China Business Weekly

1 February 2022

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

The Flanders-China Chamber of Commerce wishes you a Happy Year of the Tiger!

FCCC/EUCBA ACTIVITIES

Online Chinese New Year Celebration – February 7, 2022, 13h30 - 14h30

The Flanders-China Chamber of Commerce has the pleasure to invite you to **celebrate the Year of the Tiger** on Monday, February 7 between 13h30 and 14h30. With the continuing Covid-related restrictions, this will be an online event.

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

The speeches will be followed by a Question & Answer session focused on trade and investment between Flanders and China and the growing opportunities that exist. If you would like to ask a question, please could you add it into the registration form, so we can make sure that your question is addressed at the right point during the online session.

We very much hope that you will attend.

Program:

13h30-13h35: Welcome speech by **Ms Gwenn Sonck**, Executive Director, Flanders-China Chamber of Commerce

13h35-13h40: Introduction by **Mr Kurt Vandeputte**, Chairman, Flanders-China Chamber of Commerce

13h40-13h55: Speech by **His Excellency Cao Zhongming**, Ambassador of the People's Republic of China in Belgium

13h55-14h05: Speech by **His Excellency Jan Jambon**, Minister-President of the Government of Flanders

14h05-14h30: Question & Answer session

Practical information:

Date and time: February 7, 2022, 13h30-14h30

Location: Online

Price for members: Free

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Webcast: How to understand and navigate China's changing business environment for foreign investors – 22 February 2022, 09:00 am CET

The Flanders-China Chamber of Commerce and The Conference Board are organizing a webcast to gain a better understanding of the current environment and implications for foreign businesses on February 22, 2022 at 09:00 AM CET [09:00] (Brussels), 04:00 PM SGT [16:00] (Singapore).

The current operating environment in China is being shaped forcefully on the one hand by changes from the pandemic as well as intensifying domestic economic imbalances, and on the other government initiatives to rectify what China's leadership has identified as serious ideological deficiencies in the commercial and social spheres associated with "disorderly capital expansion" and societal disarray.

The risks currently being targeted by China's leaders have recently focused on the massive wealth accumulation by Chinese entrepreneurs, the capture of market data by private firms, and the oligopolistic business practices in the marketized parts of China's economy. To address these risks, the increase of Party/state control appears to be happening everywhere.

Debate is rife about whether these current developments are primarily political and control oriented, or visionary and "managed reform" oriented and aimed at resolving longstanding social and economic problems to create a better and more egalitarian future for China. **This question is of huge consequence for foreign investors in China.**

Key learnings:

- The economic circumstances that contextualize China's "Dual Circulation" and "Common Prosperity" policy shifts
- Private sector rectifications and implications for the future role of markets in China
- Forecasts for changes to the business environment in China in the run up to the Fall 2022 20th National Party Congress and beyond
- Repositioning imperatives for foreign companies in China

Speaker: David Hoffman, Senior Vice President Asia and Managing Director of the China Center for Economics & Business, The Conference Board

Moderator: Gwenn Sonck, Sinologist, Executive Director, Flanders-China Chamber of Commerce and EU-China Business Association.

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China Dinner: The Picanol Journey in China – 24 February 2022, 18h30, Ghent

After a long period of virtual events, our chamber is once again pleased to be able to put on some live events at which we can all once again meet one another in person. Our second event is an informal dinner which will take place on **February 24, 18h30** at Cercle Royal La Concorde, Kouter 150 in Gent.

Mr. Johan Verstraete, Vice President Weaving Machines, Picanol Group is our guest speaker, and he will talk about Picanol's experiences in China.

He will have much of interest to say, so you are strongly encouraged to sign up to join us at the dinner, which always prove very popular with our Members. **There are limited seats**, so we can have a small group to enable people to share their experiences and to network.

Program:

18h30-19h00: Registration and networking.

19h00-19h05: Welcome by Ms. Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce.

Speech & Dinner: Picanol's experiences in China, by Mr. Johan Verstraete, Vice President Weaving Machines, Picanol Group, and Board Member, Flanders-China Chamber of Commerce.

Panel discussion and closing remarks: Mr. Kurt Vandeputte, Senior Vice-President Government Affairs, Umicore and Chairman, Flanders-China Chamber of Commerce.

21h30: Finish

Practical information:

Date and time: February 24, 2022, 18h30-21h30

Location: Cercle Royal La Concorde, Kouter 150 in Gent; Parking: Kouter

Price for Members: €75, + 21% VAT **Price for non-Members:** €95, +21% VAT

We will follow government guidelines, so we ask every participant to bring a Covid Safe Ticket.

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PAST EVENTS

Webinar: Likely pricing scenarios: how much will it cost you to ship by sea and rail between China and Europe in 2022? – 26 January 2022

The Flanders-China Chamber of Commerce organized a webinar – with the support of structural partner Flanders Investment & Trade – on the topic of **'Likely pricing scenarios: how much will it cost you to ship by sea and rail between Europe and China in 2022?'** on January 26, 2022.

Ms Gwenn Sonck, Executive Director, Flanders-China Chamber of Commerce, introduced the webinar and the speakers. Current spot ocean tariffs from China to Europe continue to be high. During the webinar experts will address how long tariff rates and delivery times will continue and what changes – if any – can be expected in the coming months. What will be the impact for European businesses exporting to China and importing from China. Our experts will provide a comprehensive picture of the current rates on the different routes and compare ocean transport with transportation by rail, which is a growing option for many traders.

Each day China exports USD1 billion in goods while the EU exports USD500 million to China. Exports to other countries highlight the untapped potential for European companies in the Chinese market. For the full year of 2020, the value of completed European direct investment transactions in China reached €9.5 billion, a decrease of 21% compared to 2019. Also last year, European investments continued to fall, but China is a market that can't be ignored. One of the big challenges for companies doing business with China is the fact that we can't go to China due to the Covid-19 pandemic. However, the biggest risk for companies doing business with China is still not to be in China.

Mr Pepijn De Vreese, Chief Officer International Trade at the Port of Zeebrugge, talked about the impact of disruption on the global shipping supply chain. Before the financial crisis in 2008, container volumes grew on average 7% to 10% a year. Port authorities and shipping companies worldwide were investing to cope with the growth. After the financial crisis there was a huge drop in volume worldwide, creating overcapacity in the market, both in port infrastructure and capacity of the shipping lines. This created huge pressure on container rates, followed by rationalization and mergers in the sector. At the Port of Zeebrugge we used to have three smaller terminals, now we have one big one. There were bankruptcies and the forming of alliances of shipping companies to reduce cost per unit to ship a container. This also led to underinvestment in the sector for over a decade.

When Covid-19 happened this led to an imbalance in container availability, combined with a boom in e-commerce and depletion of stocks. The number of goods going through the major hubs increased, leading to congestion and a lack of vessel capacity. This spread from hub ports to other ports as companies started to bypass hub ports. This led to an increase in container rates and a decrease in customer service levels. Looking at the current container fleet activity, all container capacity was used at maximum level as the inactive container fleet stayed below 3% in 2021, which is an absolute minimum. In January 2022, the overall inactive fleet capacity stood at 553,045 TEU or 2.2% of the total fleet, while there are also many vessels in dry dock and being repaired. Fleets are used to the maximum with commercially idle ships under carrier control only at 98,696 TEU.

Port congestion raised vessel demand due to traffic jams. The impact was higher in the Asia-Pacific than on the Asia-Europe routes, but was still high. There was huge congestion at the UK's Felixstowe Port, but also in Rotterdam, Antwerp and other ports. There is no instant cure for the shortage in port infrastructure. You can't build infrastructure overnight. The availability of containers is a priority for shipping lines, which is a shift in strategy compared to the start of 2021 when they

moved containers quickly back to Asia. Nowadays they are trying to provide a better service. They allow vessels to stay longer in the port to take out as many containers as possible, but it also means you need to take them out of the port, putting immense pressure on your complete logistics system. But container equipment shortages, although still problematic, are not as acute as in the beginning of 2021. However, many boxes are still stuck in the hinterland due to lack of manpower.

It is unlikely the situation will change until the second half of 2022 and pre-Covid container rates are unlikely in the medium term. A lot of capacity is being created and this could again lead to overcapacity but not in 2022 or 2023. Only 1.1 million TEU in newly built vessels is coming in 2022 and 2.3 million TEU are expected in 2023. But there are heavy investments required in the type of vessel because all shipping lines need to meet the decarbonization goals of the International Maritime Organization (IMO2030). If there is huge demand on shipyards to build vessels, the price of vessels will increase. When all vessels are taken you see a huge increase in rates to charter vessels into the fleet as shipping companies use a combination of own vessels and chartered ones. New players are now entering the market, paying huge amounts of money every day to charter vessels. If rates would fall, you would see again many bankruptcies. U.S. and EU ports are challenged with workforce fallouts due to Omicron in terminals, in hinterland transit and in warehouses. Adding port infrastructure requires a lot of money, time and space. The biggest challenge is space, as not all ports have additional space available to build new terminals and docks.

Omicron outbreaks in China – the factory of the world – and its ports can cause more heavy disruption in the supply chain. Due to the zero-Covid policy there is a lockdown whenever there is an outbreak and this creates waves in the supply chain. If China would open the gates for Omicron like in Europe, we can again expect more disruption in 2022. And let's not mention geopolitics, the tense situation could again impact the complete supply chain. On a positive note, every actor working in the logistics and supply chain is actively trying to find solutions.

Zeebrugge is in a strategic location for a logistic distribution center (LDC) along the Belt & Road. Since COSCO took over in 2017, we have seen a 20% growth in deep sea container volumes year-on-year with a peak of 54% in 2021. We also signed an extension of the concession agreement, gearing up for additional investment. In 2021 we had a first expansion at the container terminal and we are now looking at the second one in one year time. The target for 2022 is 20% to 30% growth. If the situation remains as it is today we will achieve this target by the end of 2022. Construction of the Lingang Logistics Park is underway with a delivery date set for August 2022. It is already 50% occupied but other companies are also investing to add logistics space.

The ports of Antwerp and Zeebrugge are going to merge pending final approval to become the Port of Antwerp Bruges by the end of April, beginning of May. We can already see a lot of benefit from that collaboration also in the container business. Increased connectivity between the two platforms will ease a lot of pressure on both sides. A big party is scheduled for April 28.

Mr Didier Duponselle, Business Unit Director Supply Chain Solutions, Ahlers, focussed on the container rates evolution to and from China. Ahlers is a family-owned logistics service provider with its headquarters in Antwerp. The company's mission is to deliver high-quality services to enable customers to focus on their business. It offers innovative, sustainable and tailor-made solutions beyond logistics. Ahlers has offices from Antwerp all the way to China.

The supply chain is disrupted not only in the short term, but the medium and even long term. Recent disruptive events include the “Ever Green” blocking the Suez Canal for one week with more than 300 vessels delayed and the aftermath still ongoing. Covid outbreaks at Chinese ports caused major delays in the Asia-EU and Asia-Americas trade. The U.S., Europe and the UK are faced with a shortage of drivers leading to container congestion in ports. Delays in Asia-bound exports are creating imbalance in equipment and decreasing the reliability of sailing schedules. There was also major congestion at the Los Angeles-Long Beach terminals with 70 vessels having to wait outside the port, again impacting global schedule reliability. Finally there is also the weather.

Consumption remains high at higher prices and higher container rates are paid. Container carriers continue to maximize prices and realizing extreme profits. An oligopoly of ocean carriers has been created with the total capacity of the top five carriers globally at a 75% market share. Looking at the top three alliances on some trades there is a market share of a stunning 90% or higher. Current experience remains a “take it or leave it” approach for freight rates, detention charges and underperforming trucking. There is still less accurate communication, vessel delays and roll overs for both shippers and forwarders.

There is a price hike for example for a 40 foot container on the Shanghai-Antwerp route. Prices are high but tend not to go up anymore. The variation in prices remains high. In March 2020, a normal variation was USD500 between the highest and lowest market tariff, while the difference now can be up to USD10,000. Both prices are accepted and market conform. On the Antwerp-Shanghai route there was a peak of USD3,000 in January 2021, dropping to USD1,500 today, a drop of 50% but still a lot higher than the initial price. The reason the price has come down is container availability. Westbound, there are still rates of USD13,500. Important to note is the difference between the spot rate and the NAC rate. If you ask for a rate today you get the spot rate, which is very high. Named account (NAC) rates for companies which have big volumes of more than 100 containers a week can be negotiated to obtain a better rate. On the spot market tariffs have gone up 10-fold in one year, while NAC rates increased three-fold.

Most companies are involved in the spot market. Influential factors on the spot market on the supply side are carriers versus forwarders; carrier capacity and pricing strategy; container availability and driver availability. The regulatory impact

includes labor disputes in the EU, U.S. and UK; the mobility package of the EU; trade financing rules; sustainability and emission reduction; and the geopolitical impact. On the demand side there is inflation and the impact of spending behavior and sourcing strategies. Affecting all sides is the Covid pandemic. In the short term positive factors influencing the spot market are sourcing strategies, inflation and spending behavior – lower demand – and container availability. Worsening factors are carrier versus forwarding; geopolitics, sustainability & emissions reductions; mobility and labor disputes. In the medium term more factors are improving. Only geopolitics and sustainability & emissions reduction are expected to be worsening. Covid is expected to become endemic.

Comparing ocean rates with rail rates along the Silk Road for a 40 foot container we see the prices increase for the ocean rate from USD2,150 in December 2019 to USD13,500 in January 2022, while the rail rates dropped from USD16,900 in December 2019 to USD16,000 in January 2022. Look to rail as an alternative but not as a long-term sustainable option, as 80% of the route the locomotives are diesel engine ones. The Silk Road via road is currently no longer a viable option due to very high rates between USD18,000 and USD30,000 per truck.

In the medium and long term, expect a further reduction in tariffs at the earliest in the second half of 2022 of 30% to 40% according to the most positive sources. From the second half of 2022 till the second quarter of 2023 we expect still significant higher price levels compared to pre-Covid times if no other external factors occur. Prices will not go down again to pre-Covid levels, they will remain higher. Lead times will improve further as most carriers plan to continue fast sailing and more is slowly but steadily added. It appears e-commerce volumes are normalizing to pre-Covid times, but supply chain challenges will remain.

A Q&A session concluded the webinar. Do you see more innovation, digitalization, just-in-time port calls or collapsible containers? Mr De Vreese: A lot is happening in digitalization, improving visibility in the supply chain allowing for gains in efficiency. The issue is getting all parties to work together and to share data. How to improve terminal capacity without using too much space is another challenge.

When do you expect the market to normalize again? Mr Duponselle: As long as carriers have enormous power, they will continue. After Chinese New Year next year the market will normalize. Mr De Vreese: In defense of the carriers, don't underestimate the pressure the shipping lines experience to invest in new types of ships and technology to meet their ambitious goals. Just before Covid some carriers had to sell assets to improve their balance. Now they are earning excessively but they also have a lot of challenges ahead. Pre-Covid rates are not beneficial to anyone because this would lead to underinvestment.

What is the incentive for the carriers to increase capacity if they are currently enjoying increased rates? Mr Duponselle: Oligopolization ensured that the shipping world could survive in the long run but now we are experiencing the flip side. This should not last too long because everybody is complaining that this is no longer feasible. If they don't invest the authorities will intervene and create more competition. Mr De Vreese: What if there is a drop in volume after you spend a lot on new capacity? The biggest issue today is not vessel capacity, carriers are hesitant to invest in capacity. They invest in logistics and freight forwarding companies.

MEMBERS' NEWS

Concession of CSP Zeebrugge Terminal is extended to 2055 – Continue to strengthen CSP Zeebrugge Terminal as the hub port in Northwest Europe

COSCO SHIPPING Ports Limited, the world's leading ports operator, and the Port of Zeebrugge held an online signing ceremony and agreed to extend the concession of the CSP Zeebrugge Terminal by 15 years to 2055. Mr. Zhang Dayu, Managing Director of COSCO SHIPPING Ports and Mr. Tom Hautekiet, CEO of the Port of Zeebrugge, signed the agreement on behalf of the two companies.

Mr. Zhang Dayu, Managing Director of COSCO SHIPPING Ports, said: "CSP Zeebrugge Terminal has strong momentum of growth in recent years. In 2021, CSP Zeebrugge Terminal enjoyed a 53% increase in volume to approximately 930,000 TEU, which would not have been possible without the excellent corporation between the Port of Zeebrugge and COSCO SHIPPING Ports. As the first holding terminal in Northwest Europe, CSP Zeebrugge Terminal, is and will always be in the top priority in COSCO SHIPPING Ports' strategy. The extension of the concession is a next milestone for both of us. We are looking forward to enhancing our cooperation with the Port of Zeebrugge, further developing the terminal and enhancing our operational capability to provide competitive service to all customers.

Mr. Tom Hautekiet, CEO of the Port of Zeebrugge, said: "The extension of the concession term offers new opportunities for the port of Zeebrugge in the near and distant future. The cooperation with COSCO SHIPPING Ports has certainly already borne fruit. The strong growth in the share of deep sea container traffic resulted in an increasing interest of other shipping companies and services for the Zeebrugge port system. Together we want to lift the pioneering role of the port of Zeebrugge for international logistics to a higher level and optimize the port infrastructure within the framework of our intended 'clean port strategy'."

CSP Zeebrugge Terminal is the first subsidiary of COSCO SHIPPING Ports in Northwest Europe and our Company has a 85.45% stake in the terminal. The Terminal enjoys a favorable geographical location with more than 1200-meter quay length and 17.5-meter depth alongside. It has three berths and is capable of satisfying the needs of mega-vessels. CSP Zeebrugge Terminal is adjacent to Hamburg and Le Havre districts, close to the UK. As a transportation hub leading to all directions, the Port of Zeebrugge has good road and rail networks connecting various countries in Europe, as well as coastal ports in Northwest Europe, Central Europe, and Eastern Europe.

CSP Zeebrugge Terminal optimizes the network in Northwest Europe for the dual brands of COSCO SHIPPING Lines and OOCL, as well as the Ocean Alliance, and maximizes the synergy effect. Under the existing concession rights agreement, the concession of CSP Zeebrugge Terminal is 36 years, from January 1, 2005 to December 31, 2040. The extension of the concession to 2055 will help better strengthen CSP Zeebrugge Terminal as a hub port in Northwest Europe.

About COSCO SHIPPING Ports (https://ports.coscoshipping.com)

COSCO SHIPPING Ports Limited (Stock Code: 1199.HK) is a leading ports operator in the world; its terminals portfolio covers the five main port regions in Mainland China, Southeast Asia, the Middle East, Europe, South America and the Mediterranean. As at 30 September 2021, CSP operated and managed 370 berths at 37 ports worldwide, of which 223 were for containers, with a combined annual handling capacity of 124 million TEU.

HEALTH

Beijing reports Covid-19 cases in- and outside the Olympic bubble; Hangzhou and port cities also hit

A few days before the opening of the Winter Olympics in Beijing, a number of athletes have tested positive for Covid-19, raising doubts about their participation in the competition. The Games begin on February 4. All athletes will be tested daily. Chinese President Xi Jinping is expected to attend the opening ceremony and to host a banquet for 32 heads of state or government, international organizations and royal family members, including President Vladimir Putin of Russia, King Norodom Sihamoni of Cambodia, Prime Minister Imran Khan of Pakistan, UN Secretary General Antonio Guterres and World Health Organization Director General Tedros Adhanom Ghebreyesus.

Several communities in Beijing were locked down after a few Covid cases were identified and residents will have to take daily tests. Beijing has limited the movement of people in more parts of the city to lower virus risks ahead of the opening of the Winter Olympics. In Fengtai district, residents in more areas are required not to leave their residential compounds for unnecessary reasons and to take a daily Covid test. The district, which has reported more local virus cases than others in the current outbreak in Beijing, had already locked down some compounds that house tens of thousands of people. Several other city districts have imposed mobility restrictions in certain areas.

The health code system of Beijing experienced a temporary technical failure for about an hour on January 26, leaving Beijing residents unable to check their nucleic acid testing results. As one case in Beijing was suspected of having been infected by handling mail from abroad, He Qinghua, an official at the National Health Commission (NHC), said experts have insufficient evidence so far to prove that non-frozen imported goods could transmit Covid-19 to people in China. “Humans contracting the virus via tainted goods is not the main spreading channel, but we cannot rule out such a possibility,” He said.

A flare-up in Zhejiang province, which has registered 14 local confirmed cases in two days, **is an independent outbreak caused by the Omicron variant**, health authorities said. The city of Hangzhou has become the latest hit by a Covid-19 outbreak as cases in other mainland centers abate. The city in Zhejiang province recorded a total 30 positive cases by noon on February 26, mostly mild cases. The first case was a worker at Welbilt (China), an international supplier of kitchen equipment. The authorities said that the strain was different from previous local or imported Omicron cases and categorized it as a new outbreak. They said four Omicron positive samples were found in unopened imported Welbilt goods. Half of the 30 infected patients were employees of Welbilt, which has 240 staff. Some other positive cases came from restaurants and shops near the company. Five infected employees had attended an annual company event or a wedding banquet. The Hangzhou outbreak has spilled over to Anshun in Guizhou; Shangrao in Jiangxi; and Luotian and Huanggang in Hubei. Separately, Shanghai reported one new locally transmitted case, the wife of an employee at Pudong international airport who was confirmed as a new locally transmitted case with the highly infectious Omicron variant.

Some of China's port cities, which have been at the frontline in fending off the risks of imported Covid-19 cases over the past two years, **were again caught in a resurgence of coronavirus cases** in recent days. After Khorgas in Xinjiang reported some new cases, Suifenhe, a port city on the China-Russia border in Heilongjiang province, reported new cases linked to imported grain. The outbreak spilled over into Dongning, a city about 50 kilometers from Suifenhe, when a truck driver for a trading company who just returned from Suifenhe turned out to be infected. Both cities in Heilongjiang are major land ports and they have been conducting routine full-scale nucleic acid tests every five days. The sources of these port-related outbreaks are most likely goods from overseas, because it is impossible to ensure 100% disinfection of goods.

Shanghai’s first mass produced Covid-19 vaccine – Convidecia – hit the market from a newly launched vaccine gigafactory, covering more than 30,000 square meters in suburban Baoshan district. The single-dose vaccine from CanSino Biologics is the only one-shot Covid-19 vaccine among the seven authorized for use in China. The factory, jointly set up by Shanghai Pharmaceuticals and CanSino Bio, can produce 200 million shots annually. The vaccine was jointly developed by Tianjin-based CanSino and a team led by General Chen Wei from the Beijing-based Chinese Academy of Military Medical Sciences. The Shanghai municipal government has announced that **foreigners over the age of 18** and people from Hong Kong and Macao **in Shanghai can now register for Covid-19 booster shots**. Foreign minors and children from Hong Kong and Macao between the ages of 3 and 11 will also be able to receive their first vaccination. Reservations can be made through Jiankangyun, Shanghai's health app. The price of the booster shot is CNY100 for expats who do not have medical insurance in China and free for Hong Kong and Macao residents.

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

FOREIGN TRADE

EU launches case against China at WTO, alleging China is limiting imports from Lithuania

The European Union has submitted a complaint against China and a request for consultation at the World Trade Organization (WTO) office in Geneva. China stands accused of placing an unofficial embargo on Lithuanian exports, after the government permitted the opening of a Taiwanese representative office in the capital of Vilnius. The issue is that it was named "Taiwan Representative Office" – implying that Taiwan is an independent country – instead of Taipei representative office, indicating it represents Taipei, China.

Lithuania's exports to China dropped by more than 90% in December compared to both the previous December and the prior month of November. But China has denied there is an embargo, telling EU officials that Chinese businesses have simply decided not to buy goods from countries that have "attacked China's sovereignty". The Lithuanian government is under pressure to reconsider renaming the office, following a domestic backlash, but the Chinese government has indicated this would not be sufficient to improve bilateral relations and the Taiwanese government said it had not received any request from Vilnius to change the name of the office. A Global Times editorial said that "it will take much more than just renaming the office" for Lithuania to mend its relationship with China. "Lithuania needs to make substantial adjustments to its overall China policy, rather than completely follow the U.S.' agenda," said the article.

Lithuania's Foreign Minister Gabrielius Landsbergis said there was no intention to change the name. Taipei's Representative to Lithuania, Eric Huang, told the South China Morning Post that he would not wade into the row over the naming of the office, adding that strengthening economic and trade relations is more important.

Lithuania's President Gitanas Nauseda described the naming as a "mistake", while businesses have been lobbying the government after losing access to the Chinese market, despite the fact that only a relatively small number of Lithuanian companies export to China. There has also been anger in some European capitals after China blocked goods from countries including France, Germany and Sweden that contained components made in Lithuania. "This situation showed us that we are quite resilient when it comes to the Russian hybrid war, but absolutely vulnerable to a Chinese version," said Marius Laurinavičius, International Affairs Expert at the Vilnius Institute for Policy Analysis.

The EU's request will be the initial formal step towards a WTO case that is likely to drag on for years. China has the right to accept or reject the consultation, designed to resolve grievances without the need for a lengthy dispute settlement procedure. In case the consultations are unsuccessful or fail to get under way, the EU would request that the WTO form a dispute panel of judges to hear the case. The WTO only deals with active cases, meaning if the coercive behavior was to stop months or years into a proceeding, the case would be dropped, with no recourse for Lithuanian businesses. At a testimony to the European Parliament, the EU's Trade Enforcement Officer Denis Redonnet, described China's treatment of Lithuania as a "a combination of disguised or silent coercion". "A lot of what China does is in this unofficial zone and it denies anything officially. It's very hard to hold them accountable and when you do, it's years down the track and is cold comfort for the exporter," said Bryan Mercurio, Professor of Trade Law at the Chinese University of Hong Kong, the South China Morning Post reports. China has downgraded its diplomatic relationship with Lithuania and pressed multinationals to sever ties with the country or face exclusion from its market.

However, **the EU bringing a case against China before the WTO will anger the Chinese government and further complicate China-EU relations** at a time when the ratification of the Comprehensive Agreement on Investment (CAI) is on hold due to allegations by the EU that China is violating the human rights of Uyghurs in Xinjiang. According to the EU, China's "illegal actions' include a refusal to clear Lithuanian goods through customs, rejection of import applications from Lithuania, and pressuring EU companies operating out of other EU Member States to remove Lithuanian inputs from their supply chains when exporting to China.

Premier Li Keqiang underlined the need for China and the European Union to uphold dialogue and cooperation, properly handle differences and strive toward the healthy and steady growth of bilateral ties. In a virtual meeting with Dutch Prime Minister Mark Rutte, Li said the Netherlands, a key member of the EU, should play a constructive role in promoting ties between Beijing and Brussels. The meeting came after Li extended a congratulatory message to the Dutch leader after his reelection earlier this month. This year marks the 50th anniversary of the establishment of diplomatic ties between China and the Netherlands.

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

MARKETING

Chinese brands expanding abroad, say Google and Kantar

Chinese brands, including gaming companies, smartphone makers and short video apps, **are continuing to expand their overseas business** despite fallout from the Covid-19 pandemic, and international awareness of those brands is seeing a sustained rise, experts said. Chinese brands are generally stronger in developed markets, but some categories – including transportation apps, cars and e-commerce – are doing particularly well in emerging markets, according to a report by Google and Kantar Group, a data analytics and brand consulting company.

The report, **the Top 50 Kantar BrandZ Chinese Global Brand Builders 2021**, said the **top 10 Chinese global brand builders are Alibaba, ByteDance, Huawei, Xiaomi, Lenovo, Oppo, Hisense, Haier, One-Plus and Vivo**. "Over the years, we have seen that Chinese companies that have invested in building their brands are able to achieve sustainable, quality growth and find resilience during financially stressed times," said Annabel Lin, Managing Director of China solution specialists and Asia-Pacific international growth at Google.

The 2021 ranking surveyed more than 860,000 consumers in 11 markets, including seven developed markets – Australia, France, Germany, Japan, Spain, the United Kingdom and the United States. Surveys were also done in four emerging markets – India, Indonesia, Mexico and Brazil – where consumer interest in Chinese brands is rapidly growing and where more Chinese brands are starting to find opportunities, the report said. Although Chinese brands have been affected by the pandemic, they have continued to invest in brand building to develop their business overseas. Top Chinese brands also have seen continued growth in awareness in developed markets, according to Kantar. The past two years were certainly the most challenging for Chinese brands going overseas. In the face of global disruption, the Top 50 Chinese brands remained aligned with their core values and tried new approaches. By moving quickly on the right strategic insights, they found ways to not merely survive, but to grow quickly during disruptive times, the report added.

The top 50 Chinese global brand builders report is the fifth one since 2021 when Google and Kantar began to analyze Chinese global brands. "For the first four years of the ranking, one of the main tasks Chinese companies were urged to undertake was to build strong, resilient and truly global brands. Could they take their unmatched logistics and innovation capabilities and use them to create a brand positioning that made them meaningful, different and salient?" said Doreen Wang, President of Kantar Greater China.

Many Chinese brands passed the test with flying colors in 2020. When going global, Chinese brands are not only selling products but are also developing an ecosystem mindset. They are delivering their own products directly to consumers and in some cases, serving as commerce platforms in their own right, she said. Building ecosystems overseas often means becoming partners with local companies and sometimes multinational corporations, together creating commerce platforms that are much greater than the sum of their parts. The goal is not merely to develop a great reputation for products and services but to lay the foundation for an enduring presence and long-term success, she added.

Chinese brands have an opportunity to leverage their advantages in areas like logistics and make inroads with consumers by upgrading their current services, the report said. A good example is Alibaba, which topped the most recent Top 20 Chinese Star Brands in Emerging Markets, a sublist compiled by Kantar and Google. The company invested heavily to introduce its Cainiao supply chain and tracking system in 152 countries and regions by the end of 2020, the China Daily reports.

CHINA NEWS ROUND-UP

WTO allows China to impose tariffs on USD645 million of U.S. imports

The WTO ruled that China can retaliate against USD645 million in annual goods trade with the U.S. over Washington's anti-subsidy tariffs on Chinese goods. The outcome of this case is of great significance for addressing the U.S.' illegal countervailing practices against China, safeguarding the legitimate trade interests of Chinese enterprises and defending the multilateral trading system, China's Ministry of Commerce (MOFCOM) said in a statement. **In 2012, China filed a complaint at the WTO challenging the countervailing duties imposed by the U.S. between 2008 and 2012 on 22 Chinese products**, ranging from solar panels to steel wire. The dispute has been under review for nearly a decade. A WTO arbitrator last week issued a ruling on China's countervailing measures against the U.S., holding that China may request authorization from the WTO's Dispute Settlement Body to suspend concessions or other obligations at a level not exceeding USD645 million per annum against the U.S.

It is the second time that China has been granted a favorable ruling by the WTO concerning trade retaliation against the U.S. Previously, China was granted USD3.579 billion in annual trade retaliation against the U.S. in a WTO dispute over anti-dumping measures. Chinese analysts said that the latest ruling fully showed that the WTO has recognized the market economy status of China and its state-owned enterprises (SOEs), and it is expected that the success rate of appeals of SOEs in international trade will be significantly improved in the future. The WTO panel found that the U.S. Department of Commerce acted inconsistently with WTO rules because it determined that certain Chinese SOEs were “public bodies” based solely on the grounds that they were majority owned, or otherwise controlled, by the government of China. Analysts also said that China's goal is not to raise tariffs but to push the U.S. to lower them.

The WTO ruling also piles up pressure on U.S. President Biden to remove tariffs on Chinese products imposed by his predecessor Donald Trump, which have already been determined to be illegal by the WTO and are causing headaches for the U.S. economy. A WTO appellate body judge ruled in October 2020 that additional tariffs imposed by Trump on USD200 billion worth of Chinese products violated international rules, but President Biden has not removed the tariffs. “Wednesday's ruling was different from the additional tariffs imposed on $200 billion worth of Chinese products in the Trump era,” Hu Qimu, Chief Research Fellow at the Sinosteel Economic Research Institute, told the Global Times, noting that the Trump-era tariffs are mixed up with political factors. “China's manufacturing industry is not afraid of U.S. tariffs, because U.S. consumers paid and will pay for the tariffs imposed on Chinese goods, contributing to today's inflation in the U.S. and even affecting current U.S. monetary policy,” Hu said, as reported by the Global Times.

China and EU should strengthen cooperation, say China analysts

China and the European Union should strengthen cooperation and manage differences to develop a sound relationship. Ding Chun, Director of the Center for European Studies at Fudan University in Shanghai, said the common interests of China and the EU far outweigh their differences, and both sides should tackle distractions and challenges to seek new progress in advancing the China-EU Comprehensive Strategic Partnership. China has attached great importance to its relations with Europe, with the Chinese government maintaining frequent communication with leaders of the EU and its member countries in the past year, Ding said, stressing that it is in the common interest to strengthen strategic communication and jointly promote the sound and steady development of Sino-EU relations.

Tian Dewen, Deputy Director of the Institute of European Studies at the Chinese Academy of Social Sciences (CASS), said relations between China and the EU saw new challenges last year, with some “forces in Europe” grossly interfering in China’s internal affairs and frequently stirring up trouble on issues related to the Xinjiang Uyghur Autonomous Region, Hong Kong, the South China Sea and the Taiwan question. In March, the EU imposed sanctions on four Chinese officials and one entity based on lies and disinformation involving alleged human rights violations in Xinjiang, Tian said, adding that in May, the European Parliament passed a resolution to freeze ratification of the EU-China Comprehensive Agreement on Investment (CAI) after seven years of negotiations – again over alleged human rights violations. “When we examine the future of China-EU relations, we should not be unduly influenced by these negative elements,” he said. “Sound China-EU relations over the past 30 years have brought huge benefits to both sides and the world at large, and many twists and turns along the way have eventually been overcome.”

Tian added that China and the EU are committed to multilateralism. Despite their differences in ideology, social systems and interests, they share broad common ground in addressing climate change, protecting biodiversity, combating terrorism, and preventing nuclear proliferation. “As responsible international players, there will be increasing areas of political cooperation between China and the EU and its member states, because this is in the common interests of humankind,” he said. Tian said relations between China and the EU face opportunities and challenges this year. It is important for both sides to be pragmatic, seek common interests and manage their differences properly, which will benefit not only them but also the global economy and stability, the China Daily reports.

China to encourage more foreign investment in advanced manufacturing and services; high-tech and the digital economy

China will expand the number of items in the industry catalog that encourages foreign investment, and further beef up preferential land and tax policies, to guide the flow of more foreign capital into fields such as advanced manufacturing, modern services, high technology and the digital economy, as well as to China's central and western regions, officials said. Chen Chunjiang, Director of the Foreign Investment Administration (FIA) under the Ministry of Commerce (MOFCOM), said the Ministry will stabilize growth of foreign direct investment (FDI) while improving the structure of FDI inflows in 2022, despite the increased complexity of external and domestic conditions. Those uncertainties and challenges include intensified global competition to attract FDI, the Covid-19 pandemic's disruption of cross-border investment, and increased costs of labor, land and raw materials in China, he said.

China's actual use of FDI rose 14.9% year-on-year to hit a record CNY1.1 trillion last year. Newly established foreign-funded enterprises in 2021 numbered 48,000, surging 23.5% year-on-year. "We will implement the 2021 national negative list for foreign investment and the one for pilot free trade zones (FTZs), and make sure opening-up measures in automobile manufacturing will be carried out and take effect to help attract more investment from multinational companies," Chen said. The Ministry will also reinforce efforts to meet key foreign investment projects' need for land, energy, environmental protection and cross-border personnel flow, to ensure the projects will be signed and completed and then operate at full production capacity as soon as possible, he added.

Wang Tuo, Researcher at the Chinese Academy of International Trade and Economic Cooperation, said the implementation of the Regional Comprehensive Economic Partnership (RCEP) agreement, which was signed in 2020 and took effect on January 1, will facilitate the growth of China's foreign trade and FDI inflows. Li Xingqian, Director of MOFCOM's Department of Foreign Trade, said that stability and steady growth will be the priority for China's foreign trade in 2022, and the nation will pay more attention to the improvement of trade quality, compared with expansion of trade quantity, the China Daily reports.

Energy conservation and emissions reduction central in new energy five year plan

A new five year plan on energy has called for energy conservation and a reduction in related emissions in China. Released by the central government, the plan stated that the country will appropriately control its total energy consumption and cut its energy consumption per unit of GDP by 13.5% by 2025 compared with the 2020 level. China will further push the green transition in steelmaking, non-ferrous metals, construction materials and the petrochemical sector, to ensure an 8% drop in both total emissions of ammonia nitrogen and chemical oxygen demand (COD). Emissions of oxynitride and volatile organic compounds will be reduced by more than 10% from the 2020 level, the plan said.

The government will also step up the replacement of outdated coal-fired boilers with waste heat from industrial production and power plants, while further upgrading steel production capacity to achieve ultra-low emissions, it said. Ten major projects, including green upgrading in key industries, emission reductions in the communication and logistics industries, and the clean and efficient use of coal, will be launched with clear targets. According to the plan, non-fossil fuels will account for around 20% of the country's total energy consumption by 2025. Coal consumption in the Beijing-Tianjin-Hebei region will drop by 10% during the 14th Five Year Plan period (2021-25) while that for the Yangtze River Delta region will drop 5%.

Policies and mechanisms for conserving energy and reducing emissions will be improved, energy efficiency and the control of the discharge of major pollutants in key industries will basically reach advanced international levels, and notable progress should be made in the green transformation of economic and social development, said the plan.

China's energy conservation has substantially improved during the past few years, said Luo Zuoxian, Director of Intelligence and Research at the Sinopec Economics and Development Research Institute. "Considering the technological advances, energy conservation has substantial room for further improvement in the years to come, which will in turn ensure the country achieves its goal of peaking carbon emissions by 2030 and reaching carbon neutrality by 2060," Luo said, as reported by the China Daily.

President Xi Jinping asks British businesspeople to uphold "ice-breaking spirit"

President Xi Jinping has urged farsighted businesspeople from China and the United Kingdom to uphold the "ice-breaking spirit", and keep expanding mutually beneficial cooperation between the two countries to help promote bilateral ties. Xi made the remark in a congratulatory message delivered to the "Icebreakers" 2022 Chinese New Year Online Celebration hosted by the 48 Group Club, a London-based nonprofit organization dedicated to promoting trade between China and the UK. The event was supported by the China Chamber of Commerce in the UK and the China-Britain Business Council. In his congratulatory message, Xi recollected the "ice-breaking trip" made by Jack Perry, father of Stephen Perry, Chairman of the 48 Group Club, together with a group of farsighted people from the British business community, in spite of lots of obstacles in the early 1950s.

Noting that this year marks the 50th anniversary of the establishment of diplomatic relations at the ambassadorial level between China and the UK, Xi said that looking back, China will never forget old friends who made historic contributions to the development of Sino-British ties. Looking forward, Xi expressed his hope that farsighted people from China and Britain's industrial and business communities could adhere to the "ice-breaking spirit" to

bolster win-win cooperation in order to give fresh significance to bilateral ties and deliver more benefits to the two countries and their peoples.

The 48 Group Club is named after a British trade delegation of 48 businessmen, referred to as the "Icebreakers", who traveled to China in 1954 to establish trading relations between the two countries. The organization's **motto is "Equality and Mutual Benefit"**, and it has been working to promote positive Sino-British relations. Addressing the event, Zheng Zeguang, Chinese Ambassador to the UK, called for the business communities in China and the UK to join hands and leverage their respective strengths, and consolidate their cooperation in the traditional areas of trade, investment, finance, manufacturing and infrastructure. He also suggested they should expand into new areas such as healthcare, fintech, green energy, the digital economy and creative industries, and also explore other markets. Philip Hammond, former British Chancellor of the Exchequer, talked about the huge Chinese market, and said that as the UK explores a new set of post-Brexit trade relationships across the globe, China will be an important partner, the China Daily reports.

China's expenditure on R&D hits new high of 2.44% of GDP

China's spending on research and development (R&D) has hit a new high of 2.44% of gross domestic product (GDP) in 2021, up 0.03 percentage points year-on-year, as the country strives for stronger innovation capabilities to achieve more tech breakthroughs. The National Bureau of Statistics (NBS) said that the country's total R&D expenditure hit about CNY2.79 trillion last year, a year-on-year increase of 14.2%. The percentage of R&D expenditure to GDP is also close to the average level of 2.47% for the Organization for Economic Cooperation and Development (OECD) economies before the outbreak of the Covid-19 pandemic. "The country's R&D investment maintained rapid growth, as the domestic economy continued to recover steadily and drove more spending on technological innovations. Notably, investment in basic research continued to increase and returned to double-digit growth," said NBS Statistician Zhang Qilong.

Last year, the country spent about CNY169.6 billion on basic research, a 15.6% year-on-year increase. The growth rate is also 5.8 percentage points higher than the previous year. "Accelerated efforts have also been made in the construction of key laboratories, driving breakthroughs in areas such as space exploration, nuclear physics, quantum science and biological engineering," Zhang said. According to China's 14th Five Year Plan (2021-25), the country will scale up spending on research and development by more than 7% annually during the period to drive more technological breakthroughs. Consulting firm McKinsey and Co said in a report that 7% growth would set the country on the path to become the world's largest spender on R&D.

Peng Wensheng, Chief Economist at the China International Capital Corp (CICC), said: "As demographic dividends gradually decrease, China's economy will rely more on technological innovations in the future. To achieve such technological progress, continuous R&D investment is a key." Increased R&D has been reflected in the rising number of patent approvals. A recent report from IFI Claims, a U.S. patent service provider, said that patents granted to Chinese companies in the U.S. in 2021 increased by around 10% to 20,679, while approvals for U.S. patents declined about 7% from 2020 to 150,801 last year, the sharpest drop in the past decade. However, Peng said that China still has a long way to go to bridge the gap with developed countries like the U.S., both in R&D investment in basic research and the proportion of R&D investment to GDP, the China Daily reports.

China Customs confiscated millions of items over IPR infringement in 2021

China's customs seized 71.8 million illicit items over intellectual property (IP) infringements during import and export inspections in 2021, following strengthened national supervision of IP protection, according to the Chinese General Administration of Customs (GAC). In addressing Olympics-related IP protection in the GAC's nationwide campaigns, 118,000 illicit logos, pins, flags, garments and sunglasses were seized in 2021, the GAC said. Starting in early 2021, the GAC launched inspection campaigns targeting IP infringements using advanced equipment to increase efficiency and accuracy. The GAC also worked to improve services for domestic companies to register their IPs with the agency, resulting in 17,667 newly registered IP items in 2021, a year-on-year increase of 17%.

China has been stepping up efforts regarding IP protection in a bid to improve the environment for innovation, and further improve legal protection for emerging industries. In September 2021, China issued a plan for 2021-2035 to strengthen the building and protection of IP rights, by accelerating legislation on such rights in new fields and forms of business, such as big data, artificial intelligence, algorithms and genetic technology. By 2025, the added value of patent-intensive industries is expected to be equivalent to 13% of China's GDP, and that of the copyright industry at 7.5%. The annual trade in IP royalties will reach CNY350 billion. By 2035, the comprehensive competitiveness of IP rights shall rank among the top in the world, according to the plan.

Meanwhile, various local governments have also released their own plans to beef up IP protection. Shanghai, for example, recently released an action plan, aiming to build the city into a leading international IP center by 2035, with improved mechanisms and services supporting IP protection and strengthened international cooperation, the Global Times reports.

The rapid development of China's economy and technology sector has seen a growing number of intellectual property disputes involving foreign litigants handled in Beijing in recent years. Du Changhui, Vice President of the Beijing Intellectual Property Court, said that as the country has put more efforts into technological research and innovation, Chinese enterprises have become more competitive in some new high-tech fields, or "become leaders in industries worldwide instead of followers". The number of foreign-related IP cases filed with the court rose to 4,381 last year from 2,475 in 2015, a

year after the court was established. More than 85% of the foreign-related IP cases in Beijing over the past seven years involved trademark disputes, and about 10% dealt with patents, the China Daily adds.

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