recommendations for OEMs

Facing the long-term gap between the rapid growth of the NEV industry and sluggish construction of charging infrastructure, OEMs should identify their differentiated competitive advantages.

1. Whether to self-build physical charging infrastructure should depend on the OEM's strategy and investment appetite. Although the light-asset model is becoming predominant, OEMs can build their market premium brand image through selectively building their own charging points and investing in new technologies.

It is imperative to integrate public charging resources at the app level. OEMs can leverage NEV traffic data as a bargaining chip when negotiating with major CPOs to achieve better data integration.

2. OEMs should select from among various innovative charging modes, focusing on the ones that fit their branding image and target customers. If they are targeting the mass market, services such as mobile charging vans, valet charging and battery swapping will need detailed cost/benefit analysis.

3. OEMs should offer features that target specific pain points along the charging journey. See Figure 3 for some examples.

OEMs should understand the strategic importance of building a seamless and differentiated charging experience to continue driving NEV adoption. It is imperative to have the business model, new technologies and service offerings, and app functionalities that match their overall strategy.

L.E.K. Consulting

L.E.K. Consulting is a world leading management consulting firm founded in Europe in 1983 and started business in China from 1998. L.E.K. Consulting now has 20 offices in Europe, USA, Asia and Australia, with over 1,200 employees and over 100 partners.

China's new Foreign Investment Law

From promulgation to implementation

by Richard van Ostende

In 2018, China celebrated 40 years of opening up and reform, a policy that played a central part in the Chinese economy growing to become the world's second largest. The Chinese Government has vowed that opening up will continue. As part of this drive, a draft Foreign Investment Law (FIL) was released in late 2018, with a revised version being eventually submitted to the National People's Congress during the 2019 'Two Sessions'. In this second installment of a two-part series, **Richard van Ostende**, Chief Representative of the **Netherlands Business Support Office**, looks at how the new law has been adopted, which steps shall be required for its implementation and the highlights of the legislation.

The National People's Congress (NPC) took place from 5th to 15th March. During the closing ceremony, China's legislative body adopted the new FIL, a decision 2,929 parliamentarians voted for, with eight against, and three abstaining. The law will come into effect on 1st January 2020. It will then replace China's current Chinese-Foreign Equity Joint Ventures Law, Wholly Foreign-Owned Enterprises Law and Chinese-Foreign Contractual Joint Ventures Law, all of which were enacted in the early years of the country's economic reform.

Next steps: detailed implementation rules

The FIL has been widely promoted as a framework emphasising equal treatment for foreign investment. The aim is to provide equal access to the Chinese market and legal protection as domestic companies.

From a high-level perspective, the FIL embodies China's continuing efforts to modernise its laws to reflect the changing global economy. The law as currently passed includes only six chapters and 42 articles. It is less detailed and substantial than the draft Foreign Investment Law proposed in 2015. Before the implementation of the law on 1st January 2020, the State Council is to promulgate specific implementation rules laying out the practical day-to-day implications for foreign-invested companies doing business in China.

Highlights of the Foreign Investment Law

H/M/T investments

The NPC Constitution and Law Committee confirmed that the FIL will not apply to Hong Kong, Macau, or Taiwanese investments (H/M/T investments).[1] These are characterised as special domestic investments. China has always applied special policies and management to H/M/T investments, and deems it appropriate to

1. *13th Session of the National People's Congress Constitutional and Legal Committee: About the Foreign Investment Law of the People's Republic of China Report on the Outcome of the Consideration of the draft Foreign Investment Law*, National People's Congress, 15th March 2019, viewed 21st March 2019, <http://www.npc.gov.cn/npc/xinwen/2019-03/15/content_2083503.htm>

not make specific provisions for applying the FIL in these cases.

Grace period

As mentioned earlier, the FIL will replace three laws governing joint ventures and wholly-owned FIEs. China's State Council is considering measures to allow foreign-invested enterprises established in accordance with those laws to keep their original corporate organisational forms for five years after the FIL comes into effect.

Equal opportunity

In order to create a more level playing field, the FIL states that foreign investors will receive equal treatment when applying for licences (Article 30) and participating in government procurement (Article 16). According to Article 15, foreign investors will also be given equal opportunities to participate in the formulation of standards.

Article 4 of the FIL states that the State should use the *Negative List* – which provides an overview of restrictions on foreign investment, determined by the State Council – to ensure pre-establishment national treatment. It effectively means that foreign investors will be treated the same as domestic investors during the initial stages of setting up a business. Market access by foreign-invested companies has been categorised as either encouraged, permitted, restricted or prohibited.

> "From a high-level perspective, the FIL **embodies** China's **continuing efforts** to **modernise** its **laws** to reflect the changing **global economy**"

Foreign investment protection

The FIL includes multiple protective measures for foreign-invested enterprises.

Government employees are not allowed to disclose or unlawfully provide trade secrets they learn at work to others, and can face criminal charges if they do so.

Local governments are prohibited from interfering with national foreign investment laws and policies. Local governments are required to fulfill their policy commitments to and contracts with foreign investors and FIEs. In the case of national or public interest requiring changes to the commitments or contractual terms, they must compensate foreign investors and FIEs for any loss sustained as a result.

FIEs and their investors are allowed to file complaints against administrative agencies and their employees through an "FIE complaint working mechanism". This new mechanism shall not replace other remedies available under existing law.

The FIL further contains measures to safeguard foreign investments from arbitrary expropriation. Under special circumstances, however, the State may expropriate or requisition the investment of foreign investors in the public interest (Article 20). The FIL pledges that such actions will be done in accordance with legally prescribed procedures for which "fair and reasonable compensation" will be offered.

Replacement of approvals by registration

The FIL formally ends the prior systems that required approval by the Ministry of Commerce and registration with the Administration of Industry and Commerce before a foreign investor could gain access to the Chinese market. With the exception of investments under the restricted industries in the *Negative List*, foreign investors will from 1st January 2020 only be required to register with the relevant authorities.

NBSO

Richard van Ostende is Chief Representative of the **Netherlands Business Support Office (NBSO)** located in Nanjing. The NBSOs are an integral part of the Dutch Government's network in China and support Dutch companies in doing business in and with China. Richard is also a Doctor of Literature Candidate at Monarch Business School. Subject of research is 'Foreign Direct Investment into China: Determinants of the Strategic Decision-Making Process by Dutch Companies'.

Behind the Scenes of Fapiao Accounting

by Axel Standard

In China, 'fapiaos' or invoices are the most important document for tax reporting. They are considered the 'gold standard' for a business' taxable income. However, **Axel Standard** argues that this system does not always provide the most accurate picture of a firm's revenues.

Many outsourced accountants choose to perform accounting on the basis of fapiaos because it is the simplest way to meet tax compliance requirements in China. It also enables them to perform bookkeeping and tax filing services for as low as Chinese yuan (CNY) 500 per month. This method of accounting does not require the accountant to have an in-depth understanding of how the business operates, since everything they need for bookkeeping is on the fapiao.

Fapiao accounting refers to recognising revenue and costs solely based on available fapiaos. Accountants using this method do not conduct bookkeeping until they issue output fapiaos or receive input fapiaos – and from there they generate the required financial statements and calculate tax liability for the business.

However, this simple method of accounting significantly limits an accountant's ability to work inside a business and prevent some of the common financial mistakes made by managers. These mistakes often result in the business paying tax early—hurting cash flow—or in many cases incorrectly calculating tax liability. This can result in either overpaying or incurring penalties for underpaying taxes. Most costly to businesses, however, is not having data which can portray a business' actual financial state.

Fapiao accounting produces incorrect financial reports

When an accountant performs bookkeeping on the basis of fapiaos, the figures on the financial reports are often distorted for a certain period. Financial reports show when fapiaos were issued and not when the goods or services were delivered, or their associated costs. There is also a further delay in recognising costs and expenses, which accountants do not record until they receive input fapiaos from suppliers.

Example 1

When input fapiaos are delayed, financial reports do not accurately reflect the profitability of a company for a given period.

For example, a trading company receives a CNY 5,000 payment in March and issues a VAT fapiao immediately. Products are delivered to customers three months later in June, and a CNY 4,000 special input VAT fapiao is received the same month from the supplier. The financial report shows overstated profits in March, followed by losses in June due to a sharp increase in costs being recorded that month.

March profits are overstated by CNY 4,310 because revenue is wrongly recognised based on the fapiao being issued. The true profitability across different periods becomes difficult to judge. Only when accounting is performed based on Chinese generally accepted accounting principles (PRC GAAP) are true profits presented on a company's profit and loss (P&L) sheets.

Example 1

	Fapiao Based		GAAP Based	
	Mar	June	Mar	June
Revenue*	4,310	0	0	4,310
Cost*	0	3,448	0	3,448
Profit	4,310	-3,448	0	862

*Revenue and costs excluding tax.

Example 2

In many cases, bookkeeping based on available fapiaos leads to transactions being left out of financial reports.

Example 2

	Fapiao Based	GAAP Based
	Mar	June
Revenue	20,200	30,000
Revenue with fapiao	20,200	20,200
Revenue without fapiao		6,000
Revenue on export		3,800
Cost	25,000	25,000
Profit	-4,800	5,000

For example, a business received CNY 30,000 in sales in 2017, of which CNY 26,200 were domestic sales and CNY 3,800 exports. Domestic sales revenue consisted of CNY 20,200 with fapiaos issued and CNY 6,000 transacted without. The cost of the goods sold was CNY 25,000. An accountant who only reports revenue based on available fapiaos will underreport income from revenue without fapiao and exports. In Figure 2, that would equal CNY 9,800 and indicate a loss of CNY 4,800 on the P&L.

There are many reasons a business might not issue a fapiao. The customer might not need a fapiao or, if the sale was for export, a fapiao is not required. However, in order for the balance sheet to accurately reflect a business' bank balance, the accountant will book the revenue for which a fapiao was never issued under deposits, pre-payments or other business liabilities on the balance sheet indefinitely.

Early tax payment

If the profits of one financial quarter are offset by losses in another during a financial year, the company must claim back the corporate income tax (CIT) prepaid quarterly the following year. This process can be time-consuming and requires the business to provide proof that it did lose money over the financial year. In many cases, the tax authorities will conduct a full-scope tax audit before refunding quarterly prepaid tax.

Example 1.1

In Example 1, when the business issued CNY 5,000 fapiao for a sale without a corresponding input fapiao, its total tax liability in March equals CNY 1,768. When the costs are booked in June, the true tax liability becomes CNY 354. The CNY 1,414 difference must be claimed back by the business in the form of future tax deductions or refunds.

For VAT:

Output VAT is always recognised upon issuing a fapiao. Even when accounting on the basis of PRC GAAP, output VAT must be paid regardless of whether the input VAT fapiao has been received. Overpaid VAT can be deducted from future payments.

For Corporate Income Tax:

The company has to pay CNY 1,078 of CIT for Q1 2017, while its true CIT liability is only CNY 216 in Q2 2017 if bookkeeping and fapiao issuance are done according to PRC GAAP.

If the business reports a tax loss for 2017, the business would need to apply for a CIT refund in 2018 for the amount it overpaid in Q1 2017. This often requires the tax authorities to conduct a full scope tax audit to prove the business did indeed incur losses before they can refund CIT.

Under-reporting tax liability

In Example 2 earlier, the business underreported its revenue by CNY 9,200, resulting in a net loss of CNY 4,800. For a standard domestic product sale, the tax shortage of the unreported revenue will equal 41 per cent (16 per cent VAT + 25 per cent CIT) of the unreported total.

Example 1.1

	Fapiao Based		GAAP Based	
	Mar	June	Mar	June
VAT Payable*	690	-552	690	-552
CIT Payable*	1,078	-862	0	216
Total Tax Paid	1,768	0	690	216

*Negative amounts need to be claimed back in the form of future tax deduction or rebate.

Example 2.1

	Fapiao Based	GAAP Based
VAT Payable*	3,232	4,192
CIT Payable*	-1,200	1,250
Total Tax Paid	3,232	5,442

*Negative amounts need to be claimed back in the form of future tax deduction or rebate.

Example 2.1

The company's total tax shortage from the underreported revenue (equal to CNY 9,800) from Example 2 is CNY 2,210 for the 2017 financial year.

As of mid-2016, the tax authorities employ legislation aimed at monitoring revenue and expenses flowing through a business' bank accounts and comparing the amounts with their declared tax liability. Any unreported revenue, for example, booked in the 'other' category on the balance sheet, will encourage the tax authorities to audit the business.

Such tax shortages can lead to penalties, such as:

- 0.5 – 5 times the tax liability amount, in addition to the total amount (based on tax amount and at the discretion of the tax authority);
- 0.05 per cent of tax overdue per day, and;
- Imprisonment in serious cases.

When an accountant performs bookkeeping solely based on the availability of fapiaos, they rely on the business manager to inform them of the revenue for which fapiaos are not available.

Conclusion

It sounds counterintuitive to transition away from accounting conducted on the basis of the 'gold standard for a business' tax liability'. But it is important that, as businesses grow, they move beyond simple compliance. This means taking steps to involve accountants in transactions as they occur and transition to bookkeeping on the basis of accrual according to PRC GAAP.

Axel Standard

Axel Standard is a platform of world-class bilingual business software as a service (SaaS) and an alliance of cloud accountants and advisors that help ease the way business is done in China. Our SaaS applications cover areas such as accounting, inventory management, expense claims, to name just a few. Businesses have the flexibility to select and integrate multiple applications to create a highly adaptable and quickly implemented business solution. Cloud accounting professionals on the platform are powered with the applications to better help foreign businesses streamline operations, visualise financials, optimise tax planning and grow profits by 'working inside businesses'.

Changing Times

The European Chamber held elections for our Executive Committee and local chapter boards from 28th March to 6th June 2019.

Jörg Wuttke, the newly–elected president of European Chamber, delivers a speech at the Annual General Meeting on 28th May 2019 in Beijing.
Photo: Zhengnan Cao

Beijing

The elections for the Chamber's president, three vice presidents and treasurer took place during the Annual General Meeting (AGM) at the Four Seasons Hotel on 28th May. While nearly 200 people chose to vote online, another 60 turned out on the day to have their say on the Chamber's leadership.

We are pleased to announce that member company representatives elected Jörg Wuttke as the new president. As president, Jörg will chair the Executive Committee, which is responsible for providing strategic direction for the Chamber and representing our 1,600 member companies. Jörg is a German national and has been vice president and chief representative of BASF China since 1997. This will be his third stint as president of the European Chamber, after having previously served for six years in total, from 2007 to 2010 and again from 2014 to 2017. He replaces the outgoing president, Mats Harborn, in the role.

The three elected vice presidents—Charlotte Roule, Jens Eskelund and Massimo Bagnasco—and a treasurer, Rudolf Basson, will also be part of the Chamber's Executive Committee. In the weeks leading up to the AGM in Beijing, local board elections were also held in the European Chamber's six other chapters across China (see below). In their respective capacities as the elected chairs of the Shanghai and South China chapters, Carlo D'Andrea and George Lau have also been appointed as vice presidents of the Executive Committee.

The States Representatives were selected by the Supervisory Board on 6th June, after

The South China Chapter local board elections were held in Guangzhou on 22th April 2019.
Photo: European Chamber

presentations were given by three potential candidates. The three representatives for 2019 are Sara Marchetta, Bruno Weill and Matthias Goebel.

President

Jörg Wuttke, BASF

Vice Presidents

Charlotte Roule, ENGIE

Jens Eskelund, Maersk

Massimo Bagnasco, Progetto CMR

Treasurer

Rudolf Basson, Siemens

States Representatives

Sara Marchetta, Chiomenti

Bruno Weill, BNP Paribas

Matthias Goebel, Lufthansa

Nanjing

The local board elections for the Chamber's Nanjing Chapter were held on 22nd April 2019, with the following results:

Chair

Bernhard Weber, Baden-Württemberg International Economic and Scientific Cooperation (Nanjing)

Vice Chair

Andreas Risch, Fette Compacting (China)

Board Members

Christophe Hebette, BASF YPC Company Ltd

Pierre Puskarczyk, Saint-Gobain PAM China

Zeljko Ivkovic, DB Schenker Technology Solution Center (Nanjing)

Shanghai

The Shanghai Chapter completed its elections on 23rd April 2019, with the following results:

Chair

Carlos D'Andrea, D'Andrea & Partners

Vice Chairs

Dirk Lubig, Deutsche Bank

Serafino Bartolozzi, Mahle

Board members

Holly Lei, Covestro Polymers Co Ltd

Jens Ewert, Deloitte

Clarissa Shen Yanrong, Sanofi

Marcus Wassmuth, UniCredit S.p.A

Shenyang

Taking place on 28th March 2019, the elections for the Shenyang Chapter returned the following results:

Chair

Harald Kumpfert, Dechong Green City

Board Members

Stephane Gonnetand, Dalian ODC Marine Manufacture Co Ltd

Thierry Aubry, Renault Brilliance Jinbei

Hermann Stoegmeier, BMW Brilliance Automotive Ltd

Martin Verpoorten, Sofitel Shenyang Lido

South China

The South China Chapter local board elections were held in Guangzhou on 22th April 2019, returned the following results:

Chair

George Lau, TÜV Rheinland (Guangdong) Ltd

Vice Chairs

Chee Keong Lai, ERM Guangzhou

Klaus Zenkel, Imedco Technology (Shenzhen) Co Ltd

Board members

Maarten Bijl, SHV Energy China

Kirsty Hulston, Hays Specialist Recruitment

Tristan Roquette, Teamacting Co Ltd Guangzhou

Maurizio Zanatta, Miele Hong Da Electronic Products Co Ltd

Southwest China

The local board elections for the Southwest Chapter took place on 18th April 2019, returning the following results:

Chair

Paul Sives, Proton Products Chengdu Ltd

Vice Chairman

Joachim Kässmodel, Ferrante & Partners

Dominik Widmer, Sino Swiss Holding

Board Members

Anna Facchinetti, Galileo Galilei Italian Institute

Michael Schmitt, Waldorf Astoria Chengdu

Tianjin

The local board elections for Tianjin were held on 22nd May 2019, returning the following results:

Chair

Yup Fan Cheung, Standard Chartered Global Business

Vice Chair

Frank Schreiber, Airbus

Board Members

Jurgen Hasenpusch, Volkswagen

Julian Jeffrey, Wellington International School

Wang Xin, Deloitte

Media Watch

European Chamber's Business Confidence Survey released on 20th May

On 20th May, the European Chamber released its *European Business in China Business Confidence Survey (BCS) 2019* in Beijing and Shanghai. Before the official launch, a press conference was held in Beijing, where Vice President (VP) Charlotte Roule took part in TV interviews with *Bloomberg (Live)*, *ZDF* and *Reuters*. In Shanghai, a media roundtable took place with eight journalists in attendance, and Vice President Carlo D'Andrea participated in interviews with *CGTN (Live)*, *Xinhua* and *ARD*.

Trade Tensions Are Here to Stay, Says EU Chamber of Commerce's Roule, Bloomberg TV

Charlotte Roule, vice president at the European Union Chamber of Commerce China, discusses the Chamber's *Business Confidence Survey*, auto tariffs, where companies are moving their supply chains, the opening up of China's markets, doing business in China and the foreign investment law. She spoke on *Bloomberg Markets: China Open* on 20th May, 2019 in Beijing.
Media: Bloomberg TV
Date: 20th May, 2019

In terms of content, most foreign media highlighted the forced technology transfer issue raised in the BCS. They focussed on the fact that 20 per cent of survey respondents said they felt compelled to hand over technology in order to maintain market access, up from 10 per cent just two years ago. Key media outlets, such as the *Financial Times* ('European companies forced to hand tech to China'), *Reuters* ('China's tech transfer problem is growing, EU business group says'), *AP* ('Report: More companies in China handing over technology'), *Wall Street Journal* ('Forced tech transfers are on the rise in China, European firms say') all brought up this issue in their headlines.

European companies forced to hand tech to China

Latest survey shows 1 in 5 feel compelled to transfer technologies for market access

The number of European companies compelled to hand over valuable technologies in exchange for market access in China has doubled over the past two years, as Beijing and Washington clash over the contentious issue.

The latest business confidence survey by the European Chamber of Commerce, published on Monday, showed the problem has intensified even as negotiations between the US and China on the matter deepened earlier this year as part of a widening trade war between the two countries.

About 20 per cent of respondents to the survey said they felt compelled to hand over technology to Chinese business partners, up from 10 per cent two years ago. The survey comprised responses from 585 European businesses.

European companies forced to hand over tech to China
Media: Financial Times
Date: 21st May, 2019

AP

Top Stories

Report: More companies in China handing over technology

BEIJING (AP) — The number of foreign companies that feel compelled to hand over technology in exchange for Chinese market access — an issue that sparked President Donald Trump's tariff fight with Beijing — has doubled since two years ago despite official promises to end such pressure, a business group reported Monday.

The European Chamber of Commerce in China's report highlighted enduring complaints about "forced technology transfer" that China's trading partners say violate its market-opening commitments despite denials and promises of change.

European leaders have criticized Trump's tactics in confronting Beijing over its technology ambitions but echo U.S. criticisms.

Report: Companies in China Handing Over Technology
Media: Associated Press
Date: 20th May, 2019

Trade War Adds to Woes of European Companies in China

"They [European companies] are feeling more anxious than they felt last year, rising tensions such as the trade tensions that we are facing currently that don't seem to be on the point of being sorted out quickly," European Chamber Vice President Charlotte Roule told VOA.

The trade conflict has come on top of several other problems faced by European companies in China.

"Macroeconomic challenges such as the Chinese economic slowdown and global economic slowdown are worrying them," Roule said.

Trade War Adds to Woes of European Companies in China
Media: VOA
Date: 20th May, 2019

www.news.cn 新华网 NEWS XINHUANET

European businesses in China remain optimistic of revenue growth: European Chamber

Most of the respondents view China as one of the top three destinations for investment, said the survey released Monday by the European Union Chamber of Commerce in China.

The survey, jointly conducted with Roland Berger, a leading global consultancy firm, targeted 1,326 eligible entities, and 585 respondents completed the survey.

The polled European companies strongly opposed the use of tariffs, as they would negatively affect European companies with international supply chains.

Despite the concerns that tensions might escalate, few respondents were making

European businesses in China remain optimistic on revenue growth: European Chamber
Media: Xinhua
Date: 21st May, 2019

They also highlighted the survey finding that some forced technology transfers are currently taking place.

In addition to the issue of forced technology transfers, many foreign media also reported on the escalating US-China trade conflict, using data from the BCS to explain how it is impacting European companies in China. Some media reports noted that European companies have become more anxious as a result of the escalation of the trade war, but strongly oppose the blunt use of tariffs. Some media also picked up the Chamber's key message that, as the trade conflict continues, China needs to pick up the pace of its reform agenda and create a fair, transparent and predictable business environment.

Most domestic media highlighted European companies' continued faith in the Chinese market. *China Daily* ('European investors still favour China') emphasised that "despite the pressure of the slowing global and Chinese economies, most companies from the European Union with operations in China regard the nation as a top-three destination for current and future investment." It also reported that European companies see China as a high priority market, and 56 per cent of respondents are looking to expand their operations this year. *Xinhua's* article ('European businesses in China remain optimistic of revenue growth: European Chamber') points out that European companies continue to be upbeat about revenue growth in China. It also quoted President Harborn's words from the official press release urging China to speed up reforms.

This point was emphasised by the *South China Morning Post* ('China needs to change, European firms say – but many doubt it will'). Its article quoted Vice President Charlotte Roule's words from the press conference: "Fundamental issues driving the trade war need to be resolved by addressing market access barriers and regulatory challenges while also tackling state-owned enterprise reform and forced technology transfer."

European Chamber's general stance on the EU-China Summit 2019 Joint Statement

The 21st EU-China Summit took place in Brussels on 9th April 2019, jointly chaired by European Council President Donald Tusk, European Commission President Jean-Claude Juncker and Chinese Premier Li Keqiang. On 11th April, the European Chamber released its stance on the *EU-China Summit 2019 Joint Statement* signed during the summit. Some media outlets quoted the Chamber's stance in their coverage.

Secretary General Adam Dunnett also took part in media interviews to discuss his evaluation of the summit and expectations for future cooperation between EU and China.

中国

境外媒体述评：中欧合作将带来“双赢结果”

参考消息网4月13日报道 境外媒体称，中国欧盟商会11日对中欧双方承诺在2020年达成双边投资协定表示欢迎，并希望该协定能为在中国市场经营的欧盟企业带来平等待遇。

据埃菲社4月11日报道，在发给媒体的一份公告中，中国欧盟商会表示，9日在布鲁塞尔举行的第二十一次中国—欧盟领导人会晤之后发表的联合声明中的不少内容具有“重要意义”，回应了中国欧盟商会“一直以来”的诉求。

关于投资协定，商会认为它“有望”成为1975年中欧发展双边关系以来“最重要的经济进展”。

China–EU cooperation will bring win–win results
Media: Reference News
Date: 13th April, 2019

国际金融报

首页 公司 金融 机构 国际 专题 电子报

专访中国欧盟商会秘书长唐亚东：“中国仍是重要投资目的地”

Interview with Secretary General of the European Chamber: China is still an important investment destination
Media: International Financial News
Date: 13th April, 2019

BEIJING, 20TH MAY 2019

European Chamber in China Business Confidence Survey Launch 2019

- China's reform agenda is lagging behind on market access, the regulatory environment, dominance of SOEs in market and ensuring equal treatment.
- Few European companies reported a significant impact from the US-China trade war.
- China remains a top-three investment destination for many European companies.
- The majority of respondents still see Chinese firms as equally or more innovative.

BEIJING, 2ND APRIL 2019

Challenges Ahead: How will China's New Foreign Investment Law Impact the Business Environment?

- The trade friction between the US and China is a key factor accelerating the promulgation of the Foreign Investment Law than triggering the legislature to make the law
- The theme of 'national treatment' is unfolded throughout the six chapters and 42 articles of the FIL.
- China, as the only place with increased figures amid the global downturn, is one of the most attractive investment destinations.
- The 'negative list' from the Shanghai Free Trade Zone has proved successful and introduced in the formulation of the FIL.

SHANGHAI, 20TH APRIL 2019

2019 Shanghai Chapter Football Tournament

- Sixteen teams participated in the tournament and competed for the gold and silver cups.
- Bayer took home the gold medal, while Volkswagen were runners-up to grab the silver.

SHANGHAI, 22ND MARCH 2019

Corporate Venture Capital Conference: Corporate Venturing – Strategies for Success

- One size does not fit all – the most successful companies employ several operating models.
- Set realistic expectations on what is achievable and the timeframe needed to achieve it.
- Be selective with investors to ensure your goals and aspirations match.
- Demonstrate how your product is so innovative and disruptive that competitors cannot afford to ignore it.

NANJING, 22ND MARCH 2019

Executive Discussion on China in Transformation: Industry of the Future

- China needs to build a smart eco-system for the transformation of its industry.
- China's 'smart' strategy includes industry technology, information technology and intelligent technology.
- China industry trends will include: new energy and smart grids; smart e-mobility; smart manufacturing and factory; smart logistics and smart cities.
- The driving forces for the economy will be energy and information.

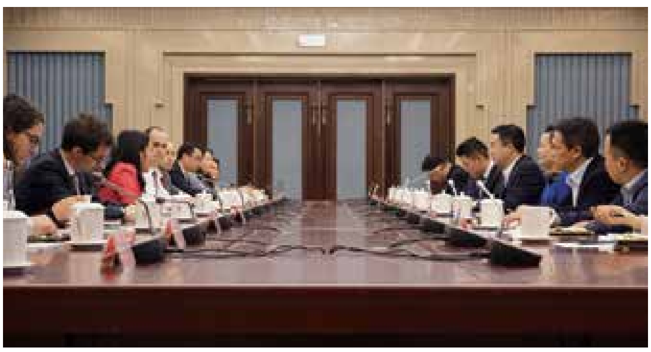
SOUTH CHINA, 10TH APRIL 2019

South China Position Paper Launch

- The *South China Position Paper 2019/2020* presents recommendations that will help local authorities make Guangdong an exemplar of how China can benefit from an open, fair and well-regulated economy.
- The report focusses on ways European companies can work with the local government to upgrade the local regulatory environment, attract more talent to the region and improve conditions for small and medium-sized companies.
- The local membership compiled constructive recommendations to start a conversation with the local government on how to shift Guangdong from a good place to do business in China to a great place to do business globally.

SOUTHWEST CHINA, 12TH APRIL 2019

VIP Meeting with Foreign Affairs Office of Chongqing Municipal People's Government



- In 2018 the total volume of Chongqing foreign trade imports and exports increased by 16 per cent.
- Foreign direct investment in Chongqing for 2018 hit Chinese yuan (CNY) 3.36 billion, ranking top in Midwest China.
- Chongqing's international shipping volumes reached 146,000 tonnes to also rank top.
- By the end of 2019, all the international 'Big Four' accounting firms will have a presence in Chongqing, while 18 foreign banks will also have branches in the municipality.
- The Chongqing government aims to build international logistics hubs, optimise the business environment, and enhance urban internationalisation.

SOUTHWEST CHINA, 18TH APRIL 2019

2019 Annual General Meeting and Board Election of Southwest China Chapter

- Secretary General Adam Dunnett shared the ABCs of the Chamber: Advocacy, Business Intelligence and Community.
- Chapter Chair Paul Sives spoke of the good relationship the chapter has built up with the local governments, consulates and partners.
- Bayer is collaborating in drug discovery with top Chinese institutions, and working on sustainability in its own operations and in agriculture.

Advisory Council News

BMW China's Growth Backed by Forward-Looking Strategy and Customer-Centric Approach

The new BMW 7 Series was launched in China on 24th May with a suggested retail price of Chinese yuan (CNY) 828,000 – CNY 2,428,000. Continuing the success of its predecessors, the new 7 Series combines leadership, innovation, luxury and advanced technology. Jochen Goller, president and CEO of BMW Group Region China, said despite the slowdown in the overall auto market, sales of BMW Group in China increased over 12 per cent year-on-year to more than 227,000 units in the first four months. According to Goller, BMW is confident about maintaining a growth higher than the industry average in the whole year. He predicts that the premium auto market in China will grow 5 – 6 per cent this year. Goller said that no one should underestimate the strategic importance of the Chinese market. He said this is the reason BMW Group takes the '2+4' approach in China, with the '2' referring to its two joint ventures in China and '4' to autonomous, connected, electrified and shared, or the 'ACES'. Goller also drew attention to the fact that China is the world's largest and fastest-evolving market. In response, BMW Group has built its largest R&D network outside Germany in China, which has over 1,000 experts devoted to meeting the demands of Chinese customers.

SAP Named a Leader by Gartner in its 'Magic Quadrant for Sales and Operations Planning Systems of Differentiation'

For the third time, the software designer SAP has been named a leader in advisory firm Gartner's *Magic Quadrant for Sales and Operations Planning Systems of Differentiation.* The report evaluated the SAP Integrated Business Planning software on completeness of vision and ability to execute.

SAP Integrated Business Planning is a cloud-based solution that powers smart enterprises. It combines sales and operations overviews, demand, response and supply planning, and inventory optimisation on a single platform. SAP have also added demand-driven replenishment capacity to support an innovative approach to overall supply-chain excellence.

The aim is to allow companies using SAP Integrated Business Planning to easily align sales and operations plans with corporate strategy to support revenue growth, increase market share and attain financial targets.

The *Magic Quadrant for Sales and Operations Planning Systems of Differentiation* examines the main vendors that provide such systems. According to Gartner, leaders in the index are highly rated in key user requirements, such as supply chain modelling, collaboration, solution configurability, and tight integration with tactical and operational planning. Firms included have developed capabilities for acceptable software pricing and implementation costs, along with faster deployment (through cloud platforms, process templating, configuration and portfolio simplification).

Schneider Electric Named one of Fortune's World's Most Admired Companies for 2019

Schneider Electric, a global specialist in energy management and automation, has been included in the *2019 World's Most Admired Companies* list published by *Fortune*. This year, the company ranks fifth in the electronics industry, maintaining its strong position from 2018. The achievement reflects its growing reputation for pursuing innovation with a strong focus on sustainability and inclusion for all.

Schneider Electric regularly appears in industry rankings aimed at promoting sustainability and inclusion. Recently it was added to the *2019 Bloomberg Gender-Equality Index*, which provides a unique barometer of gender-equality performance across all sectors worldwide. Schneider Electric also received the 2019 Catalyst Award, which highlights companies with bold and forward-thinking initiatives that help create safe and inclusive workplaces where women can advance. For Schneider Electric, such recognitions reinforce the company's strong commitment to an inclusive, empowering culture, and its longstanding efforts to promote sustainability for all.

BASF and its partners launched a 'Starting Ventures' project to improve hygiene at waste facilities.
Photo: BASF

New headquarters of Huawei in Milan.
Photo: Progetto CMR

BASF and Partners Work to Improve Waste Facility Hygiene in Rural Guangxi

BASF—the largest chemical producer in the world—is working to improve hygiene in rural Guangxi Province in the south of China. BASF and its supporting partners launched the project in March, which will focus on sanitation facilities such as rubbish bins, trash trucks and waste transfer stations. With a newly developed cleaning solution, a training and education program, and a donation to a local school, the project combines both business and social benefits in a format known as a ‘Starting Venture’.

The project, entitled ‘Better Environment, Better Life’, will be implemented in Du’an Yao Autonomous County, in the northwest of Guangxi. With a total investment of euro (EUR) 750,000, the project will help improve waste disposal conditions and thus support low-income residents. This will contribute to China’s national strategy of ‘Rural Vitalisation’.

The project arose when local cleaning companies sought better solutions for maintaining hygiene at the waste facilities. The new solution by BASF is more efficient, uses fewer natural resources—especially water— and reduces corrosion of the facilities. This means less overall impact on the environment.

Progetto CMR Inaugurates its Huawei New HQ in Milan

Huawei’s new headquarters in Milan has been inaugurated in the presence of Mayor Giuseppe Sala and executives of the Chinese company. This is Huawei’s fifteenth year in Italy. The new Milan headquarters is only the latest in several important stages since 2008 that have seen the multinational become an active driver of innovation in Italy.

The Milan base creates a space where the world of Huawei and its host city merge. Progetto CMR team designed the offices and the showroom making wise use of the colors and distinctive forms of the company, while recalling the soul of Milan as the capital of design in the iconic furniture lines and depicting the city skyline in a stylized way in the graphics of the walls and screens.

The multifunctionality of the spaces, totally flexible thanks to the presence of movable walls and cutting-edge technologies, contribute to the dynamism of the environment.

Welcome in a sophisticated space that smacks of innovation, where technology, framed by sinuous and sculptural surfaces, prevails and accompanies visitors through the discovery of the Huawei world.

Tell Us Your Big News

European Chamber members are welcome to add news items on their own activities to our website, and share it with all the other 1,600 members. Visit our website to find out more.

Executive Committee of the European Chamber

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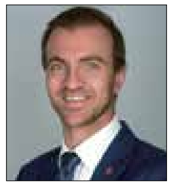
Jörg Wuttke
BASF

VICE PRESIDENTS

Charlotte Roule
ENGIE China

Massimo Bagnasco
Progetto CMR (Beijing) Architectural Design Consultants

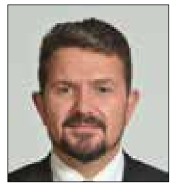
Jens Eskelund
Maersk



Carlo D'Andrea
D'Andrea & Partners

George Lau
TÜV Rheinland (Guangdong) Co, Ltd

TREASURER



Rudolf Basson
Siemens

STATES' REPRESENTATIVES

Sara Marchetta
Chiomenti

Bruno Weill
BNP Paribas

Matthias Göbel
Lufthansa

SECRETARY GENERAL

Adam Dunnett

Nanjing Board

CHAIR

Bernhard Weber
Baden-Württemberg International - Nanjing

VICE CHAIR

Andreas Risch
Fette Compacting (China) Co, Ltd

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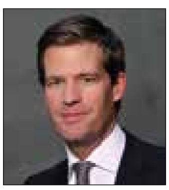
Serafino Bartolozzi
MAHLE Technologies



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Deutsche Bank

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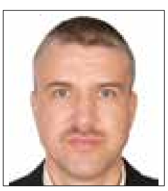
Shengyang Board

CHAIR



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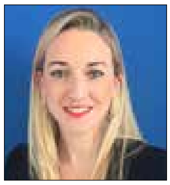

Kirsty Hulston
Hays Specialist Recruitment

Tristan Roquette
Teamacting Co. Ltd.

Maurizio Zanatta
Miele Dongguan Hong Da Electric Products Co, Ltd

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Standard Chartered Global Business Services Co, Ltd

Frank Schreiber
Airbus (Tianjin) Final Assembly Company Ltd

Jurgen Hasenpusch
Volkswagen

Wang Xin
Deloitte

Julian Jeffrey
Wellington International School

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Carl Hayward
General Manager

NANJING

Haiyan You
General Manager

SHANGHAI

Ioana Kraft
General Manager

SHENYANG

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SOUTH CHINA

Francine Hadjisotiriou
General Manager

SW CHINA

Sally Huang
General Manager

TIANJIN

Catherine Guo
General Manager

SECRETARY GENERAL

Adam Dunnett

European Chamber Working Group Chairs

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Ashley Wang

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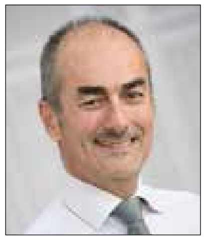
Serafino Bartolozzi

Automotive National Chair

Tony Wu



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Annie Qiman Yin

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Xavier Durand-Delacre

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Ye Li

Research & Development National Chair

Zhonghua Xu

Standards & Conformity National Chair

June Zhang

The Advisory Council

of the European Chamber

The members of the European Chamber's Advisory Council are particularly active in representing and advising the Chamber, and make an enhanced contribution to the Chamber's funding.