

EURObiz

Journal of the European Union Chamber of Commerce in China

ISSUE 57 JULY/AUGUST 2020
<https://www.eurobiz.com.cn/>

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Pharma retail market transformations in China

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A Tenants' Market?

The impact of oversupply and COVID-19 on Tianjin's office rental business

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The Fraud Triangle

Business risk management in the era of COVID-19

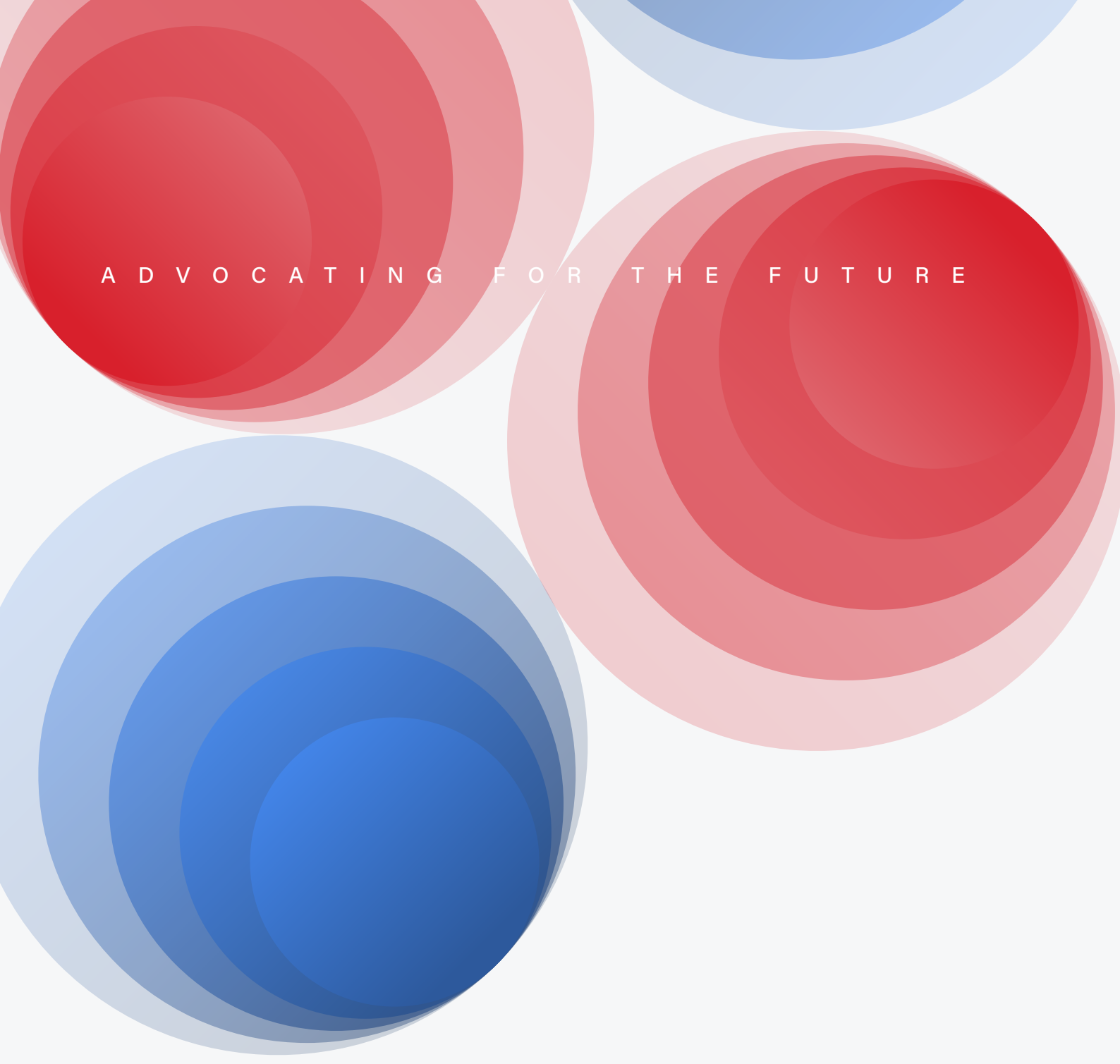
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Foreign talent policy improvements in Jiangsu



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European Chamber
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EURObiz

Journal of the European Union Chamber
of Commerce in China

EURObiz online

www.eurobiz.com.cn

Chief Editor

Orlaith Delaney

Art Director

Zhang Ye

Advertising and Sponsorship Manager

Queenie Cheng

+86 (10) 6462 2066 Ext. 54

qcheng@european-chamber.com.cn

National Member Relations Manager

Laura Alvarez Mendivil

+86 (21) 6385 2023 Ext. 113

lamendivil@european-chamber.com.cn

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BEIJING

Office C412,
Beijing Lufthansa
Centre,
50 Liangmaqiao Road,
Beijing, 100125, PR
China
北京市朝阳区亮马桥
路五十号
燕莎中心写字楼 C-412
室
Tel: +86 (10) 6462 2066
Fax: +86 (10) 6462 2067
eucccd
european-chamber.
com.cn

TIANJIN

41F, The Executive
Centre, Tianjin World
Financial Centre, 2
Dagubei Lu, Heping
District, Tianjin,
300020, PR China
天津市和平区大沽北
路 2 号
天津环球金融中心
41 层德事商务中心
Tel: +86 (22) 5830
7608
tianjin@
european-chamber.
com.cn

SHENYANG

Room 646, Sofitel
Shenyang Lido, 386
Qingnian Street, Heping
District, Shenyang,
110004, PR China
沈阳市和平区青年大
街 386 号
丽都索菲特酒店 646
室
Tel: +86 (24) 6683 4376
Fax: +86 (24) 6683 4376
shenyang@
european-chamber.
com.cn

NANJING

13A07, No.99
Zhongshan Road,
Gulou District,
Nanjing, 210008, PR
China
南京市鼓楼区中山路
99 号 13A07 室
Tel: +86 (25) 8362
7330 / 8362 7331
Fax: +86 (25) 8362
7332
nanjing@
european-chamber.
com.cn



SOUTHWEST CHINA CHENGDU

04-A, F16, Tower 1 Central Plaza,
8 Shuncheng Avenue, Jinjiang
District, Chengdu, PR China
成都市锦江区顺城大街 8 号
中环广场 1 座 16 楼 04-A
Tel: +86 (28) 8527 6517
Fax: +86 (28) 8529 3447
chengdu@european-chamber.
com.cn

SOUTHWEST CHINA CHONGQING

1-1, 23F, B4 Block, Chongqing
Foreign Business District, 12
Yun Shan Nan Lu, Yubei District,
Chongqing, PR China
重庆市渝北区云杉南路 12 号
涉外商务区 B4 栋 23 楼 1-1 室
Tel: +86 (23) 63085669
chongqing@european-chamber.
com.cn

SOUTH CHINA GUANGZHOU

Unit 2817, 28/F, Tower A,
China Shine Plaza, 9 Linhe Xi
Road, Tianhe District,
Guangzhou, 510613, PR China
广州市天河区林和西路 9 号
耀中广场 A 座 2817 室
Tel: +86 (20) 3801 0269
Fax: +86 (20) 3801 0275
southchina@
european-chamber.com.cn

SOUTH CHINA SHENZHEN

Rm 308, 3/F Chinese Overseas
Scholars Venture Bld, South
District, Shenzhen Hi-tech Industry
Park, Shenzhen, 518057, PR China
深圳高新区南区留学生创业大厦
3 楼 308 室
Tel: +86 (755) 8632 9042
Fax: +86 (755) 8632 9785
southchina@european-chamber.
com.cn

SHANGHAI

Unit 2204, Shui On Plaza,
333 Huai Hai Zhong
Road,
Shanghai, 200021
PR China
上海市淮海中路 333 号
瑞安广场 2204 室
Tel: +86 (21) 6385 2023
Fax: +86 (21) 6385 2381
shanghai@
european-chamber.com.
cn

President's Foreword

Beyond 'Tier One'

It is likely that most Europeans heard about the city of Wuhan due to its connection with the COVID-19 pandemic. To them, it is some far-off place that they will never visit, with no history before 2020.

But to European companies here in China, Wuhan has a much greater story to tell. It is a centre for China's automotive and automotive components industries, a valuable logistics hub at the mid-point of the Yangtze River, a critical mass of French investment in China, and an up-and-coming city of 12 million producers, consumers, innovators and business leaders.

There are dozens of other cities like Wuhan. Rising stars like Chengdu, Chongqing, Nanjing and Shenyang have incredible market potential, and the European footprint in each of them, while growing, remains underdeveloped. Those companies clinging chiefly to the safe havens of Shanghai and Beijing are missing out on a critical opportunity to be a part of the development stories across the rest of the China market.

First, they are passing on the sheer numerical possibilities of the rest of the country. A simple comparison of the gross domestic product (GDP) per capita of China's wealthiest coastal and interior provinces shows just how much growth potential there is. The coastal provinces are consistently around 50 per cent wealthier than their inland counterparts.¹ Not so long ago, provinces like Jiangsu and Guangdong were considered risky, unproven places to invest. Yet the companies that bet on those regions have reaped the reward of not only the growth that has since taken place, but also a stronger share of the market than would have been possible had they waited much longer.

Second, they are foregoing the undervalued talent that can be found across China. Some of the best vocationally trained labour is found in the Northeast, centred around Shenyang. In addition, according to The World University Rankings, five of China's top ten rated universities are found in Beijing and Shanghai, but others are found in Hefei (3rd), Hangzhou (4th), Nanjing (6th), Guangzhou (8th) and Wuhan (tied for 9th).² China's strongest technology hubs are found in Beijing, but also in Hangzhou, Shenzhen and Chengdu.

Third, they lose the opportunity to sharpen their skills against China's increasingly competitive companies. For the third year in a row, a majority of our members have reported that Chinese competitors are as or more innovative as European companies. Competing with them in developed, saturated markets like Beijing and Shanghai still strengthens European players, but not in the same way that playing for underdeveloped market share in the rest of China can.

Chinese companies investing in Europe would be ill-advised to only set up operations in Germany and France due to their size when there is an entire continent of opportunities available to them. Our own companies would do well to treat China the same – as the diverse continent, loaded with potential, that it truly is.



Jörg Wuttke

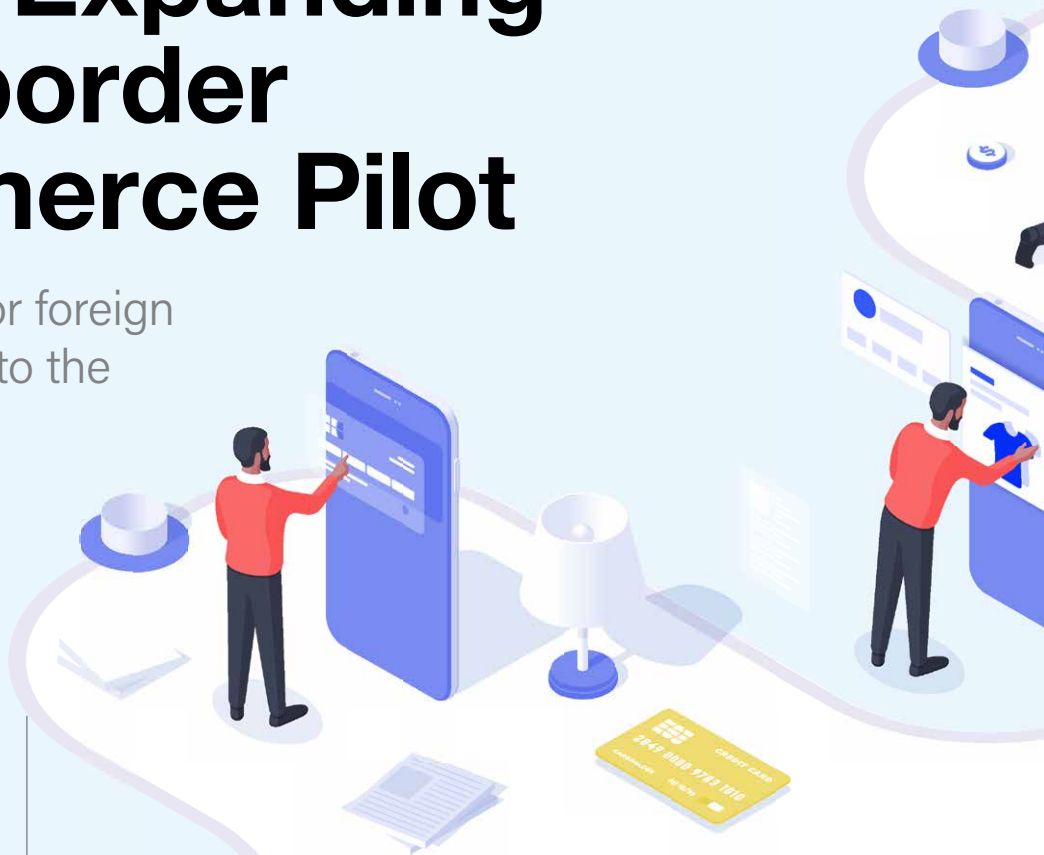
President
European Union
Chamber of Commerce
in China

¹ 2019 Nominal GDP per capita in USD – Mainland China's Wealthiest Coastal Provinces: Jiangsu – 17,780, Zhejiang – 15,810, Fujian – 15,360, Guangdong – 13,660. Mainland China's Wealthiest Interior Provinces: Hubei – 11,790, Inner Mongolia – 10,030, Shaanxi – 9,730, Hunan – 8,340. Source: The Economist Intelligence Unit.

² Best universities in China 2020, The World University Rankings, 16th September 2019, viewed 7th August 2020, <<https://www.timeshighereducation.com/student/best-universities/best-universities-china#>>

China's Expanding Cross-border E-commerce Pilot

Broader horizons for foreign business to export to the Chinese market
by **Lehman Brown**



Businesses looking to enter the Chinese market can take advantage of China's cross-border e-commerce (CBEC) pilot, which has been expanded twice in 2020 alone, with promises of broadening even further into more regions and cities across China.

LehmanBrown tells us more about how the cross-border e-commerce system works.

By 1st January 2019, the cross-border e-commerce pilot was implemented in 37 Chinese cities, including Beijing.

Since then, the programme has achieved a lot, and the Chinese State Council has decided to expand it further.

The State Council approved the first expansion on 17th January 2020, and a second expansion a couple of months later on 27th April. These extensions have opened

up the opportunities offered by the pilot to a total of 105 cities and regions across the country, including less well-known places like Shijiazhuang and Xiong'an.

In the CBEC programme's first year of operation, various government ministries bolstered it with policies to tackle issues related to standardisation of procedures, quality control and protection of consumer rights and interests.

Chinese Customs statistics for 2019 show that cross-border e-commerce retail imports increased by 16.9 per cent year-on-year to total United States dollars (USD) 12.95 billion.¹

Economically, the positive impact of the programme has led to an enriching of domestic product supply, the development

of new business and more consumption, while the population's needs are being better satisfied.

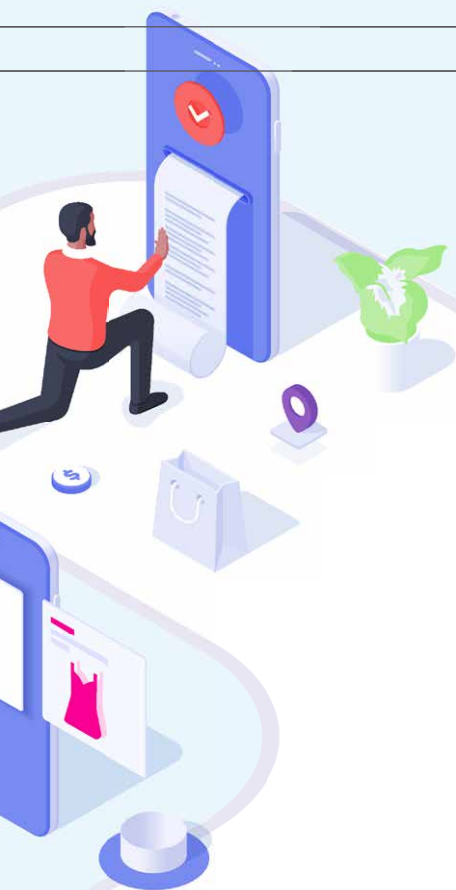
Cities chosen for the expansion of the pilot include newly established CBEC zones. This proactive support for e-commerce activity will help expand consumption and also assist in the development of the chosen cities' surrounding regions.

Furthermore, on 7th April 2020, the State Council stated that retail export goods under all pilot zones will be exempt from value-added tax (VAT), consumption tax and enterprise income tax.²

The recent inclusion of the further 86 cities in the pilot programme and the added incentives will boost the economic return for 2020.

¹ Six Ministries Including the Ministry of Commerce Further Expand the Scope of Cross-border E-commerce Retail Import Pilots, MOFCOM, 18th January 2020, viewed 14th July 2020, <<http://english.mofcom.gov.cn/article/newsrelease/significantnews/202002/2020020234796.shtml>>

² Li Keqiang Chairs State Council Executive Meeting to Launch the Establishment of a Cross-border E-commerce Pilot Zone, Support Processing Trade, Canton Fair Online Holds a Series of Initiatives, State Council, 7th April 2020, viewed 14th July 2020, <http://www.gov.cn/premier/2020-04/07/content_5499975.htm>



Who is this pilot programme for?

The CBEC pilot provides an opportunity for foreign business interested in introducing their products or services to the Chinese market, or those seeking to expand globally, without necessarily having to establish a base in the country.

Alternatively, this pilot programme can help foreign businesses that might be struggling to maintain operations in China, because of post-COVID-19 economic circumstances, continue to supply their products or services to the Chinese market.

However, before entering China's vast and profitable market, business owners and decision-makers must do their due diligence and take all precautions beforehand.

Success will only come to those who carefully choose their partners and online platforms while also registering their products, trademarks and intellectual property, since China applies a 'first to file' system, versus the 'first to use' approach generally favoured in Europe.

Trademarks should include the company name and all of its brands—even those that will not initially be sold in China—to reduce the risk of malicious filing and 'trademark squatting' – the term for when a secondary party registers the trademark of another company in their own name.

Lastly, another critical step to make before entering the market is to create a realistic strategy for the specific product, service or market intended for promotion. Good market research should be done in advance to understand the foreign and local competition, and where the relevant niche market is within China's vast market. Proper research and market entry can lead to success, but doing your homework is crucial.

Accessing the CBEC pilot

By using a hypothetical European company, which has taken all precautions (such as registering their trademark or intellectual property and done due diligence in finding a trustworthy agent in China), businesses can understand the process for accessing the cross-border e-commerce pilot.

- The first step would be to authorise a company in China to act as an agent for the European company's products in China. The Chinese company need not necessarily be an e-commerce platform company; it can merely be a Chinese company which is active in the e-commerce sector.
- Once the agreement has been signed, the agent will register the European company in the cross-border e-commerce pilot. This will typically involve the company

as well as its goods, tax guarantee and account book registrations.

Afterwards, the European company and the agent will make a deal, taking into account the goods declaration for entry, warehousing, e-platform services, declaration for delivering parcels, taxation and any other regulations that might be required by individual regions, cities or local governments.

In general, the standard documents required are an agency agreement, the agent's customs declaration registration certificate of import and export, the agreement with the Chinese e-commerce platform, the internet content provider (ICP) licence of the affiliated platform and information on the goods. Individual local governments may require additional documents.

The entire process typically takes between two to six months to complete; this will greatly depend on the requirements and processing times of the particular region or city in question.

Going further, even if hypothetically the European company has a subsidiary wholly foreign-owned enterprise (WFOE) in China, they would still need to find a Chinese company to act as an agent through which to access an e-commerce platform to sell their products or services. This is because WFOEs are not eligible in China to apply for an ICP licence, which is required to set up an e-commerce platform. Although a new Negative List was recently released by the Chinese authorities, it unfortunately still restricts foreign ownership of ICP licences, something that will hopefully change in the near future. **EB**



LehmanBrown International Accountants is a China-focussed accounting, taxation and business advisory firm operating throughout China including Hong Kong and Macau. With an extensive affiliate network around the world LehmanBrown can service international companies in China and Chinese companies doing business internationally. All services are taken care of English and Chinese speaking professionals who can tend to any companies' needs throughout their business journey.

Changing landscapes

Pharma
retail market
transformations
in China
by Tingting Pi



5.5%

China's pharma retail market's
2019–2023 compound annual
growth rate (CAGR)



7%

Post-COVID-19 expectations
for China's pharma retail
market's 2019–2023 CAGR



8.5%

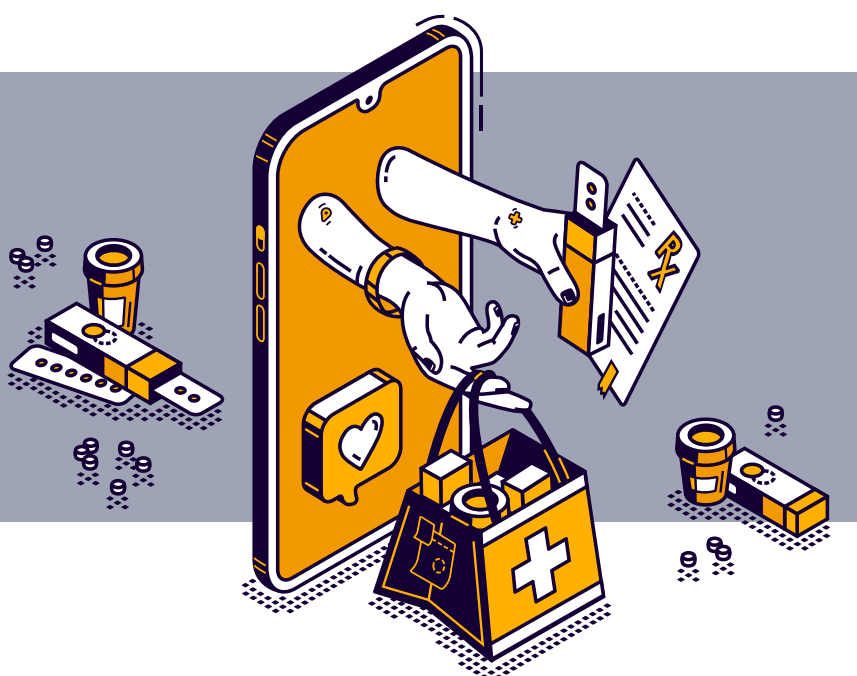
Retail prescription drug market's
estimated CAGR 2019–2023



5.4%

The growth of OTC drugs
is expected to be lower, with
an estimated CAGR

For a number of years now, China has been gradually implementing healthcare reform policies, such as separation of prescribing and dispensing, quality consistency evaluation, volume-based purchasing (VBP) and diagnosis-related groups, which have accelerated the prescription outflow from the hospital market to the retail market. In addition, the COVID-19 outbreak has led to the suspension of outpatient clinic services, resulting in a dramatic decline in the number of inpatients, which has further promoted the shift of prescription drug sales out of hospitals. These new circumstances provide alternative retail channels that are of increasing strategic importance for pharma companies. Moreover, as innovative models and internet hospitals mature, more online retail usage scenarios are emerging, setting higher requirements for retail strategies. **Tingting Pi**, partner with **Deloitte Monitor China**, tells us more about the opportunities for pharma companies, particularly in the rural retail market.



Based on estimations made before the COVID-19 outbreak, the China pharma retail market's 2019–2023 compound annual growth rate (CAGR) is expected to fall to 5.5 per cent due to the influence of the expansion of the '4+7' VBP,¹ acceleration of prescription outflow and further basic medical insurance cost control. The COVID-19 outbreak is expected to further accelerate the outflow of prescriptions from hospitals to retail channels, raising the 2019–2023 CAGR to seven per cent.

¹ 4+7 refers to the four directly managed municipalities of Beijing, Shanghai, Chongqing and Tianjin, and seven key cities in other provinces.

Meanwhile, the industry is observing three main structural changes taking place within the retail market:

1. Prescription drugs market is driving growth

From 2019 to 2023, the retail prescription drug market is estimated to maintain a CAGR of 8.5 per cent. The main drivers include the expansion of prescription outflow, the development of internet hospitals and the deregulation of online pharma sales. By comparison, the growth of over-the-counter (OTC) drugs is expected to be lower, with an estimated CAGR of just 5.4 per cent.

2. Demand differences between urban and county markets are becoming more apparent

In recent years, retail pharmacies' demand differences between urban and county markets have gradually emerged. The urban market is larger in size and has higher income per store, but it is increasingly saturated and needs new growth engines. Meanwhile, the county market, although still relatively smaller in size, is seeing its market concentration and income per store increase rapidly, with remarkable market potential for pharma firms to capture.

3. Online pharma retail has entered a rapid development stage

Online pharma retail sales in China only accounted for 2.2 per cent of the total in 2018, with the same ratio of three to four per cent in the OTC segment and less than one per cent in the prescription drugs segment. However, explosive growth is expected from 2020 onwards mainly driven by the consumer trend of buying online more frequently, promotion efforts from online healthcare services providers, and, in particular, policy deregulation, which has been accelerated by the COVID-19 epidemic.

After the COVID-19 outbreak, China's National Health Commission (NHC) announced a policy in February 2020 encouraging citizens to actively pursue online consultation instead of outpatient visits — an initiative that dramatically increased total traffic for online hospitals. For example, Ping An Health, one of the leading online hospitals in China, witnessed up to four times more new user registrations per day.

And in March, the NHC and the National Health Insurance Bureau published policies to gradually deregulate medical insurance reimbursement restrictions on online consultation and drug purchases, which is expected to further lift the growth of the online pharma retail market.

These structural changes in the retail market have led to the following four industry transformations, bringing new opportunities and challenges for pharma companies: 1) differentiating demands among urban retail pharmacies; 2) escalating needs for effective coverage in county markets; 3) emerging usage scenarios for online drug sales; and 4) diversifying collaboration models with retail distributors. This article will look at the growing demand in county markets.

Escalating needs for effective coverage in county markets

With opportunities and challenges coexisting in county markets, pharma companies need to design diverse and innovative models to enhance effective coverage.

Although smaller than its urban counterpart, China's county pharma retail market is developing rapidly. In 2018, county markets accounted for 61 per cent of the country's total population and more than 51 per cent of the country's total pharmacy numbers, but only contributed about 40 per cent of retail market share.

Nevertheless, the retail market's three-year CAGR reached 47 per cent, 1.7 times that of the urban market.

Historically, county-level retail pharmacies have lagged behind their urban counterparts. Most pharmacies in county markets are part of small to medium-sized chains or standalone stores. Their management efficiency, service professionalism and profitability still have room to improve.

For pharma companies, China's county market represents a vast unpenetrated space with a higher cost of coverage and promotion than the urban market. In the past, pharma companies often adopted a 'hands-off' model to maximise the cost-efficiency of county market coverage. Through this model, pharma companies covered county markets through distributors rather than by themselves, often resulting in insufficient promotion efforts and weak business growth.

Over the past two years, some pharma companies have tried to cooperate more deeply with distributors in the county market. With a new collaboration model where distributors act as 'muscle' (build up a dedicated salesforce for specific products) and pharma companies play the role of the 'brain' (support the management of distributors' salesforce), these pharma companies are able to provide better promotional and value-added services for retail chain customers in county markets. In the future, whether pharma companies can keep putting forth innovative business models for county markets will be one of the key themes in the pharma retail market.

Conclusion

The growing demand in the county retail market and the other three transformations mentioned earlier present both opportunities and challenges for pharma companies. However, pharma compa-

nies' success in retail will be assured as long as they can uphold patient- and customer-centric principles, improve the strategic priority of their retail business, gain deeper insights into chain pharmacy customers' evolving needs, provide tailored service offerings and upgrade their organisational capabilities and structures accordingly. **EB**



Note

This text is an abridged version of a report by Deloitte, *How Pharma Companies can Address the Retail Market Transformations in China*, available on their website, www.deloitte.com.

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A Tenants' Market?

The impact of oversupply and COVID-19 on Tianjin's office rental business
by Housing China

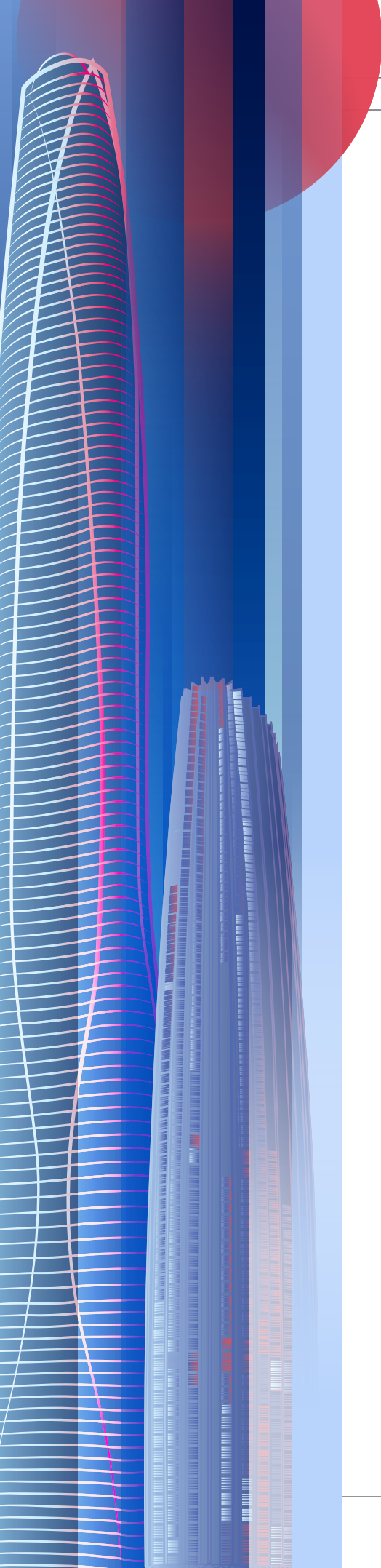
Being only a half-hour train journey from the centre of Beijing, Tianjin often gets overshadowed by the neighbouring Chinese capital. Yet, the concession areas of this port city were where many foreign companies first established themselves in China at the turn of the 20th century, and, a hundred years later, Tianjin still hosts many regional headquarters of European enterprises that are leaders in their individual industries. However, as **Housing China** explains, this has had a knock-on effect on the local office building market.

In recent years, Tianjin's office building stock has increased sharply, but the demand growth rate is lagging behind, leaving the overall market in a state of oversupply. The vacancy rate of office buildings in some areas exceeded 40 per cent at the end of 2019 and early 2020, which allows tenants to occupy a dominant position in rental negotiations.

In such a situation, the elasticity of the price of grade A office buildings increases, as does the overlap between prices for grade A and grade B office buildings. Measures such as extra long rent-free periods or reservations of areas, from one room to whole floors, have also started to appear in the Tianjin market, which further indirectly reduces costs for tenants.

Intermediary agencies account for 50 per cent of the total transaction volume of the Tianjin office building market. Therefore, in order to speed up the rental process, the managers of many new projects choose to cooperate with such agencies. Projects may host promotion events for an agency, convene small-scale project discussion activities and launch phased preferential housing sprint activities. The cooperation methods and incentive policies available are also more abundant. For example, in addition to the basic commission, agents also often receive a personal extra cash reward or gift, as well as rewards for first visit, second visit, intention-to-sign, formal contract signing, exceeding contracted area targets and so on.





New builds exert pressure on old projects through strategies such as low rent, high commission and cash-with-visit rewards. The vacancy rate of office buildings over five years old has increased, while overall market demand is insufficient. More than 60 per cent of transactions come from Tianjin's existing tenants' demand for cost evaluations of a newer office.

New supply projects, equivalent to 36 per cent of the existing stock, are expected to enter the Tianjin office building market from 2020–2022, which will bring more choices to the rental market. With weak demand growth, the vacancy rate will rise further.

In order to adapt to the changes of the Tianjin office building market, more and more buildings have introduced more flexible rental products (logo + manager's office + finance room + conference room) on the basis of the traditional delivery standard of roughcast (ceiling + white wall + net floor); for example, a large open office area equipped with workstations designed for intensive information technology tasks or customised decoration. During the pandemic, as enterprises tried to greatly reduce their office expenses, they turned to direct check-in spaces; as this option reduced costs for enterprises, it also reduced the difficulty for operators of leasing out office space.

Consulting services and technology, media and telecommunications (TMT) industry clients make up over 50 per cent of the total turnover of the Tianjin office building market. Affected by the COVID-19 outbreak, traditional industries have gradually changed their business models. This has led to vigorous demand for artificial intelligence, big data, e-commerce, online education, biological medicine, epidemic prevention and so on. At the same time, the phenomenon of broken lease contracts is emerging in logistics, trade, cultural tourism and other personnel-intensive enterprises. It is expected that, in the next two to three years, the TMT industry will continue

to drive new demand, while consulting services and financial industry demand will remain stable.

It is worth mentioning that, during the pandemic, some state-owned enterprises based in Tianjin were supported by the state rent reduction and exemption policy: rent was cancelled from 7th February to 6th May 2020, and halved from 7th May to 6th August 2020. For small and medium-sized enterprises (SMEs), buildings eligible for rent relief suddenly became very scarce, while the vacancy rate of SOE office buildings is falling, in contrast to the market norm.

As a result of the COVID-19 pandemic, the Tianjin office market will face new pressure, and operating office rental buildings will also encounter greater challenges. In the short-term, the market will continue to be in an adjustment period. In order to succeed, future office products should incorporate digital technology to create green, healthy, intelligent office buildings; plan business support facilities for the whole building while also meeting the needs of enterprises and employees; and clarify industrial positioning, import core enterprises and form clusters. Operators should provide a variety of delivery standards to meet the office needs of different types of enterprises. Only by creating differentiated office products can a service provider stand out from the market competition. **EB**

Housing is the largest comprehensive real estate operation service provider in Japan. The company was founded in 1958. In 1994, Housing China, a specialised comprehensive real estate operation service enterprise, was established. It was listed on the Tokyo Stock Exchange in 2002.

Housing has five regional business divisions and branches in northeast, north, east, southwest and south China, covering more than 20 major cities. It focusses on providing industrial planning, business leasing, property management, enterprise services, building renovation and intelligent building systems for industrial parks, commercial real estate and urban complexes development, operation and other comprehensive real estate operation solutions. For more information, please contact Amy Jia at jiadan@housing-cn.com

CHINESE LUXURY BRAND CONSUMERS

A generational, gender and city-tier analysis
by Mazars

Although the majority of Chinese consumers have only been exposed to luxury goods for the past 40 years, China has grown into the world's second-largest luxury market in that time. At the end of 2019, Mazars launched a survey in order to gain insight into the relationship between luxury consumption behaviour and the values, lifestyles and social backgrounds of four generations of consumers. The questionnaire was designed to explore Chinese consumers' definition of luxury goods, ways of obtaining brand information, categories of products frequently purchased, frequency and channels of purchase, and factors influencing purchasing decisions, among other aspects.

A total of 3,235 respondents—covering Gen Z (aged under 24), millennials (25–38), Gen X (39–54) and baby boomers (55–73)—took part. Mazars has released the findings of this survey to provide a profound and thorough research report outlining the “profile of all generations of consumers”, which will be invaluable for businesses looking to have an in-depth knowledge of

the psychological needs and habits of Chinese luxury consumers.

Consumer trends by generation

In a webinar on the results of the survey, Dr Julie Laulusa, managing director of Mazars, remarked that the differences in consumption habits and consumption views among four generations of luxury consumers are currently significantly marked. Against the backdrop of post-90s and post-95s generations gradually becoming the main force of consumption in the Chinese market, Mazars hopes that its research report covering all ages can provide some insights for luxury industry stakeholders.

Lawrence Shum, chief operating officer of Galeries Lafayette China, made a similar point about the unlimited potential of post-95s in luxury consumption: he believes that they cannot be overlooked by the future luxury market. Mr Shum said this group is a very important source of inspiration for Galeries Lafayette. Therefore, although

post-80s and post-90s are still the main consumers targeted by Galeries Lafayette, the company also actively innovates in developing store events so as to win the favour of young consumers through a rich choice and vivid forms of activities.

In addition to greater willingness to spend and stronger buying power, post-95s are recognised as 'digital natives'. They are naturally more willing to use digital channels to obtain luxury information and pay for digital marketing. This trend was borne out in Mazars' survey: more and more consumers are using mobile phones as the main channel for accessing information and buying goods, with a utilisation rate among Gen Z that is nearly 10 percentage points higher than that of millennials.

Mathieu Delmas, managing director, Piaget China, believes that: “The luxury consumption concept of Chinese consumers is also maturing and evolving. Take Piaget for instance, we officially entered Tmall this year to better cater for the consumption habits of Gen Z. According to our observations, as the

digital natives, Gen Z is more willing to make online shopping comfortably at home with the premise that what they buy are authentic brand products."

Consumers by city tiers

The survey results show that first-tier cities, with nearly 80 per cent of luxury consumers, rank highest in terms of luxury purchasing power among the top three tiers of cities, though second-tier cities have impressive market prospects. In third-tier cities, with rapid urbanisation and the rising popularity of online and mobile shopping platforms, the number of luxury consumers is growing.

Stephane Wilmet, chief consumer officer of L'Oréal China, provided insight on this during the webinar: "The consumers in third-tier cities have the same pursuit of life quality as consumers in first- and second-tier cities. They are willing to spend time and money, and also have enough disposable income to consume, especially on cosmetics, pan-entertainment and consumer goods."

Although the COVID-19 outbreak has severely dragged down the global economic outlook in 2020, the Chinese luxury market has continued to perform well. From the market having slowly picked up since April to the promotions launched by brands during the Labour Day holidays in May, consumption rebounding in the post-pandemic period has become a hot topic. Various predictions suggest that China and Asia will lead the entire luxury market out of the slump. China is also expected to be the best performing luxury market in 2020. However, how to make Chinese consumers open their wallets under the new consumption normal, especially Gen Z consumers, is still a vital challenge ahead of many luxury brand managers.

In her concluding remarks to the webinar, Dr Laulusa said that Gen X, millennials and Gen Z have become important supporters of luxury consumption in China. Their consumption views have gradually come into maturity. Consumers across different generations have their own preferences, and are willing to try new things and embrace innovations. Based

on the characteristics of the Chinese market, luxury brand practitioners should constantly revise their business strategies to keep pace with the changes in Chinese consumption concepts, and, importantly, to strike a balance between maintaining the unique essence of a luxury brand, cater to market demand and adapt to the ever-changing social environment in China, thus gaining a bigger share in the fiercely competitive market. [3b](#)

Note:

The Chinese Luxury Brand Consumers — A Generational, Gender and City-tier Analysis was first officially published on Mazars' website.



Mazars is an international, integrated and independent firm, specialising in audit, accountancy, advisory, tax, and legal services. Mazars can rely on the skills of 40,400 professionals across all continents, which make up its integrated partnership in Europe, Africa, the Middle East, Asia Pacific, North America, Latin America and the Caribbean. Present in 91 countries and territories, the firm draws on the expertise of its professionals to assist major international groups, small and medium-sized enterprises, private investors and public bodies at every stage in their development.

IPR IN THE PROVINCES

Shandong's tech-driven growth and intellectual property protection

by the China IPR SME Helpdesk

China has made considerable advances in the field of intellectual property (IP) protection, such as the establishment of courts to specifically deal with disputes over IP infringements. However, many stakeholders in the Chinese market—including the European Chamber—say there is still a lot more work to do in this area. To illustrate some of the outstanding problems, the **China IPR SME Helpdesk** has taken the tech-driven growth of Shandong Province as an example, and the impact this has had on IP protection.

In China's Shandong Province on the east coast, manufacturing dominates the local economy; in the past the province has been a cradle for some of China's better-known national champions, such as electronics manufacturers Haier and Hisense. Machinery and component manufacturing has been particularly important in driving the industrial development of Qingdao, and this has been boosted by the local government's efforts to attract high-tech foreign firms to Shandong, via special high-tech and export zones.

Qingdao and the other major industrial cities in Shandong (like Yantai, Zibo, Weifang and Jinan) are an attractive option for advanced manufacturing, not least because of their relatively cheap rent, easy access to a large concentration of suppliers, and well-established shipping routes. However, the threat of IP theft, such as the copying of designs, patented inventions or company trademarks, remains high throughout China, and no less so in Shandong.

Technology and IP-related issues in Shandong

Counterfeit industries can operate on a vast scale in China. An underground industry for fake mechanical bearings and fake medicine and medical products grew rapidly in Shandong until a crackdown in 2016 by the local government. Bearings are essential moving-part components of many industrial and consumer machine goods, and rarely visible in a finished product, thus less easily spotted as fakes. Moreover, for the same reason, it is much easier for these types of non-finished goods to enter supply chains.

In the majority of these cases, Chinese counterfeiters use well-established foreign trademarks to pass off lower quality products. The substandard quality of the goods can be devastating for foreign companies, damaging their reputation at the same time as eroding their customer base. However, the problem often partly stems from the foreign companies themselves assuming that, for any component or machine goods, the focus need only be on protecting inventions instead of also considering their brand name.

IP protection

Protecting an invention or innovation through a patent is without doubt essential, but it is often just as important to safeguard a company's brand through a trademark. The process to register a trademark in China is relatively simple. The system follows a 'first-to-file' rule, meaning the first company to apply for the mark will be granted use, rather than the first to use (even if it has been registered in other countries). This has resulted in countless 'bad faith' registrations: registering a mark with the intention to make a profit from the rightful owner.

The 'bad faith' registration phenomenon is not restricted to smaller companies. In 2014, Tesla offered Chinese yuan (CNY) 2 million to buy the rights to the Tesla name from a Guangzhou-based businessman who registered it in 2009. Castel wines from France also battled against a registration of a Chinese character phonetic equivalent of its name.

Castel eventually lost the legal dispute and had to pay a CNY 33.7 million fine, as well as carry out a rebrand of its products in China. The Supreme Court began reassessing this judgment in September 2018, but as yet, no further outcome has been publicised.

Tips to protect your IP in Shandong

The lesson to be learned here is that registering a trademark should be done as soon as possible. It doesn't matter what the product is, if the trademark represents goods or services of decent quality that will earn a reputation among consumers, it is worth applying for long before entering the Chinese market. It is common for small- and medium-sized businesses to think that they are not at risk because they do not sell consumer goods and are not well-known among the general public, but this is a misconception, as in many ways it is easier for a counterfeiter to pass off fake components and intermediate goods. In the end, prevention is the best cure when it comes to infringements of intellectual property rights. 

CHINA IPR SME HELPDESK



The **China IPR SME Helpdesk** supports small and medium-sized enterprises (SMEs) from European Union (EU) member states to protect and enforce their intellectual property rights (IPR) in or relating to China, Hong Kong, Macao and Taiwan, through the provision of **free information and services**. The Helpdesk provides jargon-free, first-line, confidential advice on intellectual property and related issues, along with training events, materials and online resources. Individual SMEs and SME intermediaries can submit their IPR queries via email (question@china-iprhelpdesk.eu) and gain access to a panel of experts, in order to receive **free and confidential first-line advice** within **three working days**.

The China IPR SME Helpdesk is an initiative by the European Union

To learn more about the China IPR SME Helpdesk and any aspect of intellectual property rights in China, please visit our online portal at <http://www.ipr-hub.eu/>.

16TH June
BEIJING

European Chamber meets virtually with EU Energy Commissioner

On 16th June, European Chamber President Jörg Wuttke led a delegation of Advisory Council members and Energy Working Group chairs in a video meeting with Kadri Simson, commissioner for Energy, European Commission. President Wuttke and Energy Working Group National Chair Guido Giacconi provided an overview of China's energy sector. Other participants gave their perspectives on different aspects of the European

energy industry's experiences of operating in China. Topics of discussion included the synergies between the European Union (EU)'s Green Deal and China's energy and environmental strategy, as well as the implementation of the framework for equal treatment in China at the central and local level, decarbonisation and energy transition, and the energy innovation and research and development (R&D) landscape in China.

12TH May
SHANGHAI

European Chamber provides recommendations to CPPCC Shanghai Committee

Dr Ioana Kraft, general manager of the European Chamber Shanghai Chapter, spoke at a panel discussion on Vision for Future Shanghai organised by the CPPCC Shanghai Committee.
Photo: European Chamber



On 12th May, Dr Ioana Kraft, general manager of the Shanghai Chapter, took part in a panel discussion on the future of Shanghai, organised by the Chinese People's Political Consultative Conference (CPPCC) Shanghai Committee. The discussion focussed on Shanghai's 14th Five-year Plan. Dr Kraft provided a list of recommendations on how to make the city more competitive

both nationwide and globally. These recommendations included further reforming the financial services sector, strengthening intellectual property rights protection, easing entry restrictions placed on foreigners during the COVID-19 outbreak, and piloting innovative reforms in both the China Shanghai Pilot Free Trade Zone and the Lingang New Area.

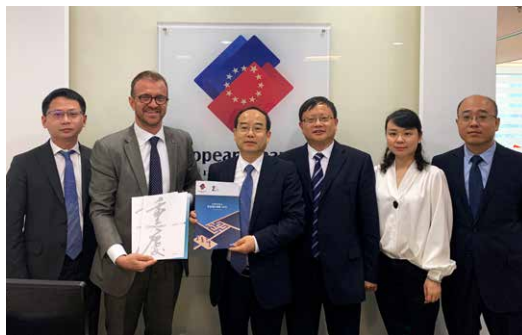
18TH June
SHANGHAI

Vice President raises members' issues with Chongqing Commission of Commerce

On 18th June, a European Chamber delegation led by Carlo D'Andrea, vice president of the European

Chamber and chair of the Shanghai Chapter, met with representatives from the Chongqing Municipality

Carlo D'Andrea, vice president of the European Chamber and chair of the Shanghai Chapter, met with a delegation from Chongqing Municipality led by Deputy Director General (DDG) Song Gang from the Chongqing Commission of Commerce.
Photo: European Chamber



government, led by Deputy Director General (DDG) Song Gang from the Chongqing Commission of Commerce. Issues raised by the Chamber delegation included the recent closing of borders, complex administrative burdens for one-stop service platforms, talent attraction policies, high transportation costs between different regions in China and public procurement transparency. DDG Song sympathised with the issue of foreign employees being unable to return and offered to look into procurement issues.

18TH June
NANJING

Bernhard Weber, chair of the European Chamber Nanjing Chapter, led a delegation of Nanjing members to meet with Zhao Jianjun, director general of the Jiangsu Department of Commerce.
Photo: European Chamber

Nanjing Chapter targets improved communication with Jiangsu Department of Commerce



Nanjing Chapter Chair Bernhard Weber led a delegation of members to meet with Zhao Jianjun, director general (DG) of the Jiangsu Department of Commerce on 18th June. Mr Weber presented the Chamber's recently released *Business Confidence Survey 2020* to DG Zhao and highlighted the results most relevant to Nanjing. The recruitment of high-level talent, environment-related policy

implementation, development of SMEs and the possibility for developing channels for dialogue on communication and consultation were also discussed. DG Zhao recognised the importance of such a channel for dialogue and pledged to work on bringing foreign employees back to China. Members also discussed company relocation, the local investment environment and global supply chain issues with DG Zhao.

17TH June
GUANGZHOU

South China General Manager Francine Hadjisotiriou met with Guangzhou Development District Investment Promotion Bureau Deputy Director Wang Yang.
Photo: European Chamber

South China Chapter discussion on Guangzhou Development District



South China General Manager, Francine Hadjisotiriou, met with the deputy director of Guangzhou Development District (GDD) Investment Promotion Bureau, Wang Yang on 17th June. Also in attendance was Peter Helis, chief advisor of Guangzhou Huangpu District. Ms Hadjisotiriou gave an overview of the European Chamber, explaining its function and how it can best work with the GDD. Mr Helis provided an introduction to the GDD and the potential of Huangpu. The meeting concluded with a brief discussion on a possible event on the use of hydrogen, as part of a key proposal for a series of events focussing on new energy in South China.

Resetting China's Growth Model

Emerging opportunities
for European companies
by John Russell

The annual plenary session of the National People's Congress (NPC) in May marked a quantum shift in China's strategy for macroeconomic growth. Emphasis has refocussed on stabilising employment, securing basic livelihoods, eliminating poverty and preventing risk amid the global COVID-situation; all while coping with elevated external uncertainty.

John Russell from **North Head** argues that this is a change of strategy from 'economic efficiency' to fairness and livelihoods; from licence for a minority to be rich to focussing on whole societal wellbeing, and addressing the inequality and opportunity gaps that have widened over past decades.

This new approach by the NPC is termed the '6+6' strategy, and can be seen as a natural corollary of the 13th Five-year Plan's focus on poverty alleviation. Premier Li prioritised the six hundred million earning less than Chinese yuan (CNY) 1,000 per month. The government is also committed to creating nine million new urban jobs and securing jobs for the 8.7 million college graduates. For the first time since 2002, China did not set an annual gross domestic product (GDP) target.

In response to COVID-19 economic impacts, the central government has increased the budget deficit, with an open-ended fiscal deficit target set for over 3.6 per cent of GDP. The fiscal stimulus is significantly less than that of the 2009 global financial crisis, but more prudently targeted to buttress jobs and the real economy. Fiscal initiatives include tax reductions and exemptions, increasing infrastructure spending, and supporting small and medium-sized enterprises (SMEs).

SIX GUARANTEES AND SIX STABILITIES

The "six guarantees and six stabilities", also referred to as the "security in the 'six areas' and ensuring stability on the 'six fronts'" or '6+6' strategy, was a key theme throughout the NPC session and the *2020 Government Work Report*.

Six guarantees refer to protecting: job security; basic living needs; operations of market entities; food and energy security; stable industrial and supply chains; and the normal functioning of primary-level governments.

Six stabilities are ensuring stability in: employment; the financial sector; foreign trade; foreign investment; domestic investment; and market expectations.

CNY 2.5
TRILLION
tax and fee cuts for corporate
enterprises, extended until the end of
2020.

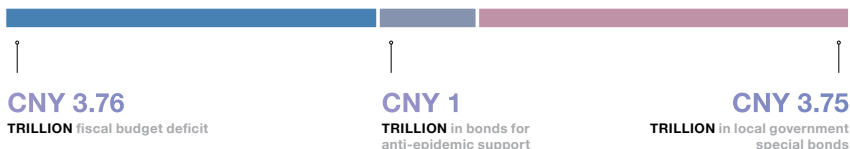
Employment driving consumption

Well before the NPC session in May, the government's actions had foreshadowed this shift and realignment. The 'temporary relief' interventions in the early months of the COVID-19 epidemic to sustain employment have expanded to CNY 2.5 trillion in tax and fee cuts for corporate enterprises, while their duration has been extended until the end of 2020.

Rather than large scale credit relaxation, the new 6+6 strategy prioritises reduced burdens on businesses, with the aim of bolstering job retention and consumption. With tens of millions of workers losing jobs due to business closures and disruption, the government now encourages and emphasises micro and SME businesses, which are viewed as agents for rapidly creating employment and boosting consumption. Also, inbound cross-border e-commerce is being promoted with incentives for SMEs to provide ancillary services in cities across China.

PROACTIVE FISCAL POLICIES TO BOLSTER CONSUMPTION

A total fiscal stimulus package of **CNY 8.5 trillion**



Core components of China's 2020 roadmap

Core components of China's 2020 bad break for resetting China's growth model include:

- Implementing proactive fiscal policies to bolster consumption:** This pro-growth strategy includes a total fiscal stimulus package of CNY 8.5 trillion yuan, which includes a CNY 3.76 trillion fiscal budget deficit, CNY 1 trillion in bonds for anti-epidemic support, and CNY 3.75 trillion in local government special bonds. This expenditure corresponds with the fiscal deficit target.
- Supporting high-tech growth engines as a means of industrial upgrading:** The government pledged support for 'New Infrastructure' and 'New Urbanisation' initiatives which will prioritise high tech construction nationwide. As a new engine of growth for China's economy, the New Infrastructure Initiative (NII) is intended to accelerate both domestic demand and manufacturing capacities. The initiative will see China develop its 5G network, plus rapid take-up of associated technologies such as big data, artificial intelligence design and industrial upgrading.
- Greater recognition of the roles of multinationals, foreign trade and investment.** Foreign trade and investment are considered 'stabilisers' in the 6+6 strategy. This reflects the Chinese Government's recognition that foreign businesses are key drivers of domestic economic growth.
- Bolstering financing for SMEs:** The People's Bank of China (PBOC) issued measures, alongside other central government authorities, to ensure continued financing for China enterprises, with calls for a total of CNY 300 billion in special finance bonds to support loans to micro and SMEs, as well as policies to encourage venture and angel investors.
- Increasing free-trade, greater market access as growth drivers:** Minister of Commerce Zhong Shan has emphasised the importance of easing market entry, shortening the negative list for foreign direct investment and implementing the Foreign Investment Law. Increasing the number of economic development zones is a component of China's pro-free trade strategy. The 2020 Government Work Report outlined support for a new Hainan free trade port in addition to new pilot free trade zones and integrated bonded areas in the central and western regions, and further comprehensive trials on opening up the service sector. The China Development Bank will provide a total of no less than CNY 100 billion in funds to economic and technological development zones. The funds will support the development zones to optimise their investment environment and promote high-quality growth.

Accordingly, the governments at central and local levels should become more ready to support foreign businesses generally, and to maintain their operations in China, including their supply chains on the mainland.

China “continue to have an unbalanced trade and investment relationship,” referring to ongoing frustration regarding these market access and investment disparities.

China-Europe Relations

As a foil to deteriorating relations with the United States (US), China will continue to focus on the European Union (EU) for growing economic and political links. Such a situation should leverage the EU’s position. China’s priorities for Europe also fit conveniently under the umbrella of the Belt and Road Initiative.

Yet, EU-China relations are also in flux – attitudes to Chinese investment into Europe have hardened over recent years while negotiations on a bilateral investment agreement continue to be ponderously slow. Differences over Hong Kong, Xinjiang, and COVID-19 are contentious, as with the US. Moreover, the US has been pressuring the EU to take a tougher stance on China, while concurrently threatening to initiate trade actions against the EU itself, or individual member states.

China and the EU have persistent differences over market access and investment policies. In past years business interests such as the European Chamber have advocated for greater reciprocity. Following the June EU-China summit, European Commission President Ursula von der Leyen remarked that the EU and

Nonetheless, the EU is obliged to traverse a tightrope: needing both China and the US and reluctant to alienate either. With the US progressively disengaging internationally, China and the EU now find themselves as partners by circumstance for upholding multilateralism, support for the World Health Organization, advancing the climate change agenda and serving as the prime defenders of the 2015 Iran Nuclear Accord.

Opportunities and recommendations for European business

Given the breadth and persistence of China-US disputes, European companies potentially stand to gain disproportionately from the following areas:

- With recognition that MNC and foreign businesses are ‘stabilisers’ for the Chinese economy and key drivers of domestic economic growth, governments at central and local levels should progressively be more supportive for foreign businesses generally. For many manufacturing and technology companies, this entails support to

maintain their supply chains on the mainland.

China companies cannot fully master the full scope of the NII, with gaps in specific technology sectors. This will create opportunities for advanced manufacturing, technology companies and specialist services providers.

- The expansion of China’s Cross-border Retail Import Pilot will potentially attract a new wave of European companies to enter the Chinese market; particularly that of SMEs. Ancillary effects may be that supply chains are enhanced for European companies already established in China.
- Advantages will accrue if companies adapt their present market positioning and messaging, particularly to government, by incorporating some pertinent elements of the 6+6 growth strategy, emphasising their contributions to employment, livelihoods, capacity-building and driving growth as a foreign company.
- To position itself as a trusted partner in the China market, a MNC can demonstrate its value to central and relevant local governments by emphasising its commitment to remain in China, compliance with Chinese regulations and readiness to meet social responsibilities.

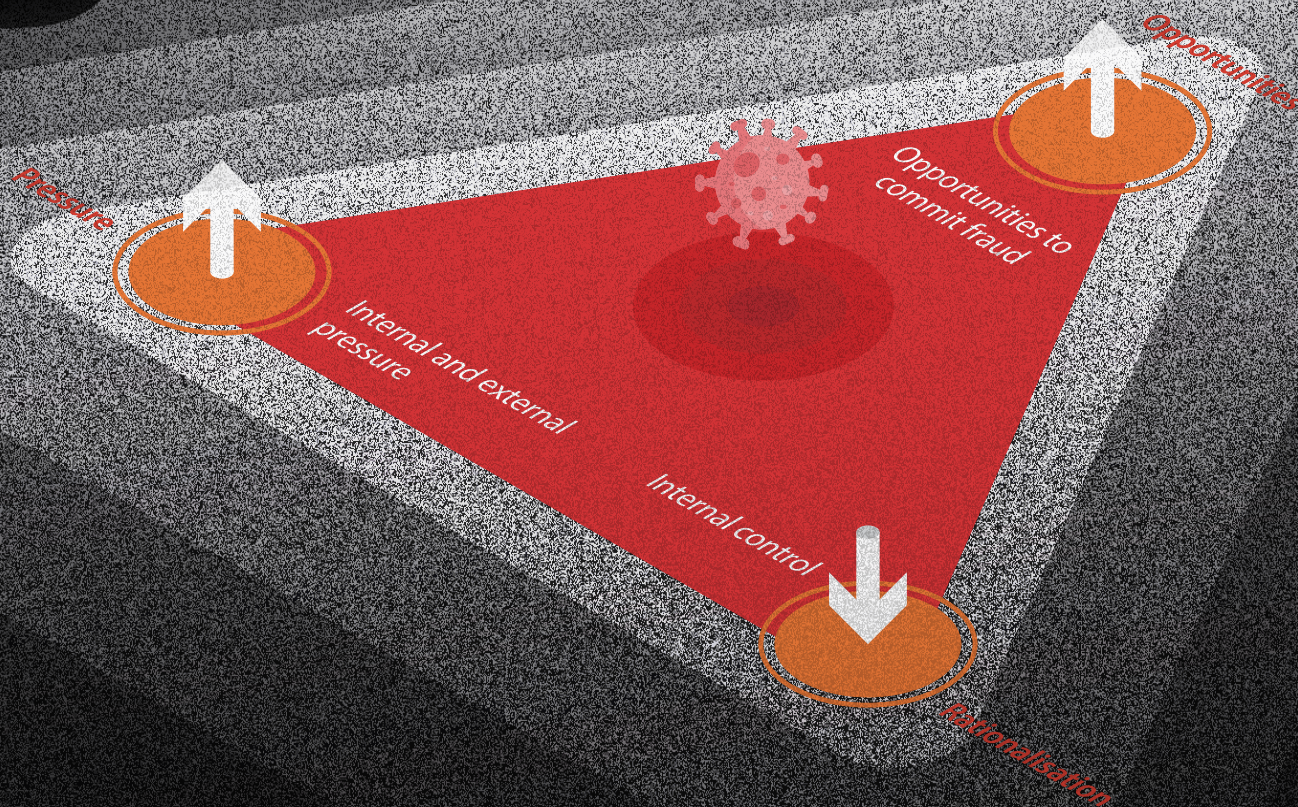
As always in China, to optimise opportunities and minimise risk, European MNCs must stay vigilant for upcoming policy and regulatory trends, changes and compliance demands. 

North Head is a public affairs and strategic communications consultancy based in Beijing. This is an abridged version of an article that can be obtained at www.northhead.com For more details contact the managing director, John Russell, at [jrussell@northheadcomms.com](mailto:jrusell@northheadcomms.com)

The Fraud Triangle

Investor sentiment remains negative
despite COVID-19 recovery
by Ines Liu

With no end to the COVID-19 pandemic in sight, companies continue to face significant operational, financial and strategic challenges. As countries restart their economies, businesses need to effectively manage their liquidity to survive this difficult period. However, **Ines Liu** of **Dezan Shira** warns firms of the need to maintain vigilance, as such times of economic turmoil are when most businesses become vulnerable to acts of fraud.



In the era of COVID-19, when employees are troubled by travel restrictions and working-from-home (WFH) is the new normal, multinational companies (MNCs) are finding themselves particularly exposed to the risk of fraud. It is thus more critical than ever for MNCs to assess possible fraudulent risks within their organisation in order to see through fraudsters' schemes in advance.

Fraud triangle in the context of COVID-19

The 'fraud triangle' in Figure 1 shows the three elements involved when fraud is committed; pressure, opportunity and rationalisation.

• Internal and external pressure

Many people have either lost their jobs or have had their salary cut since the outbreak of the coronavirus. Financial pressures on families will increase with the expected further downturn of the global economy. This may create or increase motivation to commit fraud, and may have an impact on the ability of a business to survive during a prolonged public health crisis.

• Opportunities

Due to WFH arrangements and travel restrictions, many key business functions are presently understaffed or lack supervision. This especially is the case when switching or onboarding third parties (suppliers, customers and so on), as screening processes are often not carried out in full or effectively. Opportunists may take advantage of these circumstance to manipulate the process of supplier selection and pricing.

• Rationalisation

With increased pressure and decreased internal control, it is easier for fraudsters to use their physical,

mental or financial hardship to justify their unethical behaviour.

Key observations on fraud schemes in the context of COVID-19

Given the increase of fraudulent activities under COVID-19, it is essential for MNCs to conduct a fraud risk self-assessment and identify the most exposed areas in order to improve the firm's resilience level. Meanwhile, employees should be informed of ways to protect themselves and their company from such risks.

Below, we list some of the top COVID-19-related fraud schemes that employees or vendors may commit, as well as suggestions of preemptive precautions and solutions.

Common instances of fraudulent activity

• Procurement fraud

The forms of fraud risks different companies are subject to will of course vary. Take for example, trading and manufacturing companies sourcing from China. These companies are advised to pay closer attention to their purchase and payment systems, because the sourcing team and local management are most prone to

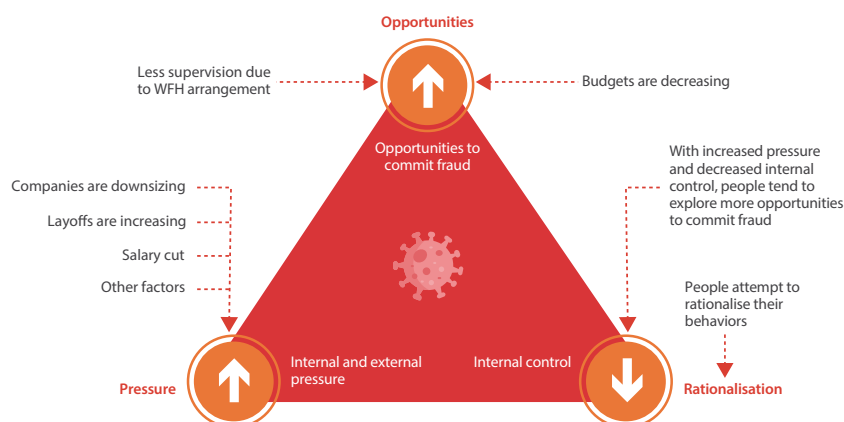
colluding with suppliers if given bribes.

Local members of the sourcing team may also select companies operated by friends and relatives as preferred suppliers. These instances of conflict of interest are extremely common in China, and the current COVID-19-induced economic crisis may provide further impetus to indulge in fraudulent activities. Under such circumstances, MNCs should strengthen the control and supervision of the supplier selection and pricing process. More specifically, to combat the risk of bribes and collusion with suppliers, companies should assign different steps of the purchasing process to different members of staff, and launch an investigation if there are discrepancies in the pricing of goods and services as handled by different members.

• Cash theft

MNCs with a lean China team should pay attention to the proper segregation of duties, especially for the issuance of cash receipts and cash disbursement. If the initiation and approval of e-banking payments are controlled by the same person, or if one individual holds both the company chops/official stamps and the corporate cheque book, there is a real risk of cash theft. Similarly, if the company does not segregate accounting and cashier duties properly, the accuracy and completeness of revenue expenditure and capital expenditure records can

Figure 1: Fraud Triangle in the Context of COVID-19



be jeopardised, which could lead to fraudulent disbursements or other forms of economic crime.

- **Falsification of expense claims**

Conversely, companies with large China teams should carefully monitor the local payroll system, or they might be subject to fraudulent payroll and reimbursement schemes. If the general manager is colluding with or bypassing the human resources team on payroll matters, they could channel money to their personal bank account by making up 'ghost employees' or issuing fictitious bonuses. If the headcount is large and payroll figures significant, it could be difficult to spot this type of fraud. Likewise, opportunistic employees may take advantage of the low supervision level to increase their personal remuneration by overstating their work-related expenses.

Suggestions to reduce risk exposure and solutions

Segregating duties

The segregation of duties is essential to limit the incidence of cash theft. Initiation and approval of e-banking requests should be segregated to different employees. One practical solution could be that the finance manager at headquarters holds the e-banking token required to approve local payments.

The cashier holding the corporate cheque book should not have free access to the company chops, otherwise they will have opportunities to initiate payments at the bank without being detected. Likewise, to ensure that all bank transactions and cash movements are properly recorded, the cashier and bookkeeper should not be the same person.

Additionally, businesses should record any item shipped out with the relevant invoice, to avoid back-channel sales

profiting individuals rather than the company. The consistency between inventory data, shipping records, invoicing and the sales figures in the company books should be carefully monitored, and the relevant duties appropriately segregated.

Ensuring supervision by building an effective and clear reporting line

Lured by the benefits of a leaner and more efficient decision-making structure, foreign businesses in China often entrust considerable authority to a sole employee – usually the legal representative, which paves the way for a loss of transparency and control. When an employee can perform important duties without supervision, there is always a risk he/she will end up abusing their power and acting upon self-interest.

In terms of sales pricing, the price ranges for different products should be firmly set. For businesses that rely on their sales teams to bring in new customers, it is important to set an internal policy in this regard; some products or services might have a set price, while others are negotiable.

In the latter case, there should be a clear price boundary within which employees can sell a given product or service, whether it is a certain range for all sales or a set of different ranges based on the quantity sold. And if there is a need to proceed with a sale price outside the pre-decided range, the sales team should be required to get additional approval from a senior manager in advance. This will reduce the risk of cash theft or collusion with customers.

Re-checking the inventory management system

Implementing internal controls on inventory management is essential. For trading and manufacturing companies, it is critical to use proper information

technology systems to monitor and automate inventory management.

While an automated warehouse management system significantly reduces the risk of inventory misappropriation, physical stock counts should also be performed periodically to verify the accuracy of the electronic data.

It is also essential to appropriately segregate duties between the purchasing manager and the warehouse manager, to limit the risk of collusion with suppliers by a sole decision-maker. There should be a clear reporting line defined, whereby the warehouse manager instructs the purchasing manager to place new orders with suppliers. No orders should be made without receiving authorisation from a senior manager.

Conclusion

To mitigate potential business management risks associated with the COVID-19 pandemic, all companies in China are advised to develop a thorough internal control mechanism, and periodically review their procedures to ensure the effectiveness of the system over time.

Meanwhile, fraud prevention programmes must also be backed by training delivered to local teams, so that the tone from the top trickles down to the operational level and that the China-based employees are aware of the company's code of good conduct. 

Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing legal, tax and operational advisory to international corporate investors. Operational throughout China, ASEAN and India, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. With more than 28 years of on-the-ground experience and a large team of lawyers, tax experts and auditors, in addition to researchers and business analysts, we are your partner for growth in Asia.

In early June, the European Chamber published a report outlining the structural challenges facing European airlines operating in China, *In for the Long Haul: Developing a Sustainable Operating Environment for Airlines in China*. **Tom Groot Haar, Policy and Communications Coordinator** with the European Chamber, outlines some key findings of the report.

IN FOR THE LONG HAUL



Developing a sustainable operating
environment for airlines in China
by Tom Groot Haar

Over the last several decades, the European Union (EU) and its member states have taken a significantly different approach to China with regard to developing the respective environments in which their airlines operate.

Before the EU liberalised the bloc's aviation sector, there was limited competition between different European airlines and prices were high. The introduction of the EU internal air transport market in 1993 brought European air carriers under the supervision of the European Commission, and EU competition rules were applied, slashing the then widespread use of state aid. Frequencies and destinations also increased drastically, and the entrance of low-cost carriers into the EU market increased competition and drove down prices.

The increased air traffic in Europe pushed member states to optimise the operating environment for airlines by adhering to international standards regarding slot allocation procedures and air traffic management. Additionally, European airlines were incentivised through EU competition law and fiduciary responsibility to focus on profitability and sustainability of operations, transforming them from bloated drains on public resources into sustainable, thriving businesses in an industry that boosts European connectivity, growth and employment.

China's aviation industry has developed quickly, but its airlines lack competitiveness due to an operating environment that is strikingly similar to that found in Europe prior to the 1993 reforms. While aviation cooperation between the EU and its member states and China has borne fruit by increasing connectivity and trade, in order to ensure global sustainability of the airline industry, their two respective models need to become more aligned.

Although China's state-owned airlines were consolidated in 2002, making the country's airline industry slightly less dependent on state-owned enterprises, it

is still markedly different to the EU and United States' industries. China's model remains primarily orientated towards building scale and driving connectivity, rather than sustainable profitability.

In recent years, China has made progress in aligning its slot allocation and air traffic management practices with international standards. However, these standards are still not fully adhered to, and China's airspace is mostly closed, as it remains under military control. In order to create a sustainable, open and competitive operating environment for both domestic and international airlines, more reforms are needed, especially in the areas of government financial support and competition.

In China, only international long-haul routes to and from either Beijing or Shanghai are profitable. Therefore, in order to attract investment and increase connectivity with other destinations in China, many local governments of smaller cities offer airlines financial support to open international routes. However, this subsidisation is failing to make these long-haul routes sufficiently profitable. More often than not, either because the subsidies are eventually withdrawn or because European airlines do not project a sustainable flow of income in subsequent years, flights to second- and third-tier Chinese cities end up being cancelled.

While Chinese airlines face the same issues as European airlines with respect to profitability, many can absorb losses on routes to and from these smaller cities. First, Chinese airlines can offset a loss-making, long-haul flight by connecting it to a profitable domestic flight, sourcing passengers from other cities that would have otherwise travelled through Beijing or Shanghai. Second, they can afford to operate the routes at a limited loss by leveraging subsidies. Third, they have extensive lines of credit through state-owned banks in China that can offset losses indefinitely.

This has resulted in many of China's smaller airlines establishing long-haul

flights from second- and third-tier cities. Even if the international leg of the itinerary makes a loss, or has to run on a very narrow margin, local subsidies help cover the loss, and more profitable connections to medium-sized Chinese cities can help squeeze a small positive margin out of the whole setup. However, the sustainability of this approach is highly questionable. These practices drive up the number of seats available to Chinese passengers wanting to travel to Europe. The imbalance between demand for seats and their supply then drives down prices, and reduces the sustainability of the already-functioning flights based out of Beijing or Shanghai.

In the short-term, the Chinese system gives its airlines an unfair advantage to quickly gain global market share. However, in the long-term, this is neither sustainable nor beneficial for airlines. When faced with the same problem nearly three decades ago, Europe took action to reform the sector. With its aviation market expected to become the world's largest in 2022, China will have to move swiftly to similarly develop a sustainable airline industry.

Until the two respective models can be better aligned, Europe needs to be fully aware of the complexities of China's market, particularly when renegotiating air traffic rights. The EU must weigh such considerations against the remaining untapped potential in China, while avoiding being sucked into a 'race to the bottom' on profitability on long-haul flights between the two destinations. The fact that European airlines have a fiduciary responsibility to shareholders and have to comply with EU competition law means that Chinese airlines will be able to last longer in such a race. **EB**

To download *In for the Long Haul: Developing a Sustainable Operating Environment for Airlines in China*, scan the QR code provided.



Overcast Horizons

Investor sentiment remains negative despite COVID-19 recovery

by CKGSB

While the COVID-19 pandemic curve has flattened out in China, the global business environment stands out in stark contrast. To examine investor sentiment and expectations of China's capital market, the **Cheung Kong Graduate School of Business (CKGSB)** carried out research, led by **Dr Liu Jing**. This article outlines some of the main findings.

The Cheung Kong Investor Sentiment Survey (CKISS) examines investor sentiment and expectations of China's capital market, based on a large sample from 13 major Chinese cities. In the latest CKISS released on 18th May 2020, Dr Liu Jing finds that: "investors' concerns are justified, as the current COVID-19 pandemic has had a tremendous impact on the economy, greatly surpassing that of SARS and the 2008 financial crisis. It is expected that small and medium-sized enterprises (SMEs) may face a cash-flow crisis and be driven towards further bankruptcies. As the impact of the pandemic increases, the Chinese Government will have to intensify demand-side stimulus plans, to protect SMEs from bankruptcy."

Stock and housing prices expectations drop

Survey respondents display a negative attitude towards A-share prices, dragging the expected rate of return into negative values for the first time. The expected rate of return in the current period is minus 1%, a decrease of 2.1% year-on-year (y-o-y). Respondents continue to be bearish towards Hong Kong stocks, with expected return rates dropping to minus 5.8%.



Investors' concerns are justified, as the current COVID-19 pandemic has had a tremendous impact on the economy, greatly surpassing that of SARS and the 2008 financial crisis.



Respondents' expectations on housing prices are also significantly lower. The expected return dropped to 1.6%, a decrease of 1%, and the expected probability of a housing price crash is 25%, an increase of 6.2% compared to that of the previous period.

Although respondents are not optimistic about the recent stock market trends, investors continue to show interest, albeit less than before, in stocks. There are several reasons for this. First, China is the first country to successfully curb and control the outbreak and restart economic activities. Second, the overall valuation of A-shares has hit a 20-year low, attracting investors to seize this opportunity. Third, the deleveraging in 2018 and 2019 helped privately listed companies clear most of their financial leverage risks. And lastly, Chinese investors have changed their pessimism over the

China-United States (US) trade frictions into a relatively optimistic outlook, holding the view that bilateral trade will not be significantly affected in the long run.

Non-essential social activities consumption low

Shopping in a mall and dining out are respondents' most preferred activities, selected by 49% and 43% respectively, followed by travelling by plane or train (30%) or on the subway or bus (25%). These activities are related to the basic necessities of life. However, consumption intention remains weak for non-essential social activities such as staying at a hotel, extra-curricular activities, housekeeping services and beauty care. The results



37.7%
of respondents
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demonstrate the essential role that people's psychology plays in the demand side of the economy, and that effective control of the pandemic is of paramount significance to easing people's worries and fears.

The pandemic has had a notable negative impact on consumers' lives. As a result, 37.7% of respondents indicated an obvious decrease in income, while 5.8% have lost their jobs. Only 4.8% of respondents do not believe that the pandemic has had a substantial effect on their daily life.

COVID-19 economic impact surpasses SARS, 2009 financial crisis

The SARS outbreak was limited to China and its neighbouring countries and regions, on a relatively small scale and for a relatively short time, affecting only 8,422 people. Also, unlike the economic structural problems faced during the Great Depression and the 2009 financial crisis, the COVID-19 impact is more like that of a natural disaster. The only effective way to control the infection before a vaccine or cure is developed is to increase testing, and ensure strict quarantine measures and lockdowns are implemented, all of which place heavy burdens on the economy, in particular the service sector.

In the first quarter (Q1) of 2020, China's GDP experienced a year-on-year decline of 6.8%. Assuming that the impact of COVID-19 in China commenced after January, economic growth in February

and March actually declined by 13.2%. In the US and France, Q1 GDP decreased by 4.95% and 5.2% year-on-year, respectively. If we assume that the two countries were not impacted by COVID-19 in January and February, their economies declined in March by 19.7% and 18.6% respectively.

SMEs under severe pressure

The service sector has been hit hardest by the pandemic, essentially coming to a standstill. This places severe pressure on SMEs. According to China's 2018 national economic census, the employment rate of SMEs in the service sector was around 70%, surpassing 90% in accommodation and catering, resident and repair services, as well as culture, sport and recreation sectors. These sectors are also those hardest hit by COVID-19. Although the surveyed urban unemployment rate reported by the National Bureau of Statistics of China is not high—at only 5.9%—the reported number of migrant workers dropped from 180 million to 120 million. At the same time, the unemployment rate in the US, at less than 4% before the pandemic, had skyrocketed to 14.7% by the end of April.

Unprecedented stimulus plans

According to the International Monetary Fund, the financial stimulus offered by G20 countries accounted for 2.3% of their total GDP (compared to 0.5% during the 2009 financial crisis). More specifically, stimulus funds—excluding loan guarantees for enterprises—accounted for up to 10% of GDP in the US, Japan, and Germany. If loan guarantees for enterprises is included, then the packages account for 36% of GDP in Germany, 13.5% in the United States and 19% in Japan.

In comparison, China's stimulus package accounts for only 2% of its GDP. China's

cautiousness may be a result of lessons learned from its 2009 stimulus package, which led to a heavy deleveraging burden for many years, or may also be attributed to the relatively high household savings rate. As the impact of the pandemic continues, the Chinese Government will have no choice but to intensify demand-side stimulus strategies to prevent a large number of SMEs from going bankrupt.

Investors hold on to gold, optimistic on A-shares

Q1 of 2020 has brought global investors a once-in-a-century challenge, with uncertainties that will only increase over the next decade. The results of this survey suggest that investors should increase their gold holdings to mitigate or avoid potential risks. Furthermore, A-shares and the Hong Kong stock market have a good price-performance ratio, and may perform better if the government enhances its stimulus plan. In particular, technology-driven sectors—such as information technology, internet and cloud computing—are promising, and have indirectly proved their robustness during the pandemic. 

Note: The views in this article are not necessarily those of the European Chamber. Any content provided here is intended for informational use only. Please speak to a professional financial advisor before making any investments.

Established in Beijing in November 2002, **Cheung Kong Graduate School of Business (CKGSB)** is China's first faculty-governed, non-profit, independent business school. More than half of CKGSB's 13,000+ alumni are at CEO or chair level and, collectively, lead one-fifth of China's 100 most valuable brands. In 2005, CKGSB pioneered integrating humanities into its curricula. EMBA students—over 80 per cent of whom are at vice president level or higher—are also required to complete six days of community work. In 2014, CKGSB was the first Chinese business school to develop a philanthropy programme. The school offers the following courses: MBA, Finance MBA, Executive MBA, Business Scholars Programme (DBA); and Executive Education programmes.

Dr Liu Jing is professor of Accounting and Finance, associate dean of CKGSB and director of the CKGSB Centre for Investment Research.

Banking in a Pandemic

The impact of COVID-19 on European banks in China's banking industry
by Pablo Galvez



To assess the impact of the COVID-19 outbreak, and the subsequent response measures imposed by the Chinese Government on foreign banks operating in China, the European Chamber launched a survey among its Banking and Securities Working Group members.¹ **Pablo Galvez, coordinator** of the **Banking and Securities Working Group**, outlines the results of the survey in this article.

The questions included in the European Chamber's banking industry survey were designed and chosen to provide insight into three key areas:

- the situation on the ground for the foreign banks and the main behaviour patterns of their clients during the crisis;
- the competition foreign banks in China face from domestic banks; and
- foreign banks' expectations for future development in China.

The survey showed that, despite all the challenges foreign banks face as a result

of the crisis, they remain committed to investing in and growing their operations in China. However, they are still dealing with many constraints that go beyond the current crisis, such as market access barriers. Therefore, Chinese regulators need to accelerate the opening up of the sector and offer real solutions to the foreign banking industry. By taking measures to facilitate meaningful participation of foreign banks in the Chinese market and ease their operational burdens, regulators would be contributing to the well-being and longevity of the domestic economy. Statistics show that, as of the end of June 2020, foreign banks represent less than

1.2 per cent of the total market share in the country. Their ability to penetrate the market is further hindered by the fact that their capital is very small compared to Chinese banks.²

The situation on the ground for foreign banks in China and clients' main behavioural patterns

When asked how their corporate and financial institution clients reacted during the crisis, foreign banks indicated that clients exhibited three main types of behaviour: credit lines were drawn, and corporate deposits reduced—showing liquidity needs during this period—while some foreign banks also highlighted that clients got cheaper funding from local banks. This latter factor demonstrates the competitiveness of the Chinese banking

¹ Six Ministries Including the Ministry of Commerce Further Expand the Scope of Cross-border E-commerce Retail Import Pilots, MOFCOM, 18th January 2020, viewed 14th July 2020, <<http://english.mofcom.gov.cn/article/newsrelease/significantnews/202002/20200202934796.shtml>>

² Li Keqiang Chairs State Council Executive Meeting to Launch the Establishment of a Cross-border E-commerce Pilot Zone, Support Processing Trade, Canton Fair Online Holds a Series of Initiatives, State Council, 7th April 2020, viewed 14th July 2020, <http://www.gov.cn/premier/2020-04/07/content_5499975.htm>

industry and the strong support local banks received from the People's Bank of China (PBOC) and the government.

Competition faced by foreign banks in the current state of affairs

Fear has grown among foreign banks in China that the deployment of emergency facilities by the government (giving companies operating in China access to less costly funding) could have a negative impact on foreign banks, due to their inability to compete against banks that receive such subsidies.

It is worth noting that a majority of respondents to the survey, almost 60 per cent, state that they did not believe these government measures would have a negative impact on them.

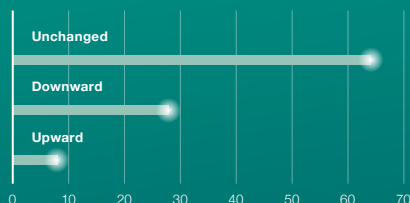
The future of foreign banks in China

The answers to three key questions included in the European Chamber's survey offer a glimpse into the future of foreign banks in China.

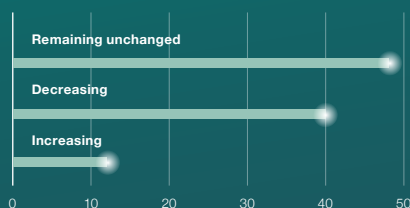
While most foreign banks remain committed to keeping their investment in China (more than 64% stated that their strategic plans have not been altered by the crisis), they are worried about a further decrease of their already tiny market share.

This pessimism could in large part be due to the slow opening up of China's financial services market. Although there

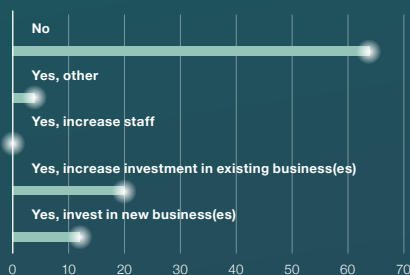
HAVE YOUR INVESTMENTS PLANS CHANGED?



IN TERMS OF OPPORTUNITIES AND OUTLOOK, DO YOU SEE THE MARKET SHARE OF FOREIGN BANKS INCREASING/DECREASING/ OR REMAINING UNCHANGED IN THE NEXT THREE YEARS?



WILL YOU MAKE USE OF THE RECENTLY CHANGED REGULATIONS ON OWNERSHIP LEVELS IN THE FINANCIAL INDUSTRY?



has been an acceleration of new measures (e.g. lifting of foreign ownership limits on securities firms, opening up in the custody licences field, etc.), which is a very welcome development, many of these reforms have come too late to make any real difference for many European banks, as they cannot capitalise on many of these new opportunities.

In this sense, an overwhelming majority of the Banking and Securities Working

BANKING INDUSTRY

Group members said that they will not make use of the recently released new regulations on ownership levels. Only a fifth replied that they would increase their investment in existing businesses given these changes, and another 10 per cent indicated that they would be looking into new opportunities.

This clearly shows just how limited the recent opening in the financial services sector has been.

The pessimistic outlook of foreign banks on their future standing in the country is very worrisome, as their market share is already significantly lower when compared to that in other emerging markets. Taking into account the commitment of foreign banks to the Chinese economy, local regulators should consider implementing thorough measures to facilitate these banks' operations, which would in turn allow for an actual increase in their market share and ability to service Chinese clients.

China's financial sector has come to a point where it is increasingly necessary for regulators to take a systematic approach to facilitating investment. This will require the reduction of constraints and implementation of many essential reforms—for example, overhauling the Bankruptcy Law and ensuring that the bankruptcy mechanism is enforced, setting up a clearer market governance framework, allowing more international rating agencies into the market, implementing better auditing regulations—in order for foreign banks to better fund the real Chinese economy. **EB**

The Banking and Securities Working Group represents around 40 banking and securities financial institutions in China. The working group engages with the China Banking and Insurance Regulatory Commission (CBIRC) and other financial services regulators in order to improve the operating environment for European banking and securities enterprises in China.

¹ With the lifting of foreign ownership limits on securities firms, as of April 1st 2020, foreign companies have been allowed to set up wholly owned units in Mainland China. See *China Lifts Foreign Ownership Limits on Securities, Fund Management Firms*, Xinhua, April 1st 2020, viewed on 3rd April 2020, <http://www.xinhuanet.com/english/2020-04/01/c_138938273.htm>

² Members have noted an acceleration in the number of opening up measures in recent times, for the most part as a consequence of the US–China Phase One Trade Deal. It could be argued though, that many of the recent released measures had already been under preparation of the regulators, and that their impact for foreign banks is, in general, not very significant. For more information on the US–China Phase One Trade Deal, see: *Economic and Trade Agreement between the Government of the United States of America and the Government of the People's Republic of China*, USTR, 15th January 2020, viewed on 11th May 2020, <https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf>; Chinese version: <<http://images.mofcom.gov.cn/www/2020/11/04/122611.pdf>>; see also: *US, China Sign Phase One Trade Deal: How to Read the Agreement*, China Briefing, 17th January 2020, viewed on 11th May 2020, <<https://www.china-briefing.com/news/us-china-phase-one-trade-deal-takeaways-businesses-global-trade/>>

Working from 'Home'

Legal considerations in China

by Elizabeth Zhou and Hilton Yin

Demand for more flexible working arrangements has been steadily increasing in recent years. Developments in technology and increasing employee requests for flexible workplaces have led many companies to adopt work-from-home arrangements. In 2020, with many workplaces forced to close down during the pandemic, the adoption of more remote working arrangements has dramatically accelerated. Even as workplaces in China are now gradually returning to normal, many employees and employers have seen the benefits of remote working arrangements and are merging these into their permanent workforce designs. However, more permanent arrangements are needed to address legal and human resource (HR) policy concerns. **Elizabeth Zhou** and **Hilton Yin** of **Qinli Legal** discuss some of the main issues related to making remote working a permanent option.



Change of working location

Many employers have specific requirements for workplace location. These might be clearly defined in the employee labour contracts, or in other guidelines such as an employee handbooks. China's Labour Law does not have any specific requirements relating to employee workplaces, which leaves options for workplace location open to agreement between the employee and employer.

Employers should bear in mind their employees' needs while communicating with them on workplace requirements. In addition, employers should carefully review their internal guidelines and contracts to avoid any conflicting or outdated messages on workplace expectations. Beyond that,

company culture will also play a key role in formulating actual workplace requirements and should be assessed in addition to the documentation. For example, what behaviours are company managers and leaders modelling for employees in relation to remote work? What expectations do employees have on working remotely and the implications for job performance?

Changes to other HR policies and compensation schemes

In addition to the procedural and policy documents directly related to workplace needs, many other internal HR documents may need to be evaluated in order to facilitate work-from-home schemes. For example, policies related to workplace attendance, schemes related to overtime

allowances or other benefits that centre around office surveillance and reporting might need adjustment in a remote working environment. The amendments may not be readily apparent and a robust review of policies and procedures may be necessary to fully integrate company policy with a new remote workplace-friendly system.

Labour conditions under remote working environments

China's Labour Contract Law requires employment contracts to cover labour protection, working conditions and occupational hazard prevention and protection measures—the 'labour conditions'—of employees. Employers need to consider if they can provide employees the required labour conditions



for suitable and safe performance of their work at home. These concerns might be less of an issue for service companies, particularly where high-performance computers and internet services enable fast download and transmission of electronic documents and eliminate many of the barriers for conference calls.

Manufacturing companies, on the other hand, would face greater challenges to provide suitable remote working arrangements, as much of the equipment and other inventory necessary for operations are only available at the manufacturing site. These enterprises might consider if surveillance technology can allow supervisors to spend more time working from home, or if supporting roles such as accounting or sourcing departments can benefit from working remotely. Therefore, a careful balance of practical working requirements and compliance with the labour conditions is needed for some industries.

Confidentiality and cybersecurity

Under remote working arrangements, the highly controlled environment of the workplace is replaced by an unknown and uncontrolled environment at the employee's chosen location, which can increase the risk of highly sensitive information being leaked or hacked. This could be a critical issue for certain enterprises for which confidentiality is a critical requirement, such as a high-technology enterprise or companies that deal with sensitive customer or client data. Companies should make a detailed assessment of their cybersecurity

risks in a remote working environment and implement any changes to both technology and HR that become necessary. For example, companies can increase password and encryption protection and utilise a virtual private network. The employer can also set guidelines for different levels of confidential information, even requiring certain highly-confidential activities to be only conducted in the office.

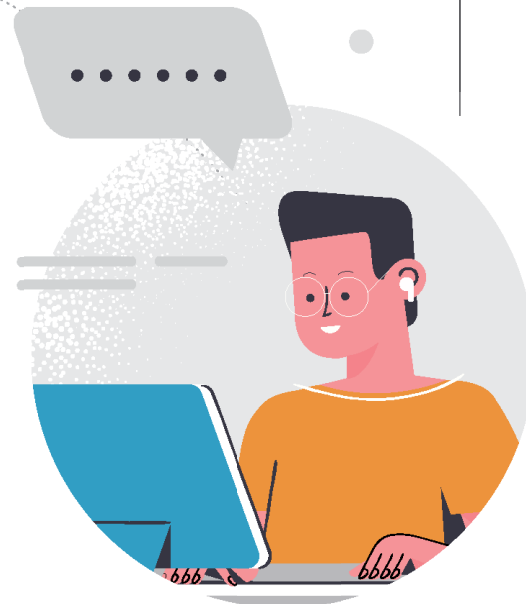
Work-related injury

When an employee is injured, determining if the injury is work-related or not can be complicated. There are three main factors to consider:

- whether the injury occurred in the workplace;
- whether the injury occurred during work hours; and
- whether the injury occurred as a result of the employee's performance of work duties.

In cases of injuries sustained while working from home, the employee's domicile might be recognised as a working place if it has been documented as such in the employment contract. A more challenging aspect may be determining whether the injury occurred during work hours, or if it was caused as a result of an employee performing their work duties. For example, if an employee is burned while preparing some hot coffee, it could be difficult to prove the injury occurred during work hours, or if it was related to the performance of the employee's work duties (unless, of course, the employee is a barista at a coffee shop).

Determining workplace injuries is less of an issue if it occurs in the office, as in practice this will normally be deemed as work-related. Such determination is within the realm of regulators, and therefore beyond both the employee's and the employer's judgement. Given the old saying that most accidents



occur in the home, perhaps an employer should consider some supplementary commercial medical insurance for cases where the employees might sustain an injury while working from home that is not covered by regular insurance as a work-related injury.

In conclusion, while there are no direct legal barriers to adopting a work-from-home arrangement, there are many legal and policy issues that need to be considered. Companies may wish to undergo a comprehensive evaluation and develop a deployment plan prior to officially implementing a remote working model. **Sh**

Shanghai Qin Li Law Firm is a Chinese law firm and a member of the Deloitte Legal global network. Our lawyers, who are licensed to practice Chinese law, not only have strong local ties but also a wide vision, being part of a global network. Our local roots and global reach make us a unique service provider in China's marketplace.

Our solutions are tailored not only to address Chinese legal issues but also to cater for legal considerations outside China. Clients have found our cross-border advice insightful and comprehensive because of our access to global resources across various jurisdictions and diversified disciplines, including business, tax, finance and accounting, mergers and acquisitions, labour and employment, risk management and consulting.

Off the Menu

China's ban on illegal trading and consumption of wildlife by Veronica Gianola and Shane Farrelly

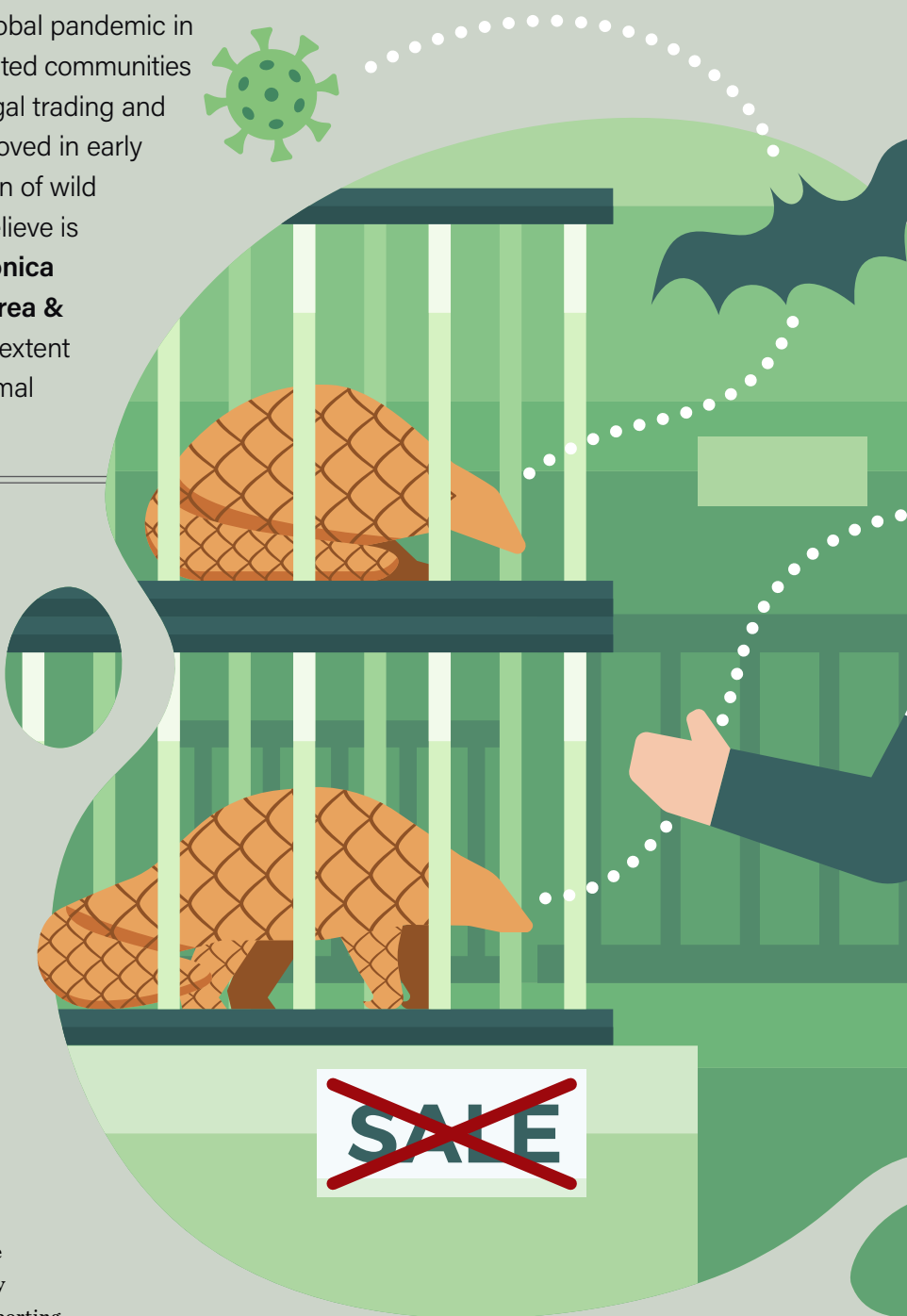
At the nucleus stage of the greatest global pandemic in more than a lifetime, which has devastated communities the world over, lies the issue of the illegal trading and consumption of wild animals. China moved in early 2020 to ban the trade and consumption of wild animal meat, which many scientists believe is linked to the origins of COVID-19. **Veronica Gianola** and **Shane Farrelly** of **D'Andrea & Partners Legal Counsel** examine the extent of such a ban and the current wild animal meat market in Mainland China.

The effect of the ban

Bans on wildlife markets are unfortunately nothing new in China. The most notable occasion was during the 2002–2003 severe acute respiratory syndrome (SARS) outbreak; when scientists traced that virus's origin to horseshoe bats in Yunnan Province, wildlife markets were also temporarily banned in response.

Under more extreme circumstances, in February 2020, the State Administration for Market Regulation (SAMR), in tandem with multiple other departments, arranged for two special law enforcement operations to again crack down on the illegal trade of wild animals and illegal production of wild meat, when COVID-19 was at its most severe in China.

Lawmakers proposed the strict prohibition of trade in wild animals, and a thorough investigation of any acts of illegally selling, purchasing, utilising, transporting, carrying, sending or delivering wild animals and products amid the outbreak. This led to the *Decision on Thoroughly Banning the Illegal Trading of Wildlife and Abolishing the Irrational Practice of Consuming Wildlife to*



Effectively Safeguard People's Life and Health (Decision), which was adopted on 24th February 2020 by the Standing Committee of the 13th National People's Congress (NPC), with immediate effect.

Such wide-sweeping moves may seem sudden, but have actually been developing gradually over a number of years. The latest push at the start of 2020 was of course due to circumstances of critical importance, as Chinese researchers at that time theorised that wildlife species such as bamboo rats, pangolins and

civet cats may have been intermediate hosts for COVID-19 before infecting humans. The so-called 'wet' markets, where wild

meat is sold alongside legal fresh meat, are known to be rabid breeding grounds for cross-contamination as live animals, including captured wildlife, are kept in close quarters with humans and often slaughtered at the time of purchase.

Cities such as Shenzhen and Zhuhai have since rolled out their own more comprehensive policies, which also suspended the consumption of certain domesticated animals, such as dogs; a move animal activists have been advocating for years. However, even against the backdrop of the coronavirus pandemic, China's annual dog meat festival was still held in the southwestern city of Yulin in defiance of central government initiatives to improve animal welfare and reduce the risks associated with live animal markets.

The temporary national ban on eating wild animals, while still in place, needs more weight to be effective. The central government is currently drafting laws expected to bring in permanent new restrictions on the trade in and consumption of wild animals.

Additional wide-sweeping measures still required

The general consensus is that the ban on wild animal meat is a good step but needs to be made permanent – and more extensive.

For example, while China has banned most consumption of wild animals, it continues to permit four broad categories of breeding activity. Certain wild animals can still be bred in captivity for their fur, for research purposes and to supply zoos and circuses. Breeders are also allowed to raise animals like black bears and pangolins for use of their body parts in traditional Chinese medicine.

Another aspect of note is the fact that the impact of such a ban falls most heavily on

rural communities, where the breeding of wild animals has become a source of economic reliance. The prospect of a permanent ban is staunchly opposed by rural communities, and exacerbates historic resentment between China's more prosperous urban centres and its impoverished rural areas.

Such factors may delay the implementation of a permanent ban on wildlife consumption. China's legislature, the NPC, has yet to update the country's wildlife protection law, which currently only protects rare and endangered animals.

Conclusion

As the NPC recently released the revised draft of the Law of the People's Republic of China on Animal Epidemic Prevention for public opinion, this issue is still very much alive. The draft legislation proposes changes in regard to improving the guidelines for the prevention and control of animal epidemic, quarantine and inspection systems and response mechanism administrative rules, along with administering harsher punishments for acts of illegally slaughtering, marketing, allocating, storing, producing or transporting animals/animal products. The effects of such measures will have to be closely monitored, not only for their impact on future epidemic prevention efforts, but also on the illegal trading and consumption of wildlife in China. The final legislation may carry a lot of weight for China's future. 

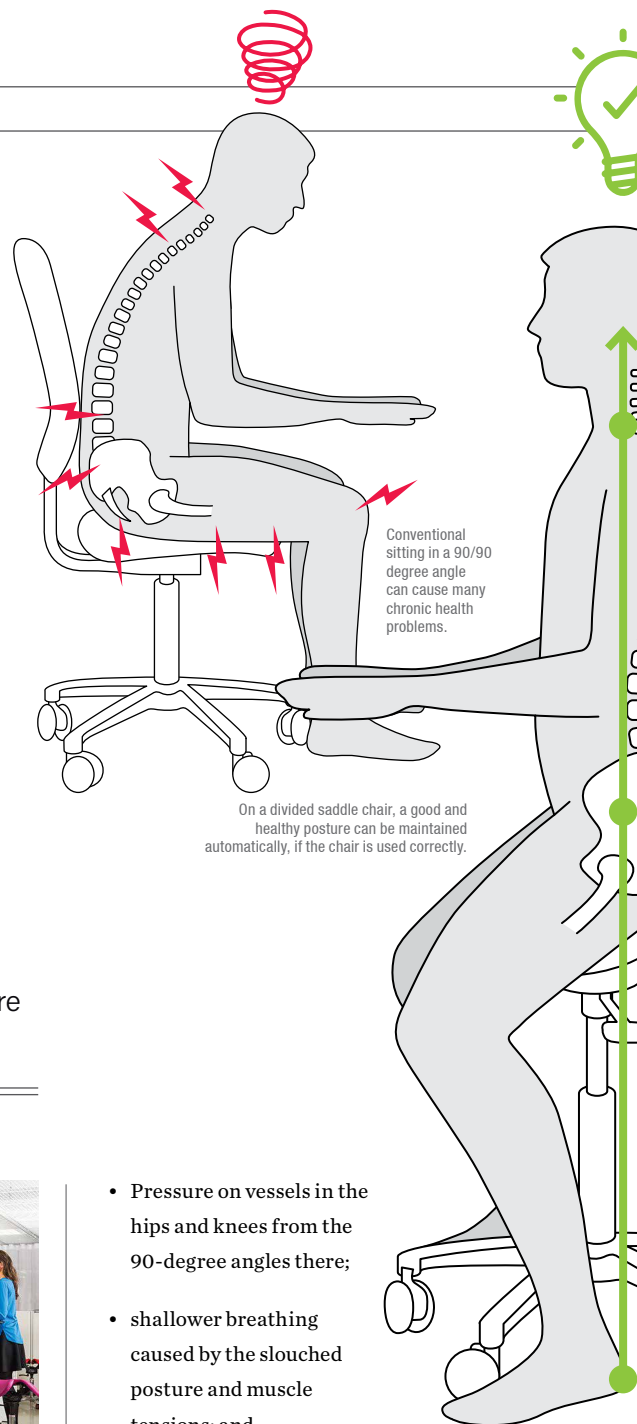
D'Andrea & Partners Legal Counsel, DP Group, was founded in 2013 by Carlo Diego D'Andrea and Matteo Hanbin Zhi, both of whom have extensive backgrounds in Chinese and EU law. DP Group currently has four service entities: D'Andrea & Partners Legal Counsel, PHC Tax & Accounting Advisory, EASTANT Communication and Events, and Chance & Better Education Consulting. DP Group has a variety of branches around the world, with locations in several major developing economies.



Can I Sit and Stay Healthy?

Alternatives to sitting
from Monday to Friday
by **Veli-Jussi Jalkanen**

Many scientific studies have been published about how dangerous it can be to spend long periods of time sitting. The focus has so far been only on conventional 90/90 sitting (hips and knees in 90-degree angles), a posture that really sets in motion many harmful processes within the body. The 'sitting kills – standing saves' message of these studies has been repeated many times in the media, but it is not the whole truth. This article by **Veli-Jussi Jalkanen**, founder and CEO of **Salli**, provides a more comprehensive and accurate explanation from an expert view.



Dangerous sitting = conventional 90/90 sitting

The main health dangers of conventional sitting come from the decreased circulation of blood (4–6 litres) and lymphatic fluid (12–15 litres) through the over 400,000 kilometres of vessels and all the internal organs, including about 700 lymph nodes, that make up our bodies. This circulation is essential for the body. Any long-term disturbance of it disrupts our metabolism and negatively impacts our health.

Circulation is disturbed by 90/90 sitting because of:

- muscle tension in the back, neck and shoulders;
- pressure of the upper body on the buttocks and thighs;



A healthy back provides a healthy life.

- pressure in the abdominal cavity due to the resulting slouched posture;
- pressure and weakened circulation in the groin vessels and soft tissues, aggravated by fashionable tight clothes that get even tighter in this posture;

- Pressure on vessels in the hips and knees from the 90-degree angles there;
- shallower breathing caused by the slouched posture and muscle tensions; and
- poor physical activity.

While we think of the heart as a pump, it circulates only 25 per cent of our blood; physical motion is the 'engine' of circulation. A healthy metabolism requires relaxed muscles and a certain amount of repeated movements (i.e. changes of pressure in the soft tissues that keep the fluids moving). Relaxed muscles and changing position (pressure areas) repeatedly, as happens during sleep, is enough for sufficient circulation and metabolism. In conventional sitting, this does not happen, due to tensions and the lack of change in pressure areas.

Problems with standing

Standing is not all good either. People who work on their feet know the problems of arthritis, poor circulation in legs, and tired backs and pelvis it brings. Some countries and health authorities have put serious efforts into making standing a solution (for example, 'Sitt och Stå' (sit and stand) in Sweden), which have more or less failed. This is because people don't know how to stand in balance with slightly bent knees, weight evenly on both feet, slightly more on the balls of the feet. Also, most people's muscles are too weak for static work like standing. To compensate, people start to lean on one leg and hip, and that is when problems occur. Standing surely has its place; it is suitable for some individuals, and for short breaks in various jobs, but it is definitely not the solution to end all sitting-related problems.

Let's take a more in-depth look at the problems of standing:

- Continuous pressure on the cartilages of the knees and hips causes osteoarthritis. Cartilage needs rhythmic 'pressure on/pressure off' variation to be able to absorb nutrition and oxygen for the renewal of cells. Standing with constant pressure prevents this. That is why osteoarthritis is a common complaint among standing professions.
- People who stand a lot at work suffer from varicose veins, cellulite and swelling of the legs. The muscle activity in changing weight from one foot to the other is far too small to be able to generate sufficient circulation in the legs.
- Standing often causes back problems. The circulation system of the back mechanism and tissues needs movement to work properly and guarantee a healthy back. Standing does not provide enough movement. Back problems related to standing appear more often if the person has scoliosis, poor posture in

the spine or pelvis, or any other type of deformation or imbalance in the muscular-skeletal system.

- Muscle tensions may increase. The continuous static position, where the body is being held up in standing, has a tendency to cause tensions in the leg-hip-back area. Tensions block circulation and naturally they get worse over the course of time.
- Feet problems may develop. People who stand at work often suffer frequently from various musculoskeletal disorder problems in their feet. Special shoes and therapies are often tried as a remedy.
- People get tired when standing. Heavy people, and particularly the elderly, find standing too strenuous and tiring. This is due to the muscle tensions and lack of refreshing motion in the body. Lack of circulation causes this tiredness too.

Alternative: healthy sitting

Sitting on a divided saddle chair, in horse-riding-like position (135/135 degree angles) with a good posture and the pelvis tilted forward—as it naturally is when standing—has been discovered to be the healthiest option. Further, the chair should be equipped with easily rolling castors and a swinging seat, the height of the desk must be properly adjusted and clothes should not be too tight. This allows the sitter to have a good posture and deeper breathing, good circulation in all the main vessels, no pressure on the joints in the lower extremities, and hardly any muscle tension.

Saddle sitting produces valuable physical activity through:

- sitting and swinging the seat intentionally, or unconsciously as often happens;
- rolling and reaching (which can be

emphasised by placing things a bit further away); and

- getting up from the chair regularly; 'walking and talking' or standing; standing up from a saddle chair is easy and does not strain the joints in the same way as getting up from conventional chairs does.

Conclusion

The best activity method is to keep some simple exercise equipment (for instance, light dumbbells, exercise bands, gymstick) close by and do short and light 'circulation exercises' (four to six times) during the day. One can also do, for example, push-ups or steps forward to activate circulation.

The media willingly simplifies phenomena and focusses only on the most common claims and allegations, such as 'standing saves'. Usually this approach to an issue is far from the whole truth.

The world is sitting. That will not be easily changed. But sitting disorders can be prevented. **EB**

Salli Saddle Chair originates in its owner's favoured hobby, horse-riding. Owner and CEO Veli-Jussi Jalkanen has been horse-riding since 1974. His way of life has always been active and healthy, but still he suffered from back pain while sitting in the office. In 1990, he started experimenting with seats by carving a saddle out of wood for a chair. Now, exactly 30 years later, Salli Saddle Chairs are exported to more than 70 countries around the world.

References:

Michael Adams, Nikolai Bogduk, Kim Burton, Patricia Dolan, *The Biomechanics of Back Pain*, Churchill Livingstone, London: United Kingdom, 2012

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Posture Restoration

A comprehensive vision for your body

By Dr Eduardo Yoshida



If you seek acupuncture treatment for headaches, many practitioners will place the needles in your toes and feet. We know our body is connected from head to toe by muscles, nerves and a skeletal structure, yet we do not often associate the pain in our neck with whether we lead with our right or left foot. **Dr Eduardo Yoshida** of **Global Doctor Guangzhou** explains how small compensatory movements to avoid discomfort can become posture habits and lead to long-term mobility issues if not corrected.

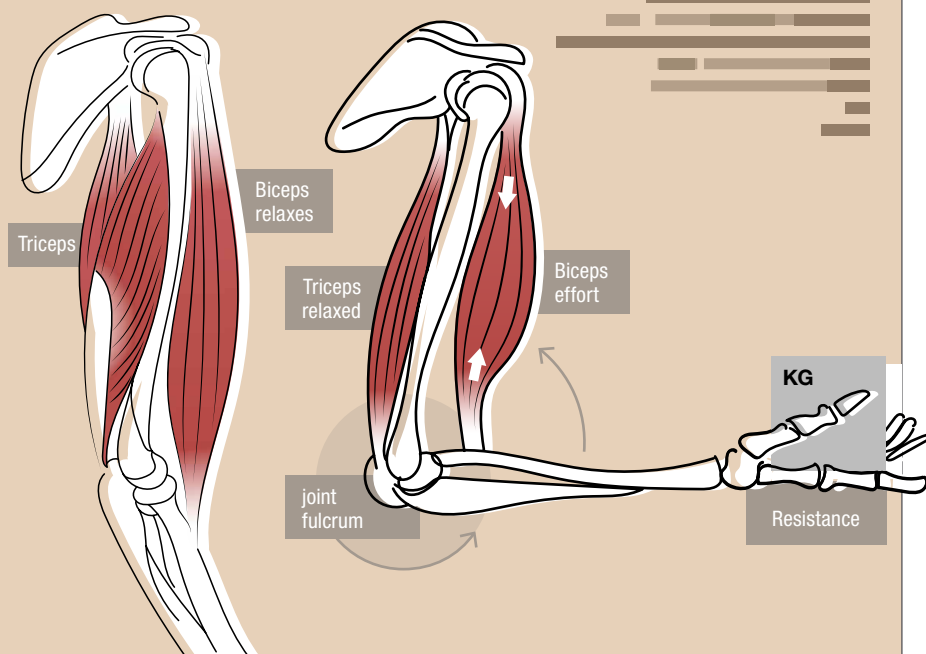
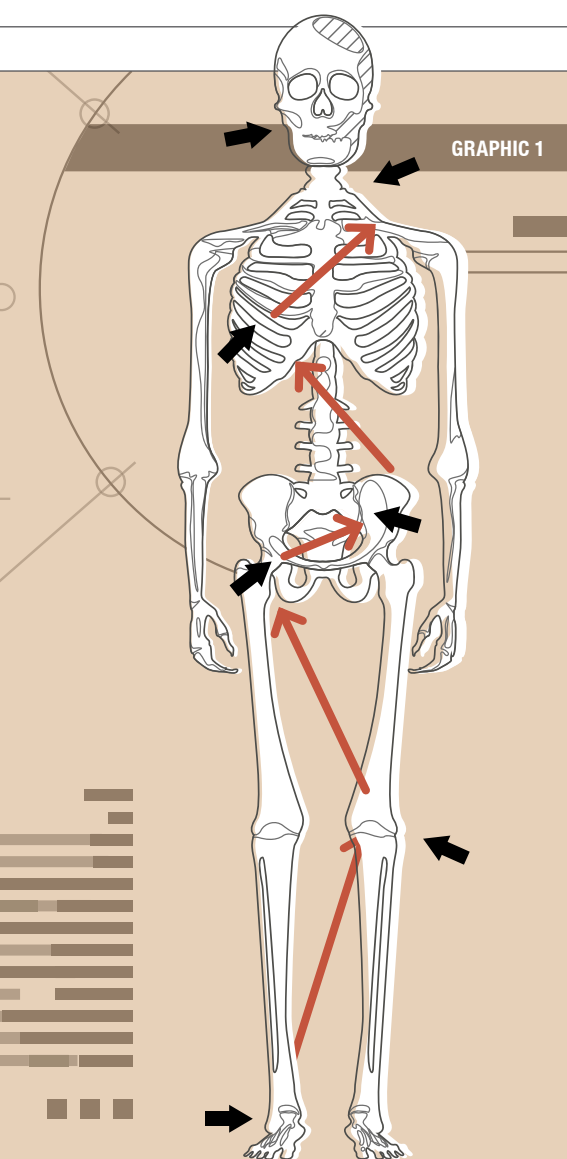
From the time they are a crawling baby, human beings move around by using their legs, but often rely on one more heavily than the other. Our bodies constantly develop and adapt—physically and neurologically—to our daily posture or movement habits. We create our own personal muscle patterns, such as left-handed versus right-handed. Our bodies also create posture patterns when we sleep in the same position every night.

Posture restoration refers to both global and individual muscle pattern analysis. This relates to aspects of our lifestyle, including such things as our job, the sports we play and injuries that may have happened during the course of our lives, and how we could improve the function of our bodies.

An asymmetrical pattern in one muscle can lead to a future dysfunctional muscle pattern. For example: imagine a painful injury to one's right knee, which results in an asymmetrical pattern when you walk. In movement, we use all our muscles, forcing some to compensate for the weak or injured ones. In the case of the injured right knee, the opposite left lower limb will compensate for it, which forces the right lower back and hip into incorrect movements during the walking motion. The resulting muscle spasm in the lower back will tilt the axis of the spine, changing its entire shape. Muscle groups contract with a right-left alternating pattern throughout the entire extension of the spine, moving like a snake, affecting also the right side of the neck and shoulder.

Depending on the duration of the injury and the adaptation as well as the capability of each person, this pattern could become a structural issue. The muscle spasm hinders the mobility of the joint. With the passing of time, the joint could become like a rusty screw, losing vertebral mobility, with an extensive pattern affecting the entire spine (Graphic 1).

Another point that should be highlighted is that, when a group of muscles repeatedly experience the wrong posture over time, it can affect motion efficiency (biomechanics), muscle flexibility and joints. Biomechanics involves three components; the fulcrum/joint, effort and resistance (Graphic 2). A chronic muscle spasm could be considered as



chronic resistance, provoking a reduction in muscle flexibility (both agonist and antagonist muscles), which will increase the pressure in joints and the effort required during our daily motion.

Therefore, if normal untrained people perform strong physical activities, such as military training, their joints could start to lose flexibility. This also depends on people's own adaptability, without releasing the pressure on each joint from their neck to their lower back and lower limb. (Graphic 1). Each time we exercise under such conditions, we could cause small scars and reactive fibrosis in our joints, which our body will absorb. The body will then become more vulnerable to further joint and

muscle problems. Based on this analysis, before starting an exercise regime, it is recommended to get your pelvis, hips and spine in balance first, restoring their flexibility and normal muscle tone. Then you will be able to gradually undertake any type of exercise. The goal is to increase our body's flexibility, strength and adaptability, so it is as supple as a bamboo cane.

In conclusion, it is very important to have a thorough physical examination to discover such abnormal patterns in our bodies. Knowing about any issues and achieving self-awareness regarding our own bodies and biomechanics will help prevent future problems and improve how our body functions. It can also

allow us make plans for future physical activities and treatments, for example: learning the best way to walk and stretch in order to prevent joint impact and improve our biomechanics; how to breathe better and take care of our voices (stretching our diaphragm muscle); or the best way to perform exercises that help to reduce any compensations, pain and limitations, rather than contributing to them. **EB**

Dr Eduardo Yoshida is the medical director of the **Global Doctor Guangzhou** clinic. Dr Yoshida, with his 23 years of experience in physical treatment, is a reputable medical physician and chiropractor specialising in treating different health problems and dual vision, together with acupuncture (Oriental medicine) to maximise the therapeutic efficiency.

IN-DEPTH INTERVIEW WITH STEFAN SACK

**FORMER VICE PRESIDENT, FORMER CHAIR, EUROPEAN UNION
CHAMBER OF COMMERCE IN CHINA, SHANGHAI CHAPTER**

How long have you been in China?

I have been in China since February 2005, working in Shenzhen and then Shanghai in the automation, electronics, and service and consumer industries.

How did you first get involved in the European Chamber's work and what were some of the main challenges then?

The European idea is very close to my heart. Back in the beginning of my time in China in 2005, I enjoyed learning about the country through networking with and information shared by the Chamber. You can say I used the 'C' of the European Chamber's 'ABC' [Advocacy, Business Intelligence and Community]. When I moved to Shanghai in 2008, the challenges for the Chamber were very small. During this time, access to customers, equal treatment and (still) networking were the drivers of business in China. Helping to restart the Automotive Component Working Group and chairing it for a few years was a great experience.

In its 20-year history, what would you say has been the European Chamber's biggest accomplishment?

The European Chamber's unparalleled fact-based approach and—while being an advocacy organisation—fair way of presenting its message has made it an indispensable voice for businesses. By being an umbrella over a vast number of industries and 1,700 members, the European Chamber's voice is very powerful. Powerful in the sense of being able to draw conclusions based on many detailed facts that the teams in the European Chamber chapters all over the country collect, process and form into concise documents.

What's the difference in China's business/regulatory environment in your industry today vs. 20 years ago?

Certainly, China has developed a lot in terms of rule of law, and intellectual property protection. China in 2000 was very different from now.



How do you expect to see China's business/regulatory environment change in the next 20 years?

Concerns arising in these times of COVID-19, and with the China-United States trade war still in the background, are overshadowing the positive developments we have seen in recent years. Opening markets, and increasing trade and reciprocal investments has helped to stabilise the world. Fair trading systems are a prerequisite for peaceful coexistence.

I sincerely hope that we do not see a contraction of globalisation after COVID-19, but instead China taking a leading role in continuing to push for globalisation, both as a market and as an advanced leading industrial nation.

What role do you expect the European Chamber to take on in the next 20 years?

The European Chamber will hopefully be able to remain relevant as a voice for European business in China that tries to 'make the cake bigger' for everyone, and not just make one nation great again.

What value has the European Chamber brought to you/your company/your industry?

This varied for the different companies I worked with. The Chamber provides timely access to information on aspects such as policy, which is certainly an advantage and even more so for smaller companies without the resources or team to closely monitor regulations as they change. Most recently in February, the South China Chapter of the Chamber was extremely successful in supporting the reopening of local factories by bringing forward consolidated feedback to government bodies in Guangdong Province. I believe this helped us to open much faster than many other companies.

Do you remember the first government meeting you attended with the European Chamber, who it was with and how you were received?

I remember many, but the first one... not that easy. What I particularly appreciated while being chair of the Shanghai board was the continued and regular exchanges we had with the Shanghai authorities. Meeting each other every few months allowed for continuous dialogue and improvement. The atmosphere in these meetings was always in 'listening mode', which made it a good experience for both sides.

Do you feel that the Chinese authorities care about the Chamber's messaging and recommendations?

Not only the Chinese, but also the European. In a meeting in Brussels, former Trade Commissioner Karel de Gucht said: "The *Position Paper* of the European Chamber is our bible." It provides both sides, the EU and China, with a basis for discussion that helps to start a constructive dialogue.

As you reflect on your time in the Chamber over the years, what comes to mind?

Gratitude, that I had the chance to serve in this amazing organisation. Awe, when I look at the commitment and quality of the staff and the members that contribute so much.

What is the best piece of advice you can give the European Chamber for the coming years?

Stick to the same values and keep highlighting issues in order to make the cake bigger for everyone. 

What role do you expect the European Chamber to take in the



The European Union Chamber of Commerce in China was founded by member companies that shared a goal of establishing a common voice for the various business sectors of the European Union and European businesses operating in China.

I'd be happy to see the Chamber continue to be the independent voice of European business in China, with the objective of seeking greater market access and improved operating conditions for European companies. The ultimate goals are for European businesses to secure a level playing field in China, mitigate the impact of government-induced market distortions, reinforce the European Union (EU)'s own competitiveness, and ensure fair competition and cooperation.

I would also encourage the Chamber to go on being an active player in cooperation between the EU and China. Leveraging experiences in the EU to support China's needs can be a good way to stimulate European investment in the country.

BEIJING CHAPTER

Charlotte Roule

CEO, ENGIE China, Vice President of the European Chamber



I expect the Chamber to continue to be the joint, united voice of European business in China. China will develop its own set of rules. It is in the best interests of both China and European companies that ideas and suggestions are exchanged on how these rules can work out best for everyone involved.

SHANGHAI CHAPTER



Piter de Jong

former Chair of the Shanghai Chapter Board



I expect the European Chamber to play an increasingly active role in the medical device regulatory communication between the Chinese Government and the European Commission, in guiding the European medical device industry to understand Chinese regulations as well as in introducing and explaining the European Union (EU) regulations to the Chinese medical devices circle, and in promoting medical product trade between China and the EU.

BEIJING CHAPTER



Yongheng Chang

Executive Chair of the China International Medical Device Regulatory Forum



The European Chamber has played an important role in connecting us and the authorities. On behalf of many small and medium-sized enterprises as well as giant European companies, the European Chamber is getting our voices heard by the Chinese Government. Without it, I think it would be even more difficult to deal with the government as individual entities. Let's hope the European Chamber can continue its work and actively engage in dialogue with the Chinese Government.

SOUTHWEST CHAPTER

Wang Ting

Office Manager of Senseair Chengdu Gas Sensors Co Ltd



next 20 years?



Scan the QR code to visit the Chamber's 20th anniversary website



The structure of the European Chamber is not very homogenous, because we have offices in different areas of the country and different chapters have different focuses. When it comes to our Nanjing Chapter, we always pay great attention to what is requested by our members in Jiangsu Province. At the national level, the Chamber is doing a great job by addressing issues directly to the central authorities. At the local level, we must make sure to keep a working relationship with the relevant government departments. I think it would be a good idea to introduce national education courses that we can spread around the country. Our Nanjing Chapter takes special care to provide ongoing education courses for our members, specially our small and medium-sized enterprises, which are often not in a position to maintain their own inhouse training departments and are therefore depending on outside support. If we could have European Chamber nationwide training courses on relevant fields, we would also set a certain standard.

NANJING CHAPTER

Bernhard Weber

Senior Vice President of BSH Home Appliances Group (China),
Chair of the Nanjing Chapter Board



The European Union Chamber of Commerce in China has been playing a vital role in providing a bridge between membership enterprises and administration. We will continue to advocate and contribute to the community through better engagement with our members and the local government/community.

TIANJIN CHAPTER

Cheung Yup Fan

Chair of Chapter and CEO of Standard Chartered GBS Co Ltd



Our region has always been naturally highly connected to Korea and Japan, but European companies, including small and medium-sized enterprises, now have many new opportunities to participate in the forthcoming transformation and growth of the region with the support of the European Chamber.

SHENYANG CHAPTER

Stephane GONNETAND

Board Member of Shenyang Chapter
Founder and Associate Director, ODC Marine



I hope that the Chamber continues to play a significant role within China representing all European enterprises towards all levels of the Chinese Government, local and central. The initiatives and reflections of the European Chamber and its dialogue with all levels of Chinese Government, its advice to its member enterprises and its feedback to the Chinese authorities gives it high credibility and visibility within China, much more than one would expect of a non-government-linked organisation or association. This is a result of unbiased communication, elevating the European Chamber above the rank of other chambers, which are mainly supported by and supportive to their national governments. In this respect, I hope the European Chamber will remain relevant, not only for the representation of European enterprises here in China, but it will continue to achieve real progress beyond that, something we have continuously experienced during the past decades.

SOUTH CHINA CHAPTER

Thomas Schmitz

CEO of Andritz Foshan



#BECAUSE OFUS

Foreign talent policy improved in Jiangsu

As the independent voice of European business in China since 2000, the European Chamber actively participates in China's legislative process. Our advocacy activities are widely recognised by the Chinese authorities and maintained through the efforts of our working groups (WGs) and desks.

In 2019, we launched our #becauseofus campaign to show our gratitude for the joint efforts of all stakeholders: governments, think tanks, member companies and our own WG and desk managers. In *EURObiz* in 2020, we will present five examples of our successful advocacy work, one of which will be selected as the winner of the 2020 #becauseofus campaign.

For this edition, we look at improvements to **Jiangsu Province's foreign talent policy**.

Background

Since China began its reform and opening up four decades ago, foreigners have been arriving and contributing to the economic development of China. From experts who provided technological support and knowledge on science, education and culture in the past, to expatriate managers of multinational companies, and now foreign employees working in various industries in China, foreign talent plays an important role in the development of the economy of China. However, there have always been difficulties in bringing foreign talent to China, due to restrictions on qualifications or age of foreign employees, or the ability of enterprises to rotate staff in and out of their China subsidiaries.

Famous for its manufacturing industry, Jiangsu Province is home to many European firms and foreign employees. However, for a long time, the province's rather outdated foreign talent policy has limited the mobilisation of foreign employees.

In order to help member companies with their issues in hiring foreign employees, since 2015, the European Chamber's Nanjing Chapter has organised activities aimed at advocating for improvements to foreign talent policy, and has been in touch with the Jiangsu Provincial Department of Human Resources and Social Security, the Jiangsu Foreign Experts Bureau, the Jiangsu Exit-Entry Administration Bureau and other relevant local departments.

Results

Through the continuous efforts of the Chamber, some policies on foreign talent have been optimised to a certain extent in the five cities (Nanjing, Zhenjiang, Suzhou, Changzhou, Wuxi) in the South Jiangsu National Independent Innovation Demonstration Zone, altering the life trajectory of many foreign employees.

On 30th December 2016, the Jiangsu Provincial Department of Human Resources and Social Security released the *Notice on Policies and Measures for Accelerating the Construction of South of Jiangsu's National Independent Innovation Demonstration Zone* (please see examples 1 and 2 for more details).

Example 1

I am a student from the European Union (EU). I have studied in Jiangsu for two years and obtained a master's degree. I received a job offer from my dream company in Jiangsu, but I heard that I need two years of work experience to obtain a work permit and visa. I'm afraid the company will not be able to sponsor me for a visa. I enjoy Jiangsu and I'd love to stay here. What should I do?



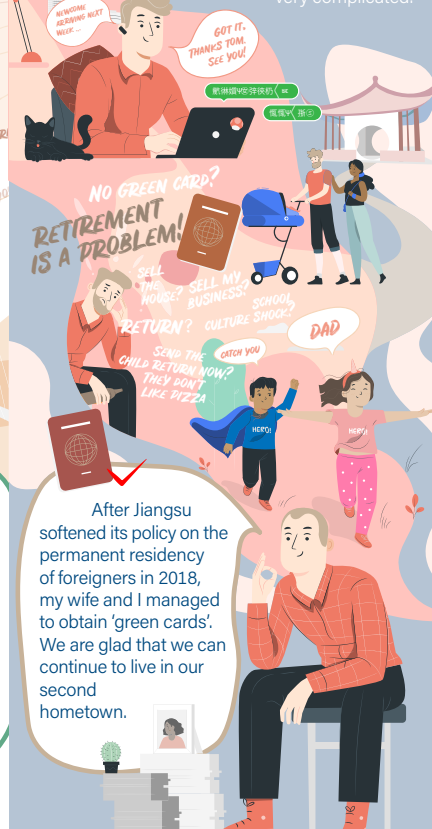
Example 2

I am a European who has worked as a core technician of my firm in Jiangsu for years. I will turn 60 soon. I heard that I couldn't extend my residence permit for work after this, so I might lose my job.



Example 3

I am a European who has worked and invested in Jiangsu for over 20 years. My children also grew up in here. Jiangsu is my home, but some years ago I was afraid I couldn't succeed in applying for a permanent resident card as it is very complicated.



On 1st February 2018, the Department of Public Security of Jiangsu Province and the Jiangsu Exit and Entry Administration Bureau released the *Seven New Measures on Exit and Entry Administration* (please see Example 3 for more details).

The European Chamber is pleased to see the determination and actions of Jiangsu Province to optimise foreign talent policies. According to the *Opinions of the Jiangsu Provincial People's Government on Improving the Quality and Stabilising the Utilisation of Foreign Capital, and to Attract, Secure and Stabilise Business Investment*, issued in May 2020, the age, academic qualifications and work experience restrictions can be relaxed for talent with innovative, advanced and professional skills, taking into account the actual work requirements and individual circumstances. International students who work at innovative start-ups upon graduation in Jiangsu may apply for the 'entrepreneurship' type of residence permit with only a bachelor's diploma and related innovation and entrepreneurship certificates. This means that foreign technical experts urgently needed by many manufacturing companies can work in China without academic qualifications. Foreign

students who are interested in innovating and starting their own businesses will also be freer and have more flexible options to innovate in China.

Ms Zhang Yuan, Chair of the European Chamber Nanjing Chapter Human Resources Forum.

"As Chair of the European Chamber Nanjing Chapter Human Resources Forum, I deeply understand the efforts made by the European Chamber in optimising and improving the foreign talent policy. Thanks to the long-term commitment and hard work of the European Chamber, firms are able to hire foreign employees and benefit from such improvements. In the future, I hope that the European Chamber can continue to speak on behalf of foreign firms in Jiangsu for their rational demands, make suggestions for local business environment optimisation, and contribute to a more open and inclusive Nanjing and Jiangsu." 

Policy reference:

http://www.jshrss.gov.cn/rsrclfw/zcfg/sydwgl/201701/t20170117_204455.html
http://www.jiangsu.gov.cn/art/2018/2/1/art_60085_7502258.html

Media Watch

President Wuttke discusses impact of COVID-19 on supply chains, investment outlook with CGTN

President Jörg Wuttke was interviewed for *CGTN's World Insight* programme on 23rd April on the impact of the COVID-19 outbreak on supply chains and the subsequent investment outlook. When asked whether foreign businesses would leave China, President Wuttke commented that there are no serious discussions among business leaders about moving out of China, as the market is too big and underdeveloped to miss out on in the future. When anchor Tian Wei brought up business and interconnectivity during the COVID-19 crisis, President Wuttke drew on data from the European Chamber's *Business Confidence Survey 2020*, which found that only 10 per cent of foreign businesses are looking to leave China. He said this rate is comparable to previous years and can be levelled out by newcomers. President Wuttke also noted that companies from countries geographically close to China (Japan and South Korea) are moving out because of low shipping costs, whereas European companies are more cautious due to the larger financial burden of moving home for them.



President Wuttke discusses EU–China ties with *CGTN's World Insight*
Media: CGTN
Date: 23rd April 2020



VP Roule takes part in *CGTN's Dialogue* on COVID–19 impact
Media: CGTN
Date: 12th May 2020

VP Roule joins CGTN's Dialogue on the COVID-19 outbreak's impact on EU-China trade

Vice President (VP) Charlotte Roule joined *CGTN's Dialogue* on 12th May. When asked about the trade situation between China and the EU, VP Roule replied that while companies see positive signals from China's trade data, the numbers may be inflated as growth could be attributable to delayed orders. She also noted that some companies are stockpiling supplies to support operations back home, which could create temporary growth in exports, and that observers should therefore be cautious and prepare for related potential risks in the coming months.

President Wuttke joins CGTN's World Insight on EU-China ties

On 22nd June, President Wuttke joined *CGTN's World Insight* to discuss EU-China ties against the background of the 22nd EU-China Summit. President Wuttke said the trade potential between China and the EU is not fully tapped. He added that both had benefitted from globalisation and multilateralism, so now is the time to safeguard the multilateral system. Cooperation on fighting the coronavirus, as well as World Trade Organization reform, is extremely important. Regarding expectations for political leaders, President Wuttke stated that the EU and China need to stick together and find common ground, considering the ongoing pandemic and challenges to multilateralism.



President Wuttke joins *CGTN's Two Sessions Special* live programme

Media: **CGTN**

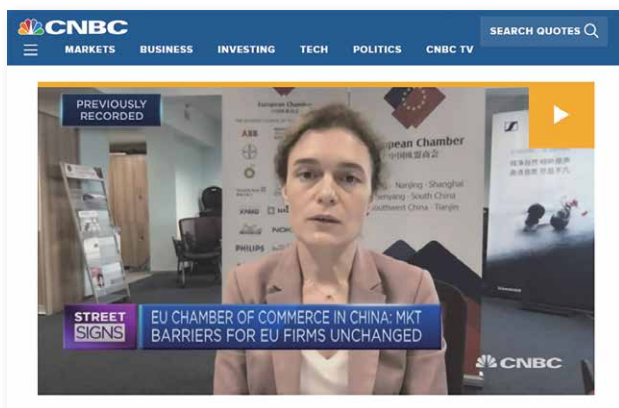
Date: 22nd May 2020



President Wuttke is interviewed by *Bloomberg* during launch of Chamber's airline sector report

Media: **Bloomberg**

Date: 2nd June 2020



VP Roule discusses findings from the Chamber's *Business Confidence Survey 2020* with *CNBC*

Media: **CNBC**

Date: 10th June 2020

President Wuttke joins CGTN's Two Sessions Special live programme

President Wuttke joined a live special five-hour programme covering the 'Two Sessions' on *CGTN* on 22nd May, during the opening of the third session of the 13th National People's Congress. He shared his views on several topics, including Premier Li's Government Work Report, supply chain shifts and the future of global trade.

European Chamber launches airline sector report

On 2nd June, the European Chamber released its report on the aviation industry, *In for the Long Haul: Developing a Sustainable Operating Environment for Airlines in China*. President Wuttke and Philippe Bardol, chair of the Aviation and Aerospace Working Group, held a press conference with around 20 journalists from both domestic and international media outlets. President Wuttke was also interviewed by *Bloomberg*, *CNBC* and *Deutsche Welle*. During these interviews, he emphasised that there is "a lot of reform potential" for China to liberalise its airspace instead of favouring a state-led and sponsored model, which seriously inhibits development for commercial players.

European Chamber launches Business Confidence Survey 2020

On 10th June, the European Chamber released the *European Business in China Business Confidence Survey 2020: Navigating in the Dark* by webinar in Beijing. VP Charlotte Roule, together with Denis Depoux, global managing director of Roland Berger, presented the key findings and took questions at the event. Chairs from the Chamber's local chapters also participated, sharing findings and insights from local perspectives. A total of 40 media outlets attended online, with more than 30 original news stories having been generated so far.

Events Gallery

BEIJING, 8TH MAY 2020

The EU and China in 2020: A Discussion with Trade Commissioner Hogan



- China needs to understand that it will need to be transparent and develop a level playing field and continue with opening up market access.
- The European Union (EU) needs to continue developing its defensive toolbox.
- Individual companies should do what they think is right, but this is ultimately politically driven. Thus, the need for a broader acceptance of a level-playing field.

BEIJING, 9TH JUNE 2020

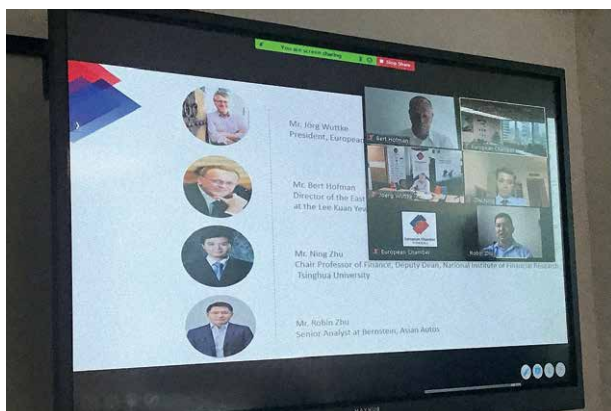
Exclusive Dialogue with Chair of the Centre for International Security and Strategy, Tsinghua University, Former Vice Minister of Foreign Affairs, Madam Fu Ying



- Europe is of great importance to China. However, the EU-China relationship has recently met bumps in the road, mainly due to the frustrating debates on the human rights front. Secondly, it's difficult to obtain flexibility and compromises from the EU side as the entity is composed of 27 member States.
- Standards for Chinese diplomats are higher. Ever since the Beijing Olympics in 2008, China has gained higher visibility in the world, hence there are more responsibilities for Chinese diplomats.
- Chinese people should take more proactive measures to have our voice better heard by the rest of the world.

SHANGHAI, 14TH MAY 2020

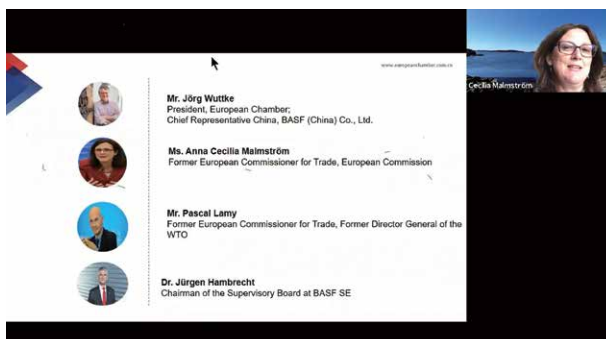
VIP Webinar Series: A Turning Point for China's Economy



- China is on the path to restoring normality; for instance, after being postponed, the National People's Congress was scheduled for 22nd May.
- Gross domestic product (GDP) in the first quarter of 2020 contracted by 6.8 per cent year-on-year.
- The announcement of a specific GDP growth target and other measures to support economic development is anticipated.
- All eyes are on areas of focus for ensuring stability, further economic stimuli following COVID-19, and mentions of impact on investment and international trade.

SHANGHAI, 22^{EN} MAY 2020

VIP Webinar Series: China's Trade and Investment Scenario: Looking Back and Looking Forward



- China needs to engage more with the EU and others to preserve, reform and stabilise the multilateral system; Chinese leaders need to show willingness to compromise.
- The US is trying to damage the Chinese system, economy and evolution; this is not the purpose of the EU and, to make that message clear, there needs to be unity in the EU.
- EU red lines are political. They are about values, democracy, human rights, freedom and independence for the judiciary. They are about a set of principles that are at the centre of what is the EU constitution. The EU has a system that is based on rule, law, philosophy and principles; and will not allow this to be compromised.

SOUTHWEST CHINA, 22ND APRIL 2020

Legal Risks Prevention for Foreign-Invested Enterprises in the Context of COVID-19 (Bilingual)



- The COVID-19 pandemic constitutes *force majeure* but factors such as the nature of the contract, parties' expectations and the degree of impact of the pandemic on contract performance, should be taken into account.
- COVID-19 is considered a 'significant change of economic circumstances' under the Labour Contract Law, circumstances which allow the employer to terminate the labour contract with 30 days prior written notice or by paying an additional month's wage.
- Employers who have difficulties in production and operation due to COVID-19 can implement rotations, reduce working hours and lower remuneration for employees.

NANJING, 11TH JUNE 2020

Keeping Business Thriving, Boosting Development Confidence – Europe Day 2020



- Although the Chinese economy suffered great losses due to COVID-19, Jiangsu is still going strong; European and Chinese firms will cooperate more and develop mutual trust to face potential challenges in the future.
- Integrating into Jiangsu's economy with challenges and adjustments—this is the current situation that European companies should understand and accept and look for advantages in it.
- As the country gradually recovers from COVID-19, an open dialogue and a common approach is needed for future communication with Europe.

SOUTH CHINA, 30TH JUNE 2020

Meeting with Shenzhen Municipal Administration for Market Regulation



- The government will intensify the investigation and punishment relating to certification. Also, informatisation supervision will become the norm, and foreign-funded institutions will establish informatisation platforms for enterprises in order to make unified inquiries.
- The Greater Bay Area (GBA) builds an international certification standard system and promotes digital development. At present, the establishment of certification standards in the field of innovation is one of the assessments of the work of the Municipal Supervision Bureau, and information security is also an area of high importance.
- Shenzhen's standard certification has been widely recognised, and Guangzhou has also established the GBA Standards Research Centre.

TIANJING, 16TH JUNE 2020

Go Green: Policy, Strategy and Action



- Large European groups are quite ambitious about reducing CO₂ emissions and effectively/fully utilise renewable energy for plant operation and production within the next decades.
- Solar and wind energy cannot meet the demand of manufacturing companies operating in Tianjin. Renewable energy solution providers are needed.
- A survey went out after the meeting to Tianjin members to discover the support needed to accomplish their green energy goals and the policy and information needed from the local authority. Meetings with Tianjin Municipal Government officials were also arranged following this event.

Advisory Council News

Siemens and NATO advance cooperation on cybersecurity for critical infrastructure



Photo: siemens.com

1st July 2020, Zug/Tallinn - Siemens Smart Infrastructure and the NATO Cooperative Cyber Defence Centre of Excellence (CCDCOE) have signed a Memorandum of Understanding (MoU) to continue their cooperation on cybersecurity for critical infrastructure. The CCDCOE-organised annual high-level cyber defence exercise Locked Shields provides a key pillar in the joint build-up of defence capabilities. With the new agreement, the parties advance their existing cooperation on cybersecurity training for power grids. Through experimenting with grid control software Spectrum Power, Siemens gains valuable insights on potential attack vectors and can thoroughly test new security features or protocols for its products and solutions.

The way grids are operated and managed has changed fundamentally in recent years with the integration

of more renewable and decentralised energy sources. The need for network optimisation, interaction between 'prosumers' (consumers involved in the manufacture and design of a product), and the number of new market participants have all significantly increased. With information and communication technology penetrating transmission and distribution networks, the growing interconnections create more vectors for potential attacks on digital energy grids. Consequently, cybersecurity is a top priority for power system operators and government bodies.

Robert Klaffus, CEO of Siemens Digital Grid said: "With the advanced cooperation with NATO CCDCOE, Siemens can gain valuable insights into new forms of attacks and how to address evolving cybersecurity challenges in digital energy grids."

ENGIE signs partnership with Hannon Armstrong for 2.3 GW renewables portfolio in the US

2nd JULY 2020 - ENGIE have announced the signing of an agreement to sell 49 per cent equity interest in a 2.3 gigawatts (GW) United States (US) renewables portfolio to Hannon Armstrong (NYSE:HASI), a leading investor in climate change solutions. ENGIE will retain a controlling share in the portfolio and continue to

manage the assets. On commissioning, this portfolio, which comprises 1.8 GW of onshore wind and 0.5 GW of solar photovoltaic (PV) projects, will represent a major milestone in achieving ENGIE's goal of commissioning 9 GW additional renewable capacity by 2021.

"The US is a key growth market for our renewables business, where we have a strong pipeline of opportunities and a solid development and operational platform to grow from. We are delighted to have partnered with Hannon Armstrong, a company solely dedicated to investments in climate change solutions," said Gwenaëlle Avice-Huet, executive vice-president for ENGIE Renewable business line and CEO of ENGIE North America.

The portfolio comprises 13 projects (nine onshore wind projects and four solar) located in key markets in the US, including the Electric Reliability Council of Texas (ERCOT), Midcontinent Independent System Operator (MISO), PJM Interconnection (PJM), the Southwest Power Pool (SPP) and PJM Interconnection (PJM).

bp licenses its latest generation PTA technology to Dongying Weilian Chemical in China

28th May 2020 - bp has entered into an agreement to license its latest generation technology for the production of purified terephthalic acid (PTA) to China's Dongying Weilian Chemical Co Ltd.

Weilian Chemical selected bp's proprietary PTA production technology for its new PTA unit after a competitive, global bidding process initiated in 2019. The design phase for the unit is underway and is expected to be completed during



Photo: bp.com

the first half of 2020. First production is anticipated by the second quarter of 2022.

The key characteristics of the technology licensed to Weilian Chemical have been proven at bp's Zhuhai plant in southern China, bp's largest PTA production facility worldwide. Based on internal comparisons with conventional PTA technology, there are significant reductions in both operational costs and capital costs, which should help achieve high investment returns.

The electricity generated by the Zhuhai plant from applying bp's technology is expected to result in a surplus that can be transmitted to the external power grid, supporting the energy needs of the local community. bp's anaerobic wastewater technology allows for increased treatment capacity, while its world-class compression process reduces land use.

Maersk offers weekly rail service from China to Turkey

29th April 2020, Copenhagen - Maersk has launched its first rail service from Xi'an, China to Izmit, Turkey. This new route, which is part of Maersk Intercontinental Rail service network, will—in addition to shorter transit times—provide customers with wide network options connecting main locations in China and Turkey with diverse range of pre- and on-carriage services.

“After having successfully launched our Intercontinental Rail (ICR) service from

China to Europe three years ago, we have seen increase in demand by our customers for this particular service from different locations across both Asia and Europe. Due to its strategic geographical location, wide industry sector as well as all ambitious initiatives taken by the government to improve the rail infrastructure across the country, we decided to launch ICR in Turkey, not only for those companies located within the country but also as a link between Asia and Europe,” says Kasper Krog, head of Intercontinental Rail at AP Moller-Maersk.

This unique rail service is ideal for customers within the automotive and technology industrial verticals in Turkey and other segments that are in high need of fast delivery to market. Due to a well-connected rail system across the country, ICR will provide customers with connections to the Black Sea, Eastern Europe and Southern European countries via the port of Korfez in Izmit, by using the feeder network of Sealand, a Maersk company.

This rail express service is set for weekly departures on each Tuesday subject to utilisation levels.



Photo: maersk.com

Matmut and Michelin groups strengthen their partnership for safer roads

24th June 2020 - The Matmut Group, a committed player in the fight to improve road safety, and Michelin, a leader in

sustainable mobility, are strengthening their partnership.

The exploratory Matmut Connect Auto initiative, launched in 2018 to reduce road traffic accidents, will be stepped up in 2020. From an initial phase in which 2,000 policyholders chose to receive personalised driving advice, the experiment is being extended to include 10,000 drivers. Thanks to a brand-new telematics solar box (a fleet management tool) on the vehicle and a dedicated app, the experiment will observe and measure the correlation between driving scores and accident rates.

As a committed player in the battle to improve road safety, the Matmut Group currently insures more than 2.8 million vehicles in France. It therefore naturally turned to Michelin, the leader in sustainable mobility, which is playing its part in the partnership with the contribution provided by driving data to intelligence (DDI). Created in 2015, DDI offering relies on capturing, processing and analysing driving data. DDI also coordinates a community of volunteer drivers committed to improving road safety; the Better Driving Community.

This new phase of the experiment is designed to compare the models established during the first phase against more driving situations, further improve the driving diagnosis for Matmut. The new solar box technology is easier to install and has a high degree of autonomy. Policyholders also benefit from an evolving app. Thanks to the lessons learned during the first phase, driving scores have been refined, simplified and made more transparent. [E6](#)

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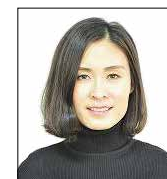
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上海心连心是仁德基金会设立的专项基金，致力于资助中国贫困家庭的先天性心脏病患儿进行手术治疗。截至目前，上海心连心已帮助1,648名患儿筹集善款完成了治疗。这些手术不仅挽救了一条条幼小的生命，更是改变了一个个家庭的命运。自成立以来，上海心连心始终坚持100%由志愿者管理运营，无任何雇员。零成本的运营意味着每一笔捐赠都100%用于资助手术费用。我们为捐款人提供所捐款项的支出明细，并提供前往医院看望患儿的所需协助。每一个为这些孩子付出的善举都让我们备受感动。

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