# China Business Weekly

20 December 2022

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

# FCCC/EUCBA ACTIVITIES

## EU-China Conference: European Business in China Post-2022 – The View from the Ground – 12 January 2023 – Brussels


2022 has been a turbulent year for the EU and China. Both actors have had to deal with multiple shocks, including the war in Ukraine and the resulting energy and food security crises, economic headwinds and inflation, and an unstable geopolitical environment. In the case of China, an increasingly unsustainable zero-Covid policy and a property crisis have added to the complexities in an already politically pivotal year for the Chinese leadership, with the 20th Party Congress taking place in October. The China at the beginning of 2023 – no longer with Covid-zero and with a new leadership – is certainly very different from the China in early 2022. European companies' conversations in China now are not the same as in January 2022. Indeed, from the perspective of European companies in China, the shift in Chinese policymaking – partly as a result of these and other trends towards prioritizing ideology over the economy – has led to China's business environment becoming less predictable, reliable and efficient. Although opportunities for European companies in China remain, they must develop strategies to deal with an ever-growing list of risks stemming from geopolitical developments and emerging legislation both within and outside China.

On the occasion of the first European Union Chamber of Commerce in China (European Chamber) business delegation visit to Brussels in three years, the EU-China Business Association, the European Chamber and BusinessEurope are organizing this conference. Attendees will have the opportunity to learn from European business representatives operating on the ground in China what the key drivers behind these trends in China are and their implications for European business. This is a hybrid conference.

**The programme is as follows:**

**10h00 – 10h30:** Registration (offline attendees only)

**10h30 – 10h40:** Opening remarks by Ms. **Luisa Santos**, Deputy Director General, BusinessEurope

**10h40 – 11h00:** Presentation of the current business environment in China by Mr. **Joerg Wuttke**, President, European Union Chamber of Commerce in China

**11h00 – 11h40:** Panel discussion with industry representatives from the European Chamber

**11h40 – 11h55:** Discussion and Q&A

**11h55 – 12h00:** Closing remarks by Mr. **Jochum Haakma**, Chairman, EU-China Business Association

**Practical information:**

**Date:** 12 January 2023

**Time:** 10h00 - 12h00

**Location:** Online and Offline (Adenauer Room, BusinessEurope, Avenue de Cortenbergh 168, 1000 Brussels)

**Price:** Free

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## Chinese New Year Reception – 1 February 2023 – 18h00 – KBC Bank, Brussels


The Flanders-China Chamber of Commerce has the pleasure to invite you to celebrate the Year of the Rabbit on **Wednesday, February 1**, at **18h00** at the **KBC Bank, Havenlaan 2, 1080 Brussels**.

Special guests of honour will be His Excellency Mr **Cao Zhongming**, Ambassador of the People's Republic of China in Belgium, and His Excellency Mr **Jan Jambon**, Minister-President of the Government of Flanders.

A Q&A session and a networking reception will follow the speeches.

This event is certain to be well attended, so we strongly recommend you book now to guarantee your place.

**The programme is as follows:**

**17h30 – 18h00:** Registration

**18h00 – 18h05:** Introduction by Mr **Kurt Vandeputte**, Chairman, Flanders-China Chamber of Commerce

**18h05 – 18h20:** Speech by His Excellency Mr **Cao Zhongming**, Ambassador of the People's Republic of China in Belgium

**18h20 – 18h35:** Speech by His Excellency Mr Jan Jambon, Minister-President of the Government of Flanders

**18h35 – 18h45:** Q&A Session

**18h45 – 20h30:** Networking reception

**SPONSORSHIP OPPORTUNITIES for the FCCC New Year Reception.** The FCCC New Year Reception offers a unique opportunity for Flemish and Chinese companies to promote their brands and services at this well attended event. If you are interested in the sponsoring this reception, please send an e-mail to: gwenn.sonck@flanders-china.be.

**Practical information:**

**Date:** 01.02.2023

**Location:** KBC Bank, Havenlaan 2, 1080 Brussels

**Price members:** 30 € (excl. 21% VAT)

**Price non members:** 60 € (excl. 21% VAT)

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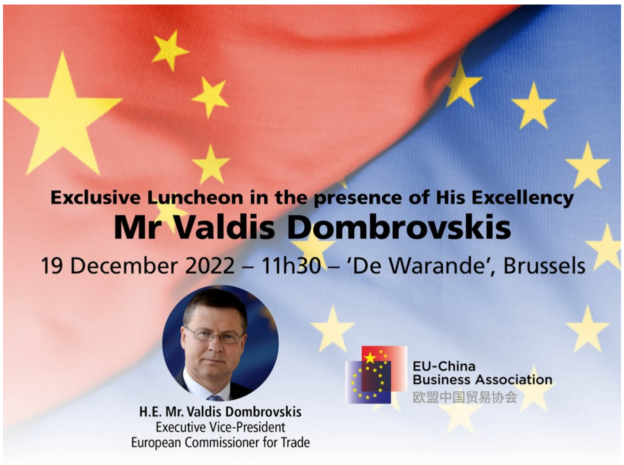
# PAST EVENTS

## Exclusive luncheon with His Excellency Mr Valdis Dombrovskis, Executive Vice-President and European Commissioner for Trade – 19 December 2022




The EU-China Business Association organized an exclusive luncheon with Mr. **Valdis Dombrovskis**, Executive Vice-President and European Commissioner for Trade at the European Commission. The EU Commissioner delivered an address on EU-China trade and investment relations. This exclusive event was a unique opportunity to meet the European Commissioner for Trade and raise subjects for discussion. This luncheon took place on **19 December 2022** in **Brussels**.

**Mr. Jochum Haakma**, Chairman, EU-China Business Association, delivered the introduction, followed by Mr. **Valdis Dombrovskis**' speech on EU-China trade relations and a Q&A session.

A detailed report will follow.

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# HEALTH

## Covid-cases explode to "unimaginable" numbers; zero-Covid policy abandoned; hospitals swamped by fever patients

**The number of Covid-infections in China exploded to "unimaginable numbers" during the past week. While reliable numbers are unavailable, in Beijing more than half the population has been infected. In other cities the numbers vary as the pandemic rips through the population. The zero-Covid policy has been abandoned overnight**, replaced by a focus on protecting the elderly and vulnerable. Hospitals have been overwhelmed by feverish patients and pharmacies have run out of cold medicine and other remedies which are believed to relieve Covid symptoms. A fourth booster shot is being belatedly rolled out. The courier network has collapsed, as most delivery personnel have been infected, making it difficult for people quarantining at home to procure daily necessities. In Beijing, public live has grounded to a halt, with companies reporting that up to 90% of the workforce is suffering from Covid. Until a few days ago, a 48h Covid test was still needed to enter restaurants and entertainment places in Beijing, but this requirement has now also been scrapped.

**"We have numbers of infections unimaginable before – they are hitting a population that is still lacking vaccinations,"** according to German Ambassador to China Patricia Flor. "We don't know, are there enough intensive care unit *(*ICU) beds? Nobody is really prepared, mentally, for this situation." She added that "everybody scrambles to deal with the consequences" because of a lack of preparations and advance notice before the abrupt change in the zero-Covid policy.

**Omicron has spread like a tsunami in Beijing.** After the policy change, the shockwave across Beijing was intense, exceeding most people's expectations. Since people aren't doing nucleic acid testing anymore, relevant authorities don't have accurate data on how many people have been infected. Based on observations, people tend to believe that there have already been millions of infections so far. Some non-governmental estimations based on big data claimed that by December 13, 38% of Beijing's population had already been infected, the official Global Times reports. A notice posted in the pharmacy window at Haidian Hospital in western Beijing said "all pharmacists on duty are sick – please bear with us", a situation repeated in other departments.

Leading Chinese epidemiologists are optimistic that the epidemic situation will improve by spring next year and will return to normal after the epidemic peak in January and February, although the number of Covid-19 infections will increase in the short term. They made the remarks at the health sub-forum of the 2023 Global Times Annual Conference on December 15.

**German firms in China are bracing for disruptions from surging Covid infections** after the Chinese government's decision to ease its zero-Covid policy, according to Clas Neumann, Chairman of the German Chamber of Commerce in China. "We hope there will be no further lockdowns and we hope, of course, that we can find a way to work together here with the authorities," Neumann said at an event organized on the occasion of the annual business sentiment survey, which found that, over the past three years, China's zero-Covid policy has fueled diversification away from the country, as well as more localization within it.

China's strict coronavirus controls, geopolitical tensions, and the wider implications of Russia's invasion of Ukraine were cited as the key reasons **German firms found China less attractive for investments this year.** "Geopolitical tensions put additional pressure on German companies and are causing decision-makers to re-evaluate their engagement in China," said Neumann. He also said that China's U-turn in its coronavirus policy since last month is shaping up to be "a game changer", and that German firms will be looking to quickly adjust their operations to overcome an expected surge in infections. Neumann is also hopeful that international travel restrictions – a key problem for foreign companies – will be removed next year. **"In the current scenario, it doesn't really make sense any more to lock down people who come from abroad** if you also have this huge number of Covid-positive cases locally. So, I think it should be adjusted," Neumann said. Confidence among the 593 polled German firms declined significantly when it came to doing business in China. Only 51% said they intended to increase their investments in China in the next two years, compared with 71% last year. "This marks a drop of around 20 percentage points from surveys of recent years, which historically report investment intentions at around 70%," the report said.

Local governments have been asked to increase the supply of Covid-19 related drugs and antigen test kits as many people living in urban areas are expected to return to their hometowns for the upcoming New Year holiday and Spring Festival on January 22. Medical facilities and drugstores in townships and villages should increase their inventories of fever and cough drugs, traditional Chinese medicine and antigen test kits, according to the notice by the joint prevention and control mechanism of the State Council. The amount of antigen test kits in stock at the township and village hospitals should reach 15% to 20% of the total population in the area, and more densely populated regions are encouraged to further increase stocks, according to the notice.

**Authorities suggested people quarantining at home monitor their health closely, use rapid antigen tests, self-treat with non-prescription drugs and only go to the hospital if symptoms do not abate after a few days.** Local governments also followed up with lists of recommended drugs, grass-roots clinics and detailed descriptions of symptoms.

Passenger flow during the Spring Festival travel period is expected to recover to 90% of the pre-pandemic 2019 level, with about 360 million railway passenger trips made and the average daily number of train trips reaching about 9 million, China Railway said. The number represents a 42% increase over the same period early this year, and if it is realized, it will represent a new high since the outbreak of the pandemic in 2020, according to China Railway. Air travel in the 2023 Chinese New Year period will return to 80% of the pre-pandemic level, travel platform Qunar predicted.

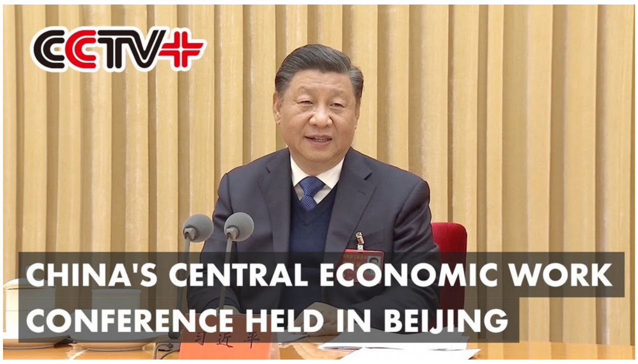
The 2023 Spring Festival travel rush will run from January 17 to February 25. Although inter-provincial travel restrictions were removed under the optimized anti-Covid measures, the first infection peak will probably come just before Spring Festival.

Hong Kong has abolished all Covid-control measures for arriving passengers, including the quarantine requirement, although they still need to be tested. Proof of vaccination is still needed for entry to most public venues.

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

# MACRO-ECONOMY

## Central Economic Work Conference focusses on reviving the economy, attracting foreign investment and boosting the private sector




**The just-concluded two-day Central Economic Work Conference (CEWC) focussed on reviving the economy, attracting foreign investment and boosting the private sector, without mentioning the exit from the zero-Covid policy.** The meeting also prioritized increasing domestic demand by boosting consumption in order to promote economic growth amid pressure from "demand contraction, supply shocks and weakening expectations". The annual meeting also made it clear that efforts must be made to raise social expectations and boost market confidence, better coordinate the pandemic response and socioeconomic development, while better coordinating the promotion of supply-side structural reform and increasing domestic demand.

Addressing the meeting, **President Xi Jinping, reviewed the nation's economic work in 2022**, analyzed the current economic situation and made proposals for next year's economic work. Meeting participants underlined the need to adhere to the overarching principle of seeking progress while maintaining stability for next year's economic work. They also called for comprehensive and faithful implementation of the new development philosophy, and stepping up the building of the new development paradigm with a focus on advancing high-quality growth and better coordinating development and security.

**Emphasis will be placed on stabilizing growth, employment and prices in order to boost the economy.** The implementation of a proactive fiscal policy and a prudent monetary policy will continue in 2023, a statement issued after the conference said. Coordination of and synergy between various policies should be strengthened, and measures for prevention and control should be optimized so that they jointly boost high-quality growth, it added. The meeting's participants highlighted that proactive fiscal policy measures need to be reinforced to improve efficiency, and prudent monetary policy measures need to be precise and forceful. They said that industrial policy needs to take development and security into account, while social policy needs to ensure people's basic livelihoods. Employment of younger people, particularly recent college graduates, should be given special attention, they added. To expand domestic demand, the meeting participants said multiple steps should be taken to increase people's incomes and support consumption of housing, new energy vehicles (NEVs) and eldercare services. They underlined the need to effectively spur social capital through government investment and policy incentives, and encourage and attract private capital to participate in major projects. Exports should continue to buttress economic growth, they said.

The meeting participants called for stepping up the building of a modern industrial system, **making breakthroughs in core technologies in key fields** and improving the global competitiveness of China's traditional industries. They stressed the need to speed up research, development and application of cutting-edge technologies in the fields of new energy, artificial intelligence (AI), biotech, green and low-carbon development, and quantum computing, and work harder to develop the digital economy. The meeting participants underscored the importance of treating state-owned companies and private businesses as equals through legal or institutional support, and urged protecting the property of private companies and the rights and interests of private entrepreneurs in accordance with the law.

While underscoring the need to make greater efforts to attract and utilize foreign capital, the meeting participants called for widening market access, expanding opening-up in the modern services industry and making active efforts to join high-standard economic and trade agreements, including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Digital Economy Partnership Agreement. They also stressed ensuring the stable development of the real estate market while highlighting the need to prevent and defuse major economic and financial risks. The meeting participants urged developing the real economy and strengthening mitigation against financial risks of local government debt, and said that systemic financial risks must be avoided, the China Daily reports.

# AUTOMOTIVE

## Pioneering Chinese vehicle brands becoming popular


**Local vehicle brands are becoming more popular in the Chinese market, which analysts say is the result of a shift toward electrification and introducing the latest smart features into models.** Last month, sales of Chinese branded vehicles totaled 1.3 million units, up 9.8% year-on-year. They accounted for 54.4% of China's passenger vehicle segment, which went down 5.6% year-on-year, according to statistics from the China Association of Automobile Manufacturers (CAAM). **In the first 11 months of this year, sales of Chinese branded vehicles totaled 10.48 million units, up 24.2% year-on-year.** They seized a 49.2% share of the Chinese market from January to November, up more than 5 percentage points compared with the same period in 2021.

The rising trajectory of Chinese brands started around 2020, when they accounted for less than 40% of the market. Their popularity has since been on the rise, while German and Japanese volume brands are losing ground. Analysts said Chinese brands have seized the opportunities brought about by electrification, offering a richer variety of choices than their international rivals that dominated in the gasoline car era. **Major Chinese carmakers BYD and Geely now top the list of candidates** instead of Volkswagen and Toyota for volume car buyers, while Chinese startups Nio and Xpeng are gaining an upper hand over established premium ones from BMW to Mercedes-Benz. Edward Wang, Managing Director of syndicated research at J.D. Power China, said Chinese brands are expected to lead in smart and software-based vehicles because they are quicker to adopt new technologies and launch new models. "Such innovation is injecting momentum into Chinese brands in a rapid, effective and continuous way," said Wang, adding smart features and exciting onboard experiences are becoming increasingly important factors when car buyers make decisions. "They are not necessarily buying a model solely for these functions, but they certainly would not buy it without such functions," he added.

J.D. Power China's findings released earlier this year showed that 53% of respondents said they would choose Chinese vehicles, and 67% of those who currently drive them said they would choose Chinese brands again. BYD, which stopped sales of gasoline cars earlier this year, is now the world's largest new energy vehicles (NEV) maker, with monthly sales hitting a record several times this year. According to the company's report, its deliveries last month hit a new high of 229,942 units, including electric vehicles and plug-in hybrids, which is 155% more than in 2021. Its total deliveries of NEVs have exceeded 3.1 million units. The carmaker expects its performance to be even better in 2023, with its premium marque Yangwang unveiled to explore the high-end segment.

Other Chinese NEV makers are working to sharpen their competitive edge as well. In November, **GAC Aion**, based in Guangzhou, Guangdong province, **unveiled its latest electrical and electronic architecture called Xingling**, featuring one of the world's most powerful sensing systems to improve the safety of smart vehicles. The system is composed of 39 sensors, including three second-generation lidar units with variable focal lengths. It also involves infrared remote sensing technology, which can detect objects that cameras and radar may fail to spot. The Xingling architecture came days after its latest vehicle platform, called the AEP 3.0, was introduced. GAC Aion said it introduced hyper car technology into the platform so its vehicles can take on Tesla in terms of acceleration.

The carmaker kicked off a large power battery project earlier this month with an investment of CNY10.9 billion and an area of about 44.4 hectares. By 2025, the project will meet the installation demand of 600,000 NEVs, with an annual output value exceeding CNY21 billion, the company said. State-owned carmaker Dongfeng is scheduled to produce long-range solid-state batteries in the first half of 2024. EVs featuring such batteries will have a range of up to 1,000 kilometers on one charge, the China Daily reports.

# CHINA NEWS ROUND-UP

## Zhejiang provincial Party Secretary visits Alibaba in show of support

**The new provincial Communist Party Secretary of Zhejiang, home province of Alibaba Group Holding, visited the company's campus, in a show of support for the Chinese technology company.** Yi Lianhong, who was appointed to the post this month, urged the company to "strive to be a model student of normative development and a leader of innovative development", according to the official Zhejiang Daily. Yi is the first senior Chinese government official to visit Alibaba since it was placed under an antitrust investigation two years ago. The visit came two days after China's central economic working conference (CEWC), chaired by President Xi Jinping, issued a statement saying that **the country's Big Tech platform enterprises, such as Alibaba, would be encouraged to "fully display their capabilities"** in growth, job creation and international competition.

At Alibaba, Yi repeated the line and urged the firm to "adhere to development and regulation" and to "unleash innovation dynamics and enhance core competitiveness". At the same time, Party Secretary Yi said capital investment and expansion has to be regulated. Alibaba, which has been a major business operation in Zhejiang for years, has been the target of regulatory scrutiny over the past two years. In 2021, it was fined a record CNY18.2 billion for monopolistic behavior, while Viya, one of the top live-streaming hosts on its e-commerce platform, was erased from China's cyberspace after she was accused of tax irregularities.

Alibaba's shares lost two thirds of their value in Hong Kong and New York after Beijing launched its regulatory scrutiny and the U.S. issued threats to delist Chinese companies from its main bourse. However, the Central Economic Work Conference signaled that the central authorities are looking to internet platforms such as Alibaba to play a role in reviving the slowing Chinese economy. This marks a clear shift from the policy of 2020 and 2021. During the 2020 economic work conference, Beijing pledged to prevent the "disorderly expansion of capital", which was followed by two years of unprecedented regulatory crackdown on the country's tech firms, covering business activities from content and data security to mergers and acquisitions (M&As).

China's efforts to clip the wings of the country's Big Tech resulted in billions of dollars being erased from the market value of leading tech firms, as well as the postponement of several big IPOs, and more recently an increase in job cuts. The change in mood towards the platform economy comes as Beijing is pivoting its policy mix towards economic development after Covid-19 controls and regulatory campaigns dampened the confidence of investors. Beijing has also reiterated its longstanding policy to support private business, the South China Morning Post reports.

## U.S. regulators inspect U.S.-listed Chinese firms' audit records

**The U.S. regulator Public Company Accounting Oversight Board (PCAOB) said that it was able to inspect the audit firms servicing mainland Chinese companies listed in the United States**, removing the risk of delisting hanging over about 170 such firms. This is the first time that China has allowed audit records to be taken outside the mainland for inspection. The PCAOB said in a report that Chinese authorities did not prevent its inspectors from carrying out a thorough inspection of audit firms' working papers in Hong Kong from September to November. The inspection was carried out under an agreement signed between China's Ministry of Finance, the China Securities Regulatory Commission (CSRC), and the PCAOB in late August. "I want to be clear: this is the beginning of our work to inspect and investigate firms in China, not the end. The PCAOB is continuing to demand complete access in mainland China and Hong Kong moving forward," PCAOB chair Erica Williams said in a statement.

"Should PRC authorities obstruct or otherwise fail to facilitate the PCAOB's access – in any way and at any point in the future – the board will act immediately to consider the need to issue a new determination," she added. Beijing has previously denied U.S. regulators access to the financial audits of Chinese firms listed in the U.S., saying these working papers contained state secrets. Chinese law barred accounting firms from handing their documents to foreign parties without prior permission from Beijing. A breakthrough was made in April, when the CSRC scrapped a requirement that only Chinese regulators can conduct on-site audits of Chinese companies listed overseas and allowed auditors to take audit records outside the Chinese mainland for inspection in a historic first. The successful inspection of the audit records is vital for 168 U.S.-listed mainland Chinese companies, as they can now be viewed as complying with the requirements of the U.S.'s Holding Foreign Companies Accountable Act (HFCAA).

The act, which went into effect in late 2021, opens the possibility of their delisting if the PCAOB finds that they are not compliant for three consecutive years. A report by the regulator in December 2021 said that the companies were not compliant with the HFCAA, as it could not conduct inspections of their auditors based in Hong Kong and mainland China. The 168 firms, whose combined market value stood at USD1.5 trillion as of June 2022, were audited by 15 Hong Kong and mainland Chinese accounting firms registered with the PCAOB, according to the U.S. regulator. Two teams of inspectors from the PCAOB spent about seven weeks at the Hong Kong offices of PwC and KPMG going through hundreds of audit working papers. They also interviewed the firms' accountants regarding their audits of U.S.-listed mainland companies. Doug Barry, Spokesman for the U.S.-China Business Council, an advocacy group representing American companies with operations in China, called the PCAOB news "a positive and significant development", the South China Morning Post reports.

## China files WTO suit against U.S. over chip export controls

**Beijing has taken formal action to challenge new U.S. restrictions on semiconductors and other hi-tech exports to Chinese companies by filing a suit at the World Trade Organization (WTO)**, as Washington presses ahead with efforts to remove China from the international technology supply chain. Beijing filed its complaint with the WTO's dispute-settlement body, according to a statement issued by China's Ministry of Commerce (MOFCOM) on December 12.

The Ministry accused the U.S. of using trade protectionism in curbing the export of chip products to China on security grounds. "In recent years, the U.S. side has continuously overstretched the notion of national security, abused export control measures, and hindered the normal international trade of chips and other products," the statement read. "That threatened the stability of global supply chains and industrial chains, undermined the international economic and trade order, violated international economic and trade rules, defied basic economic laws, and harmed the interests of global peace and development."

Beijing's strong criticism came as the world's two largest economies remained locked in a fierce technology war. The U.S. Commerce Department's Bureau of Industry and Security in October updated restrictions to China's ability to acquire high-end U.S. chip technology, equipment and even talent in a 139-page document. One analyst believed many Chinese chip firms would be "destroyed, damaged, or circumscribed" by the American export controls.

At the 20th Communist Party Congress, Chinese President Xi Jinping said the country must keep pursuing self-reliance in key technologies. Qin Gang, Chinese Ambassador to Washington, said the U.S. had made outcompeting China the purpose for all its China policies, making economic issues "politicized and weaponized". He said more than 1,000 Chinese companies had been added to various lists for American export controls and sanctions.

Japan and the Netherlands have agreed in principle to join the U.S. in tightening controls over the export of advanced chipmaking machinery to China. Taiwan Semiconductor Manufacturing Co (TSMC) – the world's leading producer of advanced computer chips – announced an expanded USD40 billion investment at its U.S. production hub in Arizona. The U.S. was having a "robust" dialogue with its allies on chip export controls against China and an outcome was on "standby", said Alan Estevez, the U.S. Commerce Department's Industry and Security Undersecretary. Estevez said the latest controls were meant to stop China from being able to build high-end chips and that U.S. allies understood Washington's rationale.

The Ministry of Commerce (MOFCOM) said taking the dispute to the WTO was "necessary" to safeguard the country's legitimate rights and interests. "We hope that the U.S. side will give up zero-sum game thinking, correct its wrong practices in a timely manner, stop disrupting the trade of hi-tech products such as chips, and maintain normal economic and trade exchanges between China and the U.S.," the South China Morning Post reports.

## U.S. launches Office of China Coordination

**Washington has launched an Office of China Coordination** to ensure "nimbler and more consistent policy" and called for stronger military-industrial supply chains to meet the "pacing challenge" that Beijing represents, top U.S. officials said. The new State Department office will help ensure the Administration's China strategy is effectively implemented. The U.S. wants to keep competition within bounds and, where possible, cooperate on climate and other global issues following Presidents Biden and Xi's November meeting in Indonesia, said U.S. National Security Advisor Jake Sullivan.

"It doesn't erase the difficulties, the tensions, the potential for crises that needs to be managed very carefully through effective communications channels," added Sullivan, speaking at the Carnegie Endowment for International Peace in Washington. "But it does mean that there is a responsible way to steward the relationship between the U.S. and the PRC and to effectuate a strategy towards the PRC."

The mandate of the Coordination Office is to "successfully execute" U.S. China policy, but also "responsibly manage" competition involving "the most complex and consequential geopolitical challenge we face". Jake Sullivan said an under-appreciated yet significant priority in 2023 would involve strengthening the U.S. military-industrial supply chain. In September, the Pentagon said it would temporarily halt F-35 fighter aircraft deliveries after learning that a magnet in its engine came from China. This strengthening is meant to ensure that "we are not able to be coerced by adversaries at a moment of geopolitical peril by any country being able to turn off some essential goods coming to the U.S.", Sullivan said.

The Yale University graduate has emerged as one of the Administration's most hardline officials towards China, helping frame cutting-edge semiconductor exports as a fundamental military – and related economic – threat to U.S. national security. In the latest blow to China's tech ambitions, the Administration added Chinese memory chip maker Yangtze Memory Technologies Co and 21 "major" Chinese players in the artificial intelligence chip sector to a trade blacklist, broadening its crackdown on China's semiconductor industry. **The Office of China Coordination replaces the China Desk**, which was already the State Department's largest individual country section. It will continue to be overseen by Rick Waters, Deputy Assistant Secretary of State for China, Taiwan and Mongolia, the South China Morning Post reports.

## Zhejiang to build CNY200 billion metaverse industry by 2025

**Zhejiang is the latest Chinese province to roll out a metaverse development plan** after the concept gained traction among local Chinese authorities as a promising new industry. The province, where Alibaba Group Holding is headquartered, aims to develop metaverse-related industries valued at more than CNY200 billion by 2025, according to a development plan published on the official website of the provincial Development and Reform Commission. The plan for the 2023 to 2025 period laid out several major goals, such as building a complete supply chain and industrial ecosystem, improving innovation, and promoting metaverse applications in industries such as e-commerce and entertainment. To achieve these goals, Zhejiang aims to groom 10 industry leaders and 50 enterprises with their own expertise in augmented reality, virtual reality, mixed reality, blockchain and artificial intelligence industries. Several local government departments – including the Publicity Department, Cybersecurity Administration, Department of Science and Technology, provincial Department of Commerce and Market Supervision Bureau – are all participating in the development plan.

Zhejiang is not the only Chinese province that has laid out metaverse work plans. Since last year, authorities in several major cities including Shanghai, Hangzhou and Wuhan, have unveiled similar plans. Chinese tech companies are also testing the waters in the sector. Shanghai-based Xiaohongshu is selling virtual fashion items in the form of non-fungible tokens (NFTs), while Tencent Holdings has undertaken collaborations with a number of fashion brands for its Peacekeeper Elite game, the localized version of PUBG Mobile.

The newly published plan by the Zhejiang government also emphasizes the integration of the real economy and the metaverse in areas including manufacturing, medicine, and future cities. Metaverse applications will be applied in scenarios such as industrial product design and development, surgery practice, as well as government services. Still, state media has issued warnings about risks in the metaverse industry as local governments and enterprises flock into the booming sector. Last month, the Economic Daily newspaper cautioned against “feverishly” jumping on the metaverse bandwagon.

A recently released five-year plan (2022-26) to integrate virtual reality technology with industrial applications aims to increase the market size of China’s virtual reality industry to above CNY350 billion by 2026, by which time the government expects to have cultivated 100 enterprises with strong innovative ability and industrial influence. The value of the virtual reality market in China exceeded CNY100 billion in 2021, according to CCID Consulting.

## China's research talent pool still lags behind U.S.

**China is facing a daunting challenge to consolidate its talent pool as it still lags behind the United States significantly in core technology and basic research**, Wang Hong, President and Professor of Management at the Shanghai-based China Europe International Business School (CEIBS) said. “China leads the world in the number of science, technology, engineering, and mathematics (STEM) graduates, because of our large population. By 2025, China’s talent pool is expected to reach twice that of the U.S. But we should see the problem that ‘the talent is large in number but not strong enough’ still exists in key technology and basic research areas.” China is projected to produce over 77,000 STEM PhD graduates per year by 2025, compared to around 40,000 in the U.S., according to a report by the Center for Security and Emerging Technology, a think tank based at Georgetown University.

But despite the large talent pool, Wang said there is still a considerable gap between China and the U.S. in artificial intelligence (AI) and new materials talent, as well as the ability to convert basic research into direct productivity and high-end manufacturing. China lacks mid- to high-end talent in artificial intelligence (AI), which is equivalent to only 20% of the U.S., added Wang.

According to a report released earlier this year by the Institute of China’s Science, Technology and Education Policy at Zhejiang University, China is facing a talent shortage in AI of more than 5 million people, a figure which is estimated will double by 2025. In addition to the lack of talent in specific industries, the innovative, high-level, integrated and industrial talent is very limited in China, according to Wang. From 2012 to 2022, China’s ranking on the Global Innovation Index has seen a dramatic rise from 34 to 11, while China also sits at the top of the upper-middle income group. However, China is still facing many “bottleneck problems” in achieving high-quality innovation, the South China Morning Post reports. China’s total investment in research and development (R&D) reached CNY2.8 trillion in 2021, up by 14.6% from the previous year, ranking second in the world, according to the National Bureau of Statistics (NBS).

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## Membership rates for 2023 (excl. VAT)

- SMEs: €475 (excl. 21% VAT)
- Large enterprises: €1,185 (excl. 21% VAT)

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## Share your story

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