China Business Weekly

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

FCCC/EUCBA ACTIVITIES

Webinar: Digital opportunities for marketing and sales in China
11 October – 10 am CEST

The Flanders-China Chamber of Commerce is organizing a webinar, with the support of Flanders Investment & Trade, focussing on "**Digital opportunities for marketing and sales in China"**, which will take place on **October 11** at **10 am CEST**.

China is one of the leading adopters of technologies, be it consumer-led technologies, all-in-one social platforms, AI, or data-driven technologies for various industries. China's technology sector has grown rapidly over the past few decades, creating a digital economy that enables overseas companies to do business in China without disruptions from travel restrictions or high physical presence costs. Are you making the most of digital opportunities to grow your business in China?

During this session, Ms. **Jane Ru**, Director of Growth & Operations, Crayfish.io, will introduce the fundamentals of digital China, providing insight into the digital landscape and offering tips on how to create a marketing strategy and utilise local channels for marketing and eCommerce. Those participating will gain practical advice on how better to engage with this huge but challenging market.

The programme is as follows:

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

10h05 – 10h45: Presentation, Ms. **Jane Ru**, Director of Growth & Operations, Crayfish.io

10h45 – 11h00: Q&A Session

About the speaker: Jane Ru is a bilingual and entrepreneurial professional specialising in international business. Jane has more than 20 years' experience in strategy, marketing, business development and international trade, with a proven track record of driving market development, managing strategic partnerships and delivering substantial revenue growth. Working closely with clients in the UK and Europe across a range of industries, Jane manages the growth and operations at Crayfish.io to help companies doing business with China and Asia.

Practical information:

Date and time: October 11, 2022, 10h00 - 11h00 am

Location: Online

Price for members: Free

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Seminar: "China's Challenges Mount: structural headwinds and the macroeconomic outlook" – October 25 – 17h30 - Ghent

The Flanders-China Chamber of Commerce and KBC Group – with the support of Flanders Investment & Trade – are organizing a seminar which will take place on **October 25, 2022** at **17h30** at the KBC Arteveldetoren, Maaltekouter, 9051 Gent.

Our distinguished speaker, **Hans Dewachter**, Chief Economist, KBC Group, will deliver a speech focussing on **"China's Challenges Mount: structural headwinds and the macroeconomic outlook"**.

China faces a number of serious headwinds to growth, ranging from the government's Covid policy to real estate woes and from shifting growth drivers to so-called decoupling. As risks increase, the macroeconomic outlook is not all doom and gloom, but policy decisions will play an important role in shepherding China back towards reaching potential growth rates in 2023 and beyond.

The programme is as follows:

17h30-18h00: Registration

18h00-18h10: Welcome address, Ms. **Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

18h10-19h00: Keynote speech, Mr. **Hans Dewachter**, Chief Economist, KBC Group

19h00-19h15: Q&A Session

19h15: Networking reception

Practical information:

Date and time: October 25, 2022, 17h30

Location: KBC Arteveldetoren, Maaltekouter, 9051 Ghent

Price for FCCC members and KBC clients: Free

Price for non-members: €65 excl. 21% VAT (€13.65)

Parking availability:

You can see more information on how to reach the venue and where to park here .

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PAST EVENTS

Webinar: European Business in China – Position Paper 2022/23
30 September 2022

The EU-China Business Association, the European Union Chamber of Commerce in China, and BusinessEurope organized a webinar on the **'European Business in China: Position Paper 2022/2023'** launch on **September 30, 2022.**

Ms. Gwenn Sonck, Executive Director, EU-China Business Association & Flanders-China Chamber of Commerce, welcomed the participants to the webinar. This is the third year that the presentation is held online due to the Covid-restrictions. The Position Paper is a flagship publication of the EUCCC and includes the views from 41 industry-specific working groups representing European businesses in China. This year's paper outlines how over the last year there has been a significant shift in focus at headquarters when evaluating China. EUCCC President Wuttke, who is also Vice President and Chief Representative of BASF in China since 1997, will present the Position Paper.

For many of our companies the travel restrictions to China and the sudden lockdowns are one of the biggest difficulties now. Nevertheless, European companies are committed to remain in China and continue to invest. They have more localization strategies involving building up local supply chains and partnerships. Other challenges are due to the slower growth of the Chinese economy, the global economic slowdown and rising geopolitical tensions. European investments in China increased slightly in 2021 to €8.6 billion compared to €8.5 billion in 2020. Most were greenfield investments. European investments in China have already increased by 15% in the first six months of this year. The investments come mainly from a handful of large firms. No new European firms have chosen to enter the Chinese market. However, many companies are waiting for the borders to open again.

Mr. Joerg Wuttke, President of the European Union Chamber of Commerce in China mentioned that China is still extremely locked up and therefore the Position Paper of almost 430 pages is presented from Beijing. In a nutshell, we said that **ideology trumps the economy in a break with the successful reform agenda**. It is more important to Chinese enterprises as European companies have largely escaped from the Party telling them what to do. But it has challenged the predictability, reliability and efficiency that they used to enjoy on the Chinese market. We see more rapid policy shifts and that has also been challenging our sourcing destinations. The lockdowns shocked all of us. While the rest of the world has been living with Covid, **headquarter attitudes toward China are shifting.** Our top people cannot come over here, and Taiwan has come on the radar with companies asking what will happen following the recent blockade. The Taiwanese economy is vital to European businesses with the stock of EU businesses in Taiwan amounting to €45 billion, besides the vital importance of semiconductors to our supply chain. There are also the U.S. sanctions on Xinjiang where you need to prove there is no forced labor involved in the products you export, which is very hard to prove as no auditors are willing to go to Xinjiang. **The World Bank has lowered its forecast for economic growth to 2.8%**, which is incredible because the first quarter of this year was still very good. For the first time since 1990 the rest of Asia is growing much faster than the Chinese economy. Asia's growth was 2.6% last year and now it is 5.3% for this year. We have not yet seen European companies leaving China, but China now opens the doors of other countries for investments, which is not a good sign for those representing business in China.

The Rhodium Group showed that the European top 10 of investors made up 75% to 80% of European investments and four German companies make up 34% of investments, which is not very natural. This means SMEs running on autopilot and no new companies coming to China because it is too much trouble. In the first quarter, European investments in China did quite well but of this €4.3 billion, €3.6 billion was coming from only one company: BMW buying

out Brilliance. In the second quarter, European investments in China fell to €1.2 billion. There is something wrong about attracting European companies. European investment in the U.S. was 20 times more. It is very difficult to make acquisitions in China.

Five factors are eroding China's standing as an investment destination:

1. Change in approach to policymaking. There is a constant turning to SOEs to make them become "stronger, better and bigger". China has 150,000 SOEs. Sometimes they are good for us as partners, but sometimes they are real challenges for Chinese private enterprises. Their payment terms are shocking, turning private enterprises into little banks. Policy making is less coordinated, such as the dual control policy implementation and the technology and education sector crackdowns.

2. Entrenched Covid-19 challenges. China had success managing the first two years of the pandemic. Until the end of 2021, zero-tolerance bought time and security and China looked so much better than most of the other nations. But they missed the train when Omicron came. They should have continued the vaccinations, 80% have two shots but less than 60% – particularly in the age group above 60 – are under-vaccinated. Policy implementation was inconsistent with in Shenyang 28 days of quarantine and 7+3 in Beijing. If you are traveling in China, it is very challenging to the point that you don't dare to leave the city. Traveling from Chengdu to Chongqing for a meeting of two hours, you need to be quarantined for two times two days. In China the hospital system is loaded with people that are actually going to be fine. Uncertainty is here to stay as there is no clear exit strategy. The solution is more vaccination. The Singapore model did much better with international passenger numbers rising again. In July China had 146,000 passengers coming in and going out compared to 3.3 million in Singapore. The one-week number for Singapore equals seven months in China.

3. Loss of diversity and knowledge-exchanges. Back home, negative attitudes towards China are at an all time high. China's reputation is sinking like a stone. The percentage of people having an unfavorable opinion of China goes from 87% in Japan to 50% in Greece. Democratically elected leaders have less policy space to engage positively with China because China is viewed as a problem. This is also challenging for us. It is also a problem for the future perception of China. There is a steep decline of people wanting to study Chinese compared to a sizable increase in other Asian languages. We are bound to lose a generation of people who understand China because they speak the language and possibly could have lived here, but also as an interlocutor with China.

4. Increased politicization of business. Companies get penalized for policy actions in their home countries which they cannot control. The good news is that we haven't yet seen consumer boycotts of Chinese companies in Europe.

5. Supply chain strategies are shifting from a focus on efficiency to resilience. There is more onshoring and creation of divergent supply chains and headquarters are evaluating friendshoring, nearshoring and reshoring. China's position at the center of global supply chains is challenged.

EU-China trade is far below its potential. In the first half China was a tremendous success story, selling about USD300 billion into the European economy, while the EU has only been selling USD112 billion into the Chinese economy. Measured in containers, it is 3.5 to 1. We were selling 2.5 times more to the U.S. economy. China relies on European consumers to employ 14 million people in China, or 2.2% of GDP. China should be really worried about the EU having a recession. We are actually underrepresented in China. We are trying to get the message across to China that they are a very closed market.

GDP per capita in China was USD17,000 last year and will end up with USD46,000 by 2050 if staying on the same course. With limited reforms they would undershoot all the other markets. European businesses would like China to refocus on reform and opening up and being part of our global system. In this case China would reach USD55,000 in 2050. The question is do you really want to sacrifice USD21,000 of per capita GDP on the altar of ideology?

The EUCCC has 967 tangible recommendations. There are also recommendations on carbon neutrality and research and development for Europe.

The webinar concluded with a Q&A session, moderated by Ms Luisa Santos, Deputy Director General of BusinessEurope**. Is China's political leadership aware of the situation and how much are they prepared to do?** Mr Wuttke: We met Minister of Commerce Wang Wentao. Two organizations have been really helping us: MOFCOM and the CCPIT. There are people who not only understand what the problems are, but also act in order to fix it. There are also those that don't like what we say, taking criticism as an offense. We are trying to be as specific as possible outlining the facts. All this comes when China is facing a real estate crisis, is aging, and is subject to incredible sanctions from the U.S. Sometimes it seems like a perfect storm. We point out where there is room for improvement. Chinese companies are laying off people and not hiring enough. We tell the government that maybe they should change the policies because they hurt their own economy.

How do you see the future of investment between the EU and China. Is there really decoupling? Mr Wuttke: For many companies China is a must and we actually underinvested. In the chemical sector, China is 50% of the global marketplace. In that segment, if you're not at the table, you're gonna be on the menu. You have to be here. It is similar in the car industry, not only because China is 30% of the global market, but also because the Chinese are very demanding consumers. They don't want cars, they want computers on wheels, and are driving companies to come up with the best products. The Chinese machinery market is as big as the U.S., Europe and Japan together. If you are not here, you are not a global player. But currently China risks a rerouting of foreign investment, which is going to last until China fixes its

vaccination problem, which according to my guess will be late summer next year.

Are European companies worried about due diligence and the forced labor ban? Mr Wuttke: You need to comply or you might end up with a huge legal bill. Awareness here in China is not as high as in headquarters. That means that other countries that don't need to prove they are not using forced labor are looking better.

Has decarbonization in China been negatively impacted by the current situation? Mr Wuttke: Last year they liberated coal prices and capped electricity prices and there was an energy crisis which was however fixed surprisingly fast. This summer there was a mass climate change challenge in China with more coal-fired power stations coming online. We have an energy crisis in China which requires more coal-fired power stations while at the same time the economy is taking a hit. European companies are moving from the Northeast more to the South because there is more wind energy to meet their goals. Energy consumption has been going down, alleviating the pressure on the system. Emissions in China between April and August went down by 8% due to the real estate crisis.

How much is China tightening capital outflows? Mr Wuttke: Not at present, we are more struggling with the renminbi, which is incredibly weak right now. We have never seen so fast a depreciation of the currency. But we are in the same boat like Europe and Japan.

Will we become more dependent on China in the future? Mr Wuttke: We are dependent on APIs, antibiotics, certain metals and printed circuit boards. We are dependent on about 10 to 15 products only. Value-wise the dependency is very little, but the impact is very high. We should distinguish between the import which is nice to have and import where we should do something about it.

How do you see China-EU relations from a political perspective? Is Europe moving closer to the U.S. regarding China? Mr Wuttke: We fought seven years for the CAI and were happy when it was signed and were disappointed when it was killed by the sanctions. The political environment is not good. The question China doesn't get is what the Ukraine war does to us. I hope that when Macron and others meets Xi Jinping they can explain this and also why we are willing to take such an economic pain. We have to engage with China, not only on climate change, but also politically.

If you have one wish, what would you like to see from the Party Congress? Mr Wuttke: One measure would be: vaccination, vaccination, vaccination. There is no other way to open this society. Tell people that we can live with Omicron and reconnect with the world. As long as there is no vaccination, China remains closed-off.

Mr. Jochum Haakma, Chairman, EU-China Business Association, discerned a cry of the heart not to let China down as it is extremely important to have a good relationship. We should keep our attention on China and try to engage as much as we can. Face-to-face contacts are extremely important, because by Zoom and Teams meetings you miss the psychological touch.

Mr Wuttke: We still believe in China's ability to reform.

The Position Paper 2022/2023 can be downloaded from the website of the European Union Chamber of Commerce in China.

Webinar: "Emerging trends for Belgian businesses in China" September 20, 2022

The Flanders-China Chamber of Commerce – with the support of Flanders Investment & Trade – organized a webinar focusing on "**Emerging trends for Belgian businesses in China**".

Ms Gwenn Sonck, Managing Director, Flanders-China Chamber of Commerce, welcomed the participants to the webinar. Both speakers have been living and working in Shanghai for many years. Travel restrictions to China and the several lock downs are the biggest difficulties now. However, the quarantine has been reduced to 7 days in a hotel and 3 days at home. European companies are committed to remain in China and continue to invest. They believe there is more to gain than to lose being in China.

Mr. Raoul Schweicher, Managing Partner, Moore – MS Advisory, shared the results of the 2022 Sino Benelux Business Survey. Originally from Luxembourg, he has been in China for 10 years, guiding Moore Advisory's practice in Shanghai. The Sino Benelux Business Survey is conducted annually by Moore Advisory and the Benelux Chamber of Commerce in China and is in its 7th edition with 32 questions asked and more than 180 completed surveys, the second-highest ever. In 2022 there is a relatively larger proportion of companies with headquarters in one of the three countries participating in the survey with 44% from the Netherlands, 37% from Belgium and 5% from Luxembourg.

Benelux companies in China are mostly located on the coast with 84 respondents in the Beijing-Tianjin-Hebei region, 184 have offices in the Yangtze River Delta and 39 in the Greater Bay Area. Benelux businesses have 97 offices in other areas. The top three industrial categories are industrial services (19.5%), industrial goods (18.9%) and consumer goods (18.4%). This year, 18.4% of companies reported revenues of more than CNY500 million, which is a relative jump from last year. Small companies with less than CNY10 million, including start-ups, amount to 32.4% of respondents. Looking at the number of employees, 8.6% have more than 1,000 and 32.4% have between 0 and 9 employees. Within the group, what is the importance of the China entity? This year, 29% said it had top priority, and another third said it had top 3 priority.

Looking at revenue growth between 2015 and 2020, more companies are reporting that their business is shrinking and there are less companies reporting extraordinary revenue growth. But **in 2021, only 13% of companies reported a revenue decrease, while 28% indicate strong revenue growth.** Looking at profits, there is a small trend of companies reporting losses, and at the top end in 2020 23% filed high profit growth. In 2021 there was a decline in the number of companies reporting losses from 17% down to 13%. The number of companies with strong profits increased slightly from 23% to 24%. Given the last three difficult years it is not a bad picture at all. **The most significant positive drivers are increased turnover/economies of scale; innovation/R&D and use of technology.** The importance of economies of scale has declined over the years, while innovation and R&D have become more important. Looking at the negative drivers there has been a strong development this year with logistic costs at the top, which also includes the rising costs of interprovincial transport. Material and salary costs have also been prominent negative drivers, but the importance of salary costs has decreased over the years.

Looking at the perception of the Chinese market, from 2017 to 2019, negative perception increased, but there was a strong reverse in 2020, but this was an exception, with **negative feelings rising again in early 2022 looking at 2021**. Favorite tax allowance for expatriates was said to end in 2021, but has since been extended for two years. However, 24% of respondents had already taken action with 36% adjusting remuneration packages and 25% localizing expatriate positions. From 2017 to 2020 less companies were considering to move some Chinese activities to other Asian regions, the proportion going down from 31% to 13%, but in 2021 this increased again to 30%. For companies leaving, Vietnam would be the No 1 destination (53), followed by Singapore and Thailand.

The Covid-19 impact on performance in early 2020 at the start of the pandemic was expected by 55% of companies to be strongly negative. When asked the same question at the end of the year, the result was not that bad, with 23% saying the impact was strongly negative and 20% said the impact was actually positive. **In the early months of 2021, 7.9% expected a strongly negative impact, but at the end of the year, the figure rose to 23%.** Asked about which factors negatively impacted your business, **79% mentioned travel restrictions and 81.7% said China's border policy negatively affected the company**, mainly the lengthy quarantine making it difficult to get qualified people over to China. In early 2021, 52% of companies said the main impact was on operations abroad, while in 2022 the impact on China operations increased significantly. Looking at expectations, more companies now expect shrinking revenue growth. One in four expect shrinking operations in China this year. Profit expectations are not that bad, with less companies expecting losses.

Closing remarks:

- increased revenue after a continuous trend of revenue decrease for four years
- increased turnover/economies of scale is the most important positive driver of performance
- logistic costs are the main negative driver of performance, replacing salary costs for the first time
- perception of the market continues negative trend again after a brief year of positive change
- in contrast to the previous year, Covid-19 policies negatively impacted Benelux businesses in China in 2021
- negative outlook for 2022, but companies remain rather optimistic in the long term
- **Benelux businesses in China have suffered a severe setback from Covid-19 and the majority has a negative outlook on the future business environment in China**

Mr. Philippe Snel, Managing Director, DaWo Law Firm Shanghai, reviewed the latest regulation changes and government policies and discussed how they affect foreign investors doing business in China. Philippe Snel started his presentation

with a look at compliance issues. The level of regulation and administrative requirements has been increasing in the past years, but is till far from what we are used to in Europe.

The issue of data safety is coming back regularly with the latest addition on outbound data transfers, affecting multinational companies big and small. The rules are similar to the European ones. Any company regularly exporting data overseas shall have a legally binding document executed with the overseas recipient, who should be aware of the legal implications. The definition of "important data" has been specified further, which will require prior approval by the relevant authorities, e.g. medical information is considered to be important data. Especially for SMEs this is increasing the costs of operations. Tesla has decided to no longer exchange data with the U.S. and has set up a data center in China. The regulation on personal information (PIPL) is also similar to the one in Europe. The car hailing app Didi Greater China has been fined CNY8 billion for infringement on personal information. We see more and more administrative fines imposed on companies. The maximum is CNY 50 million or 5% of the last annual revenue.

2022 has been a record year for tax evasion investigations. The State Council's 2021 annual audit report pointed to a massive IIT evasion problem, involving more than 20 provinces and more than CNY4.7 billion. The automated tax system implemented in most companies is sharing data among banks, the Administration of Market Regulation (AMR) and Customs. Other compliance issues include illegal advertisements, where the rules are also similar as in Europe, but had not been strictly implemented. Fake information, such as saying a company is the best or the oldest is not allowed if it is not true or you cannot prove it. In the field of anti-monopoly, a CNY18.2 billion fined was imposed on Alibaba for example.

Companies are reconsidering their options on their presence in China through restructuring or leaving China. The Covid-19 lockdowns have been an important driver in recent months with Apple relocating part of its iPad production. For some industries it is no longer inevitable to stay in China. The process of restructuring or closing down is a complex one. There are corporate matters, employment, and assets involved, and there is a social impact. Provided things are done according to the rules, the government will not be obstructive, but it is not an easy process.

Decoupling, for foreign countries to become more independent from China, involves not only raw materials, but also technology. Covid and the closed borders have caused a material decoupling. With Covid no longer an issue abroad, **China is now a Covid island instead of a Covid-free bubble**. The 7+3 quarantine is still preventing most business people from traveling to China, besides the limited number of flights. International management is no longer traveling to China, which has an effect on how businesses are run. There is also a growing nationalization of supply chains when local staff are running the China operations of multinationals. Those companies are operating more and more as autonomous entities and in a closed circle. This has substantially changed the way business is done in China. This is not a value judgement, but a fact. The good news is decoupling does not work. Large and small U.S. and European companies that have a market in China are staying in China. The Chinese market is too big to ignore or leave, like has happened in Russia as a consequence of the war in Ukraine. For many companies the Chinese market is still No 1 and they could not survive without it.

Lockdowns are still continuing, hurting the Chinese economy. The situation in the real estate market is a serious concern. There is not much room anymore for further investment in infrastructure, so the government response has been limited. Historically high interest rates have been lowered, but there is not such an inflation problem like in Europe. The government continues to encourage loans for small business. For SMEs it remains quite difficult to access financing. The VAT refund has been expanded and the "6 taxes and 2 fees" reduction policy has been announced. Promotion of foreign investment and support for particular industries is continuing.

Looking ahead, the outlook is not encouraging. The current situation is the most challenging we have ever seen with a high level of uncertainty. We don't know when the Covid rules and border closing will change. We all hope it will be fixed and become reasonable by next summer. The quarantine period might be reduced further to three days and in Hong Kong the hotel quarantine requirement will be lifted. It used to be that the sun was always shining on the economy in China, but now **uncertainty is high and we need to learn to live with it**. The Chinese economy will continue to develop along the existing lines. It has slowed down, but nobody believes it will crumble. Technology continues to be top of the bill for all investments in China. It now has the most patents and quality is also increasing. Semiconductors are the new oil. U.S. measures have led to Chinese technology giants designing their own chips and attract new investment. China is investing massively to catch up although it has still many years to go. Renewable energy is a major issue for China to reach the zero-carbon target. Health is a hot issue as well with investments in biotech continuing to flow. The leisure industry has slowed down due to Covid, but there are still strong investments. China is the world leader in the digitalized world. About one in four goods are bought online.

A Q&A session concluded the webinar. Is there an increase in manufacturing investment? Mr Schweicher: If your industry fits into the five-year plan, it is a good time to come over. There were less foreign companies coming in during the past 18 months.

Has the business climate in China worsened since the latest survey? Mr Schweicher: The confidence into the business climate keeps dropping and has dropped significantly compared to last year. Mr Snel: The coming months are going to be critical. The foreign population in Shanghai has dropped by a third in the few months after the lockdown. This will continue if the situation doesn't improve. Long term there is no issue. Major and even smaller companies will tell you you can't count the Chinese market out. This is definitely not the Russian market. China is the largest or one of the largest markets for many industries.

HEALTH

Less travelers during holiday week, anti-Covid measures tightened in run up to Party Congress

Travel during the holiday week from October 1 to 7 is subdued as people have been urged to stay put in their cities. Covid control measures were tightened in the run up to the opening of the Communist Party's 20th national congress on October 16. Authorities are expecting the lowest number of train trips to be made – 68.5 million from September 28 to October 8 – in the holiday period since the pandemic began. Trains are the most popular way to travel medium and long distances in mainland China. Some 110 million train trips were taken during last year's National Day holiday, down from 120 million the previous year. In 2019, before the pandemic, the number was 138 million. Tourism revenue in the holiday period in 2020 was down by 30% from the previous year, but retail sales went up by 5%, suggesting consumer confidence had rebounded after the country appeared to have contained the virus through measures like mass testing, contact tracing and quarantine. It was a different story last year, as outbreaks of the Delta variant dampened enthusiasm for travel and Beijing tightened restrictions after summer outbreaks in Jiangsu and Fujian. Millions of people employed by the government or state-owned enterprises were told not to leave their province. As a result, holiday travel spending fell by 4.7% from 2020 and the number of train trips was also down by 1.5%.

The Shanghai Institute of Virology, a collaboration between the Shanghai municipal government and Shanghai Jiao Tong University, was launched last week with renowned virologist Guan Yi appointed as its first Director. The institute is based at the university's School of Medicine. It aims to become a world-leading virology research center by deepening cooperation and sharing in the field. The institute is expected to attract high-level innovative talent and accelerate breakthroughs in key core technologies. "The institute will focus on the world's frontier virology research and aims to become a world-class virology research center," said Guan, who has been dubbed "the virus hunter" for his work on identifying the animal origins of the viruses that cause SARS and MERS.

China's vaccine producer Sinopharm and Merck Sharp & Dohme (MSD) of the U.S. signed a cooperation framework agreement under which Sinopharm would be a dealer and exclusive commission agent of MSD's antiviral Covid-19 medicine in China. The two sides will also negotiate the feasibility of a technical transfer under the framework so that the drug Molnupiravir could be produced and provided in the Chinese mainland market. Application materials for approval of the drug in the mainland have been submitted. Under the cooperation framework, Sinopharm would obtain dealership and exclusive import rights of Molnupiravir. Sinopharm would actively promote the localization of production and provide treatment after MSD transfers the techniques in order to help China fight the pandemic. Molnupiravir is one of the two most used oral Covid-19 treatments, in addition to Pfizer's Paxlovid.

A number of cities in China have started offering free flu shots for the elderly and other vulnerable groups as experts said this winter's flu season could be tough due to declining immunity against the disease and lingering threats posed by the Covid-19 pandemic. Shen Hongbing, Deputy Director of the National Administration of Disease Prevention and Control, said that after two years of low influenza activity amid the pandemic, pre-existing immunity against the disease has dropped. "With autumn and winter approaching and the northern hemisphere entering its flu season, the risk of a rapid simultaneous spread of Covid-19 and other respiratory diseases, including flu, is high," Shen said at the 2022 World Influenza Conference in September. Only 3.34% of the Chinese population received flu shots in the 2020-21 flu season.

Beijing police have arrested nine persons suspected of organizing carpooling to Beijing for passengers coming from Covid-19 risk areas in Tianjin and Hebei province. The investigation is continuing. This overview is based on reports by the China Daily, Shanghai Daily, Global Times and South China Morning Post.

FOREIGN TRADE

China's foreign trade to maintain momentum; explosive growth in exports of heating appliances to Europe

China's foreign trade is expected to maintain momentum this year despite various challenges like high raw material and energy costs. The profitability of Chinese exporters in sectors like railway and aviation-related equipment manufacturing, shipbuilding and automobiles, has improved during the third quarter of this year, according to **a survey by the China Council for the Promotion of International Trade (CCPIT)**. Major issues that troubled export-oriented companies in the first half, like high costs of logistics, capital and exchange rates, have eased, the survey report stated. Responses from 2,043 export-oriented companies were collected for the survey in late August on their business outlook and market expectations for the third quarter. The effects of various policies that were rolled out to stabilize foreign trade in the first half, started to show in the third quarter, said Sun Xiao, Spokesman for the Beijing-based CCPIT. As domestic exporters' confidence grows, more and more Chinese companies are getting proficient at both adapting favorable policies under the framework of the Regional Comprehensive Economic Partnership (RCEP) agreement and growing new formats of foreign trade, including cross-border e-commerce, said Sun, who is also the Secretary General of the China Chamber of International Commerce.

Despite facing headwinds from weakening overseas demand, more than 30% of Chinese exporters are expected to achieve year-on-year growth in annual trade volume, about 4.09 percentage points higher than in the second quarter, the survey found. China's foreign trade surged more than 10% year-on-year to CNY27.3 trillion during the first eight months of this year, according to the General Administration of Customs.

Yet, the annual growth pace in August was 8.6%, down nearly 8 percentage points from July. The slowing growth of exports came amid the increasingly complex environment, with both the global economy and international trade facing unfavorable conditions. For the government, it is necessary to introduce new policies to ease pressure on businesses and stabilize foreign trade, said Zhang Yongjun, Researcher at the Beijing-based China Center for International Economic Exchanges. Even though supported by smooth domestic logistics and well-developed industrial and supply chains, China's exporters must further diversify their market layout and avoid risks, as European countries and the United States are facing potential recessions. If the current situation continues, it could slow growth of external demand, he said.

Zhou Maohua, Analyst at China Everbright Bank, said **China's export structure has been notably optimized**, with exports of electro-mechanical products – computers, vehicles, smartphones and the like – increasing proportionately in foreign trade. He said this pattern has also reshaped China's role from a manufacturer of low-end products like furniture and travel cases to a provider of high value-added products like electric vehicles and liquefied natural gas carriers. Exports of electromechanical products rose by 9.8% year-on-year to CNY8.75 trillion between January and August, accounting for 56.5% of the nation's total export value.

Chinese makers of heating appliances, including electric blankets and electric heaters, **have seen explosive growth in exports to Europe** as the continent heads into winter in the throes of an energy crisis amid rising prices of natural gas, industry experts said. Statistics from AliExpress, Alibaba Group's business-to-customer (B2C) site that sells consumer goods to overseas markets, showed sales of heating appliances, such as electric blankets, in the European market surged nearly 300% in September compared with August. Sales of Chinese heating appliances in France, Germany and Poland skyrocketed 306%, 303% and 297% month-on-month, respectively, during this period, given that European consumers are expanding their purchases of heating appliances ahead of the approaching winter.

Moreover, there is surging demand for heat pump water heaters, which gather ambient warmth from the air and compress it to heat up water, especially in Germany, Poland, the Netherlands and the United Kingdom, with orders soaring more than 100% year-on-year in the past 90 days, said Alibaba.com. In July, the European Union's 27 member states imported 1.29 million electric blankets from China, an increase of 150% compared with 521,000 in June. Chinese home appliance brand Midea Group is upgrading its heat pump products, which could reduce carbon emissions by 60% to 80% compared with coal-fired boilers so as to address the natural gas shortage in Europe. In the first seven months, exports of Midea's heat pumps surged 215% year-on-year, the China Daily reports.

RETAIL

Chinese consumers paying attention to quality and homegrown brands

Chinese consumers have become more conservative regarding buying nonessential goods and are paying more attention to the quality of purchased products, with homegrown brands gaining increased popularity among millennial and Generation Z consumers amid the Covid-19 pandemic, according to **a report by global consultancy PwC**. The report said 44% of Chinese consumers expect to spend more on groceries over the next six months, while a growing number of respondents will reduce their expenditure on nonessential consumption in fashion, health and beauty products, as well as consumer electronics. Chinese brands have become more appealing to local consumers, and about 45% of respondents said they are more inclined to purchase domestic brands, up 10% from last year, the survey noted. They are willing to pay more for domestically produced or sourced products due to shorter delivery times, convenient purchase options and increasing quality.

Although inflation is still a major concern for Chinese consumers, they have shown a **willingness to pay a price premium for products with certain desirable attributes.** For instance, 50% of respondents said they would pay a higher-than-average price for a product with a traceable and transparent origin, while others are willing to do so for customized products (47%), or those made from recycled, sustainable or eco-friendly materials (45%). The report also highlighted young buyers' increased social awareness and value-oriented consumption. They attach high importance to the degree of environmental, social and corporate governance (ESG) involvement by retailers, as well as the protection of personal data and privacy.

Charting a new path for sustainable growth is more important than ever in corporate strategy, said Jennifer Ye, PwC consumer markets leader for the Chinese mainland. She suggested that brands should "enhance their product innovation capabilities, increase R&D investment and continuously create new products that meet the actual needs of consumers". China's consumer market is gradually recovering and gaining growth momentum, fueled by better containment of the pandemic and stimulus measures to spur consumption. Retail sales of consumer goods, a significant indicator of the country's consumption strength, went up 5.4% year-on-year to CNY3.63 trillion in August, according to the National Bureau of Statistics (NBS). The growth quickened from a 2.7% increase registered in July.

"The introduction of stimulus measures to spur consumption has played a significant role in stimulating consumers' purchasing appetite, promoting recovery of consumption and stabilizing economic performance," said Wang Yun, Researcher with the Academy of Macro-economic Research. The pandemic has also altered consumer shopping behavior, promoting stay-at-home recreational activities, such as higher usage of virtual reality equipment for entertainment purposes and purchasing products in the metaverse. The report said 36% of surveyed Chinese consumers said they used VR headsets to play games or watch movies and TV shows over the last six months, compared with 16% globally, while 23% used the devices to shop. VR headsets are most favored by China's Gen Z consumers – those born between the mid-1990s and the early 2010s.

Rather than replacing physical retail outlets, the metaverse is likely to incrementally reshape the strategies and physical operations of retailers to create a futuristic marketplace that can better serve consumers' real and virtual needs, the report added, although it noted that government regulation would be important, given the still-uncharted nature of the technology.

More than 500 Chinese consumers from 52 cities were interviewed for the survey in March. The respondents were 18 and above and only those who had shopped online at least once in the previous year were selected. The metaverse marketplace, though still in its infancy, can offer novel opportunities to brands in much the same way that e-commerce has revolutionized operation models, Ye said, adding that, as technological advances gather pace, merchants should be prepared for rapid transformation, including upgrading both online and offline points of shopping to stay relevant to consumers. "Retailers should look to enrich customer experience through the development of online communities in the metaverse where VR avatars can come together and discuss shared interests," Ye said, as reported by the China Daily.

CHINA NEWS ROUND-UP

Foreign carmakers stepping up investment in China

Foreign carmakers are stepping up their investment in China thanks to the vast potential of the world's largest vehicle market and its improving business environment in the automotive industry. In the first seven months of this year, sales of electric vehicles and plug-in hybrids in the country reached 3.2 million units, accounting for over 60% of the global total, according to statistics from the China Passenger Car Association (CPCA). Meng Wei, Spokesperson of the National Development and Reform Commission (NDRC), said China will further improve its policies for new energy vehicles and create a better environment for the sector's development.

German premium carmaker Audi, which is already offering electric models in China, **is speeding up building a plant in Changchun**, capital of Jilin province, in a joint venture with FAW Group. Helmut Stettner, CEO of Audi FAW NEV Co, said construction is progressing smoothly and production is expected to start in 2024 at the facility that will be dedicated to manufacturing electric vehicles. The German carmaker is investing around €2.6 billion in the JV, in which it holds a majority stake. China removed equity caps for international carmakers in electric car JVs in 2018 and the caps have been removed in all automotive segments from 2022. President of Audi China Juergen Unser called the JV an important part of the German carmaker's new growth strategy in China, its largest market globally. "In the years to come, we want to put an even stronger emphasis on China. The goal of our new strategy is to 'make Audi in China even more Chinese'," he said.

Audi stated that it chose the new location carefully, and one of the reasons is that Changchun has a sound industrial cluster. In the city, Audi has been producing vehicles with FAW Group since 1988, and many suppliers for the new plant are already located in the region. The Changchun government has put the automotive sector high on its blueprint. Ma Yanfeng, Vice Mayor of Changchun, said the city is working on an international auto town for carmakers and suppliers. By 2025, the industrial output of enterprises above a designated size in the town will total CNY1.1 trillion, said Ma.

"China is a global pacesetter in the field of digitalization. To put it in other words: **what moves a digital China today will move an increasingly digital world tomorrow**," said BMW Group Chairman Oliver Zipse at a recent industry forum. "We at the BMW Group strongly believe in the long-term perspective of the Chinese market and will continue to invest and cooperate with local industry players." The German carmaker has built three car manufacturing plants in Shenyang, Liaoning province, making the city BMW's largest production center globally. Its Lydia plant, with an investment of CNY15 billion, started production earlier this year. Since 2010, its JV BMW Brilliance has invested CNY83 billion in Shenyang, the China Daily reports.

Shanghai announces 22 policies to support economic recovery

The Shanghai municipal government has announced 22 favorable policies to help maintain the strong momentum in economic recovery of the city. The 22 policies will boost market demand, stabilize growth, inject more vitality into market entities and further improve the business environment, said Wu Qing, Shanghai's Executive Vice Mayor. Industries hard hit by the resurgent Covid-19 cases, including culture, tourism, sports, exhibitions, advertising and civil aviation, will likely benefit the most, observers said. Organizers holding economic and technology fairs in Shanghai this year will be granted a maximum CNY1 million subsidy each, said Wu. The Shanghai government will also provide CNY100,000 to CNY300,000 as incentives to small and medium-sized enterprises (SMEs) that are recognized by the Ministry of Industry and Information Technology (MIIT) as niche-sector leaders with a high market share and strong innovation capacity.

To nurture technology innovation, the city will reward key high-tech companies a maximum CNY500,000 each. The government's fiscal subsidy for technology upgrades of major projects in key areas has been raised to CNY100 million, according to Zhang Hongtao, Chief Engineer of the Shanghai Commission of Economy and Informatization. Companies are encouraged to enter emerging sectors like the metaverse, green transformation and smart devices, in order to help Shanghai realize high-quality economic growth, said Zhang. The processing time of export tax rebates will be further shortened while the efficiency of Customs clearance should be improved in order to stabilize trade, said Zhang Guohua, Deputy Director of the Shanghai Municipal Commission of Commerce.

This is the third time this year that Shanghai has introduced supportive measures to stimulate economic growth. The first 21 measures were rolled out in late March and another 50 measures were announced in late May. As a result, the average added value of industrial companies with annual sales revenue of at least CNY20 million each rose 16.1% year-on-year in August. The value of total imports and exports of the city surged 15.8% year-on-year to approach CNY415 billion. The total retail sales of consumer goods also gained 2.5% year-on-year while fixed asset investment increased 9.9% year-on-year, the China Daily reports.

Tax exemption on NEV purchases extended to end of 2023

The latest extension of the tax exemption for new energy vehicle (NEV) purchases is expected to further stimulate consumer sentiment and inject strong impetus into the automobile market, industry experts said. China will extend the exemption of purchase taxes on NEVs, which was originally scheduled to expire by the end of this year, to the end of 2023, according to a notice

issued by the Ministry of Finance, the State Taxation Administration and the Ministry of Industry and Information Technology (MIIT). NEVs include pure electric vehicles, plug-in hybrid electric vehicles and fuel-cell vehicles. The move is expected to bolster the development of the NEV industry and spur consumption of automobiles, said the notice. The country first began exempting NEVs from purchase taxes in 2014, and this is the third time that the tax-exemption policy has been extended. The latest extension is expected to waive CNY100 billion in taxes.

China's NEVs segment has witnessed rapid growth this year. Retail sales of NEVs in China surged 111.2% year-on-year to 529,000 units in August, according to the China Passenger Car Association (CPCA). In the first eight months, retail sales of NEVs in China stood at 3.262 million units, skyrocketing 119.7% year-on-year, said the CPCA. "Currently, sales of NEVs account for about 22% of car sales. The extension of NEV purchase tax exemptions will enhance consumers' purchasing willingness and give a big boost to sales of NEVs," said Zhang Xiang, Researcher at the Automobile Industry Innovation Research Center, which is part of the North China University of Technology in Beijing. Chinese NEV manufacturers should step up efforts in the research and development of NEVs and launch new models of vehicles, Zhang said, adding that sales of NEVs are mainly focused on first and second-tier cities, but there is plenty of room for growth in lower-tier cities, townships and rural areas.

The market size of China's NEV sector is forecast to reach 15.98 million units in 2026, with a compound annual growth rate of 35.1% during the period, according to a report from global market research firm International Data Corp (IDC). Cui Dongshu, Secretary General of the CPCA, said sales in China's NEV market are projected to reach 6.5 million units this year, accounting for about 25% to 26% of all vehicle sales, the China Daily reports.

Major infrastructure projects planned to shore up growth

China will step up efforts in the construction of major projects and new infrastructure as part of its overall drive to foster long-term sustained, innovation-driven and high-quality development. Experts said the government has already introduced a series of stimulus policies for infrastructure spending to shore up growth, and its accelerated push to construct key projects will help boost domestic demand, expand effective investment and stabilize the overall economy. They said China's economy will continue to pick up in the third and fourth quarters of the year with existing policy support and forceful infrastructure spending. The country will support the construction of major projects, with a key focus on implementing 102 key projects mapped out during the period of the 14th Five Year Plan (2021-25) and projects in the five-year plan for transportation development, said Zheng Jian, Director of the Department of Infrastructure Development at the National Development and Reform Commission (NDRC).

Song Wen, Deputy Director of the Planning Department at the National Energy Administration (NEA), said the NDRC and the NEA are accelerating the push for the implementation and construction of key projects mapped out in the 14th Five Year Plan. Investment in key energy fields is expected to grow by more than 20% compared with the 13th Five Year Plan (2016-20). "We expect infrastructure investment will remain strong and do the heavy lifting to support growth," said Lloyd Chan, Senior Economist at the Oxford Economics think tank. Chan said the stimulus rolled out in this year's Government Work Report and the 33 measures announced in May will feed through in the second half. New measures also include channeling CNY300 billion to specific projects, along with allocating an additional quota of CNY500 billion in local government special bonds that will be utilized by the end of October as new infrastructure projects become available for infrastructure financing.

Data from the National Bureau of Statistics (NBS) showed that fixed-asset investment increased by 5.8% year-on-year in the January to August period. Infrastructure investment jumped 8.3% during the first eight months of the year. Yang Haiping, Researcher at the Central University of Finance and Economics' Institute of Securities and Futures, said infrastructure investment will likely accelerate in the second half of the year, the China Daily reports.

Henan plans to build a CNY100 billion metaverse industry by 2025

Henan province, which has positioned itself as a key node in the global supply chain in the past decade by housing the world's largest iPhone manufacturer, **has zeroed in on the metaverse as its next central industry to promote**. According to a recently released draft plan, the provincial government aims to develop a CNY100 billion metaverse industry by 2025, in the latest rush by local Chinese authorities to tie up their developmental blueprint with the loosely defined concept. Henan wants to cultivate an "innovative zone" for the metaverse with "significant influence", and spur the development of relevant industries, according to the document.

The plan, titled **"Henan's metaverse industry development action plan for the years 2022 to 2025"**, detailed the province's main tasks in the coming years, which include tackling key technologies such as extended reality, digital assets and brain-computer interface. Those technologies will be applied to various sectors, with the aim of creating an "industrial metaverse", an "energy metaverse", an "education metaverse" and a "virtual human metaverse".

Henan is competing with several major Chinese business hubs to attract investors and businesses, as other local governments in China are also promoting the metaverse. In July, the Shanghai government said it aimed to establish an industry fund, with around CNY10 billion in assets, dedicated to metaverse development. In Beijing, the state-backed China Computer Industry Association formed a metaverse committee this year to draft industry standards, help relevant authorities create industry road maps, and set up a CNY1 billion fund to support start-ups. In January, Wuhan and Hefei both pledged to boost metaverse development in the next five years. Wuhan said it aimed to integrate the metaverse, big data, cloud computing, and

blockchain with the “real economy”, while Hefei said it would cultivate a number of leading companies and products in “cutting-edge fields” such as the metaverse.

In latest plan, Henan said it hopes to attract companies and investment in “innovative ways”, and support leading metaverse companies in and outside China to set up headquarters, laboratories, and research and development centers in the province. The province aims to cultivate 10 “backbone” metaverse companies with “core competitiveness” by 2025, the South China Morning Post reports.

High vacancy rates in commercial property in Shanghai; pressure on rents

Commercial property owners in Shanghai are beset by high vacancy rates and demands for rent reductions as China’s zero-Covid policies continue to suppress the retail and restaurant trades, dashing hopes of recovery after the city’s two-month lockdown earlier in the year. Vacancy rates at premium shopping malls, wholesale clothing centers, wet markets and street shops are set to increase in the face of weaker consumer sentiment, analysts said. “No business recovery can be expected in the near future as more tenants plan to close down their shops,” said Zhou Lingzi, Senior Manager with a state-owned commercial property operator. “Even rent cuts can do little to boost occupancy rates.”

The situation is the continuation of a nightmare for commercial landlords, who hoped the June 1 end of the lockdown in Shanghai would spark a robust comeback, only to see the central government's dogged pursuit of the zero-Covid policy continue to wreak havoc on local restaurants, garment makers, food stores and groceries. In August, a survey by Shanghai-based property agency E-house R&D Institute found that the average vacancy rate in 20 grade A office buildings and shopping malls was 9%, well above the “warning line” of 5%. Super Brand Mall in Lujiazui was the worst hit, with a vacancy rate of 34%.

Shanghai’s economy contracted by an unprecedented 5.7% in the first six months of this year. Its full-year economic output may end up unchanged from 2021, thanks to increasing infrastructure construction during the second half, according to two government officials. Restaurants, coffee shops and entertainment venues like cinemas are the main victims of virus-control measures. Most of these businesses have seen sales decline compared with a year ago, since their operating capacity is capped at 75%. “Landlords are under pressure to either lower rents or give tenants rent waivers this year,” said Song Yulin, Senior Manager with property agency 5I5J in the Pudong New Area. “A rising number of restaurant and small shop owners are threatening to close down their businesses, so more retail spaces may become vacant.”

At the end of March, the Shanghai government required state-owned commercial landlords to exempt their tenants from rent payments or up to six months, but private landlords do not have to offer their tenants relief packages. Tenants threatened to close up shop or move if rents were not reduced. From January through August, retail sales in Shanghai fell 12% from a year earlier and restaurants and hotels saw revenue sink 27.5%, the South China Morning Post reports.

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