China Business Weekly

5 April 2022

法兰德斯中国商会 FCCC VCKK
FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

FCCC/EUCBA ACTIVITIES

Webinar: Intellectual property protection in China: R&D activities
12 April 2022, 10:00 CEST

On April 12, 2022, the Flanders-China Chamber of Commerce, the EU-China Business Association and the China IP SME Helpdesk are organizing a webinar that will focus on **IP Practices in R&D Activities**, which will take place from 10h00 AM to 11h15 AM CEST.

Developing an Intellectual Property (IP) strategy is a critical consideration for European SMEs expanding in China, which also applies to research and development (R&D) activities. As outcome of R&D, new intellectual property is being created so a company's IPRs need to be clearly defined. European SMEs may run into problems navigating the ins and outs of ownership of IP.

The China IP SME Helpdesk will provide an online training on the best practices to avoid disputes over IP during joint R&D activities.

Program

10h00 - 10h05: Welcome remarks and introduction of the China IP SME Helpdesk – Alessandra Capriglia, Project Manager, China IP SME Helpdesk

10h05 - 10h10: Introduction to Flanders-China Chamber of Commerce and to the EU-China Business Association – Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce

10h10 - 11h00: IP Protection in China when running R&D activities – Matias Zubimendi, IP Business Advisor, China IP SME Helpdesk

11h00 - 11h15: Q&A

Practical information:

Date: 12.04.2022

Location: Online

Price members: Free **Price non members**: Free

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China: Life-sciences Masterclass: Understanding China's Healthcare Market and its Evolutions: 6 module course – May 2022

With the support of:

The Flanders-China Chamber of Commerce, in collaboration with Smart Hub Flemish Brabant and Flanders Investment & Trade, has the pleasure to invite you to the Masterclass: "Understanding China's Healthcare sector". The Chinese healthcare market is experiencing an unprecedented growth that is presenting burgeoning opportunities for Flemish companies. China is now the second largest market in the world for medical devices and pharmaceuticals. China's healthcare service market is also quickly becoming one of the largest in the world.

Taking into account these opportunities, the FCCC will organise a 6-module course focused on helping companies to enter the Chinese market. This project is aimed at innovative companies in the pharma, biotech, medtech, medical insurance and nutrition sectors.

The programme will give participants a better understanding of the general Chinese healthcare market. Business executives will learn about the general healthcare landscape and how it has evolved, as well as the opportunities and the challenges, best practices and lessons learned, negotiation tactics, legislation, product registration, financial incentives, production and sales.

The series of webinars will end with a matchmaking meeting, where participants will have the opportunity to introduce themselves to potential Chinese partners and investors.

More information on all sessions can be viewed here

Practical information:

Date
First session: 10 May 2022
Second session: 11 May 2022
Third session: 12 May 2022
Fourth session: 17 May 2022
Fifth session: 18 May 2022
Final session: 20 May 2022

Price members: €125 - All sessions

Price non members: €185 - All sessions

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PAST EVENTS

Webinar: What does China's slowing growth mean for foreign investors? 31 March 2022

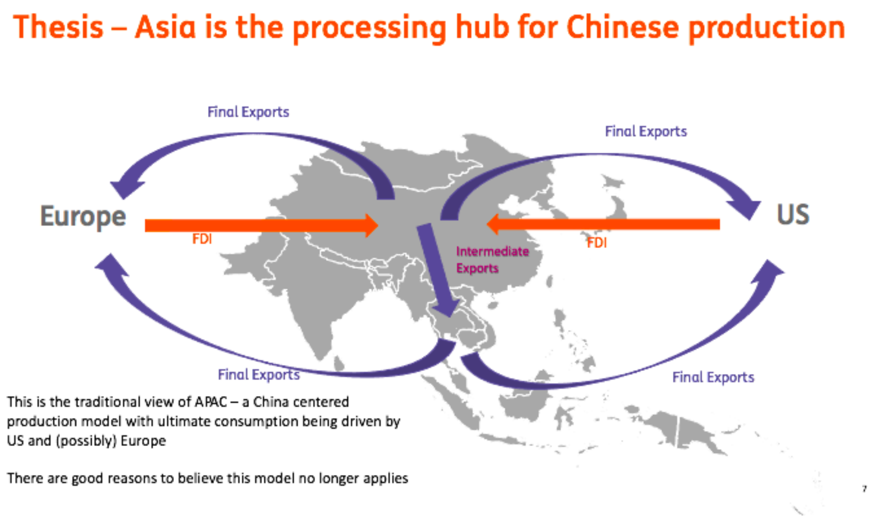
The Flanders-China Chamber of Commerce – with the support of Flanders Investment & Trade – organized a webinar, **What does China's slowing growth mean for foreign investors?'** on March 31, 2022. Guest speaker was Mrs Iris Pang, Chief Economist, Greater China at ING Wholesale Banking.

Ms Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce welcomed the participants to the webinar and introduced the speaker. According to the IMF, China will contribute more than a fifth to global GDP growth over the next five years. At the annual session of the National People's Congress (NPC) in March, Premier Li Keqiang announced a GDP growth target of around 5.5%. The Covid Omicron variant is rising in several cities in China with short lockdowns and mass testings. China is applying a dynamic zero-Covid policy and the rise of Covid and these lockdowns will also impact the Chinese economy. The fact that we cannot go to China is the number one problem for companies doing business with China and we do not expect getting back to China before the end of the year, but things could change earlier. Despite that, European companies remain committed to the Chinese market and they also indicate the plan to further grow their activities in China. The biggest risk for companies doing business with China is actually not to be in China. As many of us know, China's market offers long-term opportunities for our companies and many – if not most – companies are in China for China.

Mrs Iris Pang, Chief Economist, Greater China at ING Wholesale Banking, said companies with investments in China were asking themselves whether lo leave or stay in China. The aim of the webinar was to look at the policies and issues companies face. China's growth is definitely slowing because that is part of a developing country moving towards a developing country. China is now a middle income country and is moving away from a developing economy, which means that the GDP growth will be slower and slower every year. There will be ups and downs but the main trend will be slower growth. Our estimate is that by 2060 the growth rate will be around 2% a year, compared to the two sessions' target of 5.5% for this year. Keeping this in mind, China will be growing slower, but does this really matter to you? That depends whether you are in the retail sector doing business in China for China or in a manufacturing business producing for exports. The answer will be very different.

When you think about moving away from China, you usually talk about cost, mainly staff costs. The working population in China has started to shrink in 2020. And from the population pyramid we can see that after 20 years, the shrinkage of working population will be most obvious. But we don't need to wait until then to see wages climbing, not because to fight inflation but because the supply of labor will be less and competition for labor will begin to be intense, especially for technical ones. This is the number one reason that has pushed factory owners to sort a second factory location outside China as they foresee wages to be high in their foreseeable future. For the past ten years, employees had low wages but in the past years they were high compared to other Southeast Asian economies. Why? Because the labor force is shrinking. From 2010 to 2020 there is a slight shrinking in the working population. The number of people below 30 years is a lot lower than between 30 and 55 so in the coming years the working population will be shrinking. China's one-child policy doesn't work and even the Chinese government knows this. For almost all Asian economies moving from a developing to a developed stage, the birthrate dropped to near zero. In Asia, people look at raising a child in a different way. They believe that it is a very important responsibility to provide the best education for the children including many extra-curricular courses such as piano classes. Very few children are playing in the playground. This means that raising a child requires a lot of money and not many people have this ability and even if they have the ability they don't want to spend their time raising children because they have been raised alone, getting all the attention. They are more selfish. Not many families have children nowadays or they have one, but at a late age. How many children can they have if they start having their first child at 30? This is something the government has to consider. It cannot really push people to have children. It can offer more incentives like the Singapore government, but it is questionable whether it will work in China. There needs to be monetary incentives not just for giving birth, it has to be a whole package.

Another cost is land cost, which will reflect in your rentals for factories. The cost for factory land has risen the most in the East where most foreign-invested companies are located. This is unavoidable when land is scarce. You can't expand the supply of land unless you reclaim land from the sea but China is very restrained in this respect. Electronics make up more than 50% of the manufacturing capacity and those companies can pay higher prices. You need to consider whether you will continue to pay higher wage and factory rental costs. It depends whether you are in a high value-added sector or producing low value products.



The old model is Europe and the U.S. investing in China; China exporting intermediate products to Southeast Asia with the final exports going to Europe and the U.S. or China exporting directly to Europe and the U.S. This old model no longer applies. Today, China, Europe and the U.S. are investing in Southeast-Asian countries and exports are going directly to the U.S., Europe and to China, because China is also a consumer market. The flows have changed. There is more and more FDI in Southeast Asia.

Where is the consumer demand in 2020? The U.S. makes up 34%, the EU ex-UK 27%, and Asia 39% of which China is 20%. Asian consumer demand is huge. Vietnam is the biggest manufacturing hub in Southeast-Asia. Vietnam's exports to the U.S. are rising fast. Vietnam is not big enough in terms of work force to totally replace China but it is an option if you don't want to pay high labor and land costs, depending on the industry you are in and the scale of your manufacturing. Moving the factory is a big cost unless your factory is old. Vietnam is small, but it has a trained workforce and an attractive land policy. Infrastructure is not so good, but you are also paying less.

Why do many factories choose to stay in China? China has the most digitalized factories in the world. Even middle-sized factories are employing a lot of robots, employ less workers and climb up the value chain. The Chinese government has special policies for preferred industries such as new energy automobiles, healthcare, clean commodities, and consumption based on Beidou, China's GPS. Links to the policies are on the slides.

What if you are aiming for China's market? During Covid, Chinese corporates have not been investing, but saving their deposits. Chinese households continued to save more, but less so in 2021, not spending on consumption, but putting their money in the stock market. The consumption growth rate was zero in 2020 and still near zero in 2021. During the Covid years people earn less as bonuses are cut so they are conservative in spending lavishly and waiting for the borders to open to spend abroad. People try to use the stock market to get back their bonus. Most will continue to do that until the borders reopen. They won't be very motivated to spend in China because the time for reopening the borders is coming closer although there is no fixed date. Why would you spend 10% or 20% more in China if you can buy abroad? For daily spending, Chinese consumers prefer quality not quantity.

The real GDP growth forecast for this year is 4.8%, a lot lower than the government forecast of 5.5%, which will be impossible to reach without very strong growth in infrastructure. Local governments will issue bonds for infrastructure. Inflation is never an issue in China, because there are price controls. Interests will be lower. We expect a small depreciation of the yuan versus the dollar, but less so for the euro.

A Q&A session concluded the webinar. Will there be more regulations for tech companies? Mrs Pang: It is more an issue of data compliance, relevant for all businesses, not just tech companies. Your legal department needs to see whether you are compliant.

How does the GPD growth square with FDI inflow? Mrs Pang: Slower growth usually means slower FDI or more picky FDI, as only the high-value businesses can bear the higher costs of doing business. Newcomers who have not yet invested in China have a lot of choice. Slow growth means higher expenses.

What are the main challenges for European companies in China today? Mrs Pang: The policy environment changes very fast and you need to keep up with it.

Could the internationalization of the RMB be a big game changer? Mrs Pang: There is a possibility in the future but not now. The yuan has safe haven status during the Ukraine conflict, but the yuan weakens due to domestic issues such as Covid. It still does not have a strong safe haven status. But the yuan will be more internationalized after the conflict, as Russia might be using the yuan more.

The CAI has been frozen, how do you see that developing? Mrs Pang: It will be under a thick layer of dust.

Link to video on demand: panel discussion "Innovation and R&D: Future Prospects with China" during the celebration of the 15th Anniversary of the China Platform on 21 March 2022

The year 2021 marked the 15th Anniversary of the China Platform in Ghent University. On 21 March 2022, the China Platform hosted a festive 1-day event in the Convention Center Het Pand. During this event, the China Platform also presented its third book about the Ghent University–China cooperation of the past 15 years, since the establishment of the China Platform. As part of the **celebration of the 15th Anniversary of the China Platform**, the Flanders-China Chamber of Commerce and Ghent University organized a panel discussion on **"Innovation and R&D: future prospects with China".**

A link to the video is available on demand by sending an email to info@flanders-china.be

The following speakers participated in the panel discussion: **Mr Kurt Vandeputte**, Chairman of the Flanders-China Chamber of Commerce and Senior Vice-President Government Affairs, Umicore; **Mr Luc Semeese**, Vice-President Manufacturing Engineering, Volvo Cars; **Mrs Veerle Van Wassenhove**, Vice-President Research & Innovation, Bekaert; **Mr Wim Van Camp**, General Manager, Ghent University Tech Transfer Office; **Mr Birk Vanderweeën**, General Manager Europe, Legend Biotech. **Ms Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce, moderated the panel discussion.

Ms Gwenn Sonck welcomed the panel members and audience to the panel discussion and congratulated Ghent University on its 15 years of cooperation with China. Innovation was also a buzzword at the annual sessions of China's two main political bodies this year as China will further implement the innovation-driven development strategy and raise its capacity for scientific and technological innovation. China ranks 12th in the global innovation index of 2021, and in 2020 China overtook the U.S. as the top filer of international patents. China also surpassed the EU in expenditure on R&D, becoming the second largest spender after the U.S. European companies see opportunities in an increasingly innovative China.

Ms Sonck first asked the panelists to describe their activities in China. Mr Kurt Vandeputte said that China represents one-third of Umicore's activities, involving battery materials and catalysts. It's crucial to do the innovation where the applications are and that's in China. Mrs Veerle Van Wassenhove said Bekaert has been long active in China where about half of its turnover is generated. There is a twin of the Belgian R&D center in China. Mr Luc Semeese said Geely Automotive bought Volvo in 2010 and pushed Volvo to grow in China. R&D was part of that growth, including the area of autonomous driving. Mr Birk Vanderweeën said Legend Biotech wanted to be a global biotech player and has a significant footprint in China with its innovative cell therapy, for which it is important to be close to the patient. Mr Wim Van Camp said there is still much untapped potential for collaboration with universities in China as a technology partner. The personal networks through alumni is very important. One spin-off company of the university was sold to Huawei.

What are the benefits of R&D in China and the different steps to execute this? Mr Vandeputte: The benefit is the proximity to the customer. Materials have to work in applications. You can't allow not to be close to your customer and because of that delay the introduction of materials and devices. Technology is moving so fast that it's important to cut any dead time in a development track. That's one of the key advantages of doing innovation in China: being close to the customer and very fast in action. Mrs Van Wassenhove: Proximity to the customer is a necessity to do development. It's also important not to have a cultural gap between your R&D team and applications. The pace of execution is much higher than in Europe. We also invested in personnel exchanges to build a common ground. Mr Semeese: When we started producing in Chengdu in 2014, we were looking at localizing existing cars. R&D was mainly focussed on connectivity as you needed to make a “Chinese Google” work. In phase two, China is developing cars for the world. China is still a sedan market with Volvo producing them in Daqing. Now we are in phase three looking to localize R&D for platform parts, such as batteries and electronic components. Mr Vandeputte: One of my mistakes 15 years ago was to want to produce products for China. Chinese customers want world-class products, not the feeling that they have second-rate products. Mrs Van Wassenhove: Bekaert has always produced for export from China. We still have to streamline the common part of R&D and innovation. Mr Semeese: Volvo quite quickly started R&D in China for the world. As 100% Chinese-owned, the model was much more to grow in China and it was easier to develop compared to European joint-venture companies. Mr. Vanderweeën: Legend's cell therapy was invented in China, so the research was done in China. The main challenge will be to get enough talent to grow further. Mr Van Camp: The main challenges for technology transfer is often patent protection and enforcement and there has been much progress in China, making it easier to do technology transfer.

Could talent become a challenge in China? Mr Vandeputte: Umicore is well-known in Belgium having no problem attracting talent, but the situation is different in China being less well known and in an industry with big established names. It is more challenging to attract people, but as a non-Chinese company we can offer certain developments abroad. Mrs Van Wassenhove: With Covid it is not easy to make your Chinese satellite still feel part of a global company. Mr Semeese: In the beginning we were concerned losing talent to other companies, but it turned out most of the people stayed. One of the reasons is that we are providing mainly Swedish family values, which are also attractive in China. And we could also offer international careers.

Will your company increase its investments in China? Mrs Van Wassenhove: Bekaert will increase its investment and R&D in China. Mr Vandeputte: Uncertainty in international trade is increasing a lot. We are no longer investing in plants that will produce for 60% for an international market. But China itself is a huge growing market, so our activity is also growing. We spend close to 10% of our revenue in research. China's Covid strategy is hindering us severely. Innovation and business is not done by computer, but done by people and teams. You can only be innovative if you can challenge each other. I hope the Covid strategy will change fast or it will be to the detriment of activities in China. Mr Semeese: Volvo will continue investing in R&D in China, employing another 150 employees. There is still a big potential for Volvo in China. Due to Covid we had to give more responsibility to our local teams, which was quite successful. But not being able to go to China is not sustainable over time. Mr Vandeputte: As Chairman of FCCC, I would like to add that China could be a fantastic market for hundreds of thousands of entrepreneurs in the world, but since two years there are no opportunities to interact. We should accept a new way of interacting with each other. We cannot continue to live isolated. People want to interact, they want progress and prosperity.

In your industry, how innovative are Chinese companies and how do you rate the enforcement of IPR? Mrs Van Wassenhove: The pace of co-development with customers is fantastic so it is important to keep that connection. We are still concerned about enforcement of IP rights. We look forward to soon be able to reconnect the teams. Mr Vandeputte: In China, big steps have been taken to align with the international approach to IP. IP is an asset. You invest in innovation to create an asset, which is something that is protected, like a factory building. You want the rules to be the same everywhere and be enforced. In China the biggest steps taken so far are what the rules are and recognizing these rules. Enforcement and follow-up actions are still problematic with different outcomes in different courts. We want the law to be applied to the same extent everywhere. The best way to level the playing field is to ensure that innovation in China is at par with international innovation. Chinese companies will also want their IP to be respected outside China. Mr Semeese: Ten years ago you had Chinese cars very much looking like foreign ones. That is gone now, because China now has the money to go for the original rather than the fake copy. Volvo has never been a very patent-oriented company. Mr Van Camp: Still under development is to use the business network of Chinese universities to get our technologies into China. Due to Covid we have to start it up again. We will only collaborate with China in fields in which we are still better. Mr Vanderweeën: Chinese companies have a clear strategic perspective, combined with speed and a can-do mentality. Our product has gone from innovation to treating the first patients in eight years, which is amazing. Mr Semeese: The speed of building something is fantastic. In China we built three plants from scratch in four years. Such speed is impossible in

Europe. We should not be afraid of Chinese technology or the market but we should be afraid of the speed of innovation and acting. Mr Vandeputte: Having been Chairman of our joint venture in China for close to 10 years, each time coming back I was energized. The ideal would be continue to act fast but add a durability component. Sometimes the high quality is lacking. Mrs Van Wassenhove: Our management team needs the boost from China, because they all come back energized. Mr Van Camp: We would like more Chinese companies to come to Belgium, several are already located in our science park.

A Q&A session concluded the panel discussion.

More information on other events during the celebration is available on the website of the China Platform here

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HEALTH

Two-stage lockdown ends in Shanghai, but strict restrictions remain to achieve zero-Covid

On April 1, Shanghai's Puxi started a four-day lockdown as the one in Pudong was extended in some communities were Covid-cases were detected. While residents in Puxi are under strict lockdown until April 5, some of the 9 million people living east of the Huangpu River, who completed two rounds of nucleic acid tests between March 28 and April 1, remain confined to their homes or neighborhood for up to 10 more days in accordance with epidemic control protocols based on the test results. The transmission of Covid-19 in Shanghai is "rapidly rising," and the city is expected to see more infections in the near future.

The Chinese mainland reported 13,146 local Covid-19 cases on April 3, including 1,455 confirmed and 11,691 asymptomatic ones, the highest daily increase since the latest outbreak, which has already infected over 100,000 people. Shanghai reported 438 local confirmed and 7,788 asymptomatic cases on April 3. The total number of symptomatic and asymptomatic Covid-19 infections in Shanghai since the start of the current outbreak on March 1 reached 52,000. All citizens were told to carry out rapid antigen tests on April 3 before citywide nucleic acid testing the following day.

Chinese Vice Premier Sun Chunlan made an official visit to the city to help battle the virus. Sun stressed that the dynamic zero-Covid strategy must be upheld with resolute and swift action. With Shanghai's hospital system on the verge of being overwhelmed, medical teams and supplies from across the country are flooding in to help fight the outbreak, with thousands of medical workers coming from the neighboring provinces of Jiangsu and Zhejiang to assist in nucleic acid testing and the building of makeshift hospitals. In Suzhou, which borders Shanghai, a new virus mutation – VOC/Omicron variant BA.1.1 – was identified, posing new challenges in the region.

Shanghai is not the only region that's experiencing a Covid-19 outbreak. Lei Zhenglong, Deputy Director of the National Health Commission's Disease Control Bureau, said that from March 1 to 31, a total of 103,965 local cases were reported nationwide, affecting 29 provincial-level regions. "90% of the newly reported infections nationwide come from Jilin province and Shanghai. The epidemic in Jilin is still in the developing stage while in Shanghai it is expanding rapidly," he said. But Wu Zunyou, Chief Epidemiologist at the Chinese Center for Disease Control and Prevention, said that China can still achieve the goal of zero Covid, although it would take a long time because the Omicron strain is spreading fast and it is difficult to detect. To prevent the current outbreak from spreading to other cities from Shanghai, the municipal government issued a travel restriction on March 31 that requires people leaving Shanghai to show a negative nucleic acid test taken within 48 hours before departure as well as a negative antigen test within 24 hours prior to starting their journey.

Starting on April 5, Shanghai will implement a "venue code" and an all-in-one machine for health checks, or "digital sentry," citywide as a new beefed-up measure to monitor and curb the spread of Covid-19. Residents will be required to scan the "venue code" to enter some key locations in the city, including pubs, restaurants and hotels. Administrators or operators of key locations should post the

QR code or install the “digital sentry” machines at the entrance. The venue code can be accessed on the app “Government Online-Offline Shanghai” or “Suishenban”. Senior residents or juniors who don't have smartphones are allowed to use registration on paper.

The two-stage lockdown in Shanghai raised fears among foreign investors that China will stick to its zero-Covid strategy longer than first thought, while putting pressure on businesses. The sudden decision to impose consecutive lockdowns in Pudong and Puxi caught many foreign firms by surprise. “While the majority of G20 countries are exiting pandemic-related lockdowns, China appears to be stuck with its old toolbox of zero tolerance and draconian measures to fight Covid,” said Joerg Wuttke, President of the European Union Chamber of Commerce in China (EUCCC). “We fear that we may be about to witness the beginning of an Omicron crisis across China.”

Shanghai’s lockdown shows that Chinese authorities are continuing their “dynamic zero-Covid” policy, which involves stamping out local outbreaks with strict preventive measures, while much of the rest of the world is shifting to live with the virus. The lockdown will have significant ramifications on the service sector, but the European Chamber of Commerce pointed out that supply chains will also be disrupted as essential workers are quarantined or key materials are unable to be delivered. Wuttke said unemployment might spike in the service sector, though the manufacturing sector should be able to handle the lockdowns better “as some have already established production rosters, whereby operational staff remain on factory grounds for up to seven days, before a new team takes over”.

Bettina Schoen, Chair of the EUCCC’s Shanghai Chapter, said it was a terrible situation with all kinds of uncertainty, as production capacity at many European firms was limited and it was only possible to plan on a daily basis. “Looking at what companies report, the situation is very difficult,” she said. “Depending on how long the lockdown will last it will have quite a big impact on revenues in coming months.” Many foreign investment banks have lowered their China growth estimates for the year as the Omicron wave spreads and other factors like the Ukraine war, commodity price inflation, and U.S. rate hikes weigh on the economy. “Spreading Omicron infections are testing the sustainability of this policy. The possibility of rapid transmission of Omicron in China is a key risk to its economy,” Louis Kuijs, Chief Asia-Pacific Economist at S&P, wrote in a note.

Hong Kong has meanwhile been grappling with its worst outbreak, with more than 7,700 deaths so far – most of them unvaccinated elderly people – and the health system overwhelmed.

This overview is based on reports by the China Daily, Shanghai Daily, Global Times and South China Morning Post.

EU-CHINA SUMMIT

EU-China Summit overshadowed by Ukraine and sanctions

The European Union and China held their 23rd bilateral Summit via videoconference on 1 April, 2022. President of the European Council, Charles Michel, and President of the European Commission, Ursula von der Leyen, held the Summit meeting with China’s Prime Minister Li Keqiang, followed by exchanges with President Xi Jinping. Due to Covid, it was the first summit in two years. President Michel commented: “Today’s summit is not business as usual, because this is a wartime summit.”

At the top of the agenda was the situation in Ukraine with the European leaders asking China not to support Russia, and China emphasizing that it was seeking a peaceful solution to the conflict in its own way. The international community should continue to create the conditions and the environment for negotiations between Russia and Ukraine, and open up space for a political settlement, rather than fuel the crisis or heighten tensions, President Xi said. He highlighted the need to ensure lasting peace in Europe and on the Eurasian continent. The fundamental cause of the Ukraine crisis lies in the longstanding regional security conflict in Europe, and the fundamental solution is to accommodate the reasonable security concerns of various sides, he said. In properly handling the crisis, one should not take the wrong medicine, or focus on just one aspect of the issue without regard to the rest, or hold the entire world hostage, he said, adding that it is important to avoid making ordinary people around the world suffer as a result.

President Xi said that the global economic system cannot be disrupted at will, and attempts to politicize or weaponize the global economy as a tool to serve one’s own agenda should not be allowed. If the situation continues to worsen, it could take several years, if not decades, to get things back on track, he said, citing the concerns of many people that the current situation may wipe out the fruits of international economic cooperation gained through decades of efforts. China and the EU should keep the system, rules and foundation of the global economy stable in order to boost public confidence, President Xi Jinping concluded.

Premier Li Keqiang told the EU that Beijing "opposes both a hot war and a cold war; it opposes division of blocs and taking sides". The EU should have a clear understanding that standing with the West to sanction Russia does not conform to the principle of China's diplomacy, Cui Hongjian, Director of the Department of European Studies at the China Institute of International Studies, told the Global Times. "The EU is now kidnapped by the U.S. on security, but that does not conform to the strategic independence the EU has pursued," Cui said, noting that the EU must take control of its own destiny, and developing ties with China provides the EU an opportunity to develop in a more balanced and comprehensive way in the long run.

Recalling the EU's and China's responsibility as global actors to work for peace and stability, the EU called on China to support efforts to bring about an immediate end to the bloodshed in Ukraine, consistent with China's role in the world as a permanent member of the UN Security Council, and its uniquely close relations with Russia. Any circumvention of the effects of the sanctions or any aid provided to Russia would prolong the bloodshed and lead to even greater losses of civilian lives and economic disruption, the EU said. Von der Leyen said that: "we exchanged very clearly opposing views. This is not a conflict. This is a war. This is not a European affair. This is a global affair." She added that: "we made very clear that China should, if not support, at least not interfere with our sanctions" of Russia "and equidistance is not enough; active engagement for peace is important and each player should play its role."

Both sides also discussed global food and energy security, climate change and the fight against Covid. The recovery from the pandemic remains a shared priority. Leaders discussed cooperation on the vaccination campaign and reopening of the economy. The EU pointed to the need to address long-standing concerns related to market access and the investment environment in China, with the view to ensuring a balanced trade and economic relationship. Leaders agreed to expand the EU-China Agreement to progress on these issues before the summer. The EU and China will also resume the High Level Digital Dialogue and the human rights dialogue. But there was no joint communique issued at the end of the Summit.

The EU was China's second-largest trading partner last year, with bilateral trade reaching USD828.1 billion, up 27.5% year-on-year. Also, the EU surpassed ASEAN to become China's largest trading partner in the first two months of the year, as bilateral trade surged 14.8% year-on-year to USD137.16 billion.

This overview is based on reports by the China Daily, Global Times, South China Morning Post and a press release of the European Commission.

RETAIL

Beijing promoting the opening of first stores of global brands

The Beijing Bureau of Commerce recently issued key measures on promoting the opening of the first stores of global brands in the city. The aim is to boost consumption and help build the capital into a world-class consumption center, said local officials. The measures include establishing a service system for the first stores, building the global brands' debut display platform and supporting the development of commercial brand headquarters. Xue Haitao, Inspector of the Bureau, said that the measures amended the previous ones in terms of the comprehensive policy layout and financial support. For example, the measures have added support for customs clearance of new clothing products. A third-party acceptance system for new apparel products has been established to improve the speed of customs clearance for products of fashion consumer brands, on the basis of previous services such as project site selection, registration, fire inspection, billboard settings and protection of exclusive rights to registered trademarks. At the same time, support for the establishment of commercial brands is added and enterprises that carry out business activities with branches are encouraged to set up independent legal entities in Beijing. The measures also support innovative concept stores that could gain financial support of up to CNY1 million.

The maximum support for first stores and flagship stores in Beijing has been increased from CNY500,000 to CNY1 million, also increasing the amount from 20% to 50% of the total approved investment in the project. The measures enhance the maximum amount of support for well-known domestic and foreign brands to hold launch events of fashion products in Beijing from CNY1 million to CNY2 million. The maximum amount of support to the first stores of retail brands in China and Asia will remain unchanged at CNY2 million and 5 million respectively. The Bureau will guide enterprises to do the best possible job in project consultation and declaration and provide financial support to projects that meet the conditions.

Xue said in the next step, **the Bureau will hold the Beijing First Launch Festival and other themed events** during the Beijing consumption season to promote first stores and the launch of new products. "I hope that the majority of brand enterprises and key business districts will participate, make full use of the support policies, optimize new consumption supply, tap new consumption highlights, stimulate new consumption potential and jointly help to build Beijing into an international consumption city." Since March 2019, the Bureau has introduced two versions of the measures on first stores to boost the regional economy. Statistics show that in the past three years, a total of 1,962 first stores and flagship stores have been opened in Beijing, the China Daily reports.

CHINA NEWS ROUND-UP

SMIC reports more than doubling of profit in 2021

Chinese chipmaker Semiconductor Manufacturing International Corp (SMIC) reported a surge of 137.8% in net profits in 2021, buoyed by increased wafer shipments and higher average selling prices. SMIC reported net profits of USD1.7 billion in a fiscal filing to the Hong Kong stock exchange. The company raked in revenues of USD5.44 billion last year, up 39.3% from the previous year. Its wafer revenues rose by 43.4% year-on-year to reach USD4.98 billion. A breakdown of its revenues by application showed that smartphones made up 32.2% of SMIC's wafer revenues, while those from consumer electronics accounted for 23.5% and from smart homes 12.8%. In technology terms, SMIC generated 29.2% of its wafer revenues from semiconductors of 55 to 65 nanometers, while chips of 40 to 45 nanometers contributed 15%, and more mature process nodes of 28 nanometers accounted for 15.1%. By comparison, SMIC's revenues from chips of 28 nanometers or smaller stood at 9.2% in 2020 and 4.3% in 2019.

In another sign of the progress the company is making in technology, SMIC had 12,467 patents on integrated circuits at the end of last year, including 10,698 invention patents. It also had 94 IC layout design rights. SMIC warned of the fallout of trade frictions on its businesses. "Economic globalization has encountered ups and downs, and multilateralism has been hit. In particular, the China-U.S. economic and trade friction has adversely affected the production and operation of some enterprises and market expectations," SMIC said in its filing. If trade tensions between China and the U.S. and other economies continue to escalate, with heightened import and export restrictions, and higher tariffs among other trade barriers, the company may face risks such as shortages or rising prices for production materials.

Additionally, "the U.S.' enhanced export controls targeting Chinese top high-tech companies may restrict the wafer foundry and supporting services provided by the company to certain customers, and the company may face limited production capacity and reduced orders," according to SMIC. SMIC said that its production and operations remain normal and the company would keep a close eye on the Covid situation in Shanghai, the Global Times reports.

Erenhot on the China-Mongolia border sees huge increase of freight trains passing through

Erenhot, China's largest railway port on the border with Mongolia has seen a significant rise in international freight train services over the past decade, boosting connectivity between China, Mongolia and Central European countries. By this month, Erenhot Port had facilitated more than 9,000 China-Europe freight trains since the first such train passed through in 2013. Over the past 10 years, the port has witnessed a rapid increase in China-Europe freight trains. In 2013, only two such train services were facilitated, while last year, the port saw 2,739 trains pass through. There are 57 routes connecting more than 50 cities in 22 regions in China and 44 stops in nine countries. The trains have played an important role in smooth logistics and the stable supply of anti-epidemic materials for China and countries along the routes.

With the expansion of the China-Europe freight train network, agricultural and industrial products from all over China can be transported on outbound trains to be sold abroad. The inbound trains carry overseas goods, such as German beer and French wine, to China, benefiting Chinese consumers. In addition to commodities and food, exports of high-value-added products, such as automobiles, motorcycles and solar photovoltaic modules, have also increased. To raise efficiency, the railway port has improved its services by building a "smart border inspection platform", offering customs clearance 24 hours a day,9 and carrying out contact-free inspection in accordance with epidemic control protocols.

The 500th China-Europe freight train this year passed through the port on March 1, hitting that mark 18 days earlier than last year. China State Railway Group has said a new national railway schedule will be operated from April 8, with more China-Europe freight train services scheduled to better serve international supply chains and improve high-quality opening-up. By January, there had been more than 50,000 China-Europe freight train trips through all border ports. The value of goods transported by the cargo services has skyrocketed from USD8 billion in 2016 to USD74.9 billion last year, an increase of more than 9 times, according to the group, as reported by the China Daily.

Huawei announces profit growth of 76% last year

Huawei Technologies posted a 76% net profit growth last year, despite challenges such as the United States tech sanctions and the Covid-19 pandemic. Chief Financial Officer Meng Wanzhou, who was detained in Canada for almost three years, spoke at a Huawei conference, her first public appearance since returning to China in September last year. Meng quoted a Chinese proverb to describe her feeling: "One day in the middle of the cave, thousands of years in the world. I am trying to catch up with the rapid change and development," she told the conference.

Huawei said it will increase research and development investment significantly, including recruiting 10,000 new employees this year. In 2021, Huawei posted revenue of CNY636.8 billion, compared with CNY891.4 billion in 2020. Net profit was CNY113.7 billion. Huawei is passing "the darkest zone," Meng said, adding that "we have become more united." The revenue of Huawei's consumer business group, which includes smartphones and the Internet of Things (IoT) devices, reached CNY243.4 billion last year, down nearly 50%. Despite a revenue slump in 2021, Huawei's ability to make profit and generate cash flow is increasing, making it more capable of dealing with uncertainty, she added. The company's R&D expenditure hit a record-high CNY142.7 billion last year, representing 22.4% of its total revenue.

But Huawei admitted it is facing challenges due to the Covid-19 outbreak and U.S. tech sanctions, which have impacted its consumer business for smartphones, tablets and other devices. The sanctions have made it difficult for Huawei to obtain chips and key components it requires for some businesses. According to market research company Counterpoint, the company's smartphone market share fell below 4% since the first quarter of 2021, compared with its peak of 20% in the April-June quarter of 2020.

Instead, Huawei has invested more in other sectors like cloud and software as well as emerging sectors like autonomous driving. It has also developed its own operating system HarmonyOS. In the past two years, Huawei has recruited more than 26,000 employees. Talent, scientific research and an innovative spirit are three key sectors that Huawei will depend on to survive and "reshape the ICT industry," said Guo Ping, Huawei's former rotating Chairman.

In the past five years, Huawei has had huge lead over other Chinese firms in terms of invention patents. It is followed by Oppo, BOE, State Grid and TSMC, according to PatSnap, a third-party patent consulting firm. In 2021, Huawei's research spending accounted for 22% of its revenue, compared with 13.2% in 2013. Huawei's total R&D expenditure over the past decade totaled more than CNY845 billion, the Shanghai Daily reports.

Meanwhile, **Chief Financial Officer (CFO) Meng Wanzhou was named one of three rotating Chairpersons of the company**, replacing Guo Ping. The three Executives, Xu Zhijun, Hu Houkun and Meng, will rotate to chair the company's Board of Directors and Executive Committee every six months. The current rotating Chairman is Hu.

Tight shipping capacity and high freight rates to continue

Tight shipping capacity and high freight rates will continue to dog the global market this year as there is still no end in sight to the impact of the Covid-19 pandemic on the world's supply chains, said the top executive of China International Marine Containers (Group) (CIMC), the world's largest supplier of shipping containers by production volume. Mai Boliang, Chairman of Shenzhen, Guangdong province-based CIMC, said that the company has benefited from its booming container manufacturing business, with operating profit soaring 81% year-on-year to CNY13.47 billion in 2021. The container order book remained full in the first and second quarters of this year. Industry experts predict that the twin impacts of the pandemic and geopolitical tensions will reduce the operations of global ports and inland transportation this year.

Global container capacity will be tighter as many containers remain empty on the return leg of their journeys after delivering cargo, which has been affecting the efficiency of container turnover. The container market will remain tight due to poor container availability in many countries this year, said Dong Liwan, Professor of Shipping Management at the Shanghai Maritime University.

Given the complexities of the pandemic situation abroad, severe congestion and delays could lead to a decline in the efficiency of the entire supply chain. But, blindly increasing transportation capacity and container supply will not really solve these problems, Dong warned. A study by the Beijing-based China Council for the Promotion of International Trade (CCPIT) found that although many parties, including government branches, export-oriented manufacturers and shipping container suppliers, had all intensified their efforts to resolve the tight container supply and meet the demand for containers from China's exporters in 2021, tight transportation capacity and high freight rates remain unresolved issues. Therefore, it is vital for the government to promote cross-border logistics cooperation under regional trade pacts such as the Regional Comprehensive Economic Partnership (RCEP) and support capable companies to build overseas warehouses, said Zhou Zhicheng, Researcher at the Beijing-based China Federation of Logistics and Purchasing (CFLP), the China Daily reports.

China's manufacturing activity contracted in March, first time in five months

China's manufacturing activity contracted in March for the first time in five months due to various uncertainties and negative impact from home and abroad. However, analysts and officials remain upbeat about the medium- and long-term prospects of the Chinese economy, as the country still has room for macro policy fine-tuning and adjustments. They expected a stronger fiscal policy and more easing monetary measures in the coming months to further shore up growth, including tax reductions, more infrastructure investment, and interest rate and reserve requirement ratio (RRR) cuts. The purchasing managers index for China's manufacturing sector stood at 49.5 in March, compared with 50.2 in February, data from the National Bureau of Statistics (NBS) showed, slipping into contraction after staying in expansionary territory for four consecutive months. The 50-point mark separates growth from contraction. The non-manufacturing PMI, which covers the services and construction sectors, was at 48.4 versus 51.6 in February, slipping into contraction for the first time in seven months, according to the NBS.

Zhao Qinghe, Senior Statistician at the NBS, said the resurgence in Covid-19 cases has dealt a blow to service sectors, such as transportation, accommodations and catering. For manufacturers, the resurgence has affected the production and operation of some enterprises, and the escalating geopolitical tensions led to a decline in or cancellation of export orders, Zhao said. Midstream and downstream enterprises are also facing pressure from the rising costs of raw materials, with surging commodity prices clouding the outlook.

Despite the downward pressures, Luo Zhiheng, Chief Economist at Yuekai Securities, highlighted that the high-tech manufacturing PMI had stayed in expansionary territory, saying this indicates the steady progress of economic structural transformation and high-quality development. Luo said the current economic situation requires a proactive fiscal policy, such as promoting the issuance of local government special bonds to accelerate infrastructure construction and stabilize investment, and more efforts should also be made to ensure the basic livelihood of people affected by Covid outbreaks. Wu Chaoming, Deputy Director of the Chasing International Economic Institute, estimated that the manufacturing PMI may expand above the 50-point mark in the following months with the help of the government's effective measures to control the pandemic and stabilize growth.

More efforts needed to develop car chips

More efforts are needed to beef up the development of the auto chip industry in the Chinese mainland as semiconductors become essential to vehicles that are increasingly getting electric, connected and smarter, experts said. Dong Yang, Co-chairman of the China Automotive Chip Industry Innovation Strategic Alliance, an organization dedicated to promoting the development of the home-grown auto semiconductor sector, said: "Currently, we rely heavily on the import of crucial auto chips. Though the Chinese mainland accounts for more than 30% of global sales of cars, homegrown companies produce only about 5% of the number of global auto chips." It is important to promote competitive local auto chip companies that can help car makers better deal with chip supply challenges and possible export restrictions imposed by other countries amid geopolitical uncertainties. Dong said: "We are striving for a healthier proportion of local chip production so that we can rely on ourselves whenever an emergency arises. Meanwhile, we will continue expanding international cooperation, given that chips and cars are both highly globalized industries."

Miao Wei, former Minister of Industry and Information Technology, also said at a conference that the auto industry in the Chinese mainland lacks "chips and souls", or crucial chips and operating systems, especially in vehicle regulation-level components. Vehicle regulations are requirements that automobiles must satisfy in order to be approved for sale or use in a particular country or region. "In the past, automakers basically ignored the production of chips and operating systems and left them to suppliers. While our automakers did little, foreign automakers have begun to invest in Taiwan Semiconductor Manufacturing Co (TSMC), a major chipmaker, for more production capacity," he said. Miao also said the auto industry in the Chinese mainland had gained some momentum in the first half of the "game", or in the development of new energy vehicles, but the winning hand still lies in the second half of the game, which is the development of intelligent connected vehicles, the China Daily reports.

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