China Business Weekly

29 June 2021

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

FCCC/EUCBA ACTIVITIES

Webinar: Doing business in and with China after one and a half years of pandemic: an overview and preview by the Flemish Economic Representatives
7 July 2021, 09:00 – 10:15

The Flanders-China Chamber of Commerce and Flanders Investment & Trade are organizing a webinar with the Flemish Economic Representatives in China. This webinar will take place on Wednesday, July 7, 2021 from 09:00 a.m. till 10:15 a.m.

During this webinar the Flemish Economic Representatives **Marc Struyvelt** in Beijing, **Bart Boschmans** in Shanghai, **Eva Verstraelen** in Guangzhou and **Siegfried Verheijke** in the Hong Kong S.A.R. will talk about:

"Doing business in and with China after one and a half years of pandemic: an overview and preview"

Programme:

09:00 – 09:05: Introduction by **Ms Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

09:05 – 09:55: Panel discussion with the Flemish Economic Representatives:

- **Mr Marc Struyvelt**, Flemish Economic Representative in Beijing
- **Mr Bart Boschmans**, Flemish Economic Representative in Shanghai
- **Mrs Eva Verstraelen**, Flemish Economic Representative in Guangzhou
- **Mr Siegfried Verheijke**, Flemish Economic Representative in the Hong Kong S.A.R.

09:55 – 10:15: Q&A

Practical information:

Date and time: 7 July 2021, 09:00-10:15 a.m.

Location: online
Price for members: Free
Price for non-members: Free

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Webinar: "The 7 pitfalls and the 12 most common errors of public affairs" July 8, 2021, 10h00 - 11h00

The Flanders-China Chamber of Commerce in partnership with Interel Belgium is organizing a webcast on: **"The 7 pitfalls and the 12 most common errors of public affairs"**. The webcast will take place on **July 8, 2021 at 10h00**.

Making the most of Public Affairs

Considering the odds at stake and faced with an increasingly demanding ecosystem of journalists, policy makers and activists, companies continue to struggle with the challenge of advancing their interests and convincing stakeholders to take positive action.

Key issues to be addressed:

This training covers the seven most common errors witnessed in the field of public affairs campaigns, as well as the twelve main mistakes made by lobbyists and ways to overcome them. Finally, we discuss the seven personality characteristics driving the core skills of an ideal lobbyist.

Program:

10h00-10h05: Introduction by **Ms Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

10h05-10h45: Presentation by **Mr Karel Joos**, Partner, Interel Belgium

10h45-11h00: Q&A Session

Speakers

Mr Karel Joos
Partner, Interel Belgium
View Bio

Ms Gwenn Sonck
Executive Director,
Flanders–China Chamber
of Commerce

Practical information:

Date and time: July 8, 2021, 10h00-11h00

Location: Online

Price for members: Free

Price for non-members: Free

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Meeting with HE Jan Hoogmartens, Ambassador of Belgium in the People's Republic of China – 14 July 2021, 10 – 11 am

The Flanders-China Chamber of Commerce (FCCC) is organizing an exclusive meeting with **HE Jan Hoogmartens**, Ambassador of Belgium in China. This webinar will take place on **July 14**, 2021 at **10h00**.

This event will be an excellent opportunity to introduce your companies' activities in Belgium and China to the Ambassador.

Program:

10h00-10h05: Welcome speech by **Mr. Kurt Vandeputte**, Chairman, Flanders-China Chamber of Commerce

10h05-10h30: Speech on the economic prospects and opportunities for businesses by HE **Jan Hoogmartens**, Ambassador of Belgium in the People's Republic of China

10h30-10h40: Q&A

The session is moderated by **Ms Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

Practical information:

Date and time: July 14, 2021, 10h00-10h30

Location: Online

Exclusive for Members of the Flanders-China Chamber of Commerce, price: Free

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PAST EVENTS

Webinar: "European Business in China: Business Confidence Survey 2021"
24 June 2021

The EU-China Business Association and the Flanders-China Chamber of Commerce organized a webinar on June 24, 2021 focused on the results of **the annual Business Confidence Survey 2021 of European Business in China**.

Ms Gwenn Sonck, Executive Director, EU-China Business Association/Flanders-China Chamber of Commerce, welcomed the participants to the annual webinar. The survey was conducted by the European Union Chamber of Commerce in China in cooperation with Roland Berger. Foreign investments in China have increased by 6.2% year-on-year. There is still enormous untapped potential for growth. In the first quarter of this year, EU investments in China increased by 50% compared to last year, reaching USD2.34 billion. Investment mostly came from automotive, basic materials and healthcare. The value of completed Chinese investments in the EU in the first quarter was USD500 million and the top sector was automotive, followed by transport, infrastructure and ICT.

Ms Charlotte Roule, Board Member, European Union Chamber of Commerce in China, and CEO of ENGIE China, joined ENGIE five tears ago and promoted clean energy, mainly solar and electrical mobility and energy efficiency. ENGIE has six joint ventures in China. Ms Roile **first explained the methodology of the survey, which achieved a 46.7% response rate**, which is slightly lower than in 2020 but still the second highest ever. The same questions are asked year after year to see how things are improving. Some new themes are also addressed, including carbonization. The Chamber was set up in 2000 with 51 member companies, and now represents more than 1,700 companies. The Chamber has nine local chapters and around 30 working groups to cover all sectors. More than three-quarters of all respondents have been in China for more than 10 years.

The European community in China started 2020 navigating in the dark, and the uncertainty of the Covid-19 pandemic was withering away business confidence. This year's survey shows that European companies found their China operations to be a critical pillar of global operations due to the fact that China managed to keep Covid at bay and recover. European companies see more clouds coming. A year ago they were strategizing on diversification, now they are looking how to further onshore their supply chains and strengthen their position due to the increasingly politicized business environment and geopolitical risks to the supply chains. Decoupling is not exactly what we expected a year ago. It is not European companies decoupling from China but European companies considering how to decouple their Chinese operations from their global ones. While fighting the pandemic, the reform agenda stalled, so there was little or no progress on the topics that the Chamber is addressing, such as market access, a level playing field, SOE reform, tech transfer and IPR. The Chamber hopes that the reform agenda will progress again.

Revenue is dropping year after year, a continuation of a trend that started in 2018. But considering the pandemic, the numbers were quite positive. In February 2020 the EU Chamber did a joint survey with the German Chamber. At that time, half of the respondents expected year-on-year revenue decreases but actually only 24% reported revenue going down. Only 0.5% expected a revenue increase and instead 42% of respondents saw revenues increase. Increases were seen in retail, cosmetics and automotive while decreases were most significant in areas most exposed to Covid restrictions, such as aerospace and aviation, and food and beverage. Revenue swings, both up and down, were sharper for SMEs compared to MNCs. SMEs reported that if they were well-positioned or flexible, they were able to profit immensely. Meanwhile, SMEs exposed to the pandemic, such as those in education, hospitality or construction lacked the

resources of larger companies to offset losses.

European companies maintained profitability, as 73% reported positive EBIT, which remained steady over the past five years between 71% and 75%. The resurgence of the Chinese market is also telling compared to the rest of the world as 51% of respondents said their China EBIT margin was higher than their company's world-wide average with a year-on-year increase of 13 percentage points. Respondents reported a strong resurgence of optimism for growth, increasing from 48% in 2020 to 68% in 2021, a very significant increase of 20 percentage points. The outlook on five other categories stayed comparable over a year ago, namely competitive pressure, productivity, profitability, labor costs and access to intermediary inputs.

European companies are not leaving China and few are seeking to diversify supply chains to other markets. Only 9% of respondents are looking to shift at least part of their investments in China to other markets. This is the lowest share of respondents on record. The Chamber sees an increase in the number of respondents that would like to expand in China with 59% aiming to do so, the highest since 2014. European companies see a window of opportunity to strengthen their JV positions. About 30% of respondents have a JV in China, and of those 27% increased their position in the JV, with 18% taking a controlling share and 2% completely buying out their partner.

Many companies are seeking to secure their supply chains. Five times as many are onshoring as offshoring. Of all production companies 80% reviewed their supply chains in the last two years, while 26% are further or fully onshoring their supply chains. This reflects the “in-China-for-China strategy”, coupled with the new strategy of limiting exposure to cross-border risks like tariffs and export controls as onshore supply chains are more resilient. A third of manufacturers are exposed to critical input disruptions. Only 21% of respondents are not exposed to such critical inputs and 34% noted that there are no viable alternatives.

Market access restrictions exist for 55% of respondents. Chinese authorities made a lot of efforts, but market barriers are increasingly indirect barriers, such as administrative approvals. 45% of respondents said they missed out on business opportunities as a result of market access restrictions and regulatory barriers. The sectors most impacted are pharma, construction and legal. Only 25% of respondents expect regulatory obstacles to decrease in the coming five years.

Unequal treatment is reported by 46% of respondents, whether favoring local or foreign companies. It is important to end unequal treatment towards any company as the Chamber favors equal treatment and not preferential treatment for European companies. Areas of unequal treatment include market access, public procurement and communication with the government. A good example of unfair enforcement is in environmental protection. Equal access to subsidies is also a critical issue.

The state advances again and the private sector retreats again. SOE reform continues to go in the wrong direction. 48% of respondents expect that the state-owned economy will benefit at the expense of the private economy. Regulatory obstacles change little year-on-year. The top three obstacles are ambiguous rules and regulations, market access barriers and the unpredictable legislative environment.

There are growing concerns over the tech localization push. In ITC, network providers are negatively affected both directly through regulatory requirements and also through their customers. In banking, foreign banks are pushed to integrate with local digital systems and network equipment, requiring extensive amounts of money. If they are required to do so, smaller European banks are considering leaving China. The market share of all foreign banks in China is 0.3%.

The Foreign Investment Law failed to stop compelled tech transfers as 16% of respondents said their company was compelled to transfer technology to maintain market access, 40% of those in the past 12 months. For the first time, half of respondents find IPR enforcement to be excellent or adequate. But compared to Europe it is still not a good result and only 1% higher compared to last year. It is an important milestone but also a reminder that there is still a long way to go. Innovation is one of the reasons the Chamber's members want to be in China. The China market Is becoming a global driver for innovation, as 72% of respondents see Chinese firms as equally or more innovative than European ones. About 41% of respondents' business in China has become more politicized in the past year. Not being able to come back to China due to Covid-19 resulted in the number of foreign workers nosediving. For 73% the most negative impact of Covid-19 restrictions is travel restrictions. 35% reported that they had decreased the number of foreign workers in their China operations in the past five years, more than double the numbers that have increased their foreign headcount. This presents a long-time concern as the decrease in people-to-people exchanges between the EU and China is likely to negatively impact relations and is starting to create a gulf between China operations and headquarters. European companies are leading in decarbonization, as 55% have already reached carbon neutrality or are expected to do so by 2030.

European companies in China navigated the darkness, but see more storm clouds on the horizon. Those who can are preparing for politically-challenging times, while having to cope with long-standing issues. The Chamber's members are calling for full engagement between the EU and China, but also with the U.S. European companies in China will have to proceed under the assumption that things will get worse before they get better.

Mr. Johan Verstraete, Board Member, Flanders-China Chamber of Commerce and Vice President Weaving Machines, Picanol Group, commented on the results of the survey. First he introduced Picanol, which has two production units, one in Belgium and one in Suzhou, China. About 80% of the company's weaving machines is still built in Belgium. The 20% made in China largely remain in the local market and there is still some export from Belgium to China. One positive challenge is that the market has been booming since the middle of 2020. Another challenge is the shorter lead

times from machines made in China, which the company can supply in a couple of months whereas importing from Belgium takes eight months. There is optimism but also caution as people tend to look shortly ahead and try to jump on short-term opportunities. Picanol is facing challenges in the supply chain, both within China and from Europe to China, as the company is still shipping some strategic parts from Belgium to China to prevent copycats making the same products in China. Seven or eight companies are making similar products based on Picanol designs.

The company's revenue progressed significantly in 2020, which is remarkable as there was no production during three months, but the last nine months have outperformed many years before. The company remains optimistic for the next years. Textiles is a growing business as the middle class population worldwide is growing and China is one of the most important suppliers of textiles. Some Chinese textile companies are investing more and more in other countries, such as Vietnam and Indonesia and also in South and Central America to get around import restrictions and be close to the customers, but also to escape rising salary costs. China is no longer a cheap country.

Picanol is relatively safe from regulatory obstacles to doing business in China, but it is not in a strategic sector. It does have to pay some import taxes which protect local companies who do not have to import machines anymore. There are also difficulties to protect IP as it is not easy to enforce it. The Chinese government choses some champions, which they give almost unlimited support and looking at their debts you wonder how sustainable this model is. Since the start of the Covid pandemic foreigners who are in China are still there, but expats who are outside China have difficulties to go back. In Suzhou you face two weeks of quarantine when you enter the country and two weeks after entering Suzhou.

Q&A: What's the view of the Chamber on the new Anti-Sanctions Law? Ms Roule: The law almost came as a surprise. It came very quickly and the process lacked transparency. The law prohibits all organizations from implementing or assisting in implementing discriminatory restrictive measures. The law may conflict with measures companies need to follow in the EU.

How many companies shifted operations from China? In some sectors China is no longer a low-salary country and some Chinese companies are also delocalizing.

Mr. Jochum Haakma, Chairman, EU-China Business Association, asked whether the white paper of the U.S. Chamber of Commerce runs parallel to the European one or are American companies even more strictly treated than European ones? Ms Roule: American companies are not treated differently. Chinese counterparts differentiate between political and business issues. U.S. companies face similar issues and don't have more difficulties compared to European ones despite the political context. **Mr Haakma: Has financial reform also stalled?** Ms Roule: Despite the low market share of foreign banks, there is a lot of opening in the financial sector in terms of what they can do, but it is too difficult for many foreign banks to increase their shares in JVs.

Is there a change in attitude by local administrations towards foreign companies? Ms Roule: Local authorities try to put aside the political and talk about business. The energy transition is a hot topic and there is no change in attitude. Mr Verstraete: The local governments are – just as before – very business oriented and stimulate you to invest more.

In which sectors do you see the biggest push towards the creation of local champions? Ms Roule: The most obvious sectors are 5G and artificial intelligence, initiated by China 2025. There is also a push to localize tech whereby the technology of European companies might not be chosen.

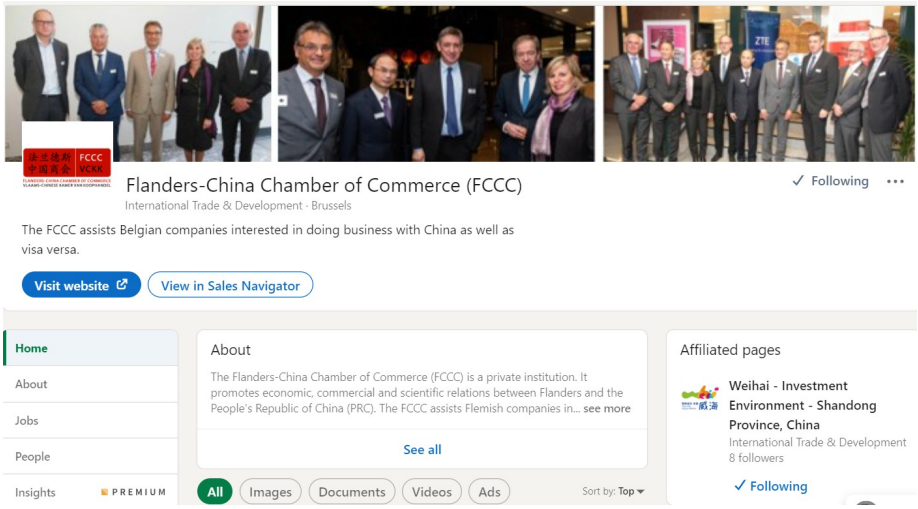
In which sectors do you think the new Five Year Plan will have significant impact? Ms Roule: Carbon neutrality is mentioned in the Plan. There is a big move to upgrade industry to become carbon neutral. Mr Verstraete: Our customers are pushed by the local governments to invest in big data and the Internet of Things (IoT).

How does the corporate social credit system affects business? Ms Roule: Due to Covid there isn't much change so far.

Is the Chinese population sensitive to carbon neutrality and reduction? Ms Roule: China is a continent so it is difficult to speak for the whole population but there is an ambition set nationally. However, people are still consuming massively.

What are your top tips for doing successful business in China? Ms Roule: To have no prejudice. When I came to China people told me not to do business with SOEs, but I have excellent experiences with SOEs. You need to demonstrate your value to your Chinese partner and have real discussions. You can't do it in front of the Communist Party Secretary of the province, but face-to-face you can say you are not happy. Don't stay alone, look for support. Mr Verstraete: Be fast, if you're not fast, you miss the train. China is no longer a cheap production country, but focus on the local market potential. Don't look at China as a developing country anymore. Come in with first-quality products to have a chance to win.

Mr Haakma delivered the closing words. The European Chamber is very strong to represent European companies in China. Of the 900 or so issues in the position paper, 20% to 30% are followed-up by the Chinese. The percentage of companies saying they make more profits in China than anywhere else was always very high despite all the difficulties. Most of the companies want to stay in China because it is an incredibly big and mature market. Market conditions have changed a lot and the competition has also become much more mature. Communication with your headquarters has to go well because decisions are being made very fast. There should be a board member specifically responsible for China who should travel to China frequently.



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FOREIGN TRADE

Flanders-China trade increases significantly in 2020

Trade between Flanders and China increased significantly in 2020 despite the Covid-19 pandemic. Flemish exports increased by 22.56% to €7.63 billion as imports from China rose 5.26% to €16.44 billion, reducing Flanders' trade deficit with China to €8.81 billion. The latest statistics of Flanders Investment & Trade also show that in the first quarter of this year Flanders' exports to China amounted to €1.81 billion, up 1.13%, while imports from China reached €4.66 billion, up 27.82%, causing Flanders to have a €2.84 billion trade deficit with China in the first quarter.

In 2020, China was Flanders' eighth most important export market, representing 2.56% of Flanders' total exports. In the first quarter of this year, China dropped to 9th place on the list of Flanders' export markets, representing 2.17% of Flanders' exports. In 2020 China's worldwide imports reached €1.8 trillion, representing 11.54% of worldwide imports, making China the second largest importing country. With exports to China valued at €7.63 billion, Flanders accounted for 0.42% of China's total imports.

The sectoral breakdown of Flanders' exports to China is as follows: chemical and pharmaceutical products (34.27%); machines, equipment and electrical goods (12.82%); base metals (11.14%); plastics and appliances (9.90%), optics and precision equipment (6.69%), and others (25.16%).

As Flanders' imports from China reached €16.44 billion in 2020, **China became Flanders' fifth largest importer, representing 5.84% of Flanders' world-wide imports.** In the first quarter of 2021, China remained Flanders' fifth largest importer with a share of 5.94% of Flanders' imports.

In 2020, China's exports reached €2.27 trillion, representing 14.74% of worldwide exports, making China the largest exporting country. Flanders accounted for 0.72% of China's exports. The sectoral breakdown of Flanders' imports from China is as follows: machines, equipment and electrical goods (27.81%); textiles (11.76%); transport equipment (11.41%); chemical and pharmaceutical products (9.91%); several goods and products (9.87%), and others (29.24%).

In 2020, Flanders' share of Belgian exports to China

reached 89.31%, followed by Wallonia (9.47%) and Brussels (1.22%), compared to an 81.16% share of Flanders in total Belgian exports. Flanders' share of Belgian imports from China reached 90.47% in 2020, followed by Wallonia at 7.91% and Brussels at 1.62%.

There are no regional statistics of trade in services. In 2019, services represented 27.98% of Belgium's total exports of goods and services and 27.87% of total imports. In 2019 Belgium exported services worth €1.10 billion to China, up 2.79% on 2018. China is the 15th export market for Belgian services, with a share of 1.02% of the total Belgian export of services. China imported services worth €0.85 billion from Belgium in 2019. China was the 19th largest supplier of services to Belgium with a 0.79% share of Belgium's total imports of services. In 2019 Belgium supplied 0.25% of China's total imports of services and imported 0.33% of China's total services exports.

This overview is based on statistics of the Institute for National Accounts (NBB) and analysis by Flanders Investment & Trade.

HEALTH

German Chamber of Commerce to resume charter flights to China

The German Chamber of Commerce in China is organizing charter flights to China, bringing in key personnel and their families as well as experts for short-term stays over the summer, the Chamber said on its WeChat account. It added that together with the German Embassy in China, it has been in talks with the Chinese Foreign Ministry about the resumption of a fast-track process for invitation letters, visa applications and charter flights. Starting from the third week of July until mid-September, the Chamber is planning to resume China-bound charter flights between Frankfurt and Qingdao in Shandong province. The service includes quarantine management and invitation letter assistance with the costs starting at €2,500.

German nationals with a valid residence permit in China and their family members, as well as employees of German companies, their spouses and families, experts and business travelers as well as **foreign nationals coming to China for necessary economic, trade, scientific or technological activities, can apply for seats on the flights**. In 2020, charter flights offered by the German Chamber helped bring 2,800 managers, employees and their family members to China.

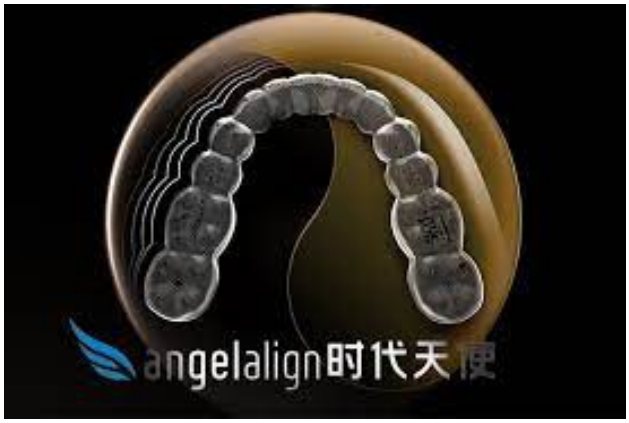
A total of 21 Chinese-made Covid-19 vaccines are undergoing clinical trials; eight of them are in phase-3 clinical trials and four have been approved for market access and exports. Two of them have also been approved by the World Health Organization (WHO) for emergency use. Sinovac's vaccine is under rolling review by the European Medicines Agency (EMA). Once approved, Sinovac can submit an application for marketing authorization, allowing it to be used in the EU. However, individual countries can also approve its use, as is the case in Hungary.

The People's Bank of China (PBC) announced it will lower fees for small firms from September 30 in areas such as bank account services, yuan settlement and electronic banking. The fee reductions are estimated to total CNY24 billion per year, of which more than CNY16 billion will benefit small businesses and sole proprietors. The measure aims to improve the business environment and promote consumption. China has been extending support for small businesses that were severely hit by Covid-19, with continued, targeted tax and fee cuts and favorable borrowing terms. In 2020, China cut taxes and fees 28 times in seven rounds, saving businesses CNY2.6 trillion during the year. This year, another round of tax cuts worth CNY550 billion is to be implemented to support small and micro-sized enterprises, manufacturing enterprises, and innovative companies. From April 1 to December 31, 2022, the threshold for value-added tax (VAT) for small-scale taxpayers will be increased from the current monthly sales of CNY100,000 to CNY150,000. At the end of April, there were more than 44 million small and micro-sized enterprises and 95 million solely owned businesses in China.

The outbreak in Guangzhou is now under control. The city has no more high- or medium-risk areas after reporting no new locally transmitted cases in the nine days to June 28.

This overview is based on reporting by the China Daily, Shanghai Daily and Global Times.

China's orthodontic market developing fast



China's orthodontics market has been developing rapidly, and players are stepping up efforts to grab market share as people become increasingly concerned about their personal appearance and teeth. **Microcloud AI & Robotics Group**, a digital dental solutions provider based in Jiangsu province, announced a financing round worth more than CNY100 million this month. Company Founder Liu Peng said the financing will be used for product development, service upgrades and promotion of its invisible braces. This latest round of financing comes less than three months after a previous round worth CNY100 million. On June 16, Shanghai-based **Angelalign** was listed on the Hong Kong Stock Exchange, becoming the first listed orthodontics company in China. On the first day of trading, its share price soared 183% at one point to hit HKD490 a share. It closed that day at HKD401, up nearly 132% from its initial public offering (IPO) price.

"Tremendous potential on the demand side lies in China's invisible orthodontics market. The already existing demand has not yet been met, and new demand is rapidly emerging," said Dun Yuting, Healthcare Analyst at online technology media platform 36Kr. Shanghai-based market research firm China Insights Consultancy said that between 2015 and 2020, visits to orthodontists in China surged from 1.6 million a year to 3.1 million, with a compound annual growth rate of 13.4%. The figure is expected to reach 9.5 million by 2030. According to Angelalign's prospectus, among the 3.1 million orthodontist visits, only 11% used invisible oral appliances, while among the 4.5 million cases in the United States, the ratio was 33.1%, demonstrating the development potential of invisible orthodontics.

Between 2015 and 2020, China's invisible orthodontics market expanded from USD200 million to USD1.5 billion, with a compound annual growth rate of 44.4%. The subcategory accounted for 19% of China's orthodontics sector last year, up 12.1 percentage points from 2015, and the ratio is expected to reach 40.3% by 2030, CIC said. "Demand growth in an era where 'face value' matters makes invisible oral appliances a gold mine in the orthodontics sector," Dun said. In 2003, scholars from China's Tsinghua University and the Capital Medical University working on invisible orthodontics technology were facing financial troubles. Li Huamin, Founder and CEO of Angelalign, saw a business opportunity, bought the technology from the universities and established the company.

However, the domestic invisible orthodontics market was virtually nonexistent. Between 2003 and 2015, Angelalign spent large sums of money on research and development as well as marketing, and suffered huge losses. It wasn't until 2015 that the company began making a profit. According to Southwest Securities, there were more than 40 invisible orthodontics brands in the Chinese market by April this year, with most established between 2018 and 2020. Industry insiders said the overall penetration rate of the domestic invisible orthodontics market is relatively low, and players should step up efforts to tap market potential. Industry experts said the overall oral health awareness of Chinese consumers is weak. Even if symptoms such as toothaches and bleeding gums occur, instead of going to an orthodontist, they just buy some herbal toothpaste or painkillers. To further explore the sector, industry players should continue to educate the market, they said, as reported by the China Daily.

CHINA NEWS ROUND-UP

Firms implementing U.S. sanctions face lawsuits

Chinese authorities vowed to take all necessary measures to firmly safeguard the legitimate rights and interests of Chinese companies following the latest U.S. crackdown on solar panel material producers based in Xinjiang, which produces around half of the world's polysilicon. Chinese lawyers and experts encouraged relevant companies and the Chinese government to strongly strike back at the U.S.' unreasonable and baseless accusations after the U.S. has become aware of the benefits of sanctions on Xinjiang's cotton and tomatoes. The fabricated “forced labor” issue in Xinjiang is contrary to reality and the accusation is “the lie of the century,” the Chinese Commerce Ministry and Foreign Ministry said. The U.S. should immediately withdraw the sanctions, or “we will take necessary measures to resolutely safeguard the legitimate rights and interests of Chinese companies and institutions,” said Commerce Ministry Spokesperson Gao Feng.

The U.S. Commerce Department put Hoshine Silicon Industry (Shanshan) Co, and three other Chinese companies – Xinjiang Daqo New Energy Co, Xinjiang East Hope Nonferrous Metals Co and Xinjiang GCL New Energy Material Technology Co, as well as the Xinjiang Production and Construction Corps on an Entity List. Xinjiang Daqo previously showed its automated production lines of polysilicon in its Xinjiang plant, invalidating the claim of “forced labor”. “Considering that the U.S. photovoltaic (PV) market only needs 10% of the world's polysilicon, we don't believe it will create a significant impact on our businesses," Xinjiang Daqo told the Global Times. Xinjiang Daqo last week obtained approval to get registered on the Shanghai tech-heavy STAR market after its parent firm Daqo New Energy's stock tumbled on the New York Stock Exchange (NYSE) partly because of the U.S. accusations.

Xinjiang's polysilicon output is expected to hit 300,000 tons this year, enough to meet solar energy demand of 60 gigawatts (GW). China became the world's largest polysilicon producer in 2020 with an output of 396,000 tons. Its global share climbed to 76% of the world total, up 8.7 percentage points, according to the China Photovoltaic Industry Association. According to German research firm Bernreuter Research, seven of the world's top 10 polysilicon producers are based in China and only one is American.

Guan Jian, Partner at Beijing Globe-Law Law Firm, told the Global Times these private Chinese companies could apply for removal from the U.S. Entity List according to U.S. law. In May, Chinese smartphone maker Xiaomi succeeded in being removed from a U.S. blacklist after winning a lawsuit. China's Anti-Foreign Sanctions Law, which was enacted on June 10, is offering more tools to block sanctions from the U.S. or other countries that may follow the U.S. According to Article 12 of the law, any organization or individual that implements or assists in implementing the U.S. sanctions against China can be sued by Chinese companies and individuals for violating the law and will be required to cease infringement and pay compensation. Anyone involved in pushing for the U.S. sanctions against China will be denied entry to China, have their assets frozen and doing businesses within China restricted. MOFCOM Spokesman Gao Feng said that China could impose sanctions on European individuals or companies if the EU bans Chinese solar panels, the Global Times reports.

Deteriorating U.S.-China relations impede investment by Chinese companies in the U.S.

Some Chinese businesses in the U.S. are considering reducing and holding off investment in the U.S., or shifting investments to other markets. According to the Annual Business Survey on Chinese Enterprises in the U.S. by the China General Chamber of Commerce – USA (CGCCUSA), about 74% of the Chinese companies responding to the survey said that the complex China-U.S. relations present the most difficult challenges in conducting business in the U.S. in 2020. The concern, which had topped the list of difficulties in recent years under the Trump administration, has not changed under the Biden administration, which labels China as a “strategic competitor.” According to the survey, most companies cite fraying relations as the biggest impediment to their future investment plans in the U.S.

About 43% of the Chinese companies reported cultural conflicts, including anti-Asia/China sentiment. Different management styles are emerging as their second-biggest concern in 2020. In 2019 before the U.S. hyped the coronavirus origin issue, the ratio only stood at 28%. The tariff war continued to weigh on the operation of Chinese businesses in the U.S. in 2020, inflating the costs of imported finished products and sourcing supplies. The survey showed that some 78% of respondents reported being negatively impacted and others expected long-term implications.

Taken together, these difficulties are leading to an atmosphere that would further deter Chinese investment, and analysts said in the long-term, the trend will drive up inflation in the U.S. The survey showed that 52% of the respondents said that uncertainty in the policy environment could lead to reducing their investment in the U.S., as 30% said they will delay or cancel future investment in the U.S., and 44% intend to increase investment in other regions, including Asia, Europe and South America. Tian Yun, Vice Director of the Beijing Economic Operation Association, told the Global Times that it is likely that the decoupling would accelerate in the high-tech sector, as the Biden administration is doubling down on efforts to build a “China-free” high-tech supply chain.

Sustainability becoming important focus of asset managers

Sustainability will be one of the most exciting investment themes in China's stock market in the years to come as green efforts across the globe are spurring the growth of Chinese new energy companies, top global asset managers said. BlackRock, the world's biggest asset manager, has moved to an overweight position on new energy over the past six months and is prudently adjusting its portfolio with investments in solar inverters, electric vehicle batteries and photovoltaic-related components. "This is not solely based on the global sustainability drive and climate change, but also on the increasing role we see China stepping into as a reliable global supplier of sustainability solutions. We have spotted companies with defendable global positions in these areas," the company said in its mid-year Asia investment outlook. Lucy Liu, Portfolio Manager at BlackRock, said that China accounts for 80% to 90% of market share across many sub-sectors of the solar value chain, helping Chinese companies benefit from increasing overseas demand.

Domestically, China's target of achieving carbon neutrality by 2060 also serves as a strong driver for the solar and electronic vehicle sectors, she said, as electronic car penetration has doubled from 6% last year to 12% by May. "We actually see very big structural opportunities on sustainability in China," said Liu. Sustainability-themed investments have emerged as popular options for investors in China as 45 out of the 115 publicly offered funds focussed on environment, social and governance (ESG) have yielded more than 50% returns over the past 12 months, according to the China Securities Journal. Fidelity International said that the assets under management of ESG funds amounted to USD17 billion in the Chinese mainland market by the end of last year, almost triple the USD5.8 billion a year earlier. Chinese retail investors may be leading the way in Asia in terms of awareness of ESG investing, according to Fidelity International. In May, China published draft rules that require listed firms to disclose a separate chapter on environmental and social responsibility in annual and semi-annual reports, the China Daily reports.

Yantian port in Shenzhen resumes normal operations

Yantian port in Shenzhen, Guangdong province, resumed normal operations, helping stabilize electronics prices and alleviate supply shortages of commercial goods in many parts of the world, government officials and experts said. The world's fourth-busiest container port resumed normal operations on June 24, following a monthlong cut in productivity caused by a Covid-19 outbreak. Coronavirus cases among dockworkers at Yantian Port have caused serious disruptions to the port since late May. Shipping companies, including Maersk, COSCO Shipping Lines and CMA CGM Group, have all warned customers that it would take several weeks to clear up the immense container backlog in the region that has put strains on global supply chains over the past four weeks. The impact of this congestion on China's overall foreign trade is limited and controllable, said Ministry of Commerce Spokesman Gao Feng, adding that the Guangdong provincial government has already taken effective measures to reduce shipping backlogs at its ports.

Yantian Port resuming normal operations will help restore the global supply of electronic consumer goods, electrical machinery, household appliances, medical equipment, auto parts and furniture, much of which is manufactured in China's Pearl River Delta region, said Zhao Ying, Researcher at the Chinese Academy of Social Sciences' Institute of Industrial Economics in Beijing. As one of China's major container shipping ports, Yantian Port handles more than one-third of Guangdong's foreign trade and one-fourth of the country's trade with the United States. The number of workers at the port has soared from 360 after the outbreak occurred in late May to the current 4,462, and all of the berths at its central and western areas where confirmed Covid-19 cases were discovered have resumed operations, with their total throughput reaching 33,000 TEU, Lawrence Shum, Managing Director of Hutchison Ports Yantian, the operator of Yantian Port said. The terminal at Yantian serves 100 vessels per week. Its container throughput reached 13.35 million containers in 2020, up 2.13% year-on-year, accounting for 50.28% of the container throughput of Shenzhen's port areas, the China Daily reports.

Shenzhen strives to become vanguard of technological innovation

The manufacturing hub of Shenzhen in Guangdong province is further exploring breakthroughs in research and technological innovation to cement its role as the "core engine" of the Guangdong-Hong Kong-Macao Greater Bay Area. The city is formulating a 10-year action program for basic scientific research to position itself at the vanguard of technological innovation, said Xi Weizhong, an official of Shenzhen's Technology Innovation Commission. Shenzhen now has 18,650 national high-tech enterprises, four times the number of five years ago, ranking second nationwide. The city's innovation capabilities in artificial intelligence, gene sequencing, new energy vehicles and drones are already at the forefront globally. Although Shenzhen has strong technological innovation capabilities when it comes to applied science, it remains weak in original innovative ideas, said Shenzhen Party Secretary Wang Weizhong,

Efforts are underway to change that. **Guangming Science City**, covering 99 square kilometers on the west side of the city, **is expected to become a world-class science center with global influence** in the coming decades, according to the Shenzhen government. The layout of the facility is expected to be completed by the end of next year. Shenzhen Bay Laboratory, established in January 2019, has already said it will locate its operations in the science city and is committed to "full chain" research and development in the field of biomedicine – from basic scientific research to market applications. "Shenzhen's innovative mechanism and abundant investment allow scientists to freely explore areas in basic scientific research," said Hu Xiaojun, Party Secretary of the Shenzhen Bay Laboratory. Scientists who join the laboratory cannot only choose their own research direction,

but also their own teams and equipment and attract enough research funds.

Since 2018, Shenzhen has invested at least 30% of its annual scientific and technologic R&D funds in basic scientific research and applied research. The city spent more than CNY4.99 billion on such research in 2020, which accounted for 42.7% of its R&D expenditure. Basic scientific research funding in China accounts for 6% of R&D funding on average. The average figure for developed countries is about 15%. There are six National Key Laboratories, four provincial laboratories, 12 basic research institutions and 2,700 innovative organizations in Shenzhen. In 2020, Shenzhen had filed 20,200 international patent applications, 1.5 times the number in 2015, ranking first among major Chinese cities for 17 consecutive years, the China Daily reports.

Swedish court bans Huawei equipment, endangering Ericsson's business in China

A Swedish court has upheld a ban on Huawei selling 5G network equipment in the country. The move will not only delay global 5G deployment as Huawei is a major vendor, but **may also put the future of Ericsson China operations in serious peril**, industry analysts said. The ban gives the Swedish Post and Telecom Authority (PTS) the right to shut Huawei out of the country's 5G mobile networks. The court ruling cited possible “national security” risks for the ban. The PTS failed to produce any tangible evidence to demonstrate that Huawei's 5G equipment has security issues. The latest court ruling is disappointing, but the Chinese high-tech company will continue to pursue its legitimate rights, Huawei told the Global Times. The judgment is under review, along with “the court's reasoning to determine what further legal remedies to pursue to protect the company's legitimate rights and interests,” and “our door remains open to constructive dialogue with relevant parties to work out practical solutions to mitigate any security concerns,” a Huawei spokesperson said.

Sweden itself is not a big market for Huawei, but it is critical for the company to continue to appeal to the court for a further decision to prove it is clean, Xiang Ligang, Director General of the Beijing-based Information Consumption Alliance, told the Global Times. The PTS stated in a submission to the court that it “has no basis for claiming that there are proven technical vulnerabilities in equipment or software from Huawei.” “We encourage relevant Swedish authorities to rely on objective, unbiased and verifiable cyber-security standards based on facts,” the Spokesperson added. In October 2020, PTS unexpectedly banned Huawei from supplying 5G equipment to Swedish telecom companies due to so-called security concerns raised by Sweden's security service SAPO, a decision that the Chinese company challenged in court.

An Ericsson statement on May 24 this year said that the PTS decision “may adversely impact the economic interests of Sweden and Swedish industry, including those of Ericsson.” Chinese mobile operators invited Ericsson to participate in their 5G equipment testing, offering the Swedish vendor an opportunity to “interview” for access to China's 5G market. It could be the last chance for Sweden to reverse its decision. Cui Hongjian, Director of the Department of European Studies at the China Institute of International Studies, told the Global Times that the lack of solid evidence for banning Chinese companies may eventually put Swedish companies such as Ericsson at risk, the Global Times reports.

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Contact

Flanders-China Chamber of Commerce
Office: Ajuinlei 1, B-9000 Gent, Belgium
New telephone and fax numbers:
T ++32/9/269.52.46
F ++32/9/269.52.99
E info@flanders-china.be
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The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com

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