China Business Weekly

5 July 2022

FCCC/EUCBA ACTIVITIES

Webinar: What is your best way to market your B2B and B2C sales channels in China? – July 7, 10h00 CEST

The Flanders-China Chamber of Commerce, with the support of Flanders Investment and Trade, is organizing a webinar which focuses on **"What is your best way to market your B2B and B2C sales channels in China?".** This webinar will take place on Thursday, July 7 at 10h00 CEST.

During this webinar you will learn about the alternative Route-to-Markets to China and how to facilitate your sales through the right Digital Marketing approach in both B2B and B2C channels, with an overview of practical business cases from the speakers.

This webinar will take place on **July 7, 2022** at **10h00 am.**

The programme is as follows:

10h00 – 10h05: Welcome speech by **Ms. Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

10h05 – 10h25: Presentation on "Trade Facilitation services and how to unlock your business potential in China" by **Ms. Elena Robakidze**, Business Development Manager at Ahlers

10h25 – 10h45: Presentation on "Media content and digital marketing services in China: Live streaming and social commerce" by **Mr. William August**, CEO of Outlandish Group

10h45 – 11h00: Q&A Session

Practical information:

Date and time: July 7, 2022, 10h00 - 11h00 CEST

Location: Online

Price for members: Free

Price for non-members: Free

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Webinar: Changes in China's IP legislation and implications for SMEs
July 14, 10h00 CEST

The Flanders-China Chamber of Commerce, the EU-China Business Association and the China IP SME Helpdesk, with the support of Flanders Investment and Trade, are organizing a webinar focused on **"Changes in China's IP legislation and implications for SMEs"**. This webinar will take place on **14 July at 10:00 CEST**.

Intellectual property can be a key factor in the competitiveness of your business in the global economy. The Chinese government has recently adopted a number of changes to their patent, copyright and trademark laws. Which legislative changes, and what are the implications for your business? How can intellectual property assets help you with your cash flows and be a valuable asset to your business?

Mr Thomas Pattloch, IP Expert of the China IP SME Helpdesk, will provide an overview of the legislative changes in China's IP laws and their important implications for European SMEs.

AGENDA:

10:00 Welcome remarks and introduction of the China IP SME Helpdesk – **Mrs. Alessandra Capriglia**, Project Manager, China IP SME Helpdesk

10:05 Introduction to Flanders-China Chamber of Commerce and to the EU-China Business Association – **Ms. Gwenn Sonck**, Executive Director, FCCC and EUCBA

10:10 Changes in China's IP legislation and implications for SMEs – **Mr. Thomas Pattloch**, IP Expert at the China IP SME Helpdesk

11:00 Q&A

Practical information:

Date and time: July 14, 2022, 10h00 - 11h00 CEST

Location: Online

Price for members: Free

Price for non-members: Free

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PAST EVENTS

Webinar: European Business in China Business Confidence Survey 2022 – 28 June

The EU-China Business Association, the European Union Chamber of Commerce in China, BusinessEurope and the Flanders-China Chamber of Commerce, with the support of Flanders Investment and Trade, organized a webinar focused on the results of the annual **Business Confidence Survey 2022** of European Business in China. The survey was conducted by the European Union Chamber of Commerce in China in cooperation with Roland Berger. This webinar took place on June 28, 2022.

Ms. Gwenn Sonck, Executive Director, EU-China Business Association/Flanders-China Chamber of Commerce, welcomed the participants to the webinar and introduced the speakers. Doing business with China is not easy these times with China's dynamic zero-Covid policy, as businesspeople still cannot travel to China. Russia's invasion of Ukraine also causes supply chain disruptions with rising costs in energy and other goods. But China remains an important market for business and cannot be ignored. China surpassed the U.S. as the EU's largest trade partner in 2020 and 2021 thanks to strong demand during the coronavirus pandemic. EU trade in goods with China was worth €587 billion in 2020 and €695 billion in 2021. In the first five months of 2022 the trade reached USD345 billion, an increase of almost 9% on the previous year. China's exports reached USD226 billion, up 20%, while imports reached USD180 billion, down by 7.1%.

Ms. Bettina Schön-Behanzin, Vice President, European Union Chamber of Commerce in China, presented the results of the business confidence survey (BCS) 2022. The report is based on a survey of member companies with 61 questions on three core themes and five thematic issues. The response rate was 47% with 620 responses. The survey was conducted in February and early March, just after the Russian invasion of Ukraine and China imposing stricter Covid-19 containment measures, including the lockdown in Shanghai. Companies of all sizes are well represented in this year's BCS. Roughly half of the respondents are SMEs. Respondents came from a wide range of industries, with 40% in the industrial goods and services sector. Professional services took up 28% and consumer goods and services 20%. Most members (79%) have operated in China for more than 10 years, making them well positioned to comment on its business environment.

The key findings are:

- **Businesses performed well financially in 2021**, but challenges also grew. Even before Shanghai went into lockdown, the effects of the pandemic and the very strict Covid strategy were the key challenges for most businesses. Attracting and retaining top talent and urgently needed regulatory reforms were also mentioned by many companies, as well as the increasing politicization of business.
- **The picture got much worse following black swan events:** the Omicron outbreak in China and the war in Ukraine. To account for these events the Chamber conducted a flash survey in April.
- **It is not expected that businesses will leave China altogether**, but the form they take is changing. Due to the size and dynamism of the Chinese market, it is imperative to have a strong footprint in China. But there is huge uncertainty and we see the attractiveness of China as an investment destination is eroding. Companies are onshoring functions such as supply chains and IT data systems. Potential China footprints will be downsized and some will reduce head counts. Some businesses consider making investments in other markets.

Two-thirds of European businesses saw revenues increase, returning to pre-pandemic levels. In sectors such as petrochemicals, machinery and automotive we saw good performance. Revenue in 2021 also increased for businesses were face-to-face contact is very important, such as professional services and the legal sector. Profitability also took a

turn for the better with four out of five companies recording positive results. Another 13% achieved a break-even. China continues to be a source of profit for many companies with 42% reporting greater EBIT margins in China than globally.

Clouds were already forming in 2021, as 60% of respondents said doing business in China became more difficult, the largest number since the question was first asked in 2014. Businesses of all sizes and operating across practically all sectors report this to be the case. Why is business getting more difficult? Covid-19 remains the top challenge, which was already the case in 2021. China's economic slowdown replaced the global economic slowdown as the second major challenge. China is still feeling the impact of the virus. In May we saw some macro data getting better but consumer confidence is still pretty low. Rising raw material and commodity prices are emerging as an issue. These challenges have only intensified since the survey was conducted. According to the World Bank the war in Ukraine has led to the largest increase in energy prices since the 1973 oil crisis. China's introduction of stringent Covid-19 measures has also led to a lower GDP growth forecast.

There is an employee exodus underway. The already low number of foreign employees in China continues to dwindle further. Almost four out of 10 members have decreased their foreign employee headcount over the past five years and 11% report that their operations do not employ any foreign nationals. For about half it is a strategic decision to localize positions, but for some it is also driven by foreign nationals being unable or unwilling to come to China. The lack of travel opportunities is really taking a toll. Quarantine requirements have just been adjusted from 14 to seven days in a quarantine hotel and three days home monitoring (7+3). It is not clear if this will be equally implemented in all cities. There are huge discrepancies from 7+7 in Beijing, 14+7 in Shanghai and in Shenyang 28+28, which is the longest. It would be a huge improvement if 7+3 would be implemented all over China.

All this has huge repercussions for businesses. The key negative impact is reduced transfer of know-how and difficulties of communicating with headquarters and this is accelerating decoupling. This is not only a problem for Europe, but a huge loss for China. China is losing invaluable expertise, which might not return. Foreigners working in China are some of the best ambassadors. They relate positive experiences when they are back in their home country. They report about what they have experienced on the ground in China, which is very important.

Market access barriers remain as reforms take a back seat to Covid. Almost half of survey respondents face direct barriers such as China's negative list or indirect barriers such as complex and time consuming administrative requirements. Twice as many respondents reported being hindered by indirect barriers than by direct market access restrictions. There is little prospect of this changing within the next five years. Two-thirds of companies report they would increase their investments if given greater market access, already witnessed in sectors such as in automotive after the lifting of ownership restrictions or the petrochemical industry, where European companies received approval to make large investments as wholly foreign-owned enterprises.

There was also little improvement in regulatory obstacles over the past 12 months, such as ambiguous rules and regulations, an unpredictable legislative environment, and discretionary enforcement. Businesses see little prospect for improvement over the next five years, as 82% expect that regulatory obstacles they face will not improve or even increase. The playing field also continues to be unequal for many (53%), but also 11% say the playing field is favorable to them. There still remains some way before a competitive market underpinned by the rule of law is developed. Key areas in which European businesses experience differentiated treatment are market access, communication opportunities with the Chinese government, access to subsidies, and public procurement opportunities. Half of respondents say business is becoming more political as in 2021 China and the EU sanctioned each other over human rights abuses in Xinjiang. There were consumer boycotts of European brands and media campaigns. Sources of pressure are the Chinese media, government and international media.

Carbon neutrality is a key priority of the Chinese government. European companies lead on decarbonization, but issues remain. They are ambitious in decarbonizing their China operations. About 90% aim to achieve carbon neutrality before 2050. Limited access to renewable energy is a key concern to decide where to build new plants, as 50% report. Other challenges are a lack of advanced decarbonization technologies, a lack of policy guidance and uncertainties over China's national carbon-trading market.

A flash survey was conducted in April, showing that the picture worsened following the black swan events as 58% of member companies decreased 2022 revenue projections. China's attractiveness as an investment destination diminished due to the handling of the Omicron outbreaks, according to 77% of respondents. It is not clear how long this unpredictability will continue. Many consider whether future investments would be better placed in other markets. Attractiveness has also decreased due to the Ukraine war. Twice as many (23% up from 11%) are now considering shifting current or planned investments out of China compared to February 2022 due to Covid-19 containment measures. This is the highest percentage recorded in the past decade. Companies are quite pragmatic. They need stable and predictable operating conditions. If this is not the case, they need a backup solution.

All this leads to **growing localization** as companies seek to mitigate their exposure. China operations are becoming more detached with two sets of supply chains, IT systems and data storage infrastructure: one for China and one for the rest of the world. This is very costly and difficult for SMEs. Staff positions have been at least partially localized.

Concluding remarks: old challenges remain but are superseded by new concerns. One of the concerns is: will we be knocked down tomorrow. China's economy is slowing. The property and automotive sectors are suffering and it is not clear when they will recover. Consumer confidence is quite low. European businesses are reevaluating their positions in

the China market. China is a huge market and we are here to stay but no exit strategy for zero-tolerance leave headquarters no option but to look for other locations. The world cannot wait for China.

Ms. Luisa Santos, Deputy Director General, BusinessEurope, moderated the Q&A session. **If you have more Chinese localized operations, how are we going to ensure that the companies in China are still following the global strategy of the company and don't become completely separated?** Ms. Schön-Behanzin: We observe with big concern that more and more foreigners are leaving China and businesses are localizing all the positions from junior staff to board members, onshoring supply chains, and localizing their IT infrastructure, leading to decoupling. It is difficult to ensure that the subsidiaries here in China are fully compliant with the rules and regulations. The Chinese government must ensure that there are not more foreigners leaving because you need people on the ground who experience China. We hope the lockdown will be stopped.

Is there a difference between small and large companies in localization? Ms. Schön-Behanzin: There is no big difference, we see it across all sectors and company sizes. In a big company you have bigger teams and more opportunities to diversify. The smaller companies face the major challenge.

Does the Chinese government realize that the environment is becoming more difficult? Ms. Schön-Behanzin: It is crucial for China's future to open up and make it possible to travel again. This is only possible with vaccination. There is no exit strategy from zero-Covid and we all know Omicron or Covid will not disappear. China should push vaccinations, including imported mRNA vaccines. The Shanghai government is aware of this but their hands are tied as after the latest outbreak Beijing took over. People from the headquarter couldn't travel to China for more than three years and this is extremely dangerous. Concerning the Covid strategy, there is a policy but people have different ways to interpret it. Local governments have a lot of freedom with interpretation. Everybody is so scared that if there is one positive case in an office building or compound, the leader will be fired. They prefer to be super strict rather than opening up. There are still 120 million people who are not or not fully vaccinated and this is a huge problem.

How much is the Covid strategy impacting production in China? Ms. Schön-Behanzin: During the lockdown it had a huge impact because supply chains were completely disrupted. Not all people are back yet as it is still difficult to travel back to Shanghai from other places. Nobody wants to come and nobody can leave Shanghai. Chemical companies which cannot easily shut down are still leaving a core team in a closed loop onsite. Contingency measures make it very difficult to restart full speed. It is also still very difficult to visit customers and suppliers.

Why is vaccination not picking up? Ms. Schön-Behanzin: The problem is with people in their 70s and 80s, who are concerned about side effects. It is difficult for the government to push them to get vaccinated. China is working on its own mRNA vaccine which is now in phase III trials and could be released by the end of the year.

What is the general sentiment on the Ukraine war? Ms. Schön-Behanzin: China has no interest in acting as a mediator. There is a strategic alliance with Russia against the U.S. The saying here is that the West has started the war. China is always very pragmatic. They aligned with Russia but are no allies. They are benefiting from oil and gas imports at discounted prices. China will observe whether Russia can survive western sanctions and maybe try to look for other allies. The big concern for European companies is what would happen if China does the same to Taiwan. Many say they are very close to doing this as the West is very busy with Ukraine. We say that China has a lot of issues at the moment: Covid, lockdown, a slowing economy, a high unemployment rate, the property market is unstable, so we cannot imagine that they would take the risk to start such a war. They are sure it would not be a quick win. They studied the sanctions that the U.S. and EU imposed on Russia. They are preparing for it but are not ready yet. Another issue is supply chain risks. China is still relying to a high extent on import of high technology.

What can we expect from the Party Congress? Ms. Schön-Behanzin: Expectations are not very high. Xi Jinping will be reconfirmed for another term. There are many people in the Party who are not supporting the zero-Covid policy because they see how much it is harming the economy. China needs to grow, if it would slow down you would see an even bigger exodus of foreigners and western companies. The Chinese people are very frustrated with the lockdowns, passports are not renewed because it is too dangerous to travel abroad. Many givens are now gone. Many Chinese are extremely unhappy. If the level of frustration is rising, they have a huge problem. There will be many changes because many Party members have reached the retirement age.

Mr. Davide Cucino, Brussels Representative, European Union Chamber of Commerce in China, presented the closing remarks. Our dependence on the Chinese market is not debatable. It is a reality that has implications not only for European companies in China for the Chinese market but also for European companies in China feeding their supply chain abroad. In the past few months Covid and the war in Ukraine have brought new challenges for European businesses. China remains a major market for us where there are many opportunities, but many problems also remain.

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HEALTH

Return to normal marred by sporadic Covid-19 outbreaks

Return to normal in Beijing and Shanghai was marred by new Covid-19 outbreaks in Anhui province, and three new cases in Shanghai. Authorities dismissed allegations that this was linked to adjustments in policy with a reduction in quarantine for international arrivals and close contacts, and easier domestic travel.

The worst hit province is Anhui, which reported 61 confirmed and 231 asymptomatic cases on July 2. Sixian county is under lockdown and conducting several mass testings. At least three cities – Nanjing, Xuzhou and Wuji in Jiangsu – have identified cases believed to be linked to Anhui's Sixian county. Outside of Anhui, Shandong, Jiangsu, Zhejiang, Shaanxi and Liaoning provinces, as well as Shanghai reported new infections.

Restaurants in Shanghai reopened their doors to diners on June 29 after dining-in service was suspended for about three months due to the Omicron outbreak. On its first day of resuming dining-in service, onsite turnover at restaurants increased by 293% compared with the previous week, according to Meituan. Large-scale restaurants must limit seating at 70% of capacity, while smaller restaurants are ordered to operate at 50% capacity. Shanghai restarted travel group tours on July 1 after a three-month suspension. Sanya, Zhoushan and Beijing are the top three destinations for Shanghai tourists. **In Beijing, Universal Studios' Resort reopened its doors.** Nearly 500 scenic spots across China have announced free tickets or discounts for special tourists including students and medical workers.

Early last week China reduced mandatory quarantine for international arrivals to 7+3, meaning seven days in centralized hotel quarantine and three days of self-monitoring at home. The rule also applies to close contacts of confirmed Covid-19 patients. But Lei Zhenglong, Deputy Director of the National Health Commission's Bureau of Disease Prevention and Control said that "the adjustment by no means suggests a loosening of novel coronavirus control measures. Rather, we are aiming for higher standards and more targeted and faster response in dealing with outbreaks, while adhering to the dynamic zero Covid-19 strategy". The measures are outlined in the Joint Prevention and Control Mechanism's ninth prevention and control guideline for Covid-19, released more than a year after the previous version was published.

The nationwide travel tracking system – the Big Data Itinerary Card – will no longer mark cities having areas of Covid-19 infection risks with an asterisk to better balance epidemic prevention and economic and social development, it was announced. Inter-city and inter-provincial travelers were usually asked to present tracking information upon arrival. Travelers from marked areas – until recently including Beijing, Shanghai and Nanjing – usually faced a mandatory quarantine after arrival in Covid-free areas.

During an inspection tour in Wuhan, President Xi Jinping reaffirmed the dynamic zero-Covid policy. "Even if there are some temporary impacts on the economy, we will not put people's lives and health in harm's way, and we must protect the elderly and the children in particular. If we make an overall evaluation, our Covid-19 response measures are the most economical and effective," he said.

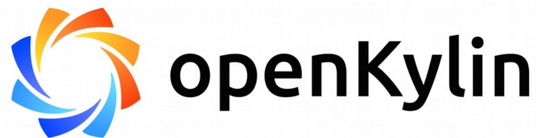
A mysterious jump in influenza cases of the H3N2 type in some southern provinces prompted experts to call for expanding flu vaccinations, while exploring their integration with Covid-19 shots. Flu vaccination coverage has been low in China at only 3.34% in the last flu season. From April 4 to June 19, the country's southern areas registered 503 influenza outbreaks, up from 136 during the same period last year, mostly in Guangdong, Fujian and Guangxi. China's northern areas recorded a mere four outbreaks, down from 86 a year ago.

China has also begun screening inbound international travelers for potential monkeypox infections as human-to-human transmission is being reported in a number of countries.

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

IT & TELECOM

Developers' platform openKylin launched for China's first desktop OS



The launch of a developers' platform, called openKylin, for China's first desktop operating system is expected to further bolster the innovative development of homegrown operating systems and provide reliable basic software services for the country's industrial chain and global IT facilities, industry experts said. The openKylin platform is developed by a group of Chinese companies led by China Electronics Corp (CEC), the country's largest state-owned electronics group. Other participants include the China Industrial Control Systems Cyber Emergency Response Team, Kylin Software and more than 10 other software companies. The openKylin platform will allow more developers to participate in the innovation and development of homegrown open-sourced operating systems, according to CEC.

Domestic operating systems serve as an important pillar for driving construction of new infrastructure and boosting development of the digital economy, said Chen Ximing, Deputy General Manager of CEC. The openKylin platform aims to build a top-tier open-source community with global influence by attracting developers across the globe, he added. Currently, China's software operating system industry is dominated by foreign brands, such as Microsoft's Windows, Google's Android and Apple's Mac OS. CEC rolled out the self-developed software operating system Kylin V10 in August 2020, which is compatible with more than 10,000 hardware and software products, including central processing units.

"The establishment of a developer platform for the desktop operating system will significantly reduce the costs of software development and improve the operational efficiency of software services," said Xiang Ligang, Director General of the Information Consumption Alliance. Industry experts said the proportion of homegrown operating systems is expected to increase along with the emergence of a variety of software and applications, and the advancement of emerging technologies like cloud computing, big data and artificial intelligence. "The operating system is the core technology in the information security sector," said Ni Guangnan, Academician with the Chinese Academy of Engineering (CAE). Ni said more efforts should be made to accelerate independent innovations in core software technologies and encourage enterprises to increase research and development investment for higher innovative capacities. It still takes some time before domestic operating systems will be used on a large scale, he added, as reported by the China Daily.

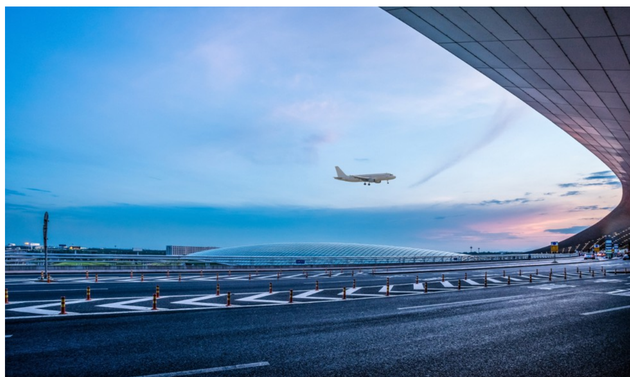
The South China Morning Post adds that **China's quest for a competitive domestic operating system has been going on for decades**, with some candidates already available in the market. Kylin was originally developed by the National University of Defense Technology of the People's Liberation Army (PLA), which has been licensing Kylinsoft for commercial applications since 2014. However, those attempts have yet to result in any Chinese system capable of rivaling Microsoft Windows, which leads the market with an 85% share in mainland China. Globally, Windows also remains the dominant desktop operating system with a market share of just under 74% as of December. Apple's MacOS, which has become more widely used over the years, holds a share of around 15%. Linux-based operating systems, which include most of China's home-grown systems, retain a small but stable market share worldwide.

The first versions of Kylin included code from the Unix-like software FreeBSD, while later versions have been based on Linux, according to a report by research and consulting firm EqualOcean. As part of China's efforts to reduce its dependency on Western technologies, the country runs its own open-source platform Gitee to counter Microsoft's more well-known global site GitHub.

Kylinsoft currently has three operating systems on offer: V10, V4, and NeoKylin V7.0. Among them, V10 has been configured to be compatible with the widest range of central processing units (CPUs), including those from Huawei Technologies' HiSilicon, Loongson, Sunway, Hygon and FeiTeng.

TRAVEL

Air ticket bookings rise 300% as travel restrictions are relaxed



China's civil aviation market is experiencing an accelerated recovery on the back of a rising number of flights, with domestic summertime ticket bookings surging nearly 300% in the third week of June from the previous week and market watchers predicting that China is witnessing a turning point as more cities are moving to lift travel restrictions. Increased demand has also driven up prices. The average price of domestic passenger flight tickets increased to CNY685 in June from CNY494 in March, an increase of about 39%, qunar.com told the Global Times. Demand for air travel is rising, sparked by relaxed travel restrictions across a number of provinces and regions such as Qinghai, Ningxia and Hubei on the eve of the traditional summer holiday season.

More airlines are also resuming international flights to and from China, and it is likely that July will see the biggest number of international flights since pandemic restrictions were placed on international air travel in early 2020. Air China said that it will resume a number of international flights to cities in Europe and Asia. Other Chinese carriers, including China Eastern Airlines, China Southern Airlines, Hainan Airlines and Xiamen Airlines, have announced the resumption of international routes or increased frequencies. China Eastern and Shanghai Airlines will fly 22 international routes per week in July, including from Shanghai to New York. Hainan Airlines expects to add routes including Beijing to Moscow and Beijing-Tokyo.

Japan's All Nippon Airways said it will resume flights from Beijing to Tokyo from July 11. It is the carrier's first flight to Beijing after being suspended for more than two years. Etihad Airways, the national airline of the United Arab Emirates (UAE), has resumed passenger flights between Abu Dhabi and Beijing since suspending flights on March 23, 2020. The regular weekly service will commence on July 6, and will be operated by a Boeing 787-9 Dreamliner. The airline claimed it would be the first regular direct international passenger flight to recommence services to Beijing. Data from industry information provider VariFlight sent to the Global Times said that 748 inbound passenger flights landed in China from June 1 to 27, with an average of about 28 flights per day. The average daily flight volume increased by 17% month-on-month, and the top three airports are in Shanghai, Guangzhou and Xiamen.

Huang Xingwen, Vice General Manager of Shanghai-based Spring Airlines, predicted that **the number of domestic flights would return to pre-epidemic levels in the middle of July**, as the number of passengers keeps growing. Currently, the company is operating 8 to 10 flights a day at Shanghai Hongqiao International Airport and 4 to 5 flights at Shanghai Pudong International Airport, well below pre-epidemic numbers, but flight numbers will quickly recover in the future as the summer travel peak approaches. Major airports in many Chinese cities have seen steady operations. Daily takeoffs and landings have remained above 400 since May, with the number of daily passengers exceeding 40,000, according to an official from Chengdu Shuangliu Airport in Sichuan province. Other airports, such as in Harbin, Heilongjiang province, also said that the daily passenger volume has recovered to 60% of normal levels prior to the recent Covid-19 outbreaks.

As Hainan relaxes travel restrictions for people from low-risk areas in Shanghai and Beijing, the number of passengers flying to the province over the past weekend from June 25 to 26 was almost double that of the previous weekend. The number of tickets to Sanya increased by 93% from the previous weekend, to Haikou by 92%, and tickets from Shanghai to Sanya saw a near 1.5-fold increase. Hotel bookings across the country over the last weekend of June exceeded those in the same period of 2019. Hotel bookings in Changsha, Hunan province, increased by 58% over the same period in 2019, while Sanya had almost returned to 2019 levels. Data from the Civil Aviation Administration of China (CAAC) showed that the number of flights has continued to decline since March and that daily flight volume at its lowest point was only about 18% of the normal period before the epidemic.

With the implementation of several rounds of support from the government and the improvement of the national epidemic situation since May, the operation of the civil aviation sector has gradually recovered, and the pace of recovery has picked up in June, when the number of single-day flights increased from 6,489 at the beginning of the month to 10,609, and single-day passenger traffic increased from 445,000 to 896,000, the Global Times reports.

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CHINA NEWS ROUND-UP

Digital technology to boost consumer spending

Beijing will accelerate its efforts to become an international center for consumer spending and encourage new business forms and models of consumer spending, according to the report at the 13th Beijing Municipal Congress of the Communist Party of China. Beijing will improve new types of infrastructure for consumer spending, cluster live-streaming e-commerce companies, upgrade the industry, and develop immersive and interactive spending experiences in business areas, said Zhang Jinsong, Director of the Beijing Municipal Bureau of Economy and Information Technology.

The city will provide more digital services, develop more spending scenarios empowered by digital technology, offer customers more digital experience in culture, tourism, fitness, healthcare, and art, and continue to host flagship events in consumer spending. Zhang said the city will also pursue innovations in cross-border e-commerce and help domestic brands go global.

In recent years, Beijing has released work plans for boosting consumer spending with digital technology and made achievements in transforming conventional spending, providing digital technology-based products and services, cultivating new business forms, and improving relevant infrastructure, China.org.cn reports.

Nansha district in Guangzhou to focus on the metaverse

Nansha district in Guangzhou, a hub for emerging industries including high-end manufacturing, aerospace and marine technologies, health industries and integrated circuits, has set its sights on the metaverse. The immersive version of the internet, accessed via virtual-reality headsets, augmented reality glasses or other devices, is considered by some to represent the internet brought to life. “With the building of a perfect digital ecology, Nansha has laid a solid foundation for the development of the metaverse industry in the near future,” said Liu Quanbao, an official with the Guangzhou Science and Technology Bureau. The district has an artificial intelligence industrial park set up in the Qingsheng area that has attracted more than 300 AI enterprises.

Three Nansha-based companies – Cloudwalk Technology, Aofei Data and Pony.ai – were listed among the top 200 Chinese metaverse companies with the greatest potential, each with a market value of more than USD1 billion. Enterprises based in the district, including Deepmirror, SequoiaDB and Cross Stars, made the list of “future metaverse stars”, according to the Hurun Report. “The cutting-edge field of the metaverse is the next important development direction for the internet industry, which will profoundly change production and lifestyle in the future, and promote future industrial development,” said Rupert Hoogewerf, Chairman and Chief Researcher of the Hurun Report. The Guangzhou Metaverse Innovation Alliance, which was inaugurated in Nansha in March, is expected to help inject new vitality into Guangzhou’s construction of a global digital economy benchmark and an international consumer-oriented city, according to Hoogewerf.

“With the release of the list of metaverse companies with the greatest potential, it is expected that more businesses in the metaverse industry will move to the district and develop there,” he said. “Media and entertainment companies are at the forefront of the metaverse, using existing technologies to explore the application possibilities of the industry,” he said. People who utilize the metaverse are expected to reach five billion by 2030 worldwide, and the potential market size of the metaverse economy is likely to hit USD10 trillion, according to a recent Citibank report, as reported by the China Daily.

China-EU trade talks in limbo as no date fixed

European Union officials are confused by China’s failure to commit to a date for the High-level Trade and Economic Dialogue, one of the few deliverables from their summit on April 1, according to sources in Brussels, the South China Morning Post reports. Both parties agreed to continue the talks, held every two years, during the virtual summit between Chinese President Xi Jinping, Premier Li Keqiang and EU leaders Ursula von der Leyen and Charles Michel.

“Leaders mandated to find concrete ways to progress on these issues before the summer,” the EU said in a statement after the summit. The EU says China failed so far to reply to its proposals to fix a date. Proposed dates for the dialogue in June have “now slipped”, and the EU has suggested others for July, the latest of which is July 18, but China has still not responded. Sources said China's reasons for not fixing a date were unclear.

It has now been more than six months since China had an Ambassador to the European Union, with no news of a replacement for Zhang Ming, who left in December to become head of the Shanghai Cooperation Organization (SCO). The Chinese Mission to the EU did not respond to a request for information on when a new Ambassador would be appointed. In Beijing, EU diplomats have also found it more difficult to speak to their Chinese counterparts, who say they prefer to engage directly with member states, according to EU sources.

Meanwhile, senior sources said **the EU was “leaning towards” taking the next step in a World Trade Organization (WTO) dispute over China’s alleged coercion of Lithuania**. There has been vigorous debate in the EU Trade Department over whether to bring the case before a dispute panel, although a final decision is not expected before the summer break. The dispute centers on Lithuania’s decision in November to change the name of the Taipei Representative Office in the country.

Subsequently China Customs made Lithuanian exports to China more cumbersome, leading to a sharp drop. The Lithuania case is complicated by reluctance among businesses to give evidence on the record, a requirement for evidence to be presented to the WTO tribunal in Geneva, according to EU trade sources. Another issue is that China has not declared a total embargo as more Lithuanian goods have been getting through Chinese customs this year, even if the overall value of shipments is a fraction of the levels a year earlier.

Three Chinese airlines to purchase 292 Airbus planes

Three state-owned airlines – China Southern, Air China and China Eastern – announced a deal with France-based Airbus to buy 292 aircraft valued at around USD37 billion in total. It is the second time China has signed such a big deal since Chinese leaders visited Europe in March 2019, when Airbus signed a deal worth tens of billions of dollars to sell 300 aircraft to China. China Southern Airlines said it has signed a deal for 96 A320NEO aircraft worth a total of around USD12.25 billion. Air China announced a deal for 96 A320NEO aircraft worth around USD12.21 billion, while China Eastern Airlines' deal for 100 A320NEO aircraft is worth around USD12.79 billion. The carriers said the new orders, which are expected to be delivered from 2024, will help increase their flying capacity and meet the renewal needs as older aircraft are retired. China Southern and Air China said the aircraft will increase their flying capacity by 13% and 10.4% respectively.

"It is a release of years of pent-up demand," market watcher Qi Qi told the Global Times, adding that the big purchase shows China's market potential and also the airlines' confidence in the recovery of the Chinese aviation market. Although the aircraft will be delivered within four to five years, the deal will barely be enough to meet the demand, said Lin Zhijie, another market watcher. It is a necessary move given China's colossal civil aviation market, Cui Hongjian, Director of the Department of European Studies at the China Institute of International Studies, told the Global Times. Airbus now has a market share of 53%, up from only 9% in 1995.

Boeing, the main competitor of Airbus, has struggled to win a big order from China recently. The last large deal was in November 2017 when China agreed to purchase 300 aircraft. It came when U.S. President Donald Trump visited China, and the order value was more than USD37 billion. Since then, Sino-U.S. relations have become more complicated and Boeing also lost confidence in the market due to crashes. Its best-selling B737 MAX has so far failed to return to service in China and has not received new orders. There have been some small orders, such as in May 2022, when China Eastern said it would introduce 38 aircraft, including four Boeing 787s. Following the Airbus deal, Boeing commented that "geopolitical differences" are constraining its exports and calling for a "productive dialogue" between the Chinese and U.S. governments.

Airbus delivered a total of 611 commercial aircraft to 88 customers last year, up 8% from 2020, maintaining its position as the world's largest aircraft manufacturer for the third consecutive year. Boeing delivered 340 planes, but also recorded a significant increase compared to 2020, up 117% year-on-year, the Global Times reports.

Number of billionaires drops 2.4% in 2021 in mainland China

The number of billionaires in mainland China slipped slightly last year as wealth creation was subdued by a crackdown on the technology and property sectors, according to the latest study by New York-headquartered Wealth-X. Hong Kong, with the sixth-largest billionaire population in the world, ahead of countries such as Switzerland, Saudi Arabia and Singapore, experienced relatively slow wealth creation too, as it lost some of its shine as an international business hub, the wealth data provider said. From 410 in 2020, there were just 400 billionaires in 2021 in mainland China, a drop of 2.4%, placing second ahead of Germany but a long way behind the U.S. which has 975 billionaires with wealth that grew by a fifth to USD4.45 trillion. Though the combined wealth of the Chinese billionaires rose by 11.3% to USD1.45 trillion, this was one of the lowest gains among the top 15 countries in the study.

"In Asia's largest billionaire markets, **robust gains in India contrasted with more subdued development in China and Hong Kong**. This partly reflected differing approaches to virus suppression, but also regulatory factors," the latest report said. India's billionaire population rose by 19.2% to 124, while their cumulative wealth surged 21.4% to USD384 billion. Beijing's initiatives to reform its real estate sector, as well as the curbing of large technology firms "weighed on corporate earnings and Chinese equities," it added. Tech companies including Alibaba, TikTok owner ByteDance, WeChat operator Tencent and ride hailing company Didi Chuxing had their share sales or deals rolled back in the last two years as Beijing issued various rules that either effectively barred them from seeking fresh capital overseas or made it harder to acquire data and personal information that could be monetized. China Evergrande, Sunac China, Guangzhou R&F Properties and Greenland Holdings were just some of the Chinese developers forced to delay their debt payments as Beijing's introduction of its "three red lines" policy in 2020 made it difficult for them to access new loans.

Hong Kong was home to 114 billionaires last year, up 2.7% from 2020. Their total wealth rose 1.9% to USD287 billion. Among cities, this placed Hong Kong second globally, behind New York's 138. Hong Kong had the third-highest density of billionaires, with one for every 59,516 inhabitants. Kuwait led this index with one billionaire for every 33,090 residents, while San Francisco had one for every 56,209 heads of population. Hong Kong, however, was considered an outlier, along with Brazil, because the combined net worth of the billionaires was considerably lower than in other places, the South China Morning Post reports.

Manufacturing and services expand for the first time in four months

China's economic recovery continued in June, with activity in both the manufacturing and services sectors expanding for the first time since February. The official manufacturing purchasing managers' index (PMI) rose to 50.2 in June, up from 49.6 in May and marking the first time since February it rose above the 50 mark that separates expansion from contraction. The official non-manufacturing PMI, which measures business sentiment in the services and construction sectors, rose to 54.7 from 47.8 in May, also expanding for the first time since February. China's private Caixin/Markit Manufacturing PMI rebounded back into the expansion territory of 51.7 in June, up 3.6 points from May, and beating market expectations of 50.1.

Signs of recovery had emerged in June as key indicators for manufacturing and consumption improved marginally in May. China's industrial profits, though, continued their steep decline in May with coronavirus restrictions still weighing on factory production and squeezing manufacturing margins, while pressure on the labor market also persisted.

People's Bank of China (PBOC) Governor Yi Gang reiterated that China's economy continues to face downward pressure due to the pandemic, along with external shocks, while also noting inflation is largely stable. Beijing has continued support for the nation's economic recovery to stem the risks of an economic downturn, but the impact of stringent coronavirus controls, including the lockdown of Shanghai, has dragged down growth in the second quarter and threatens the target of "around 5.5%" growth this year, the South China Morning Post reports.

China's foreign trade is expected to post stable growth this year, despite unprecedented challenges, including high raw material costs and fierce competition from Southeast Asian countries, analysts and trade experts said. The profitability of exporters in most sectors has improved during the second quarter, according to a survey by the China Council for the Promotion of International Trade (CCPIT) in Beijing. "It is worth noting that trade data got better not only from quarter to quarter, but also from month to month during the second quarter. June is likely to have witnessed a strong foreign trade rebound and more energetic economic recovery," said Liu Ying, Researcher at the Chongyang Institute for Financial Studies at Renmin University of China. The survey showed more than 25% of enterprises registered positive quarter-on-quarter revenue growth, while nearly 20% said they have secured profit growth from a quarter ago. More than 26% of the respondents are confident about year-on-year revenue growth, and about 28% said they expect their revenues to be at least the same as last year. Liu predicted that China's foreign trade is likely to exceed CNY40 trillion this year, the China Daily adds.

Volvo/Geely's Polestar listed on NASDAQ

Swedish electric carmaker Polestar has gone public on the Nasdaq, which is expected to accelerate its growth. The company listed via a merger with a special purpose acquisition company (SPAC) Gores Guggenheim, which raised around USD890 million for Polestar. "We will now begin a new chapter in our story that can be summarized in one word – growth," said Thomas Ingenlath, CEO of Polestar. Alec Gores, Chairman and CEO of The Gores Group, said: "Polestar has proven itself to be a true leader and innovator with premier vehicles, industry-leading sustainability solutions, impressive sales and orders, and stunning designs for future models."

Founded in 2017 by Volvo Cars and its owner Zhejiang Geely Holding Group, Polestar has the agility of a startup while having access to an established car giant's expertise and capacity. This unique combination has given the carmaker a head start in production and global expansion, said Nathan Forshaw, President of Polestar China and the Asia-Pacific. Polestar has launched two award-winning models, the hybrid GT Polestar 1 and the electric fastback Polestar 2. So far more than 55,000 of them have been sold. Orders for Polestar 2 have exceeded 32,000 this year, an increase of 290% year-on-year.

Forshaw said Polestar and Tesla, are truly the two pure global EV players. "We launched in 10 global markets and we have expanded very quickly into 25 markets now, and 30 markets by the end of next year, and I think that shows the demand for Polestar is really growing very rapidly," he said. Polestar has research and development facilities in the United Kingdom, Sweden and China. Polestar cars are manufactured in two facilities in China, with additional future manufacturing planned in the United States. Its R&D center in China is dedicated to local consumer insights and cooperation with Chinese institutions to provide a better experience for local consumers in the world's largest market for new energy vehicles.

Forshaw said Polestar has a very clear product plan which will drive its sales to exceed 290,000 units in 2025, which will be 10 times the figure in 2021. From 2022, Polestar plans to launch one new electric vehicle per year, starting with the Polestar 3 – the company's first electric performance SUV – which is expected to debut in October 2022. The model will be built both in China and the U.S.

Forshaw said the Polestar 3 has a representative design. "It will use a bespoke and bonded aluminum platform as well as Nvidia core processing power with a range of about 600 kilometers (under the worldwide harmonized light vehicles test procedure WLTP), and it's a very exciting product particularly for the Chinese market. It has low rooflines and a very sporty feel, which represents the evolution of our history," he said. Polestar 4, a smaller electric performance SUV coupe, is expected to follow in 2023. In 2024, the Polestar 5 electric performance four-door GT is planned to be launched, the China Daily reports.

Traders shift to trains as port congestion intensifies in Europe

International traders and shipping companies are beefing up contingency plans such as **switching to China-Europe freight trains to deal with congestion at some major ports in Europe.** At the port of Rotterdam, the largest freight port in the EU, empty containers, which are crucial to Asian exporters, are stranded amid a growing

backlog of undelivered cargo at the port. According to the Port of Rotterdam, more than a quarter of the containers transshipped in Rotterdam is from China or has China as its destination. Industry insiders predict that the situation could be intensified in July and August when the holiday season in Europe begins. While the situation at ports lingers, several traders told the Global Times that they have diverted their goods, especially those value-added and urgent ones, from sea shipping to the intercontinental freight trains.

“We had several containers of electronic products waiting to be delivered back to China. But considering the possible risks of prolonged delivery times via sea transport, we have chosen freight trains, which are much faster and more reliable,” a Ningbo-based trader told the Global Times. The cargo train from Europe to China has been relatively more reliable, and the number of freight trains jumped significantly in June compared to 12 trains in May, according to a Yiwu-based trader. About 60% of ships traveling from Europe to Asia in April and May this year experienced delays, according to media reports. There will be longer wait times for ships in all of the major Nordic ports, Dexon International said.

Maersk said that the current congestion is not only impacting Maersk. “We observe that a lot of European ports are facing issues with labor availability at terminals but also with trucking capacity. Many customers are taking longer to clear their cargo from the terminal resulting in higher density impacting productivity,” Maersk said, adding that “empty positioning remains a high priority”. The company is planning to move empty containers back to Asia, not only from Europe, but also from other places to cater to export demand, the Global Times reports.

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