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BRI: THE LONG AND WINDING ROAD

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PRESIDENT'S FOREWORD

BRI: The Long and Winding Road

Mats Harborn

President

European Union Chamber of Commerce in China

This year we have been celebrating the 40^{th} anniversary of China's reform and opening-up, a truly remarkable and fundamentally transforming time for China and the global economy. I have personally witnessed how new infrastructure projects in roads, harbours, airports and the like have connected local economies with the country's larger economy. Now, developing countries across the globe are seeking to undergo a similar process by signing up to the Belt and Road Initiative (BRI).

However, as is to be expected, the road has not been free of bumps: concerns have been raised on issues of feasibility, transparency and the low rate of participation of non-Chinese companies in the execution of BRI projects. The European Chamber is eager to provide constructive input to ensure continuous improvements in implementing the BRI.

To ensure the sustainability of infrastructure projects, greater care needs to be paid to feasibility studies that take a more realistic approach to local markets and their ability to repay loans required to finance such pursuits. Such an approach would also help open up the BRI for participation by multilateral financing institutions. At the same time, the BRI should also consider how to incorporate foreign aid through grants to plant the seeds of development in areas not yet ready to bear the debt of more extensive infrastructure.

While Chinese state media often emphasises that the BRI is highly transparent and that it offers boundless opportunities for foreign companies to participate, European companies are somewhat uncertain, as indicated by lack of transparency ranking highly on a list of reasons for low participation by surveyed companies. Members of the European Chamber report difficulties in finding information on bids in time to meet the (often brief) windows of opportunity between announcements and closings of procurement procedures.

Finally, the dominance of Chinese companies in the BRI raises questions about fairness. A study by the Centre for Strategic and International Studies found that 89 per cent of contractors on BRI projects were Chinese companies. Of the remaining 11 per cent, about two-thirds were awarded to local companies, while non-Chinese foreign firms shared the remainder. In comparison, shares in similar projects financed by multilateral development banks average out to about 29 per cent Chinese, 41 per cent local and 30 per cent non-Chinese foreign.

A fully successful BRI would be of great value to the world if these concerns can be resolved. Doing so will not only unlock the full potential of the initiative but may also open up new opportunities for cooperation with the recently-announced European Union Connectivity Strategy. Fair and equal opportunities for foreign companies to participate in BRI projects would be a great way to demonstrate that the BRI is, as President Xi Jinping said at the BRI Forum in May 2017, "open to all friends".

THE ROLE OF ENERGY WITHIN THE BRI

by Guido D.Giacconi

Business and Geopolitical Perspectives

A modern thermal power plant in Dezhou City, Shandong Province.
Photo: *Chuyuss*

China's energy footprint under the BRI

Energy plays a crucial role within the BRI, mainly because of supply issues related to China's necessary transition to new energy sources, but also for national security reasons. China's strategic objective, in line with the country's commitment at the COP21 in Paris, is to reduce its dependence on coal. Reducing coal consumption implies a dramatic increase in the use of natural gas, which currently represents only seven per cent of the country's energy base share, and an increase in the use of renewable resources. Meanwhile oil will still be in demand in the petrochemical sectors.

Domestic production of natural gas (ca 150 bn m^3 in 2017 and growing at ca six per cent/year) is not able to match the predicted soar in demand from ca 270 bn m^3 in 2018 to ca 600 bn m^3 by 2035. Although China claims huge reserves of shale gas, during the energy transition over the next decades it must heavily rely on natural gas imports, derived both from the sea (LNG - liquified natural gas) and land (CNG - compressed natural gas). China's hunger for natural resources and energy contributes considerably to igniting China's security dilemma as an economic superpower.

During 2013–2016, 70 per cent of BRI projects were concentrated in the energy and infrastructure sectors. In mid-2017 the National Development and Reform Commission (NDRC) and the National Energy Commission released a vision and action document on energy cooperation under the BRI. *Vision and Actions on Energy Cooperation in Jointly Building Silk Road Economic Belt and 21st Century Maritime Silk Road* highlighted key principles: openness, mutual benefits, market-orientation, security, respect for the environment and harmony. Cooperation priorities included policy communication, access to trade, energy investment, technology and capacity, infrastructure connection, sustainability and governance. The NDRC/NEA document confirms China's aim to boost energy security and integration within BRI countries while fostering the development of its energy sector and diversification of its supply base and transportation routes.

Whether Beijing is explicitly or implicitly using investments under the BRI to project its influence across regions along trade routes and to seek energy security at home, the transnational nature of several energy projects implies unavoidable geopolitical implications.

Unfortunately, like many aspects of the BRI, the specific energy cooperation scheme is still vague. The BRI will in any case have a significant impact on the energy sector.

The terminus of the oil and parallel natural gas pipeline between China and Myanmar came into service in Ruili, Yunnan Province on 19th May, 2017.
Photo: *Yao Bing, Xinhua News Agency*

Geopolitical ramifications of China's energy procurement

China's energy security challenges mainly lie in the diversification of sources and the supply/transportation routes of these sources. Only full control over them would ultimately guarantee security.

The South China Sea (SCS) is potentially a significant source of LNG and oil, with its estimated 6.5 trillion m^3 of gas and 11 billion barrels of oil in discovered and probable reserves. These ample reserves offer China an incentive to secure supply. Besides, the SCS remains a critical trade route through which two-thirds of China's oil and liquified natural gas (LNG) imports are moved.

China fears that escalating international tensions in the region could also threaten China's energy supply through the Strait of Malacca. The Maritime Silk Road Initiative (MSRI) should allow Beijing to extend control over its oil and natural gas supplies by directly controlling ports and alternative routes.

As part of the China-Myanmar Economic Corridor, China built a deep-water port in Kyaukpyu serving as terminus of a USD 1.5 billion oil and parallel natural gas pipeline running to Kunming, Yunnan. The gas pipeline will provide 12 billion m^3 yearly.

Alongside the China-Myanmar Pipeline, the Gwadar port in Pakistan, part of the China-Pakistan Economic Corridor (CPEC) connecting the port city to China's Xinjiang Uighur Autonomous Region, will form an alternative trade route to the Malacca Strait. Energy generation and transmission projects are central in the CPEC: the Pakistan-China Institute's dedicated portal lists a total of twenty-four energy projects within the CPEC focusing on coal, hydro, gas and renewables.

Energy security also drives China's rapid expansion of its navy. The country's first overseas military base in Djibouti reflects Beijing's use of its economic leverage to advance strategic interests to oversee the Bab-el-Mandeb Strait, an important trade route through which around 4.8 million barrels of crude and petroleum products are moved every day.

On the mainland, China commissioned Russia's Gazprom Power of Siberia, a 3,000 km-long gas pipeline linking eastern Siberia with China. This project is considered to be an unprecedented convergence of interests between Moscow and Beijing amid freezing relations with the West. The USD 55 billion project is the first Russian eastern pipeline.

Furthermore, the construction of a fourth pipeline (line D) of the Central Asia-China Gas Pipeline is currently underway. Line D runs from Benyeu in Kazakhstan to Turpan in Xinjiang, and will provide 15 billion m^3 on top of the 55 billion m^3 supplied by the Turkmenistan-China pipeline. If Power of Siberia points to an overall improvement of Russia-China relations, the growing imbalance of power between the two nations remains evident in Central Asia, where China's soft power and growing trade relations with the region are undermining Russia's monopoly over oil and gas exports, and ultimately Russia's presence and historic leadership in the region.

"European companies and governments must find the most appropriate model to enable them to participate in forthcoming investment opportunities."

BRI project standards and access to foreign companies remain blurred

So far, a comprehensive international cooperation platform has not been established for energy (among many other sectors). However, some major companies have experimented with their own forms of cooperation: for example, Siemens hosted a BRI forum in 2018 to promote itself as the ideal foreign BRI partner. But until now its contribution to the initiative has consisted of supplying equipment and technology to Chinese firms.

The Asian Infrastructure Investment Bank (AIIB) has developed a specific energy strategy that clearly depicts an overall investment goal supporting energy-related projects. The AIIB's strategy to support investments in sustainable energy projects for Asia is a good coordinated initiative that will increase access to clean, safe and reliable electricity, in conformity with the Paris Agreements outcomes.

China's extensive experience in quickly building large-scale infrastructures and its capacity to provide enormous funding support limit MNCs' chances to win large energy projects along BRI corridors. The AIIB claims that so far, about USD 1bn of projects related to the energy sector have been approved, with companies from China, Turkey, India, Korea, Bangladesh and Australia involved. Despite their participation in bids, no European company has been awarded a contract yet.

In the absence of a well-structured multilateral cooperation platform, European companies (and foreign enterprises in general) will continue to struggle to even identify opportunities and roles to play within all aspects and phases of projects. Their endeavours are stymied due to a lack of transparency on bids, a lack of relationships with SOEs, a lack of experience and, in general, a serious lack of cooperation frameworks.

Conclusion

Energy is one of the crucial pillars of the BRI and huge China-led investments will be devoted to it within and across BRI countries. China has the goal and right to secure its energy supply in the future as well as to support the economic development of BRI countries through energy-related projects. China has also engaged to fulfil commitments it undertook at Paris COP21 through supporting sustainable projects and investments both at home and across the BRI network. China must avoid transferring pollution outside its borders by, for example, building inefficient coal-powered plants in BRI countries.

European companies and governments must find the most appropriate model to enable them to participate in forthcoming investment opportunities. They must be able to bring their advanced technologies, experience and capabilities to the table when sustainable energy-related projects are at hand. China should also embrace transparency and openness policies so that European companies can engage in mutually-beneficial BRI projects. Eb

***In3act** is a strategic consulting firm founded in 2004 by Guido D. Giacconi and Davide Roncaglioni. In3act offers companies at every level of their organisation a unique and custom-made solution to their business challenges. Strategy, finance, M&A, negotiation, and implementation are combined at In3act to deliver the right solution for every stage of a client's project. In3act has built a strong network of clients, becoming well established in Europe, Russia, and China.*

THE BELT AND ROAD INITIATIVE

Scope of Projects and Financing Issues

by Michael Amouyal

The Belt & Road Initiative (BRI) is a development strategy announced by Xi Jinping in 2013. Initially called One Belt One Road (OBOR), it was renamed to better allow it to encompass six land corridors, one maritime corridor, and more recently an Arctic 'Ice Silk Road'. The BRI now extends to more than 71 countries; together they comprise up to 65 per cent of the world's population and make up 40 per cent of global GDP as of 2017. These daunting figures have sparked a wide array of reactions from international governments and businesses, but until 2017, the dominant sentiment was opportunistic: how can we take part?

The China Council for the Promotion of International Trade kicks off the BRI Trade and Investment Forum in Beijing in March 2018.
Photo: *Li Xin, Xinhua News Agency*

Getting a handle on the BRI has proven to be challenging: there is no official definition of the geographical scope, no clear development plan or budget, no clear rule for projects to be included and no single branch of the PRC government with overall responsibility for the initiative. According to a report produced by the Economist Intelligence Unit, while Beijing has stated that the BRI is "open and inclusive" and that any country that wishes to take part may do so, "… in reality, obstacles such as the lack of transparency in procurement processes may make it difficult for foreign firms to take part in Belt and Road projects." Also, the tendency of the government to brand already-planned infrastructure investments as BRI has led sceptics to see the Belt and Road Initiative as merely a marketing tool for Chinese geopolitical purposes. Is the BRI an open-source concept, more Android than iOS?

In the absence of articulated regulatory rules, let's start by reviewing projects that have been initiated under the BRI. Basically, it has mostly been infrastructure-related projects, either acquisitions (such as the Tirana airport in 2016) or construction projects led by Chinese SOEs, with Chinese players reaping most of the benefits. This may not be surprising, because as the Economist Intelligence Unit points out, "… in 2017 seven of the ten largest construction companies in the world, by revenue, were Chinese. Most of the biggest Chinese construction companies are state-owned and benefit from generous state subsidies. They offer attractive financing schemes and an impressive speed of work. They are also willing to invest in projects and areas that foreign firms may find too risky or cannot undertake for environmental, social or political reasons."

A closer look shows that non-Chinese MNCs have also benefited, often by being one of the subcontractors / suppliers of a Chinese Engineering, Procurement and Construction (EPC) firm. GE, for example, recorded orders worth USD 2.3 billion in 2016 under BRI projects. However, global companies have for decades been engaging with Chinese companies at home and abroad, and many projects now rebranded as BRI would certainly have existed with the participation of non-Chinese partners. However, it cannot be ignored that this initiative has already proven beneficial to multinational firms, as the BRI has taken the country into territories where it naturally needs international as well as local partners.

From the financial perspective, by the end of 2016 89 per cent of loans to BRI projects have come either from two Chinese policy banks (the China Development Bank and the China Exim Bank), or from the largest state-owned commercial banks (Bank of China, China Construction Bank, ICBC, and the Agricultural Bank of China). There is no official set of criteria for a project to obtain funding from these sources but being a Chinese SOE definitely helps. Funding provided by the Silk Road Fund, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB) operated by the BRICS countries accounts for less than 10 per cent of the total. The funding criteria of the Silk Road Fund are as obscure as its website; we have not been able to identify non-Chinese led projects. The AIIB and the NDB will fund projects regardless of the nationality of the project leads if they are aligned with the banks' sustainability and profitability criteria; they need not be branded as BRI.

After an initial phase of opportunistic enthusiasm, the initiative over the last year has faced some resistance from countries designated as beneficiaries. This is partly due to changes in host-country governments, which have created a less-receptive environment for Chinese investment. And in some cases, the benefits of projects initiated so far are being questioned due to worries about massive debt loads pushing countries into debt traps. This year Sri Lanka had to cede control of its Ham-

> *"...with the BRI meeting more resistance, pressure will mount on the Chinese government to allow for more transparency, both in the bidding process and in arbitration standards."*

bantota Port to China for a century as an increase in container traffic failed to materialise, and the country could not make good on its excessive borrowing from China. The Centre for Global Development calculates that eight other BRI "beneficiary" countries also risk excessive debt obligations, including EU membership candidate Montenegro. On top of this, the initiators and financers of BRI-designated projects are starting to face the limits of their economic viability, especially at a time when SOEs are being pressured to be more efficient, and banks are asked to operate in line with international standards.

In this context, the natural evolution of the BRI should be towards a more rigorous investment policy, including:

- more diverse projects;
- more investments in manufacturing and trade, along with softer investments in tourism and culture;
- a stronger focus on less risky regions and more profitable projects;
- greater inclusion of local as well as international players in projects; and
- a more transparent definition of the framework of the initiative, of the rules of access to financing, and of the settlement of disputes.

However, the actions the Chinese Government will take to address these issues remain murky.

The BRI continues to be the direct expression of Chinese international interests such as securing key trade routes and extending its influence, especially in Central Asia, in Mekong River Basin countries and in nations with shores on the Indian Ocean. The Chinese intend to secure access to resources and markets while countering the influence of other players in what it regards as its natural sphere of influence. While recently the official Belt and Road Portal stipulates that BRI projects need to involve China (unlike projects funded by the China-initiated AIIB) international MNCs should still find room to participate. As projects become more complex and diverse, international MNCs may be able to take the initiative and present turnkey solutions to Chinese SOEs.

The funding will continue to be largely coming from Chinese banks, and therefore be heavily influenced by central government directives. However, in 2017, Xi Jinping pledged new funding for BRI-related projects, totalling CNY 840 billion, including CNY 100 billion from the SRF and CNY 300 billion from a new overseas RMB fund. This new money opens the door to more 'international' participation. Also, as Chinese banks adopt a more cautious approach towards overseas BRI projects (whose risks they have little understanding of), BRI projects will require more sophisticated financing and therefore the support of international banks and other financial players.

Finally, with the BRI meeting more resistance, pressure will mount on the Chinese Government to allow for more transparency, both in the bidding process (a basic participation criterion of several developed countries) and in arbitration standards. This turn to 'opening up' might be wishful thinking: China is pushing for the international arbitration courts to be in Shenzhen and Xi'an.

The BRI is a Chinese undertaking from conception to execution, and what qualifies as a BRI project is defined by the Chinese Government. Financing is mostly carried out by organisations subservient to Chinese government directives. It should surprise no one that China declares itself to be one pole of the 'win-win' axis. However, because the BRI has now been given constitutional endorsement as China's strategy abroad, it will have to deal with unexpected turns of events such as regime change (Sri Lanka) and even democracy of a sort (Myanmar). As it copes with such disruptive situations, it will be pressured to at least partially adopt international standards. Perhaps it will attempt to modify these norms. Either way, it can expect pushback from other states and from corporations.

But even with these caveats, the BRI remains an interesting prospect for EU Chamber members used to cooperating with Chinese SOEs both at home and abroad. **Eb**

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CONNECTING EUROPE AND ASIA

by Federica Mogherini

Time to Move Up a Gear

Announced on 19th September 2018, many see the European Union's (EU's) strategy for connecting Europe and Asia as merely a response to China's Belt and Road Initiative. However, **High Representative of the European Union for Foreign Affairs and Security Policy and Vice President of the European Commission Federica Mogherini** says that it is actually a follow-up on the 2016 EU Global Strategy. In the following article she outlines the plan in more detail, explaining that in order to derive maximum benefit for all stakeholders, Europe-Asia connectivity must be based on strong partnerships and transparent rules.

Vice President of the European Commission Federica Mogherini addresses the Asia-Europe Meeting (ASEM) on 19th October 2018. ***Photo:*** *Jennifer Jacquemart*

Europe and Asia have a centuries-old common history. The ties between the two continents are today reaching an unprecedented level. Asian markets account for over one third of exports from the European Union (EU). Almost half of the goods and services imported by the EU come from Asian countries. Every year, thousands of students, academics and researchers move between the EU and Asia. The cultural exchanges between our cities are vibrant. And there is more to our mutual relationship than just economic or scientific exchanges: the EU and Asian countries have a common interest in preserving a cooperative, rules-based and peaceful international system, where multilateral organisations are the natural fora for reaching common solutions. This relationship needs to rely on effective, functioning and sustainable *connectivity* – in other words on the physical and non-physical infrastructure through which goods, services, ideas and people can flow unhindered.

While connectivity has always been a part of the EU's policy towards Asia, until now the EU has not used its potential in this area to the full. That is why we have proposed in September a new policy framework to step up the EU action, an EU strategy on connectivity between Europe and Asia.

Our message is clear: the EU is ready to step up its engagement with Asian partners on an agenda for connectivity, based on mutual interests and common objectives. Connectivity is in the very DNA of the EU, as a political project based on market integration. We can offer our regulatory experience, technical expertise and funding opportunities at the service of projects that help interoperability and convergence, promote fiscally and environmentally sound growth, and strengthen our connections in a way that will be beneficial for us all.

We can do this in three ways. First, the EU is ready to support new connections and networks between Europe and Asia. For example, extending our Trans-European Transport Network[1], which facilitates trade and mobility through removing technical and regulatory barriers for transport networks and modernising infrastructure to other non-EU countries would be a positive step. We will also pursue a sustainable digital agenda with Asia in order to foster universal and affordable access to digital technologies and services. We will share our experience in creating regional, liberalised energy markets with a focus on market-driven transformation towards clean energy. And we will continue to promote human exchanges and mobility through programmes such as Erasmus or the Marie Curie Action as a way to build connections, mutual understanding and the sharing of ideas.

Second, in the EU approach, connectivity can only be built in partnership. Many such partnerships exist already. The EU and China share an interest in making sure that our respective initiatives work well together, despite the differences in approach and implementation. Connectivity is not possible if systems and networks are not interoperable. As we have already been doing, the EU will continue to engage with China—in our bilateral Connectivity Platform, in the wider bilateral relationship, and in multilateral fora—to create synergies and to find commonalities. As the Joint Communication highlights, the EU will further step up its work within international organisations to set and enforce global rules and standards, which will create a level playing field and equal opportunities for all. We will work hand in hand with regional organisations and mechanisms existing in Asia, such as ASEAN, to identify and support projects.

Third, we want to work on a connectivity based on shared principles: transparency, non-discriminatory market practices, a level playing field for economic operators, protection for intellectual property rights. The best way to achieve this is not to impose anyone's standards or rules, but to work together within international organisations on mutually acceptable ones. European companies must have a level playing field vis-à-vis their competitors and have the same access to markets abroad as others have in the EU.

...Europe and Asia account for almost 70 per cent of the global population and over 60 per cent of the world's GDP.

Finally, we will mobilise all our levers to back projects with adequate funding, using the full potential of the European Investment Bank and the new tools for external investment policy available under the EU budget. According to the Asia Development Bank, Asia will require over euro (EUR) 1.3 trillion a year of infrastructure investment in the coming decades. The EU is ready to support Asian countries to meet such an investment challenge, leveraging public and private financing through a combination of grants, guarantees, lending and blending. Yet, investment must be fiscally viable and financially sustainable. The EU will only support projects that mobilise domestic resources, create value for local communities and are sustainable in the long term.

Together, Europe and Asia account for almost 70 per cent of the global population and over 60 per cent of the world's GDP. There is space for making our ties stronger and more mutually beneficial. Sustainable connectivity, based on strong partnerships and transparent rules is, for the EU, European and Asian countries, the best way forward. Eb

1. https://ec.europa.eu/transport/themes/infrastructure_en

BRI: DISPUTE RESOLUTION AND JURISDICTIONAL ISSUES

by Shane Farrelly & Veronica Gianola

The Belt and Road Initiative, one of the largest infrastructure and investment projects ever envisioned, possibly offers interesting opportunities for non-Chinese participation. Over 55 per cent of surveyed European Chamber members (not to mention 78 per cent of members involved in legal services) see opportunities in the BRI . However, knowledgeable investors know that with rewards come risks. They count on readily-available and fair access to courts to resolve disputes. Thus, the question of how to effectively manage disputes that are not only cross-border but also high-capital, multi-party and multi-contractual have made legal resolution processes a priority.

The primary concerns of contractual parties litigating in foreign courts include the nature of applicable law, the impartiality of local judges and international recognition and enforceability of local court judgments. As the BRI extends to many nations with different degrees of economic and political development, project participants face the possibility of dealing with underdeveloped and possibly-unreliable systems of law, as well as having to cope with the absence of specialised intermediaries, regulatory systems and contract-enforcing mechanisms. If contractual commitments cannot be enforced, BRI projects or partnerships could be placed in jeopardy.

BRI Projects – Complex by Nature

BRI agreements often require that local companies be involved in projects, which means establishing joint ventures (JVs). Traditionally the binary JV pairs will be a Chinese party and a party from the BRI partner country. If technical expertise is required for large and complex projects, the JVs may invite foreign companies to participate. Foreign consultants and experts may also be needed to conduct comprehensive research such as feasibility studies and environmental impact assessments. The growing need for additional parties to a project increases the risk of disputes, particularly if the contractual parties are not properly aware of the implications of their commitment.

Understandably, when disputes arise the parties involved will be most comfortable with the laws of their home country – a challenging situation when determining which laws will govern specific contracts with their multiple parties and preferences. The parties' primary challenge in establishing a BRI project will be to secure joint commitments through comprehensive and enforceable contracts. Legal contracts are not going to be of any use if the laws and regulations keep shifting, which happens in many emerging markets. Apart from ensuring the tightness and clarity of the contract terms themselves, parties need to understand the legal environment of the relevant BRI partner country or the chosen system of law as agreed upon in the contract. Contracts need to be based on an agreed, stable and understandable system of laws from the outset.

Applicable Jurisdictions

In order to manage disputes and minimise litigation associated with projects along the Belt and Road, currently the most proactive and well-utilised method has been through arbitration. It has thus become imperative that contracts should include an arbitration or court jurisdiction clause providing for a place of arbitration in a jurisdiction which is a party to The New York Convention on the Recognition and Enforcement of Arbitral Awards 1958 (the Convention). This convention sets out the mechanism for reciprocal recognition and enforcement of arbitration awards between contracting states.

Approximately 92 per cent of the countries currently participating in the BRI are signatories to the Convention, with only five countries being non-signatories at the time of writing. The right to obtain an award from an arbitration tribunal in a Convention state that will be enforced in another Convention state will minimise the risks that parties may otherwise face in enforcement. Convention jurisdiction will help companies avoid local law issues that might impede enforcement.

The Hong Kong International Arbitration Centre (HKIAC), which has specific BRI arbitration clauses and rules to deal with BRI disputes, is a primary venue for adjudicating disputes. Since 2013 the HKIAC has accumulated extensive experience in handling arbitrations involving parties and countries along the BRI. To date, it has handled 362 cases involving parties in BRI jurisdictions.[1]

However, there are circumstances in which it will be impossible to avoid becoming subject to local law and the jurisdiction of local courts. In such scenarios there is also an emerging dispute-resolution method developed by China's Supreme People's Court (SPC) in order to handle international disputes arising from BRI projects. On 29th June 2018, the SPC formally launched two branches of the International Commercial Court of China (CICC), one in Shenzhen, Guangdong and the other in Xi'an, Shaanxi.

The courts will consist of eight judges, all drawn from the SPC bench. They will be assisted by a panel of experts from jurisdictions that form part of the BRI, including China and the UK. While the expert panel will advise on disputes as well as provide mediation services, the final decision in any case will rest with the judges. As the CICC practices the 'First Instance Being Final' principle, all judgments and rulings are final and binding on the parties with legal effect.

It is envisaged that the Shenzhen Court will deal with disputes arising from the BRI Maritime Road while the Xi'an Court will deal with land-based BRI disputes. Although the courts have yet to hear any cases at the time of writing (the SPC is currently in the final stages of formalising the CICC's rules and procedures), they have still raised a question: will international parties to BRI cases submit to the jurisdiction of Chinese courts? Presently, as there are no precedents for these newly established courts to draw effective comparisons from, the route of international arbitration would still be the best method of dispute resolution regarding BRI agreements.

Concluding Thoughts

While the establishment of the CICC marks the start of an ambitious attempt to enhance the appeal of Chinese courts to international businesses (especially regarding BRI arbitration proceedings), it remains to be seen whether its establishment will influence international legal experts drafting BRI agreements and offshore arbitration. However, in cases where international arbitration is unavailable to the parties (particularly where the location stipulated in the contract is outside the jurisdiction of The New York Convention) the CICC could be well-placed to resolve disputes emerging from BRI situations, especially regarding developing countries with less-sophisticated legal systems. Eb

__D'Andrea & Partners__ Legal Counsel, DP Group was founded in 2013 by Carlo Diego D'Andrea, and Matteo Hanbin Zhi, both with extensive backgrounds in Chinese and EU law.

DP Group currently has four service entities: D'ANDREA & PARTNERS Legal Counsel, PHC Tax & Accounting Advisory, EASTANT Communication and Events, and CHANCE & BETTER Education Consulting.

DP Group has a variety of branches around the world, with locations based in major developing economies.

1. <http://hkiac.org/Belt-and-Road/why-hkiac-belt-and-road-disputes>

BELT & ROAD INITIATIVE

by Vivian Chen and Ester Cañada Amela

Opportunities and Challenges for European SMEs

The size and scope of China's Belt & Road Initiative (BRI) warrant European companies, including SMEs, giving it a close look. In fact, according to the European Chamber's Business Confidence Survey 2018, businesses are doing just that: more than half of respondents saw opportunities in the BRI.[1] However, challenges and risks lie in wait for European business in this initiative, and they are magnified in the case of SMEs. This article introduces the primary sectors that hold business potential for the European business community, and signals what to look out for when cooperating in BRI projects. We will also share the success story of a European SME benefitting from BRI.

Six Economic Corridors Identified in BRI

The BRI is made up of six terrestrial 'Economic Corridors' that lead from China through South and Southeast Asia, the Middle East and across Eurasia to Europe. These Economic Corridors are mainly identifiable by the developing large-scale transport infrastructure that seek to form physical connections between the regions and sub-regions covered by the BRI. Additionally, the BRI's maritime component, the 21st Century Maritime Silk Road (MSR), connects and overlaps with the three southern economic corridors before moving on to East Africa and the Mediterranean Sea, while also seeking to expand and connect projects and trade routes across the Middle East.

The Belt and Road Initiative: six economic corridors spanning Asia, Europe, Africa and the Middle East

Source: *Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities, China-Britain Business Council, 2018.*

Key BRI Sectors

In the six terrestrial economic corridors (the 'Belt' of the BRI) the Chinese Government has prioritised projects in nine key sectors. Each holds potential for a range of SMEs:

- **Infrastructure:** The focus areas of infrastructure investment in the BRI are railways, oil and gas pipelines, and electricity transmission/distribution networks. SMEs should explore opportunities in supply chain manufacturing facilities in third countries; water and waste management projects; regional trade and logistics centres; and urbanisation projects.
- **Financial and Professional Services:** EU SMEs are well-positioned to utilise their experience and expertise in assisting Chinese companies in international trade.
- **Agriculture and Environment:** to improve China's food security, investments in environmentally-sustainable agricultural infrastructure are planned along the Belt.
- **Manufacturing and Transport:** the construction of high-speed railways, ports, airports, hydro-power plants and high-tech industrial parks will require high-end equipment, much of which China will seek from suppliers abroad.
- **Energy and Resources:** More than half of infrastructure spending along the BRI will end up in electricity production industries.
- **E-commerce and Logistics:** New platforms for B2B and B2C transactions may be especially useful to SMEs lacking the resources available to multinationals. Efficient and well-managed logistics centres will also be needed.
- **Healthcare and Life Sciences:** In 2017 China announced the formation of an international biomedical alliance to promote cooperation in biomedicine and healthcare sectors between BRI countries.
- **Tourism:** Western provinces, such as Gansu or Jiangsu, are looking to increase their attractiveness to tourists.
- **Creative and Culture:** The Chinese Ministry of Culture has published a 'Belt and Road Cultural Development Action Plan'; so far, 300 agreements on exchanges with other nations have been signed.

Main risks to look out for

Risks to European SMEs range from a lack of transparency regarding vital information to the daunting complexity of partnerships that companies might find themselves entangled in. More specifically, SMEs should make themselves aware of the following types of risks:

- **Operational risks and poor execution:** BRI projects can be transnational and complex. Lack of experience in delivering and managing such projects can lead to delays and cost overruns.
- **Partnership risks:** It can be challenging to establish a high-level of trust and

1. *Business Confidence Survey 2018*, European Chamber of Commerce in China 2018 p. 38, 2 China-Britain Business Council, "Belt and Road Initiative – Southern Routes, UK-China Cooperation and Opportunities.

commitment with local partners who may be new to working with foreign companies and investors.

- **Geopolitical risks:** Changes in political regimes or in bilateral relations between countries involved in the BRI during a project's lifespan can expose SMEs to potentially ruinous blowbacks.

- **Investment exposure:** According to the CSIS, "elections, corruption, complicated land rights and other political and legal risks can threaten a project's viability.... These risks are why institutional investors, such as pension funds and insurance companies, rarely venture into infrastructure outside OECD economies."[2]

- **Funding risks:** Exacerbated by higher capital and debt service ratios of BRI projects, host countries might encounter difficulties in repaying loans.

- **Non-transparency in tenders/ non-level playing field:** The CSIS reports that out of all the contractors participating in Chinese-funded transportation projects 89 per cent are Chinese companies, with only 7.6 per cent local and 3.4 per cent foreign. In World Bank and Asian Development Bank-funded projects, 29 per cent of the contractors are Chinese, 40.8 per cent are local, and 30.2 per cent are foreign.[3]

How European SMEs can get Involved

At the policy level at least, the Chinese Government has been making room for the participation of SMEs in the BRI. For instance, China's Ministry of Information and Technology (MIIT) and the China Council for the Promotion of International Trade (CCPIT) published a notice in July 2017 to promote further involvement of SMEs in the BRI. Noteworthy measures include:

- innovating with the China International SME Expo;

- establishing the "BRI Cooperation Platform for SMEs", a platform to provide SMEs with information and services;

- attracting R&D institutions from BRI-involved countries to set up in China;

- promoting two-way investment in SMEs and supporting the construction of a cooperative zone for SMEs in China and other countries; and

- deepening bilateral and multi-lateral consultation and cooperation mechanisms with SMEs in fields under the jurisdiction of the MIIT.

Bruno Lhopiteau, General Manager of Siveco China

In addition, European SMEs can contribute their experiences and know-how to BRI projects, benefitting from cooperation:

- **As investors** – partnering with Chinese companies or in existing BRI financial instruments, especially as China looks for alternative financing for the BRI.

- **As suppliers** – providing advanced products that comply with high environmental and safety standards.

- **As partners** – contributing technological and technical know-how in collaboration with Chinese and local partners especially in Engineering, Procurement and Construction (EPC) projects.

- **As experts in international project management and operators of the new infrastructures** – advising Chinese partners on how to navigate local regulations and practices; many European companies have a vast experience with international projects.

- **As sellers of assets** – gaining entry into BRI markets through asset divestment can help; technology acquisitions are very sought-after by Chinese companies wanting to become more competitive.

A European SME Success Story

Siveco China is a French maintenance and facility-management consulting SME. Siveco China's involvement in the BRI goes back to the time when it began assisting Chinese Engineering, Procurement and Construction (EPC) companies to maintain their overseas projects in Southeast Asian countries. One of its clients is China National Electric Equipment Corporation (CNEEC). Siveco China provides computerised maintenance management system (CMMS) and related services for the client's two power plants in Malaysia and Indonesia. Later on, Siveco developed more projects in other countries, including Brunei, Laos and Thailand. In 2012, its business also expanded to Algeria with new clients from South Korea. In the future, the company intends to target BRI countries where Chinese and Korean firms are active, by talking directly to major infrastructure owners, usually government ministries.

2. "Funding risks arise from the capital-intensive nature of infrastructure projects, long repayment schedules and the challenges that developing economies might encounter along the way. When projects are completed, weak demand and other operational challenges remain". From *The Belt and Road's Barriers to Participation*, CSIS, 7th February 2018, viewed 15th November 2018.
3. *The Belt and Road's Barriers to Participation*, CSIS, 7th February 2018, viewed 15th November 2018. *5 Notice of the Two Departments on Carrying out the Special Action for Supporting the Participation of SMEs in the Belt and Road Initiative*, MIIT and CCPIT, 4th August, 2017, viewed 15th November, 2018 < www.miit.gov.cn/newweb/n1146290/n4388791/c5756167/content.html >

Recommendations for European SMEs

Most important: plan ahead by identifying the appropriate country, sector, project and Chinese/local partner, and carry out due diligence. Other recommendations include:

- Check your own country's cooperation mechanisms with China on the BRI by referring to your embassy, chambers of commerce, and other knowledgeable parties.
- Evaluate the BRI project in light of the maturity of the corridor.
- Consider the fit of a project for your company.
- Be particularly careful in choosing the right partners (both Chinese and local).
- Evaluate supporting facilities.
- Adopt a risk-sharing approach.
- Develop contingency strategies. Eb

About the EU SME Centre

*The **EU SME Centre** in Beijing provides a comprehensive range of hands-on support services to European small and medium-sized enterprises (SMEs), getting them ready to do business in China.*

Our team of experts provides advice and support in four areas: business development, law, standards and conformity and human resources. Collaborating with external experts worldwide, the centre converts valuable knowledge and experience into practical business tools and services easily accessible online. From first-line advice to in-depth technical solutions, we offer services through Knowledge Centre, Advice Centre, Training Centre, SME Advocacy Platform and Hot-Desks.

The centre is funded by the EU and implemented by a consortium of six partners – the China-Britain Business Council, the Benelux Chamber of Commerce, the China-Italy Chamber of Commerce, the French Chamber of Commerce in China, the EUROCHAM-BRES, and the European Union Chamber of Commerce in China.

To learn more about the centre, visit website www.eusmecentre.org.cn

Aerial view of a railway viaduct near Harrogate North, Yorkshire, UK.
Photo: *Neil Mitchell*

BRI: An *Optimistic* View from Harrogate, UK

by Jonathan Geldhart

The Belt and Road Initiative created by Xi Jinping some five years ago continues to form a major part of China's international political agenda. Initially proposed as a development vehicle mainly for countries in immediate proximity to China, it now seems to encompass a much wider geographical remit. Many now claim it even has a global footprint – and in the immediate aftermath of the US-China trade war, won, some would say, by Trump, it is taking on even greater importance on the global stage.

From a European perspective the story of the BRI is a mixed bag of optimistic rhetoric and political suspicion. While in January 2017 the first-ever freight train from Yiwu in China that rolled into a siding in Barking, East London was broadly unreported, the sale of the Port of Piraeus in 2016 to the SOE China Ocean Shipping (Group) Company created political uncertainty across Europe: cash-strapped Greece allegedly had given China's fleet access to a rail bridgehead to explore Southeast Europe. Stories of Chinese investment in everything from technology companies to football clubs have served both to excite and worry in equal measure. However, despite the sky-is-falling noises mainly from nationalistic European politicians, Chinese investment across Europe remains both sought-after and welcomed by business.

Why? Commercial pragmatism is the answer.

Businesses are less interested in political point-scoring than they are in financial gain and increased shareholder value. Through the lens of strategic economic growth, businesses across Europe see opportunities rather than systemic risk from developing relationships and commercial relationships.

Taking a UK perspective, there remain significant benefits to be realised from both the reality of BRI as well as its 'halo' effect.

In my hometown in Yorkshire in the North of England, the BRI is little understood. However, there is a palpable excitement around the prospect of trading with China and working to find 'win/win' scenarios.

We recently heard of Toshiba's decision not to pursue a major development in Northwest England, dashing hopes of 2,000 new jobs and economic security for that part of the UK. What will replace this lost hope? We don't know, but most local governments and business development organisations are somewhat agnostic regarding where investment comes from. "If it's China, so be it," a senior regional business leader commented to me recently. "Investment which takes a long-term view is to be welcomed and not stifled".

This openness to China—despite the apparent worries of some—is to be found across the UK and Europe. Business is global, and in a digital—always on—Fintech world, consumers transcend borders, businesses seek new markets and new value lines are created all the time.

I met three local entrepreneurs earlier this week in my hometown of Harrogate, North Yorkshire UK. They were all excited to be flying by Hainan Airlines from Manchester to Beijing to meet potential distributors for their products of local water, gin and craft beer. As I briefed them on the practicalities of doing business in and with China they did not dwell upon the negatives or the possible political risks. Instead, the talk was of market opportunity, shared economic benefit and shared risk with new partners. It wasn't BRI that drove the debate, but without the simple notion that China is 'open for business' these entrepreneurs wouldn't be getting on a flight at all.

The BRI is therefore an enabler and a catalyst for local development as much as it is a series of high-level government-to-government agreements.

At the frontline of economic reality marches job creation and profitable growth. These ancient impulses have sparked a new interest and enthusiasm from grassroots business to work with China. Even given the nationalistic rhetoric emanating from certain countries, cooler heads are looking at the potential for dynamic growth. Deng's cat would feel quite at home in Europe.

***Jon Geldart** is based between his office in Beijing and Harrogate N. Yorkshire in the UK. In China he is Executive Director Markets Development - Greater China for Grant Thornton International Ltd. In the UK he is the Chairman of the Institute of Directors Yorkshire & Humber. He has worked in and with China for the last 9 years.*

CHINA SHIP EQUIPMENT AND COMPONENT MARKET

by Yong Teng, Stephen Sunderland, Eric Wang, Yiru Lou and Jason He

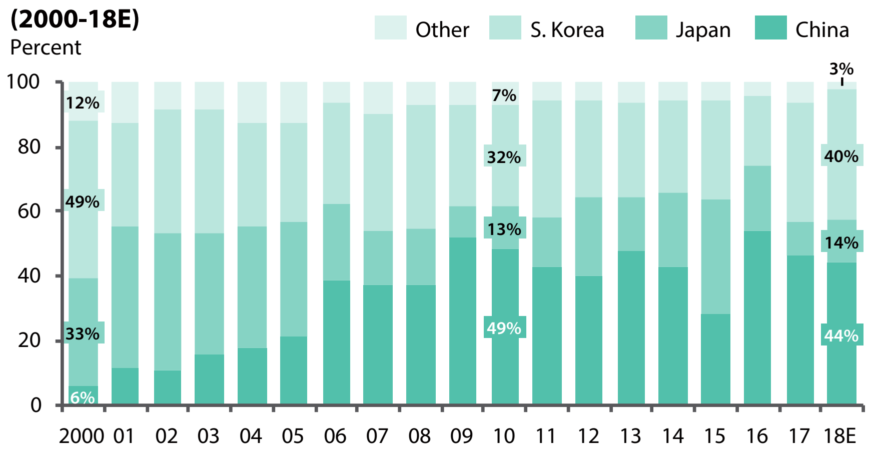
How to Seize the Opportunity of Industrial Upgrading

In recent years, China has surpassed Japan and South Korea in all three major shipbuilding indicators—orderbook, new orders and completions—becoming the world's largest shipbuilder. Four out of the top 10 global shipyards are Chinese companies, and those four Chinese yards account for 45 per cent of the top 10 yards' orderbook in total. Although the global shipbuilding industry has faced a prolonged cyclical business downturn leading to weak demand in the past few years, China still maintains a relatively stable share of the international market due to its cost and price advantages. China's shipbuilding industry delivery volume will remain stable over the next few years.

However, there is a considerable gap to close for China to become a strong shipbuilding country in terms of value and technology. China's existing production capacity is still dominated by low value-added and low-tech ship types. The bulkers account for about 50 per cent of the total delivery, and the three mainstream cargo vessels—bulkers, tankers and containerships—together account for more than 90 per cent. Coupled with sluggish demand caused by the cyclical downturn in the downstream shipping industry over the past few years, overcapacity is serious in low-end vessel production, especially in a large number of small and midsize private enterprises. On the other hand, high value-added ship types such as LNG, LPG, special engineering vessels, Ro-pax and luxury cruise vessels have shown insufficient capacity.

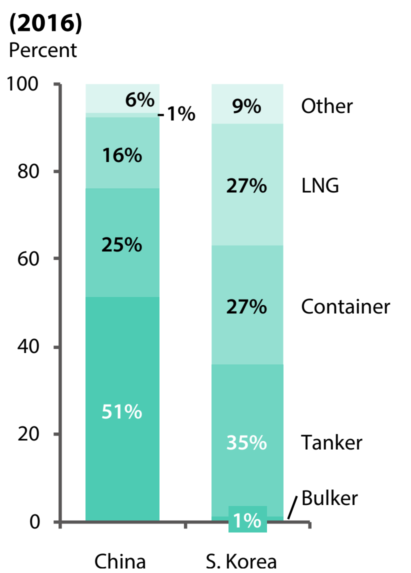
There are serious challenges for Chinese shipyards trying to gain a competitive edge in the global market. After decades of relying on low-cost and capacity advantages, China's shipbuilding industry now needs to upgrade to a more refined way of development. In recent years, the Chinese Government has issued a series of guidance and action plans for the shipbuilding industry: Made in China 2025 clarifies the overarching strategic objective to become a nation strong in high-end shipbuilding and offshore engineering equipment manufacturing. *Shipbuilding Industry Deepening Structural Adjustment, Accelerating Transformation and Upgrading Action Plan (2016-2020)* put forward by the China Ministry of Industry and Information Technology (MIIT) proposes a series of plans such as eliminating low-end production capacity, increasing R&D investment, improving industry concentration level and efficiency, and achieving breakthrough in

Global shipbuilding new order share by country



Source: *CANSI, Guolian Securities, L.E.K. analysis.*

Ship type mix of China and S. Korea ship delivery



Source: *CANSI, KOSHIPA, L.E.K. analysis.*

construction of large luxury cruise vessels. The *Ship Equipment Industry Capacity Improvement Action Plan* lays out the objectives of improving product spectrum and increasing the localisation rate of core ship equipment and components. Driven by market demand and industrial policies, there are three major market trends we have observed emerging in China's shipbuilding and ship equipment industries.

Continuous industry transformation and upgrade

In recent years, Chinese shipyards have taken actions to increase their R&D investment, strengthen management systems, and continuously optimise their product mix. These actions have led to breakthroughs in a series of high-end vessel types, including the 2,500-passenger luxury Ro-pax, 7,800-parking space Ro-Ro, 84,000 cubic-metre ultra-large LNG vessels, 38,800-ton duplex stainless steel chemical tankers, 20,000 TEU mega-containerships and 350,000-ton FPSOs. China's first high-profile luxury cruise project is also steadily progressing. In 2017, the China State Shipbuilding Corporation (CSSC) signed a memorandum of agreement with Carnival Corp. and Fincantieri S.p.A. to collaborate on the construction of China's first luxury cruise ship. The cruise ship owner—the operating company formed by the CSSC, Carnival and the China Investment Group—will order the first series of 2+4 133,500 GT Vista-class luxury cruise liners from the cruise-building company jointly established by the CSSC and Fincantieri. Each cruise ship would cost USD 780 million and be built at Shanghai Waigaoqiao Shipyard, a subsidiary of the CSSC. The project has entered the preliminary design and preparation phase, and the first ship is to be delivered in 2023.

Increasing industry consolidation

Due to the joint effects of market dynamics and policy guidance, the concentration level of China's shipbuilding industry has increased through horizontal integration and by clearing out excess low-end capacity. At the end of 2016, China Ocean Shipping Group had merged 13 large shipyards and more than 20 supporting service companies to establish COSCO Shipping Heavy Industry Co Ltd. The CSSC and the CSIC are also actively integrating and restructuring their affiliated shipyards. In the first half of 2018, the market share of the top 10 Chinese yards was 67.9 per cent, 9.6 per cent higher than 2017 and nearly 20 per cent higher than six years ago.

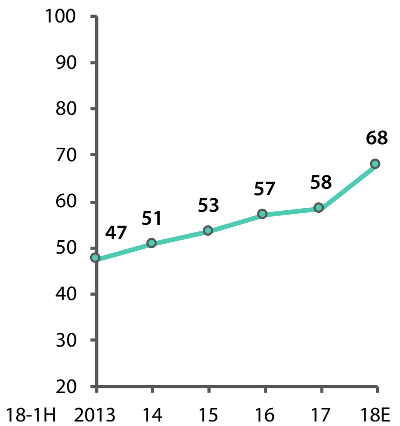
Active investments in core ship equipment / components

China's large shipbuilding companies are moving up the value chain into ship equipment /component, and carrying out vertical integration to enhance their competitiveness and profitability. The ship equipment industry is an important part of the shipbuilding industry. Ship-specific equipment accounts for about 40 per cent to 60 per cent of total ship cost, mainly including power systems, electronic and electrical equipment, deck machinery, and cabin machinery. From a value chain perspective, due to high technical barriers and concentration levels, the upstream ship equipment industry has a much higher gross margin level than have downstream shipbuilding and assembly activities.

High-end diesel engines, propulsion systems, and communication and navigation equipment are areas with the most potential for domestic substitution. In the field of power systems, domestic low-speed, medium-speed and high-speed diesel engines have achieved breakthroughs and gained market recognition.

Market share of top 10 Chinese shipyards

(2013-18E)
Percent



Source: *Belt and Road Initiative – Southern Routes.*

We believe the Chinese shipbuilding industry, which is large in scale and undergoing transformation and upgrading, has created new opportunities for ship equipment companies and investors.

- The industrial transformation and upgrades will bring more opportunities for high-end ship equipment to penetrate. With the transformation of China's shipbuilding industry, the future upgrade of product mix to more high-value-added ship types will bring incremental demand for high-end marine equipment.

  1. Multinational ship equipment companies can secure key accounts and gain first-mover advantage by leveraging their technological advantages and relationships with global shipowners. At the same time, they can deploy and develop distribution networks to strengthen their customer relationship management with local large shipyards. A local procurement, OEM or other viable localisation plan would reduce cost and improve price competitiveness of the products.
  2. Local ship equipment companies would need to keep enhancing R&D capability to overcome the technical barriers and catch up with global leading players to meet the demands in higher-end vessel types. They must expand market share by leveraging the advantages in customer relationships with local shipyards as well as in cost levels, cooperate with local key accounts in the global market, and last, but not least, proactively expand the overseas market by building up relationships with global shipowners.

- The cyclical downturn of the shipbuilding industry has created more M&A opportunities. High-performing companies and investors could consider acquiring and restructuring bankrupt companies or high-quality small and medium enterprises at a lower price during the downturn of the industry to benefit from the synergies in product mix, customer bases and channels, and expanding market share and industry influence. How to seize market potential and transformation opportunities is key for ship equipment manufacturers that want to realize rapid growth in the China market.

Before companies and investors make strategic decisions, they should also thoroughly consider the following key issues:

- Where will the future growth of China's marine equipment market come from?
- What kind of organisational structure and business processes are needed to adapt to a rapidly changing market environment?
- What are the customers' real needs and key purchasing criteria?
- What is the procurement process for marine equipment? Who is the decisionmaker and who is the influencer?
- What product portfolio can achieve maximum synergy and bundling effects?
- How can distribution networks be designed and deployed to cope with the highly fragmented market and strict market entry barriers?
- MNC companies should also consider how to compete with local players. If localisation is needed, then what is the best model? How can the proprietary know-how and brand value be protected in the localisation process?

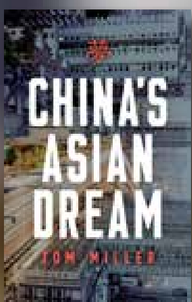
At the same time, we also recommend that companies and investors continue to pay attention to potential risks and prepare contingency plans accordingly. Major risks may include fluctuations in the industry's macrocycle, an increase in the regulatory entry barrier for foreign companies to enter, the escalation of global trade friction, and the risk that local competitors would gain core technological breakthroughs and thus form a competitive advantage. Eb

__L.E.K. Consulting__ is a management consulting firm headquartered in London (UK), with its US counterpart in Boston, MA. Founded in 1983, the company's primary service lines consist of corporate strategy, mergers and acquisitions, and operations. It employs a generalist model across all major industries, including a large presence in defense, aviation, life sciences, healthcare, energy, entertainment, transport, retail, consumer products and financial services. The company also has a large private equity practice. L.E.K. is a global strategy consulting firm with clients and presence in the Americas, Europe and Asia-Pacific.

BOOK REVIEW

Review by Kevin O'Donnell

China's Asian Dream: Empire Building Along the New Silk Road



China's Asian Dream: Empire Building Along the New Silk Road by Tom Miller. Zed Books (London, 2017) 392 pp. (paperback).

Many European businesspeople are aware that Rotterdam has become a central hub of the Belt and Road Initiative, with three trains a week leaving Chengdu to make the 15-day trip to the Dutch city, the largest port in Europe. It stands to reason: Rotterdam is ideally situated to connect with the large consumer markets of Germany, France, the UK and points beyond. Everyone knows that.

But what about the more esoteric places we hear about when we glance at CGTN or the papers, places such as Kunming, capital of the poor province of Yunnan, designated as a hub in China's 'Go West' programme? Did you know its vast new airport, opened in 2012, had already handled more traffic by 2015 than Berlin? Or that Khorgos, a small town in Xinjiang, is being groomed to become a distribution hub for Central Asia?

And those countries to the west of China, the not-so-famous 'stans' – Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan: Westerners may be forgiven for having only a vague idea of the resource wealth and geopolitical significance of these countries. But the Chinese are very familiar with the region and are enticing them into the Belt and Road Initiative with massive investments in infrastructure. It might very well pay for European businesspeople attuned to investment opportunities to learn more about these places, hitherto on the margins of awareness and interest. And Tom Miller's book China's Asian Dream: Empire Building along the New Silk Road is exactly the book to bring the savvy businessperson up to speed.

Miller brings the right equipment to the task. Educated at Oxford and the School of Oriental and African Studies in London, he is now a senior analyst at Gavekal Research, a global economic research centre. But he is more than a scholar; he brings a journalist's perceptive curiosity with him as he visits the dozen countries he writes about. He takes readers through narrow bazaar alleys where vendors sell victuals of unknown provenance or to five-star hotels where over drinks a government minister explains why China's wealth attracts his country, but its gravitational pull arouses fear.

China's Asian Dream is not merely an Anthony Bourdain-style travelogue. Miller, editor of the *China Economic Quarterly*, skilfully weaves on-the-ground experiences with a view-from-30,000-feet survey of the motivations and fears that drive all the players in this Great Game – including China, the United States and Europe. After reading *China's Asian Dream* you will read about what's at stake in Myanmar, Vietnam and other Asian countries with fresh understanding – of risks and benefits awaiting in these lands. Eb

EUROPEAN TOUR 2018/19

24~25 SEPTEMBER

BRUSSELS

European Chamber President Mats Harborn briefed EU Vice President Katainen.

A European Chamber delegation of 31 representatives, led by President Mats Harborn, spent the last week of September in Brussels to meet with EU leaders. Among the delegates were vice presidents Charlotte Roule, Massimo Bagnasco, Michael Chang and Carlo d'Andrea; states representatives Rachel Morarjee and Sarah Marchetta; president emeritus Davide Cucino; 12 working group chairs, two local chapter board members and 10 members of the secretariat. Engaging at both the high-level and the working-level, the European Chamber held 70 meetings across Brussels in meetings with the European Commission, the EU Parliament, Member-states embassies, the Chinese mission to the EU, industry/business associations and think tanks.

Key messages

The central message of the European Tour was that firm engagement with China is critical to ensure that China's 'reform deficit' is resolved so that an open and fair market in which European companies can operate is created. Having tracked the progress of China's reform agenda following President Xi's speech at Davos in January 2017, the European Chamber has noted that while some improvements have been realised, the level of China's openness remains insufficient and the continued existence of an unlevel playing field for European businesses is increasingly intolerable. As China is a rapidly maturing player with the heft of a great economic power, it is now time for the country's investment environment to fully embrace not only the letter of its WTO commitments, but to go further and realise the spirit of WTO membership.

EU Tour begins at the top in a meeting with vice president Katainen

On 24th September, European Chamber president Mats Harborn led several representatives of the European Chamber in a meeting with EU vice president Jyri Katainen. President Harborn provided an update on events since VP Katainen's previous visit to China. He emphasised the 'reform deficit' and the frustrations felt by foreign businesses in China, as well as its influence over the US-China trade war. VP Katainen then asked about the impact being felt by European firms in China as a result of the trade war, to which President Harborn introduced the findings of a member survey run by the European Chamber. The discussion then covered a variety of topics with a focus on follow-up from the Chinese Government on commitments made during the EU-China Summit in July 2018, the Belt and Road Initiative (BRI), WTO reform and the circular economy.

European Chamber vice president covers market access and decarbonisation with DG Energy

Director-General of DG ENERGY Dominique Ristori meets with Vice President Charlotte Roule.

On 24th September, the director general of DG Energy, Dominique Ristori, welcomed European Chamber vice president Charlotte Roule and several other representatives for a briefing on developments in China's energy sector. After a short introduction to the key messages of the European Chamber, VP Roule noted that the Chinese energy sector has seen only limited progress, especially in transparency and sustainability, in large part due to the lack of foreign competition that would promote market forces and best practices. DG Ristori agreed and said that the EU is eager to push for greater market access in energy in return for more cooperation between the EU and China to improve the Chinese energy system. He then asked about the status of China's decarbonisation, to which VP Roule noted some significant challenges China is facing. She said that while decarbonisation is a priority for the government, it is using blunt tools to attack the problem; more fine-tuned methods would be better-suited to the task.

The US-China Trade War a central concern for all in meeting with DG GROW

Vice President Massimo Bagnasco met with Director General of DG GROW Lowri Evans.

On 25th September, Massimo Bagnasco, vice president of the European Chamber, led a delegation of leaders from the European Chamber in a meeting with Lowri Evans, Director General of DG GROW to discuss recent developments in the Chinese business environment. VP Bagnasco opened the meeting by raising concerns about the very different developments in the last year for European multinationals in China compared to European small and medium-sized enterprises (SMEs). He noted that SMEs are increasingly squeezed out of the market and that they struggle under the regulatory regime more acutely than their larger counterparts. DG Evans asked about the effects of the US-China trade war, to which VP Bagnasco expressed concern about disruptions in some supply chains. VP Bagnasco noted that European firms in China held two competing views: that the trade war is accelerating China's reform and opening up, or that it is delaying it.

The EU Tour evolves with new events and first-time meetings

President Harborn opens the first EU-China Forum in Brussels.

HE Zhang Ming welcomes European Chamber delegates to his residence.

The First EU-China Forum: The European Chamber organised a new annual event to bring together some of the top thinkers and business leaders working between the EU and China. The forum focused on issues surrounding innovation in China, the future of healthcare, and how businesses can respond to Chinese and European greying demographics.

Dinner with HE Zhang Ming, Chinese Ambassador to the EU: On 24th September, the Chinese Mission to the EU welcomed a delegation of representatives from the European Chamber, led by President Mats Harborn, to a dinner meeting to celebrate the Mid-Autumn Festival.

Meeting with Representatives of EU Member States: For the first time, the European Chamber organised an event with representatives from the EU Member-States' embassies to the EU. Held at the Italian embassy, the meeting revolved around a presentation of the European Chamber's key messages of the year followed by a lively discussion on a variety of topics. Eb

Elevating your China Story to Global Audiences in Times of Uncertainty

By Tom Howard

Despite the well-publicised challenges facing multi-national corporations (MNCs) operating in China, being involved in the world's most populous country buoyed up by the second largest economy remains a key priority in these corporations' strategic plans. It stands to reason: China has proven to be a major source of revenue, growth, and innovation; MNCs realise that it is in their best interests to ensure a meaningful and sustainable presence in this market.

Moreover, succeeding in China is often a strong indicator of a corporation's overall performance. Making it in the Middle Kingdom can be a powerful source of confidence-building for stakeholders both inside and outside of the country, including investors, partners, customers, governments, regulators and employees. No wonder global audiences are eager to know how MNCs are performing in China.

However, many MNCs fail to adequately communicate their China activities and success stories, leaving global audiences to rely on second-hand sources and hearsay, which may be neither positive nor accurate. This represents a wasted opportunity for MNCs, who sometimes feel they need to wait for a global executive to visit their overseas subsidiary before they consider it opportune to tell their China story to global audiences.

Local management might feel justified in adopting a communications stance they feel is prudent, citing geopolitical concerns. But often it's misaligned corporate policies and politics that induce the Chinese subsidiary to maintain too low a profile. How many readers can identify with these practices: unsuitable internal policies and approval processes, trust issues, limited autonomy or few incentives for the China-based to engage openly with audiences outside of China, increased comfort in the status quo, headquarter bias towards focusing on home-market stories, limited understanding among HQ decision-makers about China, and limited cross-pollination of employees between the home office and China?

The potential benefits to MNCs of communicating their China success stories to global audiences can be numerous. These include building investor confidence, attracting partners, combatting misconceptions and inaccurate media reporting, motivating employees, and attracting talent. Some relatively safe China stories that could be considered for sharing include strong business performance, successful partnerships and collaborations, investments, new facilities, R&D breakthroughs and innovations, CSR activities, awards, and employee achievements.

All this being true, it is still important not to overlook the potential risks of proactively communicating about China. While careful crafting of the corporate message is a universal concern, stories emanating from local offices should be told with sensitivity to Chinese geopolitical characteristics and an understanding of how different audiences, inside and outside of China, might react. Striking the right messaging and narrative balance between China and the MNCs home country is crucial.

It is, admittedly, a fine line to walk. Communications should avoid (or better yet skirt around) political sensitivities, especially those that conflict with the Chinese government narrative; but at the same time they should also avoid pandering to orthodox expressions, which can be easily detected by sophisticated and perhaps cynical Chinese readers. Walking the line requires a sound sense of public affairs, one sensitive to market and social forces. We should be prepared for different dynamics and scenarios and think carefully about how the broader China story could evolve in relation to current dynamics like increased Chinese assertiveness, bilateral frictions, and the changing business environment for foreign companies in China.

"...However, we must bear in mind, and be respectful of, the differences in how Chinese media and international media operate."

On this theme, while American companies are facing obvious challenges in China, no country is completely immune to the threat of disagreements and tensions. In these instances, MNCs, with their sometimes decades-long track records of investments and public-relations outreach to layers of government, can become negotiating chips as these intergovernmental tensions play out.

There are many ways to communicate China stories globally. Probably the most prominent of these is working with international media outlets who have captive global audiences. However, we must bear in mind, and be respectful of, the differences in how Chinese media and international media operate. International media outlets in China typically value exclusivity, have less time and resources at their disposal, require access to executives and data, will not reprint releases word-for-word, and cannot promise positive coverage. They also have a duty to be selective and craft stories that are free from bias and meet the needs of their editors and readers, who are mostly based outside of China. We should also be mindful that stories in international media can be picked up by Chinese media and netizens and spun or interpreted in various ways.

Other effective communication strategies include: weaving in China stories when participating in forums and conferences around the world, sharing more China-centric content on corporate social media channels (like Twitter, Facebook and LinkedIn), sharing more China content on internal platforms to increase employee awareness and understanding, and incorporating more China data and stories into documents such as annual reports and sustainability pieces.

In summary, the benefits to MNCs of elevating the China story can be significant and doing so should be encouraged. But getting out the China message should be carefully managed. Corporations have to take into consideration how their China communications can be interpreted by different audiences, both now and in the future. Eb

*Global communications agency **BCW (Burson Cohn & Wolfe)**, offers a full spectrum of services to clients covering strategic counseling, integrated communications and project execution. The agency operates six offices in Greater China.*

Future-proofing Your China Strategy and Business Operations

By Kent D. Kedl and Steve Wilford

China has entered an extremely disruptive phase of its development for all businesses – foreign and domestic. The trade war between the US and China may be the current focus, but its domestic plays, such as the 'Made in China 2025' policy and the Cybersecurity Law in force since 2017, that are the real headwinds for foreign companies. Only the nimble will survive, and fewer still will prosper. While companies operating in China have little influence over the country's growth strategies and tactics, they can have an insight into them and prepare a plan to respond. Senior Partners of **Control Risks Kent Kedl** and **Steve Wilford** explain the steps companies need to take in order to future-proof their China strategy and business operations*.

* This is an abridged version of this article. To access the complete text, go to: <https://www.controlrisks.com/campaigns/china-business/future-proofing-your-china-strategy>

China's threat is structural

The Made in China 2025 (MiC) policy is a central plank of President Xi Jinping's economic plan for his country and much of it is not good news for foreign companies. MiC is conceived to challenge their dominance in 'strategic' sectors; demand they turn over intellectual property (IP) in others; and use regulators to expedite this change with anti-bribery, anti-monopoly, environmental and food safety probes. President Donald Trump's administration—and US politics across the spectrum—is already moving on from the simple binary of too many Chinese exports versus US ones, to focusing on MiC structural threats to foreign business in China. Contrary to what a lot of Beijing officials think, this focus is not the product of personality politics; the US position on the Chinese economy is now structural.

Yet, in the face of all that, China today sits on foreign direct investment inflows accounting for nearly a quarter of its GDP. Actual foreign direct investment into China from January to August this year totalled USD 86.5 billion, up 6.1 per cent during the period. Wall Street titans are viewing Beijing's ongoing liberalisation of the financial services sector with deep interest. While Chinese consumers have slowed some of their purchases, foreign companies in the automotive, consumer and food service sectors continue to invest heavily in China. For many, the China opportunity very much remains.

Know who you are

The reality is that corporates operating in China have little influence over the Chinese state's growth strategies and tactics. What companies can have is an insight on those strategies and tactics, and a plan to respond to them. So, how to assess China risk and reward?

Assess your regulatory risk

Have a very good look at your welcome mat. There are some widely-publicised cases of companies that have faced major investigations in China in recent years. The depth, pace, scope and speed of regulatory risk is growing. In a very pertinent analogy for China, you wouldn't run a crucial piece of bespoke cyber IP without penetration testing its defences to destruction. Extend that defence to your business as a whole and 'white-hat' your regulatory risk.

Test your business against the following questions:

1. Which regulatory agencies are relevant to you? Many businesses in China are not fully aware of who is most interested in their business and why. "Is my data 'strategic' under the Cyber Security Law?" is the most asked question in foreign business circles at the moment. Many managers are surprised to hear the answer is almost always 'yes.'

2. What jurisdictions matter the most and am I in one? Ironically, the New China narrative increasingly talks about the country as a monolithic centralised state, but how states implement policy differs markedly across China.

3. What sectors matter the most to industrial reformers and am I one of those? Healthcare, food and chemicals are almost famous for the amount of scrutiny and enforcement Chinese regulators load on them. However, this list is expanding.

This exercise often throws up interesting results, revealing vulnerability in places least imagined. White-hatting your regulatory risk will challenge assumptions and often quell tribal attitudes to China risk that pervade your office.

Being local with Chinese characteristics

MiC is focused on the localisation of technology and high-tech manufacturing. But you are only as local as China deems fit.

Figuring out what local means in your industry niche will be critical to future-proofing your operations.

MiC defines ten sectors where the Chinese Government wants to encourage the growth and independence of local players. But in reality, these sectors cover anything from industrial vacuum pumps to consumer electronics suppliers. Even if you source parts in China and technically have produced it in China, you still may not be considered 'local' if Chinese firms around the corner or in other provinces are nipping at your heels. Conversely, if your product (for now) is critical to the China market, that in itself may be enough to provide you with local status and even grants from the Chinese Government.

> The great rejuvenation of the Chinese nation is no walk in the park or mere drum-beating and gong-clanging."
>
> **Xi Jinping**
> Keynote speech of the opening of the 19th Congress of the Chinese Communist Party

Follow the money. It is becoming increasingly clear where MiC grants and even preferred procurement from state-owned enterprises (SOEs) are going. If you are a foreigner manufacturing in a supply chain where the Party is telling your Chinese customers to localise their supply chains, it might be time to consider getting out.

Remember, data is national security

'Business is data' as the saying goes. There is data and then there is China data. The growing chokehold over information flows and the technology that delivers it is pushing foreign MNCs in China to be 'all in'. This means IT personnel, operations and data increasingly need to localise to China – including, for example, hiring China data protection specialists, procuring domestic technology, and localising IT security policies, content and crisis management plans. For many companies, this will result in significant costs, but will also bring key benefits: being compliant with the strict cyber regulatory regime; providing local teams the autonomy to respond quickly to shifting requirements; and finally, ensuring the company's global IT systems and data are walled off from insecurities brought on by having to use domestic technologies and submitting to government and other local third-party audits.

Most companies are used to Western cyber laws that are primarily focused on data privacy. The Chinese authorities are as concerned with the content that is on your networks. Recently, Chinese authorities cracked down on travel and airline companies for not identifying Taiwan on website drop-down lists in the way that the Party thought it should be identified. The unspoken ultimatum was a shut-down in business in China if the companies didn't comply and make changes.

Get to know your friendly neighbourhood über-regulator

Regulators in China are often anxious to better understand the industries they are regulating and discuss with company management how best to operate in China. The new raft of super-regulators and investigators, like the newly formed State Administration for Market Regulation, are no different. Managing well in government affairs work mitigates the risks associated with everything that has been discussed. In Xi's China, however, the aim of your government affairs department will not only be about 'market access': it will include processes such as getting approvals and licences, promoting solutions among government entities, and building relationships with SOEs to create sales channels. This was a government relations function for the "red-carpet" years – not 2018 onwards. A wise company would identify its regulatory threats, find the regulators responsible for them and then communicate with them – government affairs for risk management. This can occasionally lead to collaboration on the development of best practice.

Bang a gong, get it on

In 2017, Xi Jinping famously said, "The rejuvenation of the Chinese nation is no walk in the park or mere drum-beating or gong-clanging." That statement captured the challenge behind everything from his desire to reform state healthcare, to fixing Chinese air quality, to his plan to bring about a tectonic shift in the structure of the Chinese economy. The role that foreign businesses have and will continue to play in that rejuvenation will be pivotal. Opportunity remains. The walk in the park bit of doing business in 'rising China' has gone. In Xi Jinping's 'risen China', intelligence—gathering and exhibiting it—will be crucial to understand and navigate the new rules of the game. Eb

***Control Risks** is a specialist risk consultancy committed to helping clients build organisations that are secure, compliant and resilient in an age of ever-changing risk and connectivity. Clients include national and multinational businesses in all sectors, law firms, government departments from many parts of the world, NGOs and SNBs, both national and international.*

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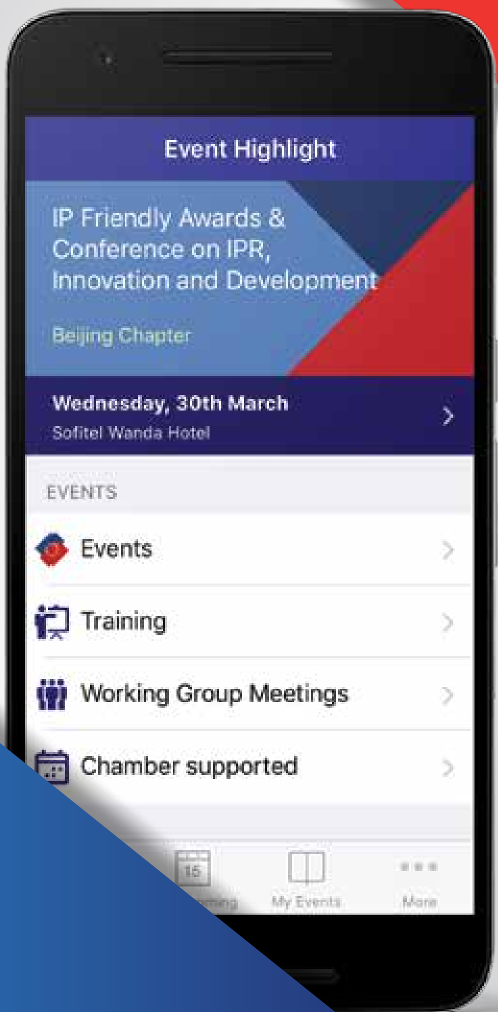

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China's Standardisation Reform and its Impact on European Companies with Business in China

By Betty Xu

Standardisation plays an important role in market access; in fact, it immediately impacts how companies can conduct business, says **Dr Betty Xu**, Standardisation Expert, Project Director of the **Seconded European Standardization Expert in China**. China standardisation law reforms in recent years changed the way that standards were developed and implemented in China. European companies wishing to sell their products in the Chinese market must become aware of the changes in the standardisation system.

Changes in China's standardisation system

In line with economic development, China's standardisation system has been in constant change. The State Council of China released the *Reform Plan on Deepening the Standardisation Work* in March 2015, and the *Notice on the Action Plan (2015-2016)* for *Releasing and Implementing the 'Reform Plan on Deepening the Standardisation Work'* in August 2015. The publishing of both plans has accelerated the pace of reform of China's standardisation system. In January 2018, with the formal implementation of the new Standardisation Law, some important reform measures have been formally solidified in the form of legislation and have become the basis for the operation of the new standardisation system.

Under the new *Standardisation Law*, China's standardisation system has undergone the following major changes:

1. In order to implement the decision to streamline and integrate various standards, the Chinese Government will establish a standardisation coordination mechanism to coordinate the positions of all parties and help the reform work smoothly.

2. Existing mandatory national, sectoral and local standards will be integrated into mandatory national standards. There will no longer be any mandatory sectoral or local standards. Moreover, the mandatory standard text is free to the public.

3. The national, sectoral and local standards that were too complex will be sorted out and streamlined, and standards with repeated, overlapping or conflicting contents will be phased out, converted or combined.

4. In order to promote market-driven standards, China "encourages social groups such as institutes, associations, chambers of commerce, federations, and industrial technology alliances to establish association standards".

5. The management of enterprise standards is adjusted from the original filing to government for record purposes to establishing a self-declaration disclosure and supervision system for enterprise products and service standards. The new Standardisation Law encourages product standards or service standards implemented by enterprises to be disclosed to the public through a unified platform.

6. The attitude towards international standards has changed from "active adoption" to "participation in the development of international standards and in the promotion of conversion between Chinese and foreign standards".

The impact of China's standardisation reform on European companies in China

Since China's standardisation reform involves many major principle changes, from the original "government leading the development of standards" to "dual supply of government standards and market standards", the new model of "mandatory national standards + recommended national, sectoral and local standards" is more in tune with the EU's model of "mandatory technical regulations + recommended standards". Nevertheless, this reform will also have a far-reaching impact on the market and how enterprises can adjust. For European companies conducting business in China, this standardisation reform has both positive and negative impacts.

1. Positive impacts:

Mandatory standards are easier to access: The multi-level mandatory standards that existed at the national, sectoral and local levels are abolished, combined or converted into a single field of mandatory national standards. This harmonisation provides a unified interface for European companies, allowing them to more easily understand and master the mandatory Chinese market access policy. The new Standardisation Law also makes it easier to acquire mandatory access information.

Better TBT (Technical Barriers to Trade) notification: The original mandatory standards and multi-party management models that existed at the national, sectoral and local levels were not conducive to fast and efficient notifications of TBT. The unification of mandatory standards into national standards and the unification of mandatory standards management institutions into a single institution enables any TBT information to be more effectively and quickly perceived by the outside world. This accelerated consultation process promotes trade.

2. Negative impacts:

Standard supply: The new standardisation system encourages social groups to develop standards that may be different from the standards set by the government. Since social groups have greater flexibility as well as the intention and ability to set their own standards, problems of duplication, overlap, conflicts and other issues between standards developed by different groups may arise. The danger of the unusually-bloated Chinese standards becoming even more complicated and more likely to conflict with international standards such as ISO/IEC cannot be ignored. This situation is not conducive to the development of international trade.

Adoption of international standards: In addition to active participation in international standardisation, the new standardisation system also requires the adoption of international standards based on actual conditions in China. This may result in the adoption of standards needing many modifications based on China's own perceived requirements. Moreover, the new standardisation system no longer expressly encourages the adoption of ISO/IEC standards; instead the system strives to promote the application of Chinese standards abroad. This goal has undoubtedly increased trade barriers for companies that use the ISO/IEC standard or European standard.

Development of association standards: The new Standardisation Law does not clearly define the groups that can set association standards; in fact, the 'market' attribute of association standards has yet to be developed. The association standards that have been developed may not be consistent with ISO/IEC standards, so the use of standards intrinsic to China will incur additional operating costs for European companies entering China. It remains to be seen how China will further promote the use of association standards and manage social groups. In addition, the development of testing and certification related to association standards is also in need of further improvement by policies and regulations.

Self-declaration of enterprise standards: The new standardisation system attempts to improve product quality and promote industrial upgrading through enterprise standards. The new system requires companies to set standards with higher indicators and to self-declare on public platforms with regulations overseen by market regulators. However, the large number of enterprise standards, a variety of testing methods, and limited regulatory system testing and regulatory capabilities severely constrain realising this goal. More likely, different enterprise standards and different testing methods make company disclosure functions and performance indicators incomparable, leading to both chaotic market competition and unfair competition. Eb

*The **Seconded European Standardisation Expert in China (SESEC)** is a visibility project co-financed by the European Commission (EC), the European Free Trade Association (EFTA) secretariat and the three European Standardisation Organisations (CEN, CENELEC and ETSI). Established in 2006, the SESEC project has been dedicated to supporting the strategic objectives of the European Union, EFTA and the European Standardisation Organisations (ESOs), and promoting EU-China standardisation information exchange and EU-China standardisation cooperation.*

A SOUND PLAN

Marketing high-end audio in the Middle Kingdom

The growth of the middle class has helped precipitate the development of a more consumer-based economy in China. As with many European companies, **Sennheiser** have been in the Chinese market for years, but are now looking to capitalise on Chinese consumers' increasing demands for high-quality goods. After five years working for Sennheiser Electronic, **Dr Andreas Sennheiser** and his brother **Daniel Sennheiser** were appointed CEOs of the family-run business in 2013. They talked to *EURObiz* about some of the challenges of engaging with the Chinese market.

Q Can you explain a little bit about the history of Sennheiser, its founding and recent developments?

A **Daniel Sennheiser:** The Sennheiser family has owned the company for 73 years, and we run it in a way that focuses on the long term. Alongside this corporate vision, we have tried to develop a business strategy that focuses on the customer and tries to anticipate what we think they would want in the near to far future.

A **Andreas Sennheiser:** In 1968 the first hi-fidelity headphones were launched, and we have always looked to innovate on this and take the audio industry to the next level. Recently, the company has focused on digital transformations in the headphones industry. Of particular interest has been the recent advances in 3D audio. While fidelity is important, it is also crucial to develop an audio experience that is more 'spatial' than anything that has come before.

The trick to doing this is to bring together the research and development teams that have purely focused on 3D audio and those that have constantly sought to refine the overall audio experience.

Q What was it like when you first entered the Chinese market?

A Daniel Sennheiser: We have actually been in China for decades, with the company's technology being used throughout the country. The initial breakthrough came when our high-end audio equipment started to be used in television stations across the country. Growth was slow at first, but the Chinese market has increasingly come to appreciate high-end audio, as well as the importance of employing high-quality technology in corporate environments.

Q Would you consider China to be an important market for future growth?

A Andreas Sennheiser: China will definitely be an important future market for the audio industry, and currently it is the third largest market in the world.

Q Have there been any innovatory changes in audio equipment that are specific to the Chinese market?

A Andreas Sennheiser: China is seeing growth in certain audio products, such as closed-back headphones, that are resulting in innovations that could be used outside of the country.

Q Because media in China is consumed primarily via mobile phones, which are not associated with high-quality audio, does that make it more difficult to sell high-end audio equipment to the typical Chinese consumer?

A Daniel Sennheiser: China has been wanting a premium audio experience for a while, although communicating and marketing to the appropriate consumer has been a learning process. Over time we have come to realise that reaching consumers and identifying their needs is best done over the platforms they are most familiar with, which we have primarily accomplished on services such as WeChat.

A Andreas Sennheiser: While high-end audio was not always a priority in China, this is rapidly changing, primarily due to exposure and education. Modern interpretations of fidelity, and even what the bit-rate for an audio file means for the listener, are different today than they were several years ago. For instance, today's technology is quickly allowing an average consumer to record 3D audio on their mobile device. Despite the slow start, the Chinese public has quickly educated themselves, and does so extremely well, on what high-quality audio is and what technology is needed.

Q Since so much relies on brand reputation to sell quality products, is counterfeiting in China a real concern?

A Daniel Sennheiser: Inappropriate branding and the counterfeiting of products will, of course, not go away anytime soon. However, the primary way to reduce its occurrence is to educate consumers and ensure they have ways to buy our products from trusted sellers. This ultimately means reducing the number of unauthorised resellers that are marketing products similar to ours. We have been somewhat successful in this, as evidenced by a reduction in instances of counterfeiting. However, as Chinese consumers become increasingly well educated about high-end and premium audio products this issue will naturally decrease.

Q What are some challenges that have influenced your investment decisions in China over the past 20 years?

A Andreas Sennheiser: China is a very volatile place, and when domestic Chinese market players set their mind on something, changes can happen very quickly. This means we have to be flexible when it comes to our dealings in the Chinese business environment, and always need to be mindful of the rapidly changing regulations that can affect our business, such as policies related to the import and export of goods. These kinds of things play a major factor when we make investment decisions, and how we market to China.

Q How do you see the wireless headphone market developing now that big companies are starting to invest more in this area?

A Daniel Sennheiser: High-end wireless equipment is rapidly advancing today and we have already contributed to this market in China. This has been extremely beneficial for us, as the average Chinese consumer is beginning to gravitate towards the best quality products.

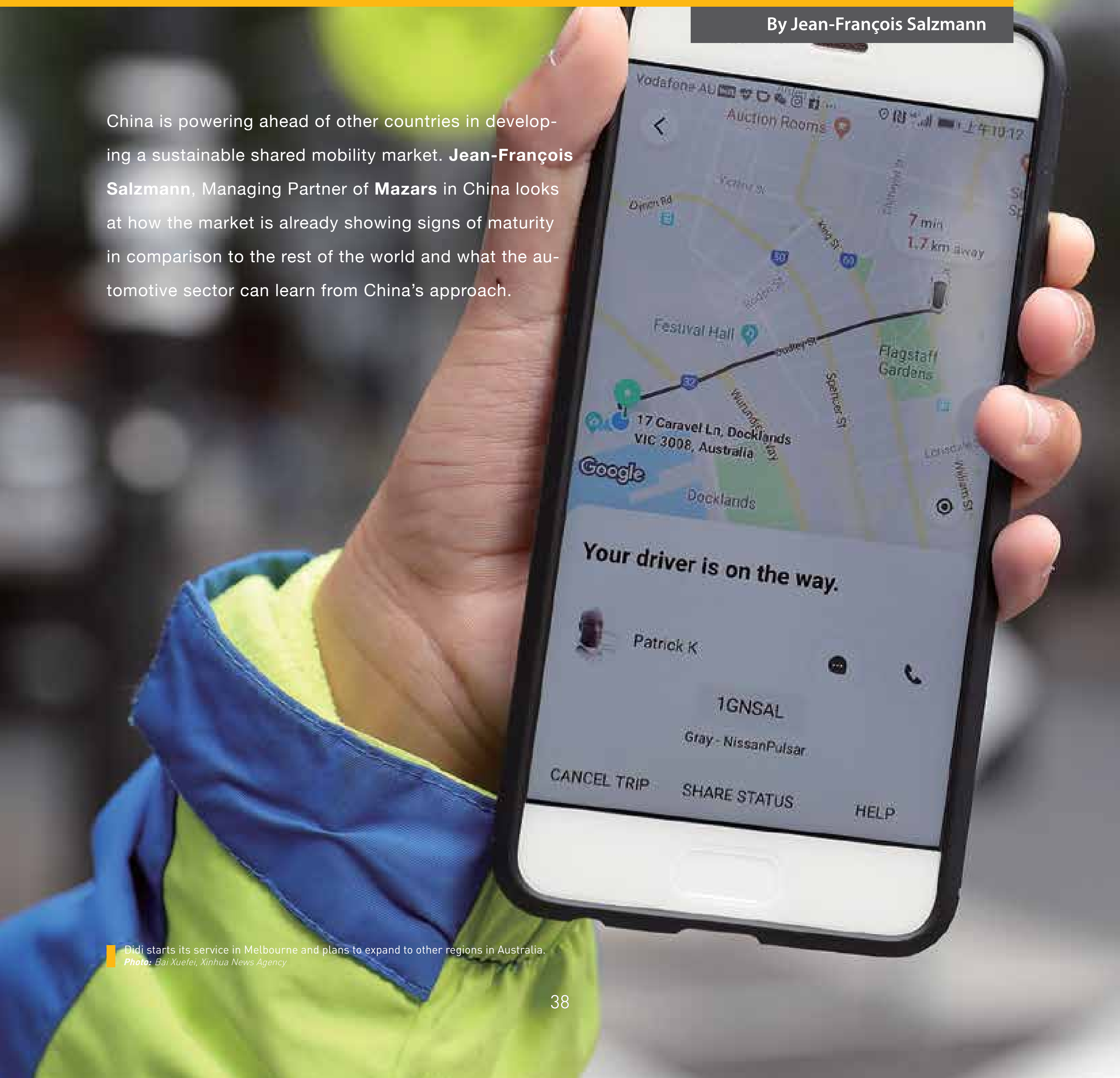
Q Where do you see the future of high-end audio equipment, both in and outside of China?

A Andreas Sennheiser: The future of high-end audio equipment is in smart devices: those that are connected in people's households and that make people's lives easier. This type of technology also has interesting possibilities in China, as it is a rapidly developing country that will soon be adopting 5G technology. At the same time, people are quickly adopting mobile 3D recording technology. Sennheiser's Ambeo Smart Headset was developed to bring together connectivity with smart devices, wireless technology, and the 3D-audio environment. While widespread adoption of this type of technology may be slow initially, we believe this is the future of audio. Eb

How China Is Transforming Shared Mobility

By Jean-François Salzmann

China is powering ahead of other countries in developing a sustainable shared mobility market. **Jean-François Salzmann**, Managing Partner of **Mazars** in China looks at how the market is already showing signs of maturity in comparison to the rest of the world and what the automotive sector can learn from China's approach.



Didi starts its service in Melbourne and plans to expand to other regions in Australia.
Photo: *Bai Xuefei, Xinhua News Agency*

With over 400 million registered customers in more than 400 Chinese cities, Didi Chuxing's smartphone app delivers 25 million rides a day, making it by far the biggest mobile transportation service provider in China – particularly since it bought out Uber's Chinese operations in 2016. But it's not just strength in the Chinese market that has turned Didi from a household name to an aspiring global brand, it's the ability to create a single ecosystem by aggregating big data that is helping to transform this sector of the shared mobility market. In fact, Didi Chuxing's ecosystem strategy potentially defines our core understanding of what shared mobility is from a business perspective.

Chinese enterprises shared their experience on sharing economy in a conference organised by the United Nations Conference on Trade and Development and the China Chamber of International Commerce in Geneva on 17th April 2018.
Photo: *Xu Jinquan, Xinhua News Agency*

One App for all

Using an app to call a taxi is no longer alien to consumers in many countries. However, China is already pulling away from the pack in terms of providers aggregating data to offer one-stop transport platforms, whether it's a taxi, bus, chauffeur-driven or private car to a wide range of private and business users on an as-needed basis. It's this ability to link up different demands without the need to go to separate service providers that presents both opportunities and challenges to companies looking to develop shared mobility services in China. Despite the current domination by a small number of companies in this space, there will always be room for niche services that cater to particular market segments or exploit the growth in passenger experience innovation.

But companies that have the technical capabilities alongside expertise in data management and governance will have more of a competitive edge going forward as expected tougher regulations kick in.

Intermediary or provider?

Despite current high market concentration in China, which business model holds the balance of power when it comes to mobility solutions is far from clear-cut. There are intermediaries such as Didi who aggregate data to act as a link between providers of cars, bikes, taxis etc. with potential customers. Then there are providers such as Mobike which manufactures the majority of the distinctive orange bikes on its platform to capitalise on the growth of on-demand bicycle use. While there is the undoubted power of data, there is also control and expertise in the manufacturing process.

Both use technology in different ways, but there are service synergies which more recently has seen Didi sign partnership agreements to help OEMs market auto-sharing services and electric vehicles. Equally, Mobike integrated its services into WeChat, which is China's largest social media platform. Either way, forging the right partnerships with a shared vision will continue to be key.

Brand recognition

It's counterintuitive to think that regulation can create a brand, but there's potential in China. In terms of the traditional automotive sector, China's focus on its home market has left it behind in the race to create a globally recognised car brand. Instead it has used deep pockets to buy global brands such as Volvo, which is now owned by Chinese OEM Geely. However, with EV (electric vehicle) development very high on the agenda for the Chinese Government, there is still potential to create a globally-recognised Chinese brand in this fledgling sector. Government regulations that ensure a certain percentage of car manufactured in China are EVs are already filtering through to share-mobility platforms, where EVs are increasingly the norm.

In addition, industry players are using this regulatory push to exploit expertise in integrating artificial intelligence (AI) and to work together to ensure that infrastructure such as EV charge points match demand.

As a densely populated country, China's enthusiasm for shared mobility is undoubtedly fueled by necessity. But thus far China's involvement in EV and wider sustainable mobility developments means it is not only putting its own stamp on future solutions but is also intent on leading the way. Eb

***Mazars** is an international, integrated and independent organisation, specialising in audit, accountancy, advisory, tax and legal services in 102 countries.*

Miele

Miele in China

About Miele

Miele Headquarter in Gutersloh, Germany

Miele in Dongguan, China

Miele has been an independent family-owned company since its establishment in 1899 in Germany and is equally committed to its owners, employees, customers, suppliers, the environment and society. Today it is one of the world's most trusted and desirable premium brands.

The company focuses on manufacturing domestic appliances for the kitchen, the laundry room and for floor care.

The company focuses exclusively on the Miele brand and its consistent positioning in the premium segment. Miele stands for long-term thinking and planning, continuity of values and goals, good relationships with customers and suppliers, as well as an employee-oriented corporate and leadership culture.

Miele Dongguan, today registered as Dongguan Hong Da Electric Products Co. Ltd, was originally founded by the Company Melitta for the production of household coffeemakers. A 50/50 joint venture within which Miele started producing vacuum cleaners was founded in 1996. Since 2009, the company is 100% owned by Miele & Cie. KG and the further development of the plant according to Miele strategy started. To support this process a new factory was built and completed in 2011 with a production system adapting the same principles as other German Miele plants in Germany.

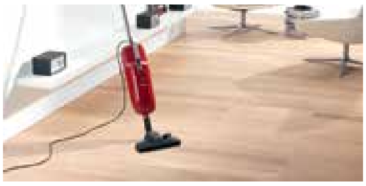
About Miele

Miele Dongguan locates in Qishi town in Dongguan city, which is strategically right in the heart of the Pearl-River-Delta economic zone of South China, with easy access to Guangzhou in the northwest, Shenzhen and Hongkong in the south. Dongguan is hence perfectly positioned in the center of the Guangzhou-Hongkong economic corridor.

Dongguan is often called 'the factory of the world', even within China, because of its thriving manufacturing industry. While in the mid-80s its focus was on cheap clothes, toys and shoes, Dongguan, today, is transitioning into a smart manufacturing base focused on producing hi-tech robotics and automatic equipment. It is said that the Guangdong provincial government has plans to create a 'Chinese Silicon Valley-style tech corridor' and they see Dongguan, alongside with Guangzhou and Shenzhen, as the leaders of the country in science and technology by 2020.

What do we do in Miele Dongguan?

Miele Dongguan focuses on manufacturing and developing floor care devices and their accessories. The products we produced here are exported from China to Europe, USA, Australia and Japan.



How do we do in Miele Dongguan?

To manage the growing demand and to ensure high quality products, we are shaping our manufacturing abilities by modernizing facilities and introducing industry 4.0. We benchmark ourselves with Miele German plants and other world-class manufacturers.

As a part of the Miele Group we put highest focus on quality. We offer products to our customers that set the standards for durability (our products are designed to last a 20 years life span), performance, ease of use, energy efficiency, design and service. This corresponds to our guiding principle and spirit 'Immer besser'(forever better) which the founders Carl Miele and Reinhard Zinkann printed on their first machines – and which still characterizes Miele today.

Miele's brand promise 'Immer Besser' is deeply rooted in the company's heritage. As a member of the Miele Group, this is also the key for our successful future. Not only are we content that our products are of a very high quality, we continuously try to make them better and better for our clients.

What is it like to work for Miele?

Our people are our company's most valuable resource. At Miele it is the people who make the difference. They shape our brand and bring it to life.

"With a caring nature unusual at that time, company founders Carl Miele and Reinhard Zinkann established the foundation for today's HR policy - characterised by social justice and respect - in 1899." This genuine harmony in conjunction with the unique corporate culture contributes significantly to the satisfaction and retention of employees. The respect for workers' rights is thus taken as a given.

The Miele group employs 20.100 people worldwide, 11.200 of them in Germany. At Miele Dongguan, we have about 480 employees.

In 2018, Miele was recognised as the best employer in the competition 'Germany's best employers' from 'Great Place to Work' in the category of companies over 5,000 employees. The competition involved around 740 companies of all sizes and sectors nationwide.

Great benefits, targeted staff development, a wide range of areas in which to develop are just a few reasons for choosing Miele. Find out more on www.miele.com.

We desire, respect and succeed talents. Look out for the opportunity to be part of Miele family!

Follow us on wechat:

ADVISORY COUNCIL NEWS

ABB COLLABORATES WITH CLIEC TO SUPPORT A MAJOR PULP AND PAPER PROJECT ALONG THE "ONE BELT ONE ROAD"

ABB was awarded a major project by Ittihad International Investment Group through China Light International Engineering Co Ltd (CLIEC), the EPC contractor. ABB will provide engineered solutions including sectional drives for the paper machine and winder, process AC motors and single drives, MV and LV switchgear, power and distribution transformers, ABB Ability™ Collaborative Production Management system (CPM) and automated laboratory testing with the L&W Autoline system.

It's a significant project, as it is one of the first major overseas projects undertaken by a Chinese EPC in the pulp and paper industry.

Haibo Jiang, ABB Process Industries Business Unit Manager North Asia said: "China's 'One Belt One Road' Initiative has come to maturity, with a large number of Chinese enterprises aiming to go abroad, from the initial investment to cooperation in project implementation."

AIRBUS' CHINA ASSEMBLY FACILITY MARKS 10 YEARS OF QUALITY MANUFACTURING FOR A320 FAMILY JETLINERS

In the decade since Airbus inaugurated its Final Assembly Line at Tianjin, China, over 380 jetliners from the best-selling A320 Family have been delivered from the site to both Chinese and international airline customers.

This facility was the first Final Assembly Line outside of Airbus' European home territory.

"The Tianjin Final Assembly Line has become a model for Sino-European cooperation – opening new opportunities for our business development in China, as well as creating a solid foundation for the internationalisation of Tianjin and China's aviation industry" said George Xu, the CEO of Airbus China.

Created in a joint venture with the Tianjin Free Trade Zone and China Aviation Industry Corporation, the Tianjin A320 Family's Final Assembly Line has expanded to the widebody jetliner segment with Airbus' Completion and Delivery Centre for A330s. As with the Final Assembly Line, the A330 completion and delivery centre was the first of its kind for Airbus outside of Europe.

BASF
The Chemical Company

BASF PARTNERS WITH PLUG AND PLAY TO EXPLORE NEW DIGITAL SOLUTIONS FOR CUSTOMERS IN CHINA

BASF has expanded its partnership with Plug and Play, a global start-up accelerator and corporate innovation platform, to advance digital innovation in China. The partnership provides BASF access to start-ups that focus on disruptive technologies such as artificial intelligence, big data analytics, blockchain and smart sensors. By working with start-ups and partners, BASF will be able to boost its product and service development to better support customers.

"Our goal is to bring our experts together with digital pioneers," said Stefan Beck, Senior VP, Global Process / Enterprise Architecture and Chief Information Officer at BASF. "China is a promising market with entrepreneurial spirit and innovative ideas. We are proud to collaborate with Chinese start-ups on ground-breaking technology, while offering them insight into real-world product application in the chemical industry and resources to help them scale up their technology."

PHILIPS

PHILIPS CHINA CEO ANDY HO RECEIVES PRESTIGIOUS RECOGNITION FOR HIS CONTRIBUTION TO SHANGHAI

Andy Ho, CEO of Philips Greater China, is among a select group awarded a 2018 Shanghai Magnolia Award by the Shanghai Municipal Government in recognition of his contributions to the city's development. With a background in healthcare and technology, Andy has played a leading role in Philips' evolution into an integrated healthcare solutions provider since he became leader of Philips Greater China in 2015. "This Shanghai Magnolia Award recognises not just me, but the contribution of Philips as a whole," he says. Philips China has participated in many charity programmes to help those in need.

Andy is committed to helping address the country's healthcare challenges through technology-enabled solutions and multi-stakeholder collaboration, such as an 'Internet Plus' strategy. Philips' collaboration with stakeholders includes government, hospitals, universities, technology incubators and IT industry leaders.

China ranks as Philips' second-largest market.

VOLKSWAGEN
GROUP CHINA

VOLKSWAGEN GROUP CHINA LOUTANG PLANT REACHES MAJOR MILESTONE WITH PRODUCTION OF 10 MILLIONTH ENGINE

Volkswagen Group China is celebrating the production of the 10 millionth engine at its Shanghai Volkswagen Powertrain Co., Ltd (VWPT) Loutang plant. The plant, established in 2005 as a joint venture with long-standing Chinese partner SAIC Motor, produces the EA211 series of engines used in 10 Volkswagen and 6 ŠKODA car models produced by SAIC VOLKSWAGEN.

Based on its lightweight construction, high fuel efficiency and advanced technology, the EA211 series of engines delivers the most advanced mobility to customers.

Jörg Müller, Chairman of Board of Directors of Shanghai Volkswagen Powertrain Company (VWPT) and Executive Vice President of Volkswagen Group China, Production & Logistics notes that, "Shanghai Volkswagen Powertrain Company plays a major role in the Volkswagen Group's success in China, through building production competitiveness to continuously meet the demands of our Chinese customers. This milestone demonstrates Volkswagen's long-term commitment to China." Eb

EUROPEAN CHAMBER IN THE MEDIA

President Mats Harborn's comment on President Xi's speech on SOE reform

SCMP

Chinese President Xi Jinping's show of support for state-owned firms 'no surprise', analysts say

But it did little to ease trade tensions on world stage, president of European Chamber of Commerce in China says

PUBLISHED : Friday, 28 September, 2018, 9:06pm
UPDATED : Friday, 28 September, 2018, 9:06pm

COMMENTS: 13

President Xi Jinping gave a speech in support of SOEs and stated that SOEs "should continue to become stronger, better and larger" and that suggestions they should be diminished were "wrong and one-sided". President Mats Harborn commented on this speech during an interview with SCMP. "Mats Harborn, president of the European Chamber of Commerce in China, said in an interview that Xi's comments had done little to help the current tensions. 'There is a trade war where the US is complaining about unfair and discriminatory practices in the Chinese marketplace, a view that is shared by European companies,' he said. '[So] to say at this time that SOEs should become bigger and stronger does not make sense. If Xi had also said that China plans to lift the burden of social responsibility off the back of SOEs and at the same time stop subsidising and supporting them, then the statement would be easier to accept.'"

Secretary General Adam Dunnett's reiteration of the Chamber's stance on the US-China trade conflict

Bloomberg

Economics

EU Chamber Urges China to Go Beyond Rhetoric at Import Fair

Bloomberg News

02 November 2018 11:12 CST *Updated on 02 November 2018 15:06 CST*

- Xi Jinping to address Import Expo in Shanghai on Monday
- China needs concrete reform timeline, EU chamber says

The European Chamber's Secretary General Adam Dunnett's interview with *Bloomberg*, shared the Chamber's stance on ongoing US-China trade conflict. The article quoted: "According to Adam Dunnett, the chamber's secretary general, who described such a mindset as 'a fundamental change.' 'This is not our policy or our position or what we are advocating, but the fact that we have members talking that way is of real concern to us,' he said. 'We don't want China to be relatively more open; we want China to be open. It's the world's second-largest economy,' Dunnett said. 'Is what we are asking for that unreasonable?'"

Shanghai Position Paper 2018/2019 launch with Vice President Carlo D'Andrea's comments on the CIIE

Bloomberg **CGTN**

EU business lobby dismisses China's latest opening pledge

6 Nov 2018 at 10:46 2 comments
WRITER: AFP

The chamber noted that Xi briefly mentioned removing caps on foreign investment in education and medical services, and support for accelerating negotiations on an EU-China investment agreement, calling them "potentially significant".

"That said, European business had higher hopes for what had been marketed by the Chinese government as a milestone event," chamber vice president Carlo D'Andrea said.

"What matters to us is that concrete actions are forthcoming and that reforms are clearly timetabled. If China really will continue to open up, we would have expected additional and specific commitments to have been announced by President Xi."

On 2nd November, the Shanghai Chapter launched its third local position paper. Media mentions covered key messages from the position paper, as well as comments on the CIIE. Vice President D'Andrea had two TV interviews with *CGTN* and one with *Bloomberg* on these two topics.

On 4th November, the European Chamber released official statement on President Xi's speech at the opening ceremony of China International Import Expo. When articles included statements on the CIIE, the following quote by Vice President D'Andrea was used most often:

"What matters is that concrete actions are forthcoming and that reforms are clearly timetabled," said Carlo D'Andrea, vice-president of the European Union Chamber of Commerce in China. "If China really will continue to open up, we would have expected additional and specific commitments to have been announced by President Xi today."

Vice President Massimo Bagnasco's comments on Belt and Road Initiative

Global Times

GLOBAL TIMES

HOME CHINA BIZ WORLD OPINION LIFE ARTS SCI-TECH ODD SPORT METRO

HOME >> BUSINESS

BRI, EU's new strategy equals cooperation, not competition

China and Europe shake hands with Joint Communication

Coinciding with the 5th anniversary of the China-proposed Belt and Road Initiative (BRI), the European Union (EU) recently adopted a document outlining the bloc's vision for a new and comprehensive strategy to better connect Europe and Asia. In the interview with *Global Times*, the European Chamber's Vice President Massimo Bagnasco commented on this initiative that he expects that there will be more cooperation than competition between the EU's new connectivity plan and the BRI. "In principle competition is always useful because with competition you can have a better service or a better product for the final user. In this case I believe that competition is important in joint cooperation. I am not saying that for each project we could have a joint cooperation but at least we should have the attitude in the approach to let these two initiatives have some common ground for cooperation. Basically the point from the European Commission [for the strategy] is to have a tool that could be used for cooperation with China in the topic of connectivity."

EVENTS GALLERY BEIJING

Insight China: China's Economic Outlook Amidst Trump's Trade War

Key takeaways:

- Trump's tariffs are either part of a strategic, long-term decoupling with partisan support, or simply his more personal 'create chaos' approach to business.
- China's reaction has been surprisingly cool-headed, compared with past boycott campaigns during politically sensitive periods.
- Polls may show a 2/3 negative view of the impact of tariffs on businesses, but few companies have expressed concerns/disagreements as they are still riding high on tax cuts from earlier this year.

Compliance with China's Cross-border Data Communications Policies (VPN & Cloud)

Key takeaways:

- IP-VPN Services are closed to foreign participation, except under the Closer Economic Partnership Arrangement (CEPA) and in the Shanghai FTZ, where foreign shareholding shall not exceed 50%.
- Companies in China have three main ways to ensure VPN connection: 1) renting private lines from the basic telecoms operators; 2) renting Multiprotocol Label Switching (MPLS) VPNs from professional VPN service providers; or 3) procuring VPN devices and establishing VPN connections on their own.
- For cloud service platforms built by cloud service operators within Chinese territory, when connecting relevant servers to networks outside of China, MIIT-approved international gateways must be used. Self-constructed channels through private lines or VPNs, or the use of other channels without permission, is not be allowed.

A New Era of Competition: China's New Energy Vehicles

Key takeaways:

- Component development, in particular those along the battery value chain, will increasingly impact OEMs and companies across their supply chains.
- Across the global electric vehicle market, government R&D programmes are ending except in France.
- To support development of NEVs, battery sales and recycling may require various business models and multiple players.

EVENTS GALLERY SHANGHAI

Shanghai Position Paper 2018/2019 Launch

Key takeaways:

- Shanghai's 'five centres' plan is of national importance.
- The Shanghai Government should actively work with the central government to enact reforms, as China's 'reform deficit' is holding Shanghai back from achieving its 2020 goals.
- Reform, reciprocity and market access will do more to resolve trade tensions than reductions in trade deficits with third countries.

2018 Sustainable Business Awards and Conference

Winners:

- Corporate Social Shared Values: Volvo Construction Equipment China
- Outstanding Sustainable Business Performance: Outotec China
- Poverty Alleviation: Carrefour China
- Social Innovation Leadership: Bayer China

EVENTS GALLERY SOUTH CHINA

2018 China (Guangdong)-Europe Investment Cooperation Conference (CEICC) & German Enterprises Invest in Guangdong Promotion Event

Key takeaways:

- Guangdong will continue to play an important role in China's overall development.
- To attract more foreign investment, Guangdong needs to open more and then lead the way in economic reforms.
- The European Chamber is ready to work with Guangdong, to reduce the 'reform deficit' and promote an open and fair business environment.

EVENTS GALLERY SOUTHWEST CHINA

European Business in China - Position Paper 2018/2019 Launch in Chengdu

Key takeaways:

- Although the speed of China's reform and opening up has accelerated over the past year relative to the recent past, it remains, in absolute terms, incomplete and too slow.
- While the European Chamber believes that tariffs are not an appropriate tool for resolving complex issues such as unfair technology transfers, market access barriers and an opaque regulatory environment, it does share the US' impatience.
- The Chamber's Position Paper examines concrete concerns and offers 828 recommendations that can help to provide a constructive solution to the current situation.

EVENTS GALLERY TIANJIN

2018 European Business Gala Dinner - Journey Through Europe

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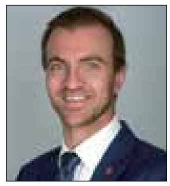

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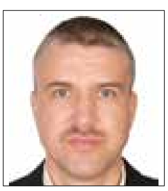

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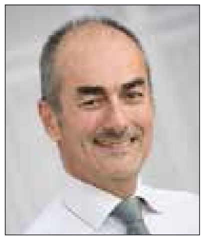

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