EURObiz

JOURNAL OF THE EUROPEAN UNION CHAMBER OF COMMERCE IN CHINA

STANDARDISATION IN CHINA

September/October 2018

THE CASE OF HUAWEI Vs SAMSUNG

A new benchmark for standard essential patent litigation in China

CLEARING UP COMPLICATIONS

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European Chamber
中国欧盟商会

EURObiz

MAGAZINE

WWW.EUROBIZ.COM.CN

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EURObiz is published bimonthly by the European Union Chamber of Commerce in China, and is distributed free to all Chamber members.

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PRESIDENT'S FOREWORD

China's 'reform deficit' is fuelling current global tensions

Mats Harborn

President

European Union Chamber of Commerce in China

The global economic system has for some months been moving ever closer towards a precipice from which nobody wants to fall. The escalation of tariffs on an additional USD 200 billion worth of American imports from China is an acceleration towards the edge of global economic disorder. However, as misguided as the application of tariffs may be, it is in large part a consequence of the slow pace of external opening up and internal economic reform in China.

China's 2001 WTO accession agreement was reached with an acknowledgement of China's development status at that time, and a series of compromises were reached to protect Chinese firms still in their youth. Concessions were made with the understanding that China would eventually move beyond the minimum level of compliance with this arrangement and emerge as a market-orientated economy on par with its international peers. Nearly 17 years later, China's economy has grown rapidly while reform and opening has struggled to keep pace. This gap has created a 'reform deficit' that is fuelling global tensions.

It is true that some advances have been seen over the last two years in China's investment system, such as equity caps being raised in financial services and the manufacturing sector. Improvements have also been made to the R&D environment, and better enforcement of higher quality standards, paired with lower tariffs on consumer goods, has given a boost to China's middle class.

As welcome as such progress is, China has a long way to go to become the open and fair market that the international community expects from the world's largest economy by PPP, particularly at a time when China is asserting itself as a responsible economic power.

Access to licences, for example, acts as a secondary barrier to doing business across wide swathes of the economy. For instance, six years after a 2012 WTO ruling to allow foreign investment in credit card services in China applicants are still waiting for licences. Even when access is technically open it can be far beyond the reach of even large global firms: capital requirements for cross-border financial services and insurance providers, for example, are much higher than international norms, blocking all but those with the deepest pockets.

The government's recent restructuring of state-owned enterprises (SOEs) is a clear reflection of the shortcomings of China's internal reforms. Although SOEs have always dominated certain segments of the economy, their rapid consolidation is doing little more than turning oligopolies into monopolies. Furthermore, while recent policies have created a healthy distance between SOEs and the state itself, the resurgence of the Party in SOE governance has called into question the high-profile commitments that China has made to let market forces prevail. It has also raised concerns that political interests may be asserting control over the commanding heights of the economy. Finally, even in industries devoid of SOEs, the footprint of the state-owned sector is evident. A worrisome amount of financing is flowing towards SOEs, which is draining more and more of the lifeblood from China's increasingly dynamic private sector.

The reform deficit goes far beyond just these examples, and each mark on the ledger hits the bottom lines of both international and domestic private firms in China. Continued reliance upon certain aspects of China's old economic growth model has formed a ceiling over the rapidly maturing private sector. If the leadership truly subscribes to the idea that the market should play the decisive role in resource allocation, then the country's economic framework needs to be modernised to facilitate further development.

It is therefore incumbent upon the Chinese leadership to pursue a comprehensive approach that lays the foundations for progress while not creating any justification for further conflict. This can best be done by implementing reforms that lead to results on the ground for international enterprises.

European businesses are ready to help facilitate change and work with China to address the reform deficit and create the environment necessary for the private sector to flourish, but China is in the driver's seat and only it can decide when and how to divert from its current course.

THE CASE OF HUAWEI Vs SAMSUNG

by Zhen (Katie) Feng and Adrian Emch

A new benchmark for standard essential patent litigation in China

Since 2016, Huawei and Samsung have been squaring off in high-profile patent battles, both in the United States and in China. One recent judgment in this storied legal saga has catapulted global recognition of China's emerging intellectual property landscape. In this article, **Zhen (Katie) Feng** and **Adrian Emch** of **Hogan Lovells** detail the licensing case that could make China's courts a patent suit destination.

China has become a new battlefield in the global patent war among tech giants in the telecommunications (telecoms) industry. On 4th January, the Shenzhen Intermediate People's Court (Court) rendered a landmark judgment in the Huawei vs Samsung standard essential patent (SEP) case that is expected to reshape the relationship between SEP licensors and licensees. On 21st March, the Court released the non-confidential version of its judgment to the public.

The Court ruled in Huawei's favour, finding that Huawei had fulfilled its obligations under the fair, reasonable and non-discriminatory (FRAND) principle, but Samsung had not. Based on that finding, the Court granted an injunction against Samsung, forbidding any future infringement of Huawei's SEPs from the commercialisation of Samsung's devices. This resulted in the Court developing a fault-based approach to evaluating Samsung's and Huawei's actions during licensing negotiations.

The Court's judgment was not the last thing said about this particular case. Following the District Court of the Northern District of California's upholding of Samsung's anti-enforcement injunction against Huawei, these rulings are currently under appeal before the Court of Appeals for the Federal Circuit.

Case background

SEPs are patents which are meant to be used for a product implementing a standardised technology. The SEPs involved in the Huawei vs Samsung case concern patents for telecoms technologies, in particular what is known as 2G, 3G and 4G mobile communication standards.

Both Huawei and Samsung own extensive patent portfolios including numerous SEPs. In this particular case, the concern was over Huawei's SEPs. In particular, to what extent Samsung was allowed to use those SEPs in its communication devices, such as mobile phones and tablets, without having to obtain a formal licence from Huawei. Huawei brought its court action alleging that Samsung's devices infringed its SEPs and asked the court to grant an injunction against Samsung. Huawei argued that Samsung, by selling communication devices compliant with 2G, 3G and 4G standards, had by definition implemented Huawei's SEPs. The Court accepted these arguments without much discussion.

The only area where the Court made an in-depth analysis was whether Huawei was entitled to seek an injunction based on its SEPs, as these types of patents are subject to a specific set of conditions. When a patent is incorporated into an industry standard and the patent holder believes it may become essential to its implementation, it must promise to license the patent to all interested parties on FRAND terms.

Both Huawei and Samsung agreed to license their communication SEPs on FRAND terms. The question before the Court was whether during the negotiations to cross-license their patent portfolios, each of the companies had complied with their FRAND obligations. The Court re-framed FRAND analysis to assess whether the SEP holder was "at fault" in their procedural actions during the negotiation phase. It examined the extensive records of Huawei and Samsung's licensing negotiations and determined that Samsung deliberately "delayed negotiations" that began in July 2011 and was "clearly at fault."

The Court reached this conclusion in two steps: first, it assessed the relative strength of Huawei's and Samsung's SEP portfolios, and second, it compared licensing offers by the two companies with the respective strength of their SEP portfolios.

After analysing their SEP portfolios, the Court found that Huawei's number was higher than Samsung's. Thus, the Court held that the relative strength of Huawei's and Samsung's SEPs was similar around the world, with Huawei's being stronger in China.

Then, the Court also looked at the substance of the respective licensing offers – i.e. whether the royalty rates that each party offered were compliant with the FRAND principle.

The Court examined Huawei's and Samsung's licensing offers in quite some detail and concluded that Huawei's proposed royalty was, and Samsung's was not, in compliance with the FRAND principle. This finding was made against the backdrop that the parties were discussing an SEP cross-licence agreement and Samsung asked for a royalty three times as high as Huawei did. Having previously concluded that Huawei's SEP portfolio was at least as valuable as Samsung's, the Court decided that Samsung's demand was not reasonable and in line with the FRAND requirement.

Conclusions

The Court's judgment in Huawei vs Samsung establishes a new approach for SEP licensing, which means examining the conduct of both parties, from a procedural and substantive perspective, to assess whether they behaved on FRAND terms.

The judgment is in line with the outcome in Xi'an Iwncomm vs Sony, where the Beijing High People's Court at second instance affirmed that the licensor (Iwncomm) had complied with FRAND obligations when negotiating SEP licensing with Sony. However, the Huawei vs Samsung judgment departs both in outcome and analysis from a prior key judgment from the same court in Huawei vs InterDigital. Since a couple of SEP cases are pending before the Chinese courts, it will be interesting to see whether the Huawei vs Samsung judgment indicates a shift to a more pro-licensor position more generally. Eb

"...it will be interesting to see whether the Huawei vs Samsung judgment indicates a shift to a more pro-licensor position more generally."

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CLEARING UP COMPLICATIONS

by Dezan Shira & Associates

Developments in China's accounting standards

Foreign companies establishing a presence in China will encounter a host of considerations that do not exist in their home country. Of these, interpreting and understanding China's system of accounting standards can be an especially difficult challenge. In this article, the **China Briefing Team** from **Dezan Shira & Associates** discusses recent changes to China's accounting standards and explains what international businesses needed to know when operating in the country.

China only embraced the concept of becoming a market-driven economy recently, so its accounting and bookkeeping systems are comparatively less mature than those found in more developed economies. Until the mid-2000s, China's accounting standards were still based on a socialist economic model.

While China is making good progress in converging its accounting standards with international standards, understanding the financial statements prepared by China-based entities under Chinese accounting standards is still complicated.

According to the Company Law and other relevant regulations, it is compulsory for all types of foreign-invested enterprises (FIEs) in China to comply with annual statutory auditing and other compliance processes.

Completing annual statutory audits and settling relevant tax liabilities are prerequisites for FIEs to distribute and repatriate their profits or dividends back to their home country. Failure to do so may result in extra expenses, penalties or even the revoking of business licences.

Accounting and bookkeeping in China are governed by the Chinese Accounting Standards (CAS), also known as the Chinese Generally Accepted Accounting Principles. The CAS framework is based on two standards:

- Accounting Standards for Business Enterprises (ASBEs)
- Accounting Standards for Small Business Enterprises (ASSBEs)

Multinational corporate groups normally try and reconcile the CAS, the International Financial Reporting Standards (IFRS) or the United States' Generally Accepted Accounting Principles when consolidating financial statements at the group level.

The current ASBEs were released in 2006 and came into force in January 2007. According to the IFRS Foundation, the 2006 ASBEs "substantially converged with the IFRS". After releasing a series of amendments in 2012, the merging of the ASBEs with the IFRS was achieved.

The ASSBEs entered into force on 1st January 2013, and provided unified standards for small-scale enterprises to enhance their ability to prevent tax and accounting fraud. The ASSBEs use the ASBEs as a point of reference but are similar to other tax laws, which simplifies the process of making any adjustments when following both accounting standards and tax rules. Small-scale enterprises can choose to adopt either the ASBEs or the ASSBEs.

Although the CAS and the IFRS are considered to be quite similar to each other, they also slightly differ in some respects:

- Valuation methods for fixed assets: Under the IFRS, one may choose the valuation method for certain types of fixed assets. The company can value these assets either by using the historical-cost method, or by re-evaluating their assets. The CAS, however, only allows for fixed assets to be valued according to their historical cost.

- Detailed rules in the CAS: For certain items that are common in China, the CAS's rules are more detailed than the IFRS. An example would be the merging of two companies controlled by the same entity and having similar interests. CAS require that the comparative figures be restated, whereas there is no specific rule for this in IFRS.

- Detailed rules in the IFRS: Conversely, the IFRS has rules for situations that are uncommon in China, such as for employee benefit plans. Apart from paying employees with company stock, the CAS does not address certain types of employee benefits that are offered by multinationals. Difficulties can arise when the parent company attempts to use the same benefits package with its Chinese subsidiary. In these cases, the company may need to consult with the Ministry of Finance (MOF) as to how such transactions should be recorded.

- Delayed implementation of the IFRS: When new updates to the IFRS are released, the MOF reviews them to determine if they are appropriate for China, and whether they will be incorporated into the CAS. As a result, the adoption of new IFRS standards is often delayed, or does not happen at all. This can lead to further complications if there are countries where corporations establish separate entities and adopt the new IFRS rules instead.

The problem with having different accounting standards becomes much more apparent when an overseas parent company requests financial information from its Chinese subsidiary. Since companies are required by law to follow these different standards, information from the Chinese subsidiary needs to be translated in order to be added to the overseas parent's company books in a procedure known as 'mapping'.

Larger multinationals tend to have specialised software for assisting the corporate group with this process, but as this software tends to be very expensive, small and medium-sized enterprises often need to do conversions manually. There are two major points a company needs to be aware of when mapping its books.

The first are the differences between Chinese and international accounting standards, as discussed previously. Whether performed in-house or outsourced to a trusted advisor, the company's accountant will need to take a detailed look at the differences between the CAS and the target accounting system, and explore whether any of the firm's activities are affected, a process that often takes several days.

When outsourcing accounting work, it is important to notify accounting of any need to translate the company's accounts as soon as possible. If accounting only learns of the request later on, this may significantly delay the process.

It is also important to note the differences in accounting entry codes. Conversion is a one-time procedure the outsourced accountant needs to complete when they are first contracted by a new company. Once the accountant determines which Chinese entry matches the foreign entry, these figures can be automatically converted.

As the CAS becomes increasingly similar to international standards, foreign investors must adapt to the changing environment. Although changes to accounting and bookkeeping rules can create challenges in the immediate term, in the long term, reforms should ensure that the CAS reflect international best practices. Eb

*This article was first published by China Briefing, which is produced by **Dezan Shira & Associates**. The firm assists foreign investors throughout Asia and maintains offices in China, Hong Kong, Indonesia, Singapore, Russia, and Vietnam. Please contact info@dezshira.com or visit our website at www.dezshira.com.*

A NEW STANDARD FOR INTERNET

by Chris Yau

Contemporary IT standards in China

According to the Standardisation Administration of China (SAC), depending on the keywords used during a cursory search of standardisation on the Internet there are approximately 152 to 727 current national standards that are related to information technology (IT). While it is not possible to cover all of them in this article, **Chris Yau** from **SGS-CSTC Technical Services Co, Ltd** discusses six areas of industry importance: cloud computing, big data, smart cities, blockchain technology and the Internet of Things (IoT).

Cloud computing

Led by three giant cloud operators in China—the so-called 'BAT' (Baidu, Alibaba and Tencent)—China's cloud computing environment is comparable to world leaders such as Amazon's AWS and Microsoft's Azure. Due to cloud architecture's cybersecurity and data privacy vulnerabilities, China has gone on to promulgate a litany of standards in cloud computing. Many of these standards are similar in content and coverage to well-known international cloud standards, including the National Institute of Standards and Technology's SP800 series; the Cloud Security Alliance's Security, Trust, & Assurance Registry; and the EuroCloud Start Audit.

Big data

Although the term 'big data' has been around for some time to describe voluminous amounts of data analysis, this practice is still in its infant stage when it comes to scope and development.

Smart City

Smart cities are not typically considered a form of IT, but they generally require IT in order to function. The existing standards that govern smart cities focus on the fundamentals, such as the city's governing framework or their key performance indicators. A central standard in China for open data sharing and communication is in high demand but does not yet exist. This is in contrast to the International Organisation for Standardisation (ISO), which has one standard on data interoperability and one on data sharing.

Blockchain

Due to the amount of criminal fraud pertaining to the use of cryptocurrency and initial coin offerings (ICOs), the Chinese Government has suppressed the development of cryptocurrency. However, blockchain is an interesting technology

A comparison of standards published by the SAC and the ISO

	China # published	ISO # published	ISO # under development	A partial list of Chinese standards
Cloud computing	21	6	10	GB/T 36325-2018 (Cloud computing – basic requirements in the *Cloud Service Level Agreement* GB/T 36326-2018 (Cloud computing – general operational requirements for cloud services) GB/T 34942-2017 (The assessment method for the security capabilities of cloud computing service)
Big data	3	1	8	GB/T 35274-2017 (Security capability requirements for big data services) GB/T 35295-2017 (Big data – terminology) GB/T 35589-2017 (Big data – technical reference model)
Smart City	11	5	19	GB/T 34678-2017 (Technical reference model) GB/T 33356-2016 (Evaluative indicators for a new type of smart cities) GB/T 36332-2018 (Smart city – the domain knowledge model and the core conceptual model)
Blockchain	0	0	10	NIL
IoT	40	9	11	GB/T 36428-2018 (Public instruction set of IOT household electrical appliance) GB/T 36478.1-2018 (IOT – Information sharing and exchanging part 1: General architecture) GB/T 35319-2017 (IOT – System interface requirements)
Personal Data Privacy	2	6	3	GB/T 35273-2017 (Personal information security specification) GB/T-34978-2017 (Technology requirements for personal information protection at smart mobile terminals)

Source: *All the numbers are taken from the SAC and the ISO websites on 23rd August 2018.*

worth exploring and could have many useful applications. As a result, many ISO standards are being developed to help define the scope of blockchain technology and clarify its application. Despite these recent developments internationally, China has yet to make any progress in this area.

IoT

With China having the world's largest mobile device user base and mobile phone penetration rate, along with the popularity of mobile payment applications, such as WeChat and Alipay, it is natural to assume that IoT standards will be needed for these new technologies, including standards for the applications' interfaces and for home appliances, smart watches and voice-activated appliance controllers. An example of this complexity can be found in Hangzhou, with a company that solely focuses on designing control modules for devices that range from light bulbs to window drapes. All of these devices need to work together, and to make that happen a high degree of standardisation is needed. However, despite this technology rapidly advancing, Chinese and ISO standards on IoT are continuing to develop.

Personal data privacy

Personal data privacy is a new concept in China. China does not have a national-level data privacy law like the European Union's *General Data Protection Regulation*. The Cybersecurity Law has some personal data privacy provisions, but they are generic and lack the same specificity that exists in overseas privacy laws. There is currently one law that may come close to tackling these issues, however it is currently in the drafting phase and there is no timeline for its publication. The flagship standard *GB/T 35273* contains a number of privacy-related requirements, such as explicit opt-in, consent and data minimisation. However, since it is a recommended instead of mandatory standard, its wide-adoption has yet to be seen.

A cloud computing centre in Fuzhou City, Fujian Province, which supports healthcare, land resources and security industries for Southeast China.
Photo: *Song Weiwei, Xinhua News Agency*

Observations

The number of standards published in China clearly reflect its focus on market demand, becoming the primary reason for standardisation. For areas that China is strong in, they have made some strides in standardisation that the international community has not yet embraced.

Besides the six areas mentioned here, there are standards that define product specifications and functionalities (e.g. *GB/T 20011* for router risk assessment), which are translations of international standards. In terms of technical soundness and coverage, China's existing standards are world class. On the other hand, because some standards are initiated and drafted by senior engineers in private organisations occasionally they are not rigorous enough. Eb

***SGS** is the world's leading inspection, verification, testing and certification company. With more than 95,000 employees, SGS operates a network of over 2,400 offices and laboratories around the world. The SGS Group was recently included on the list of Forbes' Global 2000 as one of the top multinational performers and world's most innovative companies. Additionally, the company has been named an industry leader on the Dow Jones Sustainability Index as well as the FTSE4Good Index.*

PAVING THE WAY

by Hannah Feldshuh

Loan use in BRI expansion

President Xi Jinping's signature foreign policy, the Belt and Road Initiative (BRI) comprises an ambitious array of projects, but comes with diverse political and financial risks. A great deal of rhetoric coming from China portrays the BRI as a panacea, but its most vital policy lever, loan use, is often left unaddressed. In this article, **Hannah Feldshuh** from **China Policy** discusses loan use in BRI expansion and its far-reaching consequences.

At the Boao Forum, in April 2018, President Xi made a bold declaration: China will defend multilateralism and provide win-win solutions that the West is no longer able to offer. He went on to outline how the BRI would be a panacea to global problems and will address a range of issues, such as infrastructure and shipping connectivity and economic development in poverty-stricken countries. Reports indicate that approximately United States dollar (USD) 340 billion has already been spent in BRI investments and construction projects since 2013.[1]

Loans are the central component of Belt and Road implementation and expansion. They dictate the terms of engagement between China and partner countries, including projects' strategic focus and financial exposure. To better understand how loans facilitate BRI expansion, their composition, associated risks and scope must be assessed. BRI loan agreements serve several functions: they simultaneously benefit partner countries by offering comparatively more lenient terms than other international lenders, while also serving China's interests by allowing Beijing to dictate their terms, structure and focus. As Beijing touts the initiative's strengths, international reports from countries affected by the BRI, such as Sri Lanka or Djibouti, raise fears that these loans are a form of 'debt diplomacy' with the underlying purpose being to secure China's regional interests. It is clear that these type of loan agreements are complex, as they can be perceived to both serve the common good, while also bringing tremendous fiscal and political risk along with it.

Loan format and structure

In practice, there are numerous avenues for debt financing, which include loans from a (commercial or policy) bank, bank partnerships and the issuing of bonds. The most popular avenue are loans from banks. Chinese firms that invest abroad may receive line of credit loans from banks, either directly in foreign currency or in renminbi, which then has to be converted into the local currency. State-owned enterprises (SOEs) tend to be the major recipient of these types of loans.

The China Development Bank (CDB) and the Export-Import Bank of China (EXIM) are central to providing BRI loans. Under the BRI these banks have played a prominent role, having already provided USD 200 billion in loans throughout Asia, the Middle East and Africa. The EXIM's BRI loan balance increased 37 per cent year-on-year in the first six months of 2018,[2] while the Silk Road Fund has already provided USD 6 billion in capital to 15 projects that span a range of different sectors,[3] including infrastructure, resource development, and capacity and financial cooperation.

Besides the popular bank-to-SOE option, firms may also choose to raise funds from the bond market. The BRI bond market has had less direct government influence, but recent changes indicate a trend of increased regulation. On 2nd March 2018, security regulators announced that domestic and international firms would be allowed to issue BRI bonds through the Shanghai and Shenzhen stock exchanges, signalling a desire to have greater regulatory control over the BRI financing process.[4]

A final and less conventional option are inter-bank partnerships, referred to as "offshore bonds secured by onshore guarantees".[5] In this system, corporations in partner nations can find a domestic bank that will partner with a Chinese bank. After forming an inter-bank partnership, the firm can then receive Chinese bank loans that are provided by a domestic institution. While a viable option for projects in developed countries, inter-bank partnerships are risky given their potential use for laundering money.

High risk, high reward

There are several parts of the BRI loan process that could be considered risky, such as the selection of high-risk partner countries, the focus on energy financing and the use of commodity-backed bonds. Macroeconomic downturns and the fall of commodity prices put stress on bondholders – especially if the projects they receive financing for are unprofitable.[6] 'Debt distress' could result in debt-diplomacy, as countries are forced to make disproportionate concessions to repay long-term loans. Sri Lanka has already struggled to pay off the USD 1.3 billion Hambantota Port,[7] which it must now lease to China for 99 years according to the terms of the loan.[8]

A paper from the Center for Global Development (CGD) identifies eight countries, including Pakistan, that could suffer debt distress from future BRI-related financing. Countries have accepted the terms of loans given under the auspices of the BRI, due to them being both cheap and numerous. For example, the CDB offered a 40-year soft loan with a 10-year grace period, and no government debt guarantees, for Indonesia's USD 5.29 billion Jakarta-Bandung Railway project to help finance up to 75 per cent of the project's costs.[9]

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Chinese analysts react to BRI

Given the BRI's already large impact and rapid expansion, it is important to understand how Chinese academics, businesses and policymakers understand these loans and why they choose to respond in a particular way to international criticism. The response of the Chinese policy community has had a direct impact on how the BRI is promoted, expanded and adjusted. How they respond to BRI criticisms reflects the degree to which China can be flexible and responsive in setting the terms of BRI loans. Chinese perspectives on the BRI roughly fall into two camps: the first is unapologetically positive about the current loan environment, while the second seeks to adjust loan structures and mitigate risk. The perspective that wins out will determine whether or not these loans will be adjusted.

SOEs and policy banks are unsurprisingly sanguine about the BRI. The CDB has placed strict limits on sovereign borrowers' credit lines and put controls on the concentration of loans.[10] Several academics have also been resistant to negative feedback. Criticisms of this initiative in Malaysia and Colombia are unreasonable,[11] argues Zhao Lei, professor of the Central Party School at the CPC Institute for International Strategic Studies, because all projects have associated risks and the BRI is no different. Western nations have criticised Chinese investment abroad out of a fear of growing Chinese influence,[12] writes Peng Nian, a researcher at the National Institute for South China Sea Studies. In November 2017, Pakistan's parliament began posing questions about the development of the Gwadar Port, as it directs 91 per cent of Gwardar's profits to China and only nine per cent to the city over the next 40 years. In response, the *Global Times* painted these concerns as simple fearmongering. The *Global Times* went on to argue that this project was modelled after a Singaporean-negotiated deal, which both the port authorities and Chinese partners claim is an internationally legitimate practice.[13]

To push back against accusations that Chinese investment terms are exploitative, China must refuse to accept the West's assumptions, while simultaneously increasing investment transparency and partner country coordination. China's experience in planning and constructing large infrastructure projects gives it a comparative advantage,[14] a strength that is appropriately leveraged in the BRI's emphasis on infrastructure development, defends Zheng Yongnian, chairman of the South China University of Technology Institute of Public Policy. Dr Zheng argues it is a unique partnership offering what no other nation is able or willing to provide.

Despite the call to defend the BRI, others are sceptical of its true aims and are wary of inviting financial risk. For instance, the China National Petroleum Corporation states that while progress has been made in cooperating with countries on BRI projects, it is very much aware of the serious risks that come with some of these endeavours,[15] as they take place in a complicated investment environment fraught with geopolitical, social, political and financial risk. To ensure the BRI is successful, Zhou Xiaochuan, governor of the People's Bank of China, suggests that investment and financing must become more multilateral.[16] This entails the leveraging of development finance, the strengthening of financial services networks and the collaboration of those in financial services across multiple countries. Mr Zhou outlined various steps that could be undertaken, which included the creation of cross-border fund transfers, the use of syndicated loans and the allowance of sharing risk. Dr Zheng echoes some of these sentiments by urging caution, warning that overplaying the BRI could be a "fatal error" that could engender resistance from partner countries and the international community at large.[17]

Outlook

Loan expansion in the BRI is a double-edged sword, with some of its most promising projects containing the most risk. The BRI will benefit some nations that would normally not qualify for traditional loans, and it will help funnel cheaply-obtained money into infrastructure, something that is greatly needed by many of these developing countries to increase trade and economically develop. On the other hand, partnering with these high-risk countries, while using unfavourable loan terms, risks debt distress.

Whether these projects succeed or fail, China will be the one dictating the terms of BRI agreements and will ultimately maximise its gains wherever possible. Accusations of the BRI being used for debt diplomacy is partially dependent upon the ability of Chinese policy banks and foreign policy institutions being able to incorporate feedback and country concerns swiftly and effectively. The further Chinese investment travels, the less direct control Chinese leaders will have over project outcomes. Eb

__China Policy__ is a research and strategic advisory group based in Beijing, China. Working with clients at the leadership, executive and research levels, they deliver clear insight into China's policy world as it affects strategic and operational decision-making not only in China but around the world.

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CHINA AND THE ISSUE OF COUNTERFEITING

by Shane Farrelly and Veronica Gianola

A murky past but a hopeful future?

While the label 'copycat China' is no longer as applicable as it once was, the long history of infringing trademarks, and the current issues surrounding intellectual property means this moniker still carries some weight. However, as standards have been gradually raised to crack down on fake products, a more modern approach has been adopted in order to fight the increasingly sophisticated and savvy infringers who are committing these crimes online. Tackling this issue, **Shane Farrelly** and **Veronica Gianola** from **D'Andrea & Partners**, examine what counterfeiting looks like today in modern China.

A market in Shanghai selling fake watches.
Photo: *Fei Xin, Xinhua News Agency*

Among the State Council, administrative bodies, courts system and customs agents, a war is being waged against counterfeiting on the Chinese mainland; however, with every technological advancement, the methods infringers are using have also improved. The burden of proof of presenting evidence of infringements and the associated investigation is not only incompatible with the modern marketplace—transactions are done in large numbers and within a short period of time—it also fails to deter future infringements.

Fighting counterfeiting in China – the current standard

Taking administrative action against counterfeiting in China's business environment has the benefit of foregoing the often time consuming and costly Chinese court system. However, in such cases the burden of proof rests on the injured party to prove an infringement has occurred. Meeting this standard can be arduous, as the injured party is forced to gather evidence, while spending additional time and money to assess the infringer's conduct.

Upon providing evidence, a formal decision is made on the findings. After it is adjudicated, a limited range of punitive actions can be taken. They can range from issuing a cease and desist order on the manufacturing of certain goods, the seizing of property, the destruction of goods or imposing a monetary fine. The fines placed on counterfeiters are, in comparison to the profit made from selling counterfeited goods, low in nature.

When the issue cannot be resolved at the administrative stage, or if damages are sought, an appeal may be granted, and the case may be heard by the courts. Large-scale intellectual property infringements usually bypass the administrative stage altogether and only utilise the courts. As stated previously, civil cases in the Chinese courts may award damages, injunctions as well as preliminary injunctions if the case is ongoing. Actions may even be undertaken by the criminal court system in cases of serious breaches. These cases can only be brought before the courts after they have been investigated by the Public Service Bureau. Defendants may be sanctioned or imprisoned up to seven years, depending on the severity of the infringement and the amount of money the infringer has made.

The cost and amount of time it takes for the courts to come to a resolution dwarfs that of administrative bodies, which are often beset by their own issues. In the new world of e-commerce and fintech, there is often not enough time to fully combat all of these infringements. The logistical framework that exists in China today means that orders placed, payments made, and packages delivered are being done at such a fast rate that the current methods of fighting infringement cannot keep pace with modern life.

E-commerce counterfeiting – setting future standards

Since China's e-commerce market is the largest in the world, it has set the international standard. However, industry giants, such as Alibaba and Jingdong, have paid a hefty price for their success, as large amounts of fake goods are regularly bought and sold on their platforms. While legislation has slowly and carefully begun to regulate this area (the E-commerce Law will be promulgated early next year),[1] in the meantime, companies have taken the initiative in cracking down on counterfeiters.

Alibaba Group Holdings, a company which has long been accused of helping counterfeit products reach the masses, has established the Alibaba Anti-Counterfeiting Association (AACA), which currently has 105 brands from 16 different

1. http://www.npc.gov.cn/npc/xinwen/2018-08/31/content_2060172.htm

Jack Ma, Founder and Executive Chairman of the Alibaba Group, introduces anti-counterfeit actions taken by Taobao.
Photo: *Liang Zhen, Xinhua News Agency*

countries. This collective has reportedly made significant strides in its work fighting counterfeits. It has already been able to remove 27 times the number of requests issued by rights holders, and approximately 97 per cent of the takedowns were processed before a single sale had even taken place.

The alliance has destroyed 247 workshops producing and selling fake goods over the past year, and it has helped police detain more than 300 suspects. The amount of money involved in these cases has so far amounted to Chinese yuan (CNY) 1 billion.[2]

2. Meng Jing (2017)

The association's work is mainly to provide proactive online monitoring and protection, offline investigations and enforcement, industry law-enforcement workshops, litigation, and public awareness campaigns. The association also helps by utilising the latest technology, such as blockchain and big data analytics, to proactively detect and remove illicit listings on their platforms before rights holders have to send takedown requests.

The prospective promulgation of new e-commerce legislation allows for a peak into the future of combatting counterfeiting in China's e-commerce sector.

2. Meng Jing (2017)
3. Draft E-Commerce Law of The People Republic of China
4. Ibid.

According to draft e-commerce regulations,[3] statutory footing is given to incidents in which a rights holder believes there has been an infringement. In these instances, the platform operator shall be given notice to "delete, block, disable the link or terminate the transaction of service".[4] Should the platform operator fail to undertake any of these actions in a timely manner then they will also be held liable. Additionally, without any notice from intellectual property rights (IPR) owners, if the platform operator knows or should have known of IPR infringements on their platform, if any of the aforementioned measures are not undertaken, the platform operators will also be held liable, along with the infringer. This extra level of responsibility placed on platform operators could potentially save, time, money and ultimately provide a higher standard for e-commerce operators to meet.

Although counterfeiting in China is beset with issues, the e-commerce industry aims to set a new standard by collaborating with different corporate brands and utilising the latest technology to fight counterfeits before they enter the market. The new draft E-commerce Law seems to indicate that platform operators will be held responsible for not acting against IPR infringers, indicating that China is willing to take counterfeiting head on in the e-commerce industry. Eb

D'Andrea & Partners *is an international law firm and point of reference for companies that want to enter the global market and be successful. Established by its founding partner, Carlo Diego D'Andrea, attorney at law and pioneer in Italian and European law in China, today the firm is made up of professionals coming from different countries around the world. Besides the main operational headquarters in Shanghai, D'Andrea & Partners has a number of branches in China and outside the country in Italy, India, Vietnam and Russia. The firm's clients include large industrial groups, plus medium-sized Italian, European, Chinese and global enterprises.*

EUROPEAN CHAMBER ADVOCACY HIGHLIGHTS

17 JULY

SHANGHAI

Shanghai Chapter Briefs European Parliamentary Committee

Vice President D'Andrea hosts members of the European Parliament's Committee on Internal Market and Consumer Protection.

Members of the European Parliament's Committee on Internal Market and Consumer Protection were hosted by the European Chamber's Shanghai Chapter on 17th July. Representatives from the European Chamber's Standards and Conformity Assessment Working Group, Intellectual Property Rights Working Group, Fashion and Leather Desk, Corporate Social Responsibility Forum and Cybersecurity Sub-working Group shared the latest developments in their respective industries / horizontal areas of concern, with a strong focus on the challenges faced by European companies. Carlo D'Andrea, vice president of the European Chamber and chair of the Shanghai Chapter, introduced both the *BCS 2018* and the recently published report *18 Months Since Davos: How China's Vision Became a Reform Imperative*. Over the course of the meeting European businesses made it clear that although they see more opportunities in China, some sectors remain restricted by market access barriers. The working groups outlined how a level playing field for European businesses would improve market conditions and help China achieve its own development goals. Mrs Birgit Collin-Langen from the Committee on Internal Market and Consumer Protection of the European Parliament thanked the European Chamber on behalf of the delegation for the briefing and for introducing the detailed realities faced by European firms doing business in China.

18
JULY
BEIJING

BCS Findings and Concerns Discussed in Detail with NDRC

Beijing General Manager Carl Hayward presenting the Chamber's report *18 Months Since Davos: How China's Vision Became a Reform Imperative* to NDRC Director Guo Rui.

On 18th July, a European Chamber delegation met with the National Development and Reform Commission (NDRC) to discuss the findings of the *BCS 2018*. Guo Rui, director of the Foreign Direct Investment Division at the Department of Foreign Investment of the NDRC, stated that the government is eagerly working to solve some of the issues raised in the report and asked Carl Hayward, general manager of the Chamber's Beijing Chapter, which issues were of the greatest importance to European companies in China. Mr Hayward responded that while market access is still a key issue, the need to improve the regulatory environment is equally important, especially as China's economy continues to mature. Director Guo then discussed the revision to the Negative List for Foreign Investment, and went on to ask if there have been any issues with the implementation of State Council documents numbers 5, 39 and 19. The Chamber delegation responded by presenting several concrete examples of issues faced by member companies in a number of different industries. The meeting ended with Mr Hayward presenting Director Guo with the recently published European Chamber report, *18 Months Since Davos: How China's Vision Became a Reform Imperative*. Eb

27
AUGUST
TIANJIN

Tianjin Chapter Engages State Council Inspection Team on the Local Business Environment

On 27th August 2018, the European Chamber's Tianjin Chapter met with a State Council Inspection Team that was in Tianjin on a fact-finding mission. Catherine Guo, general manager of the Tianjin Chapter, was joined by representatives from several member companies in a conversation with Zhang Xueyuan, director of the State Council Research Office, and his team. The main purpose of the meeting was to understand the challenges faced by local businesses operating in Tianjin, particularly in light of the recent economic downturn in the city. Mr Zhang stated that regional economic growth had decreased dramatically in the previous seven months, and that the Chinese Government attached great importance to understanding the causes of behind such a shift. The Inspection Team was therefore eager to hear honest comments and concerns from the perspective of the international business community. The Tianjin Chapter delegation presented the findings of the *European Business in China Business Confidence Survey 2018* (*BCS 2018*), and focused on the implementation of environmental regulations, legislative uncertainty and much-needed structural reforms. They also discussed the need for greater communication of the reforms that were taking place, noting that many positive changes are often not communicated to the business community.

23 AUGUST

NANJING

Nanjing Chapter Gives Jiangsu DOFCOM Feedback on State Council Documents 5 and 39

Nanjing Chairman Bernhard Weber addressing Chamber members' concerns to the Jiangsu DOFCOM.

Bernhard Weber, chair of the European Chamber's Nanjing Chapter, led a delegation of member companies to meet with Sun Jin, deputy director general of the Jiangsu Department of Commerce, on 23rd August. Mr Weber and Mr Sun discussed the Chamber's recent publications along with the local implementation of State Council Documents No. 5 and 39. Mr Weber went on to present the findings from the Chamber's *BCS 2018* and emphasised concerns over the protection of intellectual property rights (IPR). Mr Sun said that he valued the two reports and that they would be essential references for his future work. He addressed the importance of the business environment and innovation ecosystem and took note of the challenges that small and medium-sized enterprises (SMEs) face before stating that he would act to bring more opportunities to SMEs. All agreed that Jiangsu and Europe have always viewed one another as critical partners. Delegates from the European Chamber took the opportunity to raise concerns over China's treatment of foreign information and communication technology firms, including their views on China's Cybersecurity Law. As the meeting concluded, Mr Weber presented the Chamber's recently released reports to Mr Sun.

EUROPEAN CHAMBER IN THE MEDIA

Chamber President Joins EU-China Business Summit Roundtable

Washington Post **DW**


Made for minds.

ASIA

EU, China seek closer ties as US turns against trade


The Washington Post

Business

Before Trump-Putin summit, Europe urges China and U.S. to halt trade war

"China is realizing in order to make strides in industry and ambition it needs to lock into the global supply chain as smoothly as possible," said

On 16th July, President Mats Harborn led a small delegation of Chamber members in a meeting with Chinese Premier Li Keqiang and European Commission President Jean-Claude Juncker. The delegation delivered a series of short speeches to China's and the EU's leadership on various matters related to doing business in China, as well as the progress and shortcomings that have been noted in the reform agenda over the last year.

In relation to coverage of the event, *AP* and the *Washington Post* quoted President Harborn as saying that, "We see a China that is seeking alliances as countermeasures to the U.S. actions," and "China is realizing in order to make strides in industry and ambition it needs to lock into the global supply chain as smoothly as possible. No one in this world can do it on their own."

Chamber Secretary General Discusses WTO Modernisation

SCMP


China 'keeping wary eye' on US and EU as trade pressure mounts

Diplomatic sources say Washington's hard line may force Beijing to change, and it is now trying harder to accommodate European concerns

PUBLISHED : Tuesday, 28 August, 2018, 1:02am
UPDATED : Tuesday, 28 August, 2018, 2:44pm

COMMENTS: 25

Adam Dunnett, secretary general of the EU Chamber of Commerce in China, said that Beijing had made progress on opening its markets but had "not caught up with the pace of China's economic growth".

Every country has its own path for development but the tipping point comes when it starts to affect other economies negatively, Dunnett told a seminar organised by the Centre for China and Globalisation in Beijing on Thursday.

On 23rd August, Secretary General Adam Dunnett participated in a roundtable on World Trade Organization (WTO) modernisation, jointly hosted by the Centre for China and Globalization, the International Centre for Trade and Sustainable Development (ICTSD) and the University of International Business and Economics WTO Institute. He stated that the WTO has helped global economic development more than any other multilateral organisation; however, the WTO's reputation has been affected by its slow progress over the last decade. Regarding the current trade tensions, he noted that European companies' concerns about China's subsidies, transparency and intellectual property rights (IPR) are not new issues. Secretary General Dunnett went on to say that although Beijing had made some progress in market opening, it has not kept pace with China's overall level of economic growth.

European Chamber Survey: the Impact of US-China Tariffs

Reuters **WSJ**


REUTERS World Business Markets Politics TV

U.S. invites China to trade talks as tariffs loom

The European Union Chamber of Commerce in China released its own survey on Thursday saying the tariffs were causing "significant disruptions" to global supply chains and "seriously impacting" non-Chinese and non-American companies.


THE WALL STREET JOURNAL.

BUSINESS | ASIA

Nearly One-Third of U.S. Firms in China Mull Investment Delays Amid Trade Row, Poll Finds

About 51% of the companies surveyed anticipate a loss of profits because of the tariffs, while 47% said they are bracing for higher manufacturing costs

In a separate survey by the European Chamber of Commerce in China, also released Thursday, 17% of respondents said they were delaying further investment into China or expansion.

The European Chamber surveyed its member companies to understand how the recently escalated tariffs on a variety of products traded between the US and China are affecting European firms doing business in China. Responses were collected from 193 respondents across a wide variety of industries. As soon as the report was released, it gained coverage with several international media organisations.

Nanjing Chairman Talks Reform and Opening with Xinhua Daily

Xinhua Daily


“我看着南京从1994年变成现在的样子”

On 31st July, Nanjing board chairman Bernard Weber gave an interview to *Xinhua Daily* to talk about the 40th anniversary of China's reform and opening-up. He shared his experience and story as an expat who has lived in China for more than 20 years. He also introduced his role/responsibility in the Chamber and how the Chamber supports European business in China.

Vice President of the Shanghai Chapter Serafino Bartolozzi's Op-ed in China Daily

China Daily

Mr Bartolozzi published an op-ed in China Daily on the theme of autonomous vehicles, with the by-line listing his position as vice chair of the Shanghai Chapter and chair of the Automotive Components Working Group.

In his article, Mr Bartolozzi highlights that innovative technologies will require a common effort among players in the automotive industry and legislators to craft a balanced approach for a new future.


CHINADAILY 中国日报网 .COM.CN | EUROPE Sept 13, 2018

HOME CHINA CHINA-EUROPE UK WORLD BUSINESS CULTURE LIFESTYLE TRAVEL

• E-paper\Cover Story

How we choose, use vehicles being transformed

By Serafino Bartolozzi | China Daily Europe | Updated: 2018-08-10 08:08

China enjoys a certain advantage from the firm commitment of the government, a solid base of State-owned enterprises and a dynamic private sector. Automakers and suppliers in the European Union, South Korea, Japan and the United States will have to rapidly transform, adopting new technologies and changing their mindset to cope with the tremendous speed at

Turning Over a New Tax System

By Vivian Chen

A small businesses' guide to VAT in China

China's turnover tax system used to be comprised of a value-added tax (VAT), business tax (BT) and consumption tax (CT). However, starting in 2012, China rolled out a nationwide reform agenda to fold the BT into the VAT system, making the VAT the dominant source of tax revenue. Understanding this nationwide reform is important for international business to operate in China, and to help shed some light on this **Vivian Chen**, marketing and communications manager at the **EU SME Centre**, describes what changes have been made to nation's VAT system.

The CT is levied on specified non-essential or luxury consumer commodities, which results in revenue that is significantly less than that collected from VAT. From a company point of view, both VAT and CT as turnover taxes are important since they have a significant influence on the market price company's products and services.

As the dominant and most important tax category in the turnover tax system, China's VAT system is not just a pass-through tax: it involves a complicated process based on a credit system that is closely connected with the monitoring of special VAT invoices, i.e. *fapiao*. It is crucial that small- and medium-sized enterprises (SMEs) understand how the system works and make the best use of it, not simply when it comes to saving on tax costs but also to avoid compliance risks.

Scope of VAT

In general, China's VAT applies to the following taxable activities:

- sale of goods
- importation of goods

- sale of processing, repair and replacement services
- sale of taxable services
- sale of intangible assets
- sale of real estate

VAT taxpayer

According to the provisional VAT regulation, any unit or individual selling goods; providing processing, repair and replacement services; or importing goods within China is subject to VAT. Tax reform created more service categories that are subject to VAT, stating that any unit or individual providing taxable services in China is subject to it.

In the VAT implementation rules, a "unit" refers to enterprises, administrative institutions, businesses, the military, social organisations and other types of organisations. "Individuals" include both individually-owned enterprises and natural persons. VAT taxpayers can be divided into two types: small-scale taxpayers and general taxpayers.

Small-scale VAT taxpayer

A small-scale VAT taxpayer refers to a taxpayer who is unable to keep accounting books according to the standard accounting rules of the State and cannot provide accurate tax materials according to legitimate and valid proofing documents. Small-scale taxpayers with annual taxable sales exceeding the relevant annual sales threshold must register for general taxpayer status. The thresholds are as follows:

- Chinese yuan (CNY) 500,000 (approximately euro (EUR) 70,000) if engaged in the production of goods or providing of processing, repair and replacement services.

- CNY 800,000 (approximately EUR 100,000) if engaged in the retailing of goods.

- CNY 5,000,000 (approximately EUR 700,000) for taxable services.

General VAT taxpayer

Taxpayers with annual VAT sales above the threshold of a small-scale VAT taxpayer must register as a general VAT taxpayer. Newly established enterprises and other enterprises whose annual taxable sales are not more than the aforementioned thresholds may voluntarily apply for general taxpayer status. A general VAT taxpayer enjoys input VAT credit for purchasing goods or services.

VAT Rates

There are two kinds of VAT rates: tax rates and levy rates. For small-scale taxpayers, the VAT levy rate of three per cent is applicable. For the general taxpayer, VAT tax rates may be 17 per cent, 13 per cent, 11 per cent, six per cent or even zero per cent, depending on the nature of the goods or services involved. The VAT levy rate for general taxpayers is three per cent or five per cent.

China VAT invoice system

In China, all business transactions are required by law to be recorded on an official receipt (or *fapiao*). Contrary to other countries, *fapiaos* are more than just ordinary receipts. *Fapiaos* are distributed and administered by tax authorities, and taxpayers are required to purchase the *fapiaos* they need from the tax authorities according to the scope of their business. *Fapiaos* are physical paper invoices printed with a special printer by specially trained employees that have achieved 'general taxpayer' status.

When an enterprise is incorporated, it needs to state what activities it intends to perform on its business licence and only operate within this scope. The *fapiao* system is one means to enforce this, as the enterprise cannot issue *fapiao* for activities that fall outside their purview.

VAT *fapiao* can be sorted into two categories:

• **Special VAT fapiao** is the most commonly inputted VAT voucher for any VAT deduction issued by a general VAT taxpayer to another business.

• **General VAT fapiao** is used for all other instances, including sales to small-scale taxpayers and consumers, VAT-covered transactions done by small-scale taxpayers or sales of tax-free goods and services. 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 EUROCHAMBRES, and the European Union Chamber of Commerce in China.

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

Tackling China's 'Reform Deficit'

European Business in China Position Paper 2018/2019

On 18th September 2018, the European Chamber published its *European Business in China Position Paper 2018/2019* (*Position Paper*), which examines the ever-widening gap between China's rapidly maturing economy and the shortcomings of its reform agenda. This gap represents China's 'reform deficit', which has resulted in increased global tensions that have now manifested themselves in the US-China trade war. The *Position Paper* provides 828 specific recommendations that can help China move to the next level of its development while mitigating external conflicts.

China has made great strides in implementing an agenda that began 40 years ago at the Third Plenum of the 11th Party Congress when Deng Xiaoping embarked upon the Reform and Opening Up period. While that anniversary is being widely celebrated in 2018, the commemoration of another Third Plenum has gone largely unobserved. Five years ago, the Third Plenum of the 18th Party Congress issued the *Decision* that, among other things, emphasised the decisive role of the market in allocating resources and the need for development to be people-centred.[1] As it was the first plenum after Xi Jinping's assumption of the presidency, it was a critical moment that carved into stone the vision for China's economic development over the following years.

In the last half decade, improvements have been made in a variety of areas: tariffs on many consumer goods were slashed in late 2017 and early 2018 to provide greater access to goods demanded by Chinese consumers; environmental protection, a long-standing concern of the Chinese middle class, was ramped up in 2014, resulting in a 32 per cent drop in fine air particulates across much of the country;[2] and international pharmaceuticals and medical devices have seen market access expanded through smoother approval systems and fewer barriers over the last two years, as demand has sharply risen for better quality healthcare.

Several encouraging results also came out of the annual EU-China Summit in 2018. Chief among them were an exchange of market access offers as part of the Comprehensive Agreement on Investment (CAI), an initial agreement on geographical indicators and a decision to establish a working group to explore potential reforms to the World Trade Organization (WTO).[3]

On 18th September 2018, the European Chamber published its *European Business in China Position Paper 2018/2019*.
Photo: *Zhengnan Cao*

However, despite these areas of welcome progress there are unignorable shortcomings that all represent missing pieces of China's reform jigsaw. These were covered at length in the European Chamber's most recent report, *18 Months Since Davos How China's Vision Became a Reform Imperative*, but the European business community is by no means the lone voice of concern.[4] The strong reaction from the United States with its escalation of tariffs is, albeit undesirable, a direct response to these deficiencies, many of them longstanding. Even the Chairperson's concluding remarks on the WTO's *2018 Trade Policy Review* and the more than 1,900 questions raised by other members reflect the international community's mixed feelings towards the situation and indicate that concerns about China's role in the global economy are widespread.[5] These concerns derive from issues such as unfair technology transfers, a lack of investment reciprocity and concerns over how the China Manufacturing 2025 initiative will be pursued. China may think this criticism unfair, but its sheer size means that its unfair trade and investment practices will have global repercussions.

The extent to which the core principles of the *Decision* have been implemented can be evaluated with a simple question that cuts to the main purpose of open markets and the most fundamental needs of Chinese consumers:

Can all international companies operate on a level playing field in China to provide the goods and services that are being demanded?

As it stands, the answer is a clear 'no'. Some of the reasons for this are obvious and immediate: market access barriers, unequal access to subsidies, a dearth of licences for international firms, differentiated treatment and sectors crowded out by monopolistic state-owned enterprises

1. *Decision of the Central Committee of the CCP on some major issues concerning comprehensively deepening reform*, China.org, 16th January 2014, viewed 2nd August 2018, <http://www.china.org.cn/china/third_plenary_session/2014-01/16/content_31212602.htm>
2. Greenstone, Michael, *Four Years After Declaring War on Pollution, China Is Winning*, *The New York Times*, 12th March 2018, viewed 2nd August 2018, <https://www.nytimes.com/2018/03/12/upshot/china-pollution-environment-longer-lives.html>
3. *Joint statement of the 20th China-EU Summit*, Ministry of Foreign Affairs, 16th July 2018, viewed 3rd August 2018, <http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1577516.shtml>
4. *18 Months Since Davos: How China's Vision Became a Reform Imperative*, European Union Chamber of Commerce in China, 10th July 2018, viewed 3rd August 2018, <http://www.europeanchamber.com.cn/en/publications-18-months-since-davos>
5. *Trade policy review: China, Concluding remarks by the Chairperson*, WTO, 11th and 13th July 2018, viewed 3rd August 2018, <https://www.wto.org/english/tratop_e/tpr_e/tp475_crc_e.htm>

European Chamber President Mats Harborn presents key findings from the *Position Paper 2018/2019*.
Photo: *Zhengnan Cao*

(SOEs) regularly dominate headlines. However, less obvious factors also contribute to a business environment that remains out of synch with the promises made at the Third Plenum. Concerns like lengthy administrative procedures, non-transparent procurement systems, unpredictable enforcement of regulations and issues arising from poor inter-governmental coordination all inhibit smooth business operations, reduce opportunities for European investors and chip away at confidence in the Chinese market. Some of these challenges are due to state policy, others appear to be a result of lower levels of government either not fully comprehending, or failing embrace, the principles of the *Decision*. Recognising these difficulties, European firms nevertheless expect results.

The negative consequences of these issues run deep. For example, while barring market access in any given sector deprives Chinese customers from the specific goods or services that international enterprises could provide, much greater damage is caused to China's economy by the resulting lack of competition on which thriving market economies rely. Other impacts exist at a seemingly smaller, but no less important scale. Highly specific standards out of line with international norms, for example, may limit the availability of certain goods that cater to the increasingly complex tastes of China's rising middle class, the growing needs of its rapidly ageing population or the developmental necessities of its more sophisticated economy.

The persistence of these issues not only calls into question the decisive role of the market and the people-centred nature of development, collectively they also compose a 'reform deficit'.

China's ambitions to become a champion of globalisation have been repeatedly espoused since President Xi spoke at Davos in January 2017 and are welcomed by European businesses. However, the continuation of limited reciprocity has for some time been building mistrust as an increasing number of political leaders and voters around the world see China as taking advantage of the situation. It is therefore incumbent on the Chinese Government to accelerate the pace of reform and to begin to bridge the increasing gap between potential and reality. The recommendations contained in the *Position Paper 2018/2019* are intended provide the Chinese Government with concrete suggestions on how to address the shortcomings of the reform agenda set out at the Third Plenum and to begin significantly reducing the reform deficit.

At the heart of these recommendations is the need for Chinese leaders to consider the fundamental purpose of the different sectors of its economy. Just as the underlying social value of business is to provide in a responsible way goods and services demanded by customers, each industry has an important social contribution to make as well. By using this as the starting point, Chinese officials can begin the process of reappraising how the regulatory environment can be improved to allow each respective industry to fulfil its core task to its maximum potential. To begin this process each of the European Chamber's working groups have described in their respective position papers the essential role that they play in the economy.

By approaching reform from this more holistic perspective, China can begin to dismantle the barriers currently preventing European enterprises from fully contributing to its economy, and those that exist between customers, and the goods and services that they are demanding. Eb

Remaining Secure in Cyberspace

by Phoenix Chen

Cybersecurity trends for 2018

The digital revolution is pushing innovation forward, causing the digital threat landscape to expand exponentially. However, there is one critical factor that is all too frequently overlooked – security. It is essential to be on top of the most significant trends in cybersecurity and have an effective cybersecurity plan in place. As the scale and quality of cyberattacks evolve, businesses and governments must know how to protect themselves. In this article, **Phoenix Chen**, marketing manager of **TÜV Rheinland**, examines eight cybersecurity trends for 2018 that companies should be aware of.

1. The increased price of regulation

A rising tide of cybersecurity regulation and recommendations adds complication. These new requirements are often inconsistent from country to country, among the agencies of the same government and from industry to industry. The European Union's (EU's) *General Data Protection Regulation* (*GDPR*) came into effect on 25th May 2018. Its aim is to protect the data of EU citizens and it introduces hefty penalties for those that fail to comply.

The *GDPR* has spurred a global trend as European regulators have started mandating greater accountability when it comes to protecting data. The United States (US), Argentina, Brazil, Switzerland, India and China are all revising their existing regulations and are focusing on informed user consent and data breach notifications. Yet this has also led to regulatory fragmentation driven by territorial requirements for data protection and cross-border data flows. For global organisations, this will make international operations increasingly costly and complex.

2. The convergence of safety, cybersecurity and data privacy

The impact of data breaches now extends far beyond simple data monetisation to 'kinetic' threats to health and safety, as devices and systems are directly connected to open networks. The state of Internet of Things (IoT) security is poor and, with homes expected to have more than 500 connected devices working by the year 2022, major risks to safety, cybersecurity, and data privacy are anticipated.

Many IOT devices are fundamentally insecure, leaving product manufacturers and customers exposed to cyberattacks. Manufacturers are under increased pressure to out-innovate the competition while protecting their margins. This entails producing devices that are functional, connected and secure, while limiting power consumption in order to extend battery life. To save time and money, software developers use open-source code libraries. However, these third-party libraries can also be a source of critical vulnerabilities. A good example is the 'Devil's Ivy' vulnerability, recently found in the gSOAP toolkit used by manufacturers to connect their devices to the Internet. It is estimated that over one million devices are potentially vulnerable to this exploit.

3.Operational technology as a frontline for cyberattacks

As utility companies seek greater operational efficiency and effectiveness, they are introducing internet connections to their existing operational technology network. Moving process equipment online can unwittingly expose component vulnerabilities to cyberattacks. The spectre of a worst-case scenario, where attackers trigger a breakdown in systems that underpin society, was highlighted this year at the World Economic Forum.

The industrial Internet is impacting global industry and infrastructure. For the past 15 years, the Internet has been transforming business-to-consumer relationships by democratising information-based industries such as media, retail and financial services, and is set to disrupt physical industries in manufacturing, energy, transportation and agriculture. This trend will bring unprecedented opportunities along with new risks.

For decades, measurement data has been used by industrial sectors to not only improve productivity and competitiveness but also to save energy. At its most basic, current data is compared with historical data to determine how processes should be run, and analytics provide recommendations, enhancements and warnings to support decision making. The next big step is to move measurement data into the cloud. This way, information from around the globe can be appropriately utilised.

4. The shift in focus to threat detection and response

In the aftermath of recent cyberattacks on high-profile organisations, attention is shifting from setting up defences to shortening the time it takes to detect and respond to an attack. Today, on average, organisations take over 191 days to detect a data breach, and the longer the lag time the more damage is done. Organisations are plagued by costly dwell times due to incumbent technologies, the

Common products go online and join the Internet of Things

Source: *TÜV Rheinland, www.tuv.com/en/iot-privacy* ineffective use of threat intelligence, an inability to monitor IOT devices and having employees with insufficient expertise on cybersecurity.

Global cyberthreat trend for Operational Technology

Source: *TÜV Rheinland*

5. Increasing the use of artificial intelligence (AI)

Traditional methods of detecting malware and cybersecurity threats are failing, as cyber criminals are constantly coming up with new ways to bypass firewalls and threaten an organisation's security. AI is poised to change this. Attacks and responses will be faster, more precise and more disruptive. Threats will be dealt with in hours, not days or weeks.

6. Certifications are becoming necessary

There is a growing concern surrounding trust in cybersecurity, as evidenced by existing and emerging standards. For chief information security officers and product manufacturers alike, certifications validate someone's knowledge and experience. Today, however, product security assurance certification schemes tend to focus on critical infrastructure and government sectors only. Organisations need to demonstrate their commitment to cybersecurity both in the public and private sectors.

7. Passwords are being replaced

The password-only approach to security authentication is on the verge of revolution. To protect data inputted into an application, selecting an obscure and complex password, and changing it often, is good practice but quite rare. In addition, since stolen, hacked and traded, passwords have never before been so openly available, biometric authentication has the potential to ameliorate many of these security concerns.

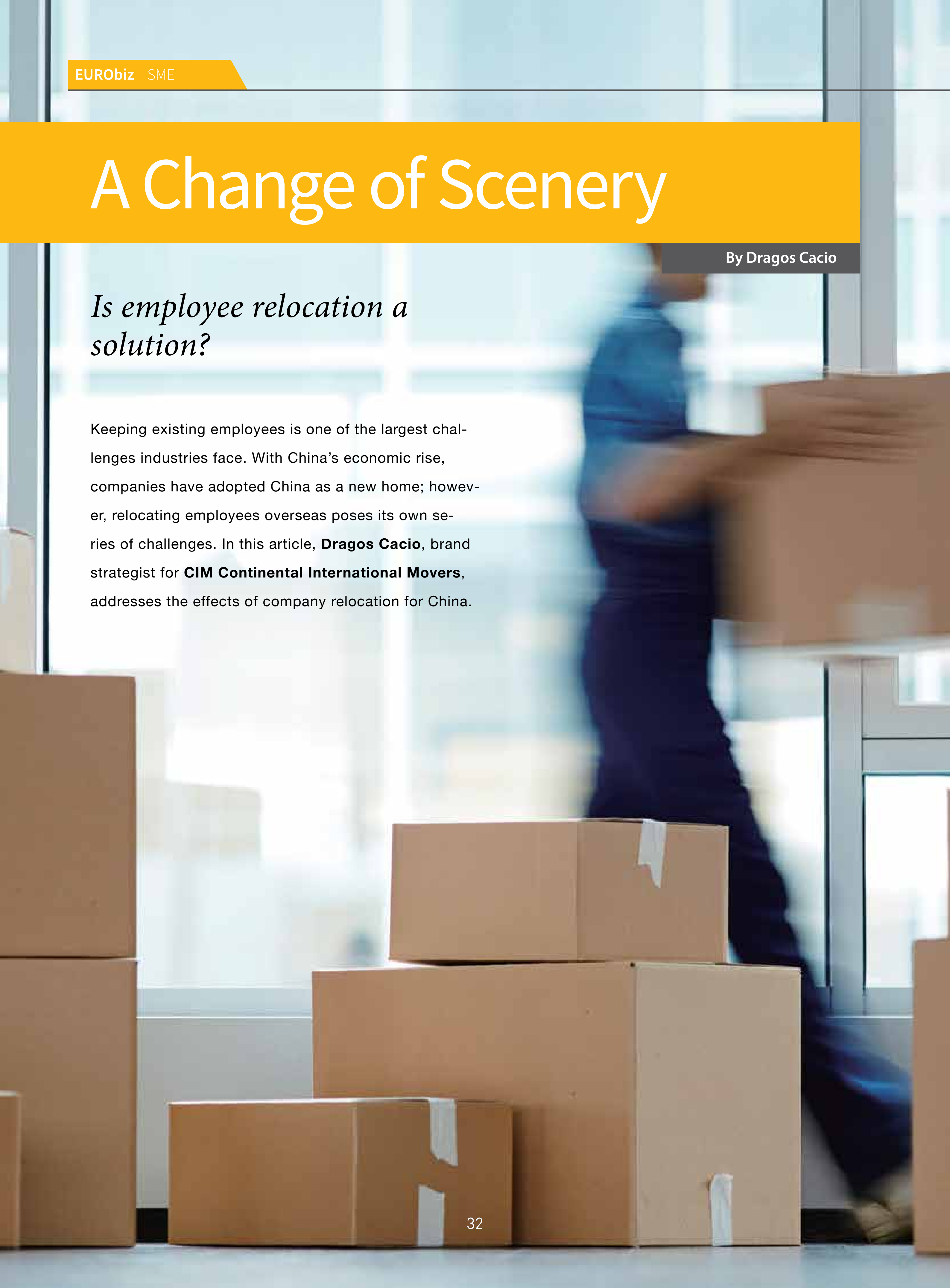
8. Industries under siege

The value of information on the dark web depends on the demand for it, the available supply, its completeness and ability for it to be reused. As a result, healthcare and financial personal information are highly sought after. Medical records can fetch United States dollar (USD) 1–1,000, depending on how complete they are, while credit cards can fetch only USD 5–30, if bundled with the information necessary to do immediate damage.

A disruption to critical services through attacks on the energy sector has been a key problem in 2018, as evidenced by the recent news of Russia's cyberattacks targeting the US power grid. Particularly at risk are companies engaged in alternative energy development, coal mining, nuclear energy development, natural gas distribution, oil and gas exploration and production, oil and gas field equipment manufacturing, and oil and gas petroleum refining. They are important targets given their importance to national and economic security, and it is no wonder that concerns over potential cyberattacks have become increasingly acute this past year.

"Public Awareness has to be raised to increasing cybersecurity risks impacting business and safety," said Frank Luzsicza, executive vice president of ICT & Business Solutions at TÜV Rheinland. "We should focus on where we see the most significant threats and opportunities emerging. We should also highlight the implications of our increasingly connected world, how global regulation is responding, the need to inject trust into cybersecurity, ways to protect ourselves from 'intelligent' cyberattacks and what we should do to close the skills gap in an environment starved for cybersecurity talent yet overwhelmed by volumes of data." Eb

***TÜV Rheinland** is a global leader in independent inspection services, founded over 140 years ago. The group employs 19,300 people in 69 countries worldwide. Our independent experts stand for quality and safety for people, technology and the environment in nearly all aspects of life. TÜV Rheinland inspects technical equipment, products and services, and oversees projects and processes for companies.*



A Change of Scenery

By Dragos Cacio

Is employee relocation a solution?

Keeping existing employees is one of the largest challenges industries face. With China's economic rise, companies have adopted China as a new home; however, relocating employees overseas poses its own series of challenges. In this article, **Dragos Cacio**, brand strategist for **CIM Continental International Movers**, addresses the effects of company relocation for China.

The human resources (HR) industry can be challenging, with finding and keeping the right talent being one of the major hurdles a company can face. A recent trend among businesses in China is the leveraging of employee relocation to attract and retain talent. The question remains, can employee turnover be contained by relocating existing talent? Or better yet, is there an easy way to attract talent to a company? Given that in 2017, there were only 1.17 unemployed job seekers for every vacancy in the United States,[1] it underlines the fact that true talent is hard to come by, and it is up to the company to keep them happy. This article will not only examine why most employees are switching companies but will also explain how businesses can leverage relocation costs to improve the acquisition of international talent.

Relocating talent should not be a hassle. It should be an opportunity. Close to 66 per cent of corporations undertook some form of global mobility in 2012,[2] and since then it has only grown. In order to not fall behind it is beneficial for businesses to take advantage of relocation opportunities.

Why are employees switching companies?

When employees leave to work for another company, they are incentivised to adapt to the new workplace culture. Most employees will change for a new company given that they receive better wages and improved working conditions. On average employees receive a 3.9 per cent salary increase after they change jobs. However, the reasons for people leaving their jobs are varied. According to a Korn Ferry poll, 33 per cent change jobs out of boredom, 24 per cent due to incompatible company culture and 19 per cent due to salary increases offered by other employers.

Workplace disengagement can prompt people to look elsewhere for employment, however, when it comes to company culture it can be hard to change. One thing a company can do is to improve the feedback it gives employees and provide advancement opportunities.[3]

> *"33 per cent change jobs out of boredom, 24 per cent due to incompatible company culture and 19 per cent due to salary increases offered by other employers."*

There is only so much a company can do, although allowing an employee to try working in a different city or country can prove effective in stimulating an employee and giving them a reason to stay. More than that, if you have a good relocation programme, you can use it not only to retain talent but also to recruit new employees.

Key Elements to Calculate Cost-of-Living for a Relocation

Consumables	All expenses related to food, cleaning, daily life, phone, electricity
Transportation	Cost of transport
Health Services	Costs related to unexpected situations and insurance
Rent	Rent cost based by region and based on family size
Misc	Additional costs like child tuition, vacations, etc.

Source: *CIM Continental International Movers*

Can relocation help attract new talent?

By casting a wide net while actively recruiting for a position, you automatically help your HR connect with a broader range of talent that is not limited geographically. It is usually seen as a hassle to relocate an employee and there are usually costs associated with it. But you must consider two things, the financial rewards and non-financial rewards you get from talent relocation. It is the same for an employee being relocated. Costs for talent relocation range from United States dollar (USD) 25,000 to USD 3 million. To see a return on investment, the company must evaluate cost-of-living expenses in a new location and the average salary for a similar position at a new location.[4]

By detailing the benefits of relocating to an employee, including the cost-of-living after relocation, a company can limit their total expenses, as a higher standard of living for similar wages is generally welcomed by employees.

1. Patricia, Flatley, *It's Boom Times for Recruiters After US Job Market Tightens*, *Bloomberg*, July 6th, 2017, <https://www.bloomberg.com/news/articles/2017-07-06/it-s-boom-times-for-recruiters-as-u-s-job-market-tightens>
2. Dixon, Suzie, *More and More Companies Moving Workers Abroad*, *The Telegraph*, <https://www.telegraph.co.uk/finance/personalfinance/expat-money/9301030/More-and-more-companies-moving-workers-abroad.html>
3. Marcel, *The Top Reasons for People Switching Jobs in 2018 Will Make You Laugh*, *Inc.*, Jan 12th 2018, <https://www.inc.com/marcel-schwantes/study-top-reason-for-whats-really-driving-employees-to-switch-jobs-in-2018-is-surprising.html>
4. Kazan, Malak, *Talent Management and Employee Relocation*, March 2016, <https://www.erieri.com/blog/post/2016/03/09/Talent-Management-and-Employee-Relocation>

You can also highlight a change in local culture as an incentive for changing office locations. No location is the same from one country to another. You can easily combat an employee's boredom and salary expectations with this strategy.

Overall costs are not only lower for the employee, but for the company as well. However, the company needs to have a well-implemented talent relocation programme to avoid excess costs while relocating.

China-specific talent management challenges

Although China's GDP was around 6.5 per cent in 2017, which was slight lower than previous years, China is quickly developing its high-tech industries, and the demand for qualified workers grows as the country's growth accelerates.

China is undergoing two major changes. First, is an ongoing salary increase of six to seven per cent over the last few years. Second is that the local staff turnover has risen to close to 10 per cent. This means an employer or a company relocating in China needs to be aware that you are competing against state-owned and privately-owned enterprises, along with other multinational corporations.

In China, there is ongoing competition when it comes to local hiring. When relocating employees in China, a company needs to be prepared to match other offers throughout the country. Within China, the range of average salaries is broad, with Beijing being ranked first.[5] Besides the salary, the culture has a big influence on local hiring. Centuries of Confucianism and the mix of other belief systems, have resulted in a distinct cultural influence over the hiring process and work environment in general. The values that came from these belief systems, such as the respect for hierarchy and knowledge, often result in long-serving, senior staff members being given leadership roles. Collectivism creates resistance to individually-assessed performance. Insecurity and personalism will give a high importance to preserving 'face', which requires deep consideration when negotiating with senior management and officials.[6] To manage these cultural differences, a company needs to train the talent they want to relocate to better understand the people they will be working with and avoid potential conflict. In every country, we are guests and we must respect the host cultures. Worth is proven through hard work, long hours and the best way to have a successful relocation is by showing best practices within the work place. Local hires trust expertise and knowledge. Sharing openly such expertise creates a respect relationship. That doesn't mean one stands above others since the reciprocity values anchored in Chinese culture creates more of a horizontal exchange. It creates respect and equality within the company. One will notice that a lot of offices are opened and shared, regardless of the status of the person apart for the CEOs. Cultural differences and salary thresholds play a big role in every company. With the continuous growth of China's economy, it is also important to factor in increases to the cost of living in China, especially with housing in cities such as Beijing where rises in housing and rental prices are making relocation costly.

Pros and cons of talent relocation

On average, corporations invest north of USD 300,000 in global mobility programmes,[7] which is often the largest obstacle for employees when they are thinking about relocating. It is expensive and there is often quite a lot of overspending, not only during the move, but after as well. However, this number is based on the fact that only 23 per cent of the company will provide good financial reconciliation for their talent relocation programmes.

With an efficient talent relocation programme, a corporation can benefit from having access to global talent, while limiting employee turnover. This can prove to be a huge advantage to any company that has a hard time finding local specialists in their field.

> *"Only 23 per cent of the company will provide good financial reconciliation…"*

Pros:

- Access to a larger talent pool
- Limited employee turnover
- A more global company culture

Cons:

- Can be expensive
- Requires extra oversight and active management
- Must handle directly to avoid excessive costs

__CIM Continental International Movers__ is an international relocation and logistics company founded in 2009 with its head offices located in Beijing, China. Offering relocations services for households, offices and employees. __Dragos Cacio__, is a brand and content strategist for cre·long media, which supports CIM's content strategy to help customers with their relocation services, before and after their move.

5. eChinacities.com, *The 5 Cities with the Highest Salary in China*, <https://www.echinacities.com/china-media/The-5-Cities-With-the-Highest-Salary-in-China>

6. Child, Warner, *Culture and Management in China*, University of Cambridge, <https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/workingpapers/wp0303.pdf>

7. Darby, Heather, *Here's How to Solve Resolve the Two Biggest Challenges Facing Global Mobility*, *The Business*, March 2018, <https://www.business.com/articles/two-biggest-relocation-challenges/>

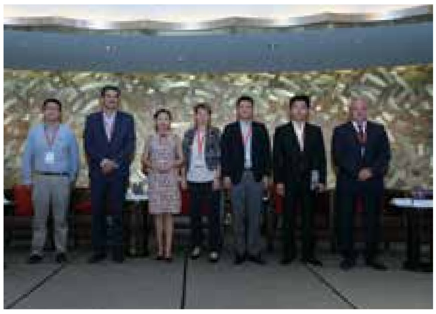
EUROPEAN CHAMBER EVENTS GALLERY

BEIJING CHAPTER

Draft Amendments Reveal Significant Changes to China's Individual Income Tax Law (IIT)

On 15th August, the Chamber hosted IIT experts from Deloitte to explain in depth amendments to IIT in China, and to explain their potential implications for European companies operating in China.

Innovation Without Barriers - 2018 EU-China Industry Workshop on New Type of Urbanisation



On 11th September, The European Chamber, together with China Academy of Urban Planning and Design (CAUPD) of MOHURD and the China Centre for Urban Development (CCUD) of NDRC, held the 2018 EU-China Industry Workshop on New Type of Urbanisation.

Successfully Navigating Headcount Reduction to Ensure Sustainable Growth

Held on 13th September, this seminar explained the steps companies must take to ensure a smooth headcount reduction while minimising disruption and avoiding legal pitfalls.

SHANGHAI CHAPTER

Effective IP Enforcement Under the Newly-amended AUCL

During this event on 29th August, various IP enforcement officials, industry players and IPR experts provided a comprehensive overview of how the amended anti-unfair competition law will change the landscape of IPR in China.

China's Individual Income Tax Reform: Prepare for the Changes

On 3rd September, the Shanghai Chapter held a seminar on the potential impact that China's IIT reform may have on enterprises and individuals working in China.

Shanghai Government Dialogue

On 7th September, the European Chamber's Shanghai Chapter hosted the first Shanghai Government Dialogue in cooperation with the Shanghai Municipal Commission of Commerce (SCOFCOM), providing European businesses with an opportunity to speak with local regulators on how to improve Shanghai's business environment.

2018 Compliance Conference: Tone from the Top

On 12th September, at the 4th Edition of the Annual Compliance Conference, participants learned about compliance solutions and resources they can implement in their companies.

NANJING CHAPTER

Launch of BCS and 18 Months Since Davos Report - Summer BBQ Mixer

On 23rd August, the Nanjing Chapter launched the Chamber's first two major reports of 2018. Around 100 representatives from European corporations, consulting agencies, the media and government attended.

Factory Tour to Epiroc Nanjing plant

More than 20 engineers attended a tour of Epiroc's Nanjing plant on 31st August.

SOUTH CHINA CHAPTER

South China Chapter Discusses Greater Bay Area Policies with Shenzhen Public Security Bureau

On 31st July, the Shenzhen Entry-Exit Administrative Department of the Public Security Bureau met with members from the South China Chapter's Human Resources Forum to explain 16 policies being implemented in the Greater Bay Area.

2018 HR Conference

The European Chamber South China Chapter held its HR Conference in Guangzhou and Shenzhen in July 2018.

Seminar on Business Restructuring and Risk Mitigation

On 6th September, top-level executives from South China Chapter member companies met to discuss how to mitigate risks regarding corporate restructuring and how to ensure business continuity.

SOUTHWEST CHINA CHAPTER

BCS 2018 Launch in Chongqing

President Mats Harborn presented the BCS 2018 to public and the media on 6th July in Chongqing.

BOE Chongqing Plant Visit

30 people took part in the visit to BOE's Chongqing plant on 31st July.

SSAMC New Plant Visit

Members visited SSAMC's new plant in Chengdu on 28th August.

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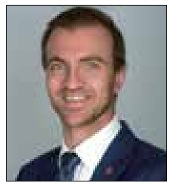

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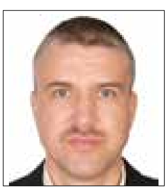

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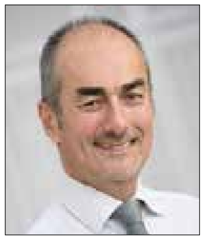

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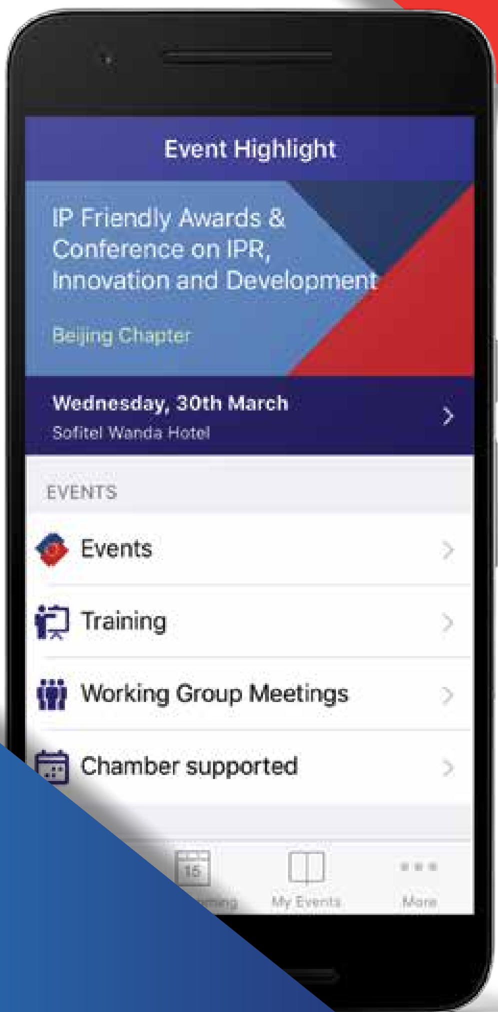

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