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IN CHINA FOR CHINA

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Chief Editor
Orlaith Delaney

Art Director
Zhang Ye

Advertising and Sponsorship Manager
Queenie Cheng
+86 (10) 6462 2066 Ext. 54
qcheng@europeanchamber.com.cn

National Member Relations Manager
Luyang Syvänen
+86 (10) 6462 2066 Ext. 37
lsyvanen@europeanchamber.com.cn

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BEIJING

Office C412,
Beijing Lufthansa Centre,
50 Liangmaqiao Road,
Beijing, 100125, PR China
北京市朝阳区亮马桥路五十号
燕莎中心写字楼 C-412 室
Tel: +86 (10) 6462 2066
Fax: +86 (10) 6462 2067
euccc@europeanchamber.com.cn

TIANJIN

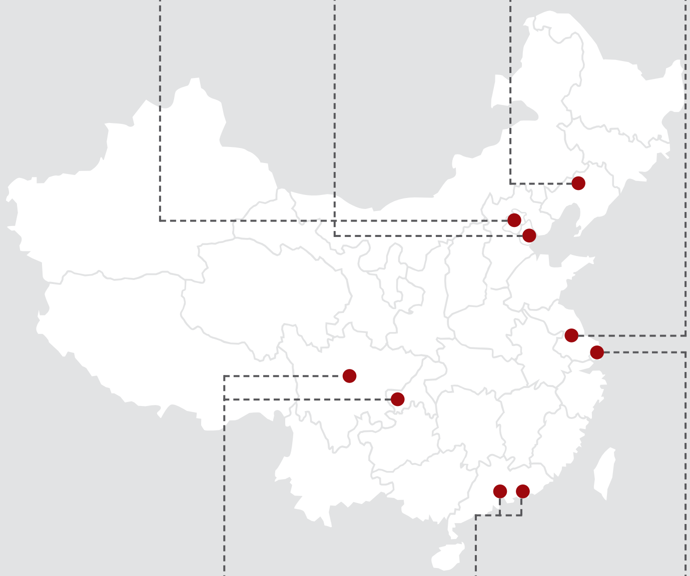
41F, The Executive Centre, Tianjin World Financial Centre, 2 Dagubei Lu, Heping District, Tianjin, 300020, PR China
天津市和平区大沽北路 2 号
天津环球金融中心
41 层德事商务中心
Tel: +86 (22) 5830 7608
tianjin@europeanchamber.com.cn

SHENYANG

Room 1208, World Financial Center 2,
No. 43, Beizhan Road 1,
Shenhe District,
Shenyang
沈阳市沈河区北站一路 43 号
环球金融中心二期
1208 室
Tel: +86 (24) 3198 4229
Fax: +86 (24) 3198 4229
shenyang@europeanchamber.com.cn

NANJING

Room 951,
World Trade Center,
2 Hanzhong Road,
Gulou District,
Nanjing, 210008,
PR China
南京市鼓楼区
汉中路 2 号
世界贸易中心 951 室
Tel: +86 (25) 83627330
Fax: +86 (25) 83627331
nanjing@europeanchamber.com.cn



SOUTHWEST CHINA CHENGDU

04-A, F16, Tower 1 Central Plaza,
8 Shuncheng Avenue, Jinjiang District, Chengdu, PR China
成都市锦江区顺城大街 8 号
中环广场 1 座 16 楼 04-A
Tel: +86 (28) 8527 6517
Fax: +86 (28) 8529 3447
chengdu@europeanchamber.com.cn

SOUTHWEST CHINA CHONGQING

105, A2 Block, SinoSwiss Technopark, Jinzhou Avenue, Yubei District, Chongqing, 401147, PR China
中国重庆市渝北区金州大道平和路 5 号，中瑞产业园
A2 栋 105
Tel: +86 (23) 63085669
chongqing@europeanchamber.com.cn

SOUTH CHINA GUANGZHOU

Unit 2817, 28/F, Tower A,
China Shine Plaza, 9 Linhe Xi Road, Tianhe District,
Guangzhou, 510613, PR China
广州市天河区林和西路 9 号
耀中广场 A 座 2817 室
Tel: +86 (20) 3801 0269
Fax: +86 (20) 3801 0275
southchina@europeanchamber.com.cn

SOUTH CHINA SHENZHEN

Rm 308, 3/F Chinese Overseas Scholars Venture Bld, South District, Shenzhen Hi-tech Industry Park, Shenzhen, 518057, PR China
深圳高新区南区留学生创业大厦
3 楼 308 室
Tel: +86 (755) 8632 9042
Fax: +86 (755) 8632 9785
southchina@europeanchamber.com.cn

SHANGHAI

Unit 2204, Shui On Plaza,
333 Huai Hai Zhong Road,
Shanghai, 200021
PR China
上海市淮海中路 333 号
瑞安广场 2204 室
Tel: +86 (21) 6385 2023
Fax: +86 (21) 6385 2381
shanghai@europeanchamber.com.cn

President's Foreword

'In China, for China': a complex term

Jens Eskelund

President

European Union Chamber of Commerce in China

China's robust economic development, coupled with the size of its domestic market, were for decades key factors attracting many European companies to invest in the country. For those who decided to bring their manufacturing to China, the size and scope of its industrial clusters were a crucial selling point.

While a large number of foreign-invested enterprises (FIEs) may have originally put up production lines in China in order to reduce the costs of manufacturing and labour, the substantial increase of Chinese customers' buying power resulted in a shift in approach. Many FIEs began increasingly trying to tap into domestic consumption, and in turn found themselves having to adapt to divergent demands from Chinese consumers. For example, the differences in demand can be well traced in the automotive industry, where the average age of high-end car buyers is substantially lower in China than in Europe or in the United States, leading to increased demand for more new technologies and onboard features.

To meet these expectations, many FIEs also set up research and development bases in China, and found that the quick pace of commercialising innovation results helped them accelerate the process of bringing new or updated products to market.

As China's economic development advanced, European companies increasingly saw the advantages of being in China for China, both to access local customers and for exposure to pioneering private Chinese firms. And even though persistent market access barriers, coupled with a growing sense of unpredictability stemming from ambiguous regulations, made operating in China a challenging experience, many European businesses remained committed to the Chinese market.

However, heightening geopolitical risks have led companies to to pay an unprecedented amount of attention to risk assessments and take steps to build supply chain resilience. While risk considerations compelled some European companies to reconsider their investments originally planned for China, the Chinese Government's ongoing technological self-reliance campaign has been pushing FIEs to further onshore their production and technologies into the country. This trend might put the 'in China, for China' approach in a new light for businesses as, instead of being a choice, it might become a condition for some to maintain their profitability--or even their presence--in China.

While European companies' China operations might be more inclined to see the advantages that this approach can bring, especially for their bottom lines, in Europe it is meeting an increasingly mixed reception among home-country governments and consumers. A key reason behind this is that when it comes to investments, the European Union (EU)-China relationship is still rather lopsided in terms of job creation. As European companies frequently opt for greenfield investments in China, they have been creating a large number of jobs and therefore tax revenue in the country, whereas Chinese companies investing in the EU tend to buy into already existing jobs through acquisitions. While 2022 was the first year since 2008 to see the levels of Chinese greenfield investment in the EU overtake those of mergers and acquisitions, it remains to be seen whether this trend will continue in the longer term. In the meantime, it is likely that complexities associated with companies following an 'in China for China' strategy will increase.

[1] Li, Fusheng, *Youth driving sales in China's vehicle market*, *China Daily*, 20th February 2023, viewed 20th June 2023, <https://www.chinadaily.com.cn/a/202302/20/WS63f2ac16a31057c47ebaf9ed.html>

[2] Kratz, Agatha, Zenglein, Max J., Sebastian, Gregor & Witzke, Mark, *EV battery investments cushion drop to decade low: Chinese FDI in Europe 2022 Update*, Rhodium Group & MERICS, 9th May 2023, viewed 20th June 2023, <https://merics.org/en/report/ev–battery–investments–cushion–drop–decade–low–chinese–fdi–europe–2022–update>

IN CHINA, FOR CHINA

European Chamber messaging on behalf of its members

As this edition of *EURObiz* shows, European Chamber members are 'in China, for China', despite the increasingly challenging market conditions. This message is regularly conveyed loud and clear in our meetings with the Chinese Government. It is also a common theme in the Chamber's annual *Position Paper, Business Confidence Survey,* and thematic reports. Here are some examples of how that message has been delivered.

Scan the QR code to download the reports.

China's Innovation Ecosystem: The Localisation Dilemma

Integrators – companies that are heavily involved in China's innovation ecosystem

Integrators do extensive R&D in China for both the domestic and global markets. They form close partnerships with a range of actors in China (local firms, foreign firms, universities/research laboratories) and collaborate on a variety of issues, including human resources (HR) cultivation, core innovation and complementary innovation. They believe that an open approach to innovation is their best strategy, both in China and globally, because they can 'run faster' than the competition and claim market share to suppress their competitors' growth potential. Examples: materials, chemicals, industrial inputs and machinery.

Market-chasers – companies that recognise China as the key global market for certain technologies, and that this is where 'real innovation' is taking place

This group of companies believes that they must be R&D players in China, not only to win local market share but also to stay globally competitive. It includes original equipment manufacturers (OEMs) of a given technology (for example, magnetic resonance imaging (MRI) machines), or for companies that are suppliers for that technology (like a supplier of magnets that go into MRI machines). This group may also engage in a wide range of collaborative partnerships, but core research conducted jointly tends to be limited to the technologies for which China is the main market, while core research of other technologies takes place in home markets. Examples: pharmaceuticals and their suppliers, battery and electric vehicle (EV) producers and their suppliers, suppliers of wind turbine manufacturers and suppliers of photovoltaic cells (PVC) manufacturers.

Decoupling: Severed Ties and Patchwork Globalisation

Market-driven supply chain shifts

European companies largely remain 'in China, for China'; they have spent the last decade building up their supply chains inside the market and aim to continue this strategy. This keeps costs and administrative challenges low, while also taking advantage of China's world-class industrial clusters and high-quality talent. Many of the MNCs interviewed for this report noted that their supplies for the Chinese market are up to 80 to 90 per cent onshored already. This allowed them to fare relatively well when the COVID-19 pandemic emerged.

For the European companies that produce and supply automobiles, clothing and accessories, food, electronics and technology, pharmaceuticals and medical devices—to name but a few—for the Chinese market, supply chains are their arteries. As noted in the extract from the *Decoupling* report, many of the companies in China for China already have a large portion of their supply chains—and production, from research and development through to marketisation—onshored in China.

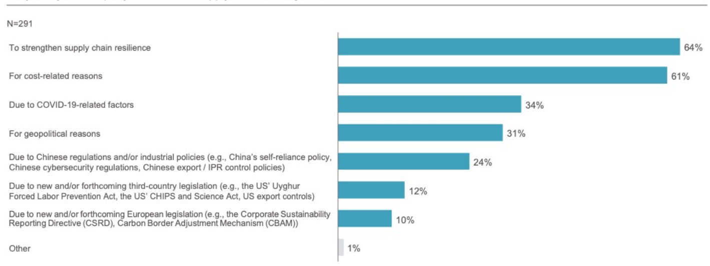
However, the unpredictability of conditions in China in recent years, due to COVID but also geopolitical tensions and the increasing politicalisation of business, has caused many European Chamber members to reassess their supply chain strategies. This was reflected in the *Business Confidence Survey 2023*, with three quarters of respondents reporting that they had reviewed their supply chains over the previous two years, largely for defensive reasons.

Business Confidence Survey 2023

Respondents are predominantly reviewing their supply chains to mitigate current and potential risks: strengthening supply chain resilience is the top reason (64%); countering COVID-19-related factors (34%) ranks third; geopolitical reasons (31%) fourth; Chinese regulations and/or industrial policies (24%) fifth; new and/or forthcoming third-country legislation (12%) sixth; and new and/or forthcoming EU legislation (10%) seventh. However, with cost-related reasons ranking second (61%), a key reason for EU companies to adjust their supply chain strategies is to maintain profitability, as labour and production in China become increasingly expensive.

Figure 24: Companies review supply chain strategies to build resilience and save costs

Why has your company reviewed its supply chain strategies?[1)]



1) Multiple answers possible

The challenges of doing business in China are of course not exclusive to companies that trade in goods; they also affect European Chamber members in the tertiary sector – for example, those who provide the professional, legal, consulting, financial, technology and HR services that keep the cogs in the manufacturing sector turning smoothly. The ability of these companies to develop their full potential has also been hampered by the long-standing market access and regulatory barriers.

Business Confidence Survey 2023

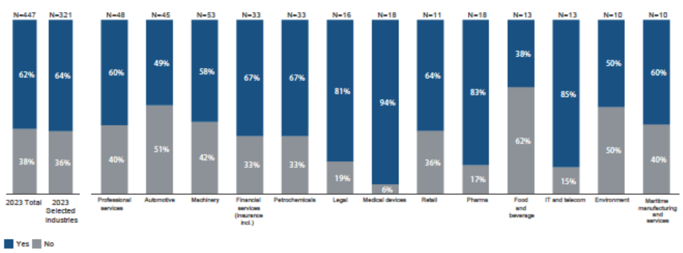
Lost business due to market access and regulatory barriers highest on record

A record number of respondents (62%, +20pp) report having missed business opportunities because of market access and/or regulatory barriers in 2022. Stringent pandemic control measures posed the most significant obstacle, as frequent and unpredictable lockdowns and quarantine requirements often resulted in business operations grinding to a halt. Other key contributing factors included the persistence of long-standing administrative and regulatory barriers (see Figure 34), and the Chinese Government's push for technological self-reliance in strategic areas.

A significant majority of respondents in IT and telecommunications (85%, +47pp y-o-y) reported this to be the case. The introduction of a series of stringent laws, measures, standards and guidelines on the protection of personal information and important data in recent years is a contributing factor, as is the imposition of excessive, non-transparent and at times arbitrary, supply chain controls.

Figure 32: Members face market access and regulatory barriers across the board

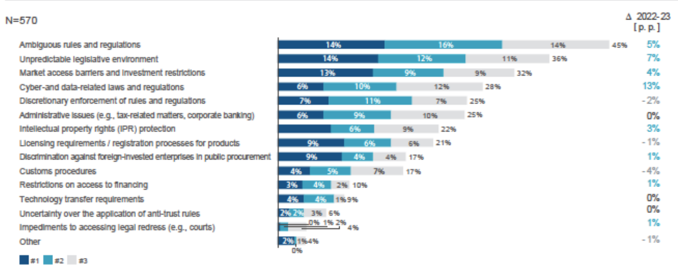
Has your company missed business opportunities in Mainland China as a result of market access restrictions or regulatory barriers?



1) Industries selected are those for which there were at least 10 responses

Figure 34: Ambiguous regulations and unpredictable legislative environment top regulatory obstacles

Which are the top three most significant regulatory obstacles for your company when doing business in Mainland China? 1)



1) Figures represent the proportion of respondents who rated each issue their #1-3 most significant regulatory obstacles;

The main purpose of the *Business Confidence Survey* and the thematic reports the Chamber releases, and indeed the main purpose of the European Chamber itself, is to highlight the concerns of our member companies and the difficulties they face while operating in the Chinese market, and to advocate potential solutions.

Most European companies that have entered or are considering entering the Chinese market have already proven themselves and their product/service offerings in the European Union (EU). In other words, they are the cream of the crop, and their presence in the Chinese market will be to the benefit of Chinese consumers and companies, by providing high quality goods and services, and increasing competition. Many Chamber members have indicated, despite the challenges of doing business in China, they remain eager to invest further – if given the chance.

In September 2023, the European Chamber will release its ***European Business in China Position Paper 2023/2024***. This important white paper outlines the difficulties facing member companies in the goods, services and financial services sectors, as well as the challenges they face with cross-cutting topics such as compliance, environmental protection, intellectual property rights, and finance and taxation. It provides hundreds of targeted, actionable recommendations from industry experts representing European companies that have invested considerable time and resources to be 'in China, for China', and that wish to contribute more to the Chinese economy. Stay tuned to our social media and newsletters for details on the launch and the highlights of the publication's messaging. Eb

China-for-China strategies still need leaders with multinational mindsets

by ***Gabor Holch***

LOCAL WINS TAKE GLOBAL SKILLS

Multinational executives crafting 'in China, for China' strategies usually focus on the long-term benefits: reduced risk by easier local compliance and integration, access to indigenous talent and better response to local markets. But localised strategies will also inevitably create new risks and hurdles. **Gabor Holch**, East-West leadership coach and author of a new book on expat executives in China, explains how to prepare for these challenges.

'China-for-China', sometimes dubbed 'in China, for China' has become more than just a strategic crisis management tool for foreign firms caught in successive crossfires of trade wars, and political and technology showdowns, between China and its trade partners. For many companies, the strategy is becoming a corporate nirvana where foreign firms in China can finally forget politics and combine the benefits of their foreign-invested status with local business practices. It is possible to see where this positivity comes from: in a struggling world economy, China's vast market represents a rare ecosystem of growth. Foreign firms have fought hard for their shares, and may pull half of their global profit from China, as German car-makers, European luxury brands and many others currently do.

But executives plotting China-for-China strategies at multinational companies (MNCs), in China and abroad, expats and locals, must realise the fleeting nature of the present situation. A few years ago, the pressure on foreign firms to localise their legal status serendipitously aligned with ongoing management localisation, a pandemic-time expat exodus, and finally a post-COVID business boost. This created a temporary sweet spot of local talent managing operations still strongly connected to global networks. In most China-based MNCs today, most managers are either locals or settled expats with long experience, assets, families and plans in China. Meanwhile, global supply chains stir from their beauty sleep, hoping to make profit in China before their governments interfere in the name of 'de-risking'.

However, 'China-for-China' will not last in its current form. As MNC leaders move assets and operations into locally incorporated entities, separate their finances from headquarters, reduce transparency into Chinese branches and entrust key responsibilities to local managers, they must face the inevitable risks as well as the expected benefits. "It is hard to out-local local companies," the McKinsey Institute wrote in a recent paper. "Furthermore, MNCs should be wary of losing the advantages that come from being global."[1] In simpler words, being an MNC in China makes sense only if its managers maintain the ability to engage international networks of supply, demand, know-how and talent the way *bona fide* local firms cannot.

> **"Being an MNC in China makes sense only if its managers maintain the ability to engage international networks of supply, demand, know-how and talent the way *bona fide* local firms cannot."**

Many MNCs have worked on identifying the risks associated with localisation strategies. They understandably struggle to see some less obvious hazards, as critical times encourage short-term thinking. Some risks are eclipsed by China's emergence from self-imposed 'zero-COVID' isolation, and resulting investment and trade booms. Others will only become evident as China branches drift away from headquarters, thinning out the exchange of people, ideas, money and assets, and even blurring China from the mental maps of investors, expats and entrepreneurs with worldwide options.

To enhance clarity on the potential fall-out, imagine an unfolding risk timeline, from more immediate to longer-term factors, as 'China-for-China' evolves from new fad to lasting reality.

- Almost immediately, information flows between China branches and the outside world decrease. Digital data exchange decelerates. Worldwide, auditors and experts struggle to understand what happens in a China they haven't visited for years, partly due to reporting switching to Mandarin and partly due to dramatically different standards.
- Problems with know-how mobility emerge a bit slower. Localised data management, compliance and operative work discourages communication, visits and relocation between China and worldwide branches. People on either side have less in common and consequently less to discuss.
- In the medium-term, less communication results in talent succession problems. Local

[1] *The China imperative for multinational companies*, McKinsey Global Institute, 15th January 2023, viewed 17th July 2023, <https://www.mckinsey.com/mgi/our–research/the–china–imperative–for–multinational–companies

managers fluent in multiple languages, with international experience and willingness to travel, are scarce, so MNCs always need selected foreigners. But with separation from global operations, the supply of foreign talent will suffer.

- In parallel, foreign firms will lose attractiveness for talented locals as well. Many Asian managers at global firms want to work for MNCs for their international vibe and travel prospects. Localised operations cannot offer the same benefits.
- In the longer term, China branches gradually fade from strategy discussions at headquarters, as do headquarters from meetings in China: branches in the People's Republic of China and worldwide operations operate under one brand but drift apart in goals, values and practices. Since discussion is minimal, the other's choices often seem irrational from either side.
- Consequently, the respective other loses attractiveness for talented managers. Unwillingness by global candidates to relocate to China is already tangible, and will increase. Chinese managers will be equally reluctant to move abroad, depriving headquarters and worldwide branches of essential country-specific knowledge.

Such downward spirals can become irreversible, undermining motivation to remain in China. Of course, companies will differ. The European Chamber's business confidence surveys have uncovered a major theme in the saga of foreign firms in China: the widening gap between those that thrive and those that merely survive. Champions typically maintain a careful balance between a global identity and seizing local opportunities. "Munich is where we come from, but China is where we are at home," said a senior executive of a German car manufacturer at this year's Shanghai Auto fair.[2] Multinational managers with similarly versatile ambitions must develop the skills and attention span that a new, riskier but highly lucrative era demands from them. Here are a few ways how.

- However proud they are of their local teams, processes, networks, family ties, property and perhaps fluent Mandarin, expat executives must remain conscious intermediaries between an isolating China and foreign locations increasingly clueless about it. This must manifest in daily communication such as calls and emails, the choice of apps like WeChat versus WhatsApp, and choice of working languages.
- They must nourish the supply of talent, skills and know-how necessary for operating a multinational business in China. Recent research shows that Chinese managers with foreign degrees, language skills and networks rise higher and perform better at MNCs than those without. Foreign managers must nurture local potential by integrating their teams into global networks of knowledge, acquaintances and opportunities.
- Preventing China branches from full management localisation is an unenviable yet essential task. As McKinsey pointed out, full localisation deprives foreign firms of vital competitive advantages. Polls show that home talent for many top MNCs (e.g., American for GE, French for L'Oreal, Japanese for Toyota) is getting scarcer in China, so executives must learn to spot talent from third countries and second-generation Chinese from overseas.
- By creating a diverse environment that differs from local firms, MNC bosses can attract critical local talent. 'China-for-China' forces executives to operate in a complex and toughening environment, with less help from headquarters and local expat networks than before. Cosmopolitan local colleagues, if they choose to join the team, can save projects, bosses and brands.
- Ironically, the same managers must play the reverse role and represent the Chinese perspective at headquarters and international branches. That is because few others will: localisation reduces China's physical and digital presence at global forums. Expats and globally connected local managers must ensure that the world's most dynamic market does not become an enigma elsewhere.
- If operations and talent both become localised at the current rate, global and Chinese branches inevitably develop separate identities. Remaining expats are essential in managing expectations. Foreign firms must accept that while localisation is an essential part of their China strategy, expats play key roles in keeping their fundamentally global character. After all, as an automotive HRD told me in an interview for my forthcoming book, American firms also retain American bosses in Europe.[3] EO

Gabor Holch coaches and advises multinational executives on upgrading their skills from competent managers to corporate leaders with global mindsets. An expat since age four, China-based since 2002 and working globally, Gabor is a Certified Management Consultant (CMC) in English and Mandarin and licensed in major assessment tools including DISC, the Predictive Index and MBTI. His book *Dragon Suit: The golden age of expatriate executives in China* is published in the summer of 2023.

[2] *BMW Presentation at Auto Shanghai 2023*, DPCcars, YouTube, 18th April 2023, viewed 21st July 2023, <https://www.youtube.com/watch?v=eF4iG6XlPfQ>

[3] Gabor Holch, *Dragon Suit: The golden age of expatriate executives in China*, Business Expert Press, August 2023, <https://www.amazon.com/Dragon–Suit–Golden–Expatriate–Executives–ebook/dp/B0C15QQVXZ?_encoding=UTF8&qid=1684568752&sr=1–2&linkCode=sl1&tag=holchbiz–20&linkId=f865e00cba2bf74fb89c0a48d038044b&language=en_US&ref_=as_li_ss_tl>

'In China, for China'

A critical strategic imperative for MNCs' long-term success in the region

by **Vincent Guo**

The rapid pace of change in China in recent decades as the economy and society developed has been unparalled, and often can only be truly appreciated through first-hand experience. It has meant that multinational companies (MNCs) operating in China have had to adapt along with the changing business environment in order to be able to compete. In this article, **Vincent Guo** of **Ernst & Young (China) Advisory Limited Technology Consulting**, summarises the opportunities and challenges confronting MNCs, analyses the argument for adopting an 'in China, for China' strategy, and provides corresponding guidance and strategies for solution design.

Since the adoption of China's reform and opening-up policy, the Chinese economy has undergone rapid growth, contributing significantly to increases in the global profits of MNCs. Over the last few years, China has experienced a rapid surge in its digitalisation, primarily evidenced by the progressively tightening regulatory regulations on cyber and data security, alongside the flourishing growth of the indigenous digital technology ecosystem. Amid the digital business landscape in China and the prevailing global economic uncertainties, MNCs ought to strategically reassess and redevelop their business strategies accordingly.

Emphasising the strategic imperative of 'in China, for China' represents a shift from isolation to leveraging the opportunities provided by the Chinese business and digital ecosystem. The strategic development of 'in China, for China' does not involve isolating the Chinese entities of MNCs from global headquarters, but rather granting them a certain level of autonomy to better integrate into the local market and capitalise on available resources.

Three pervasive obstacles confronting MNCs in China: urgent imperatives for progress

A. Tightened information technology (IT) and digitalisation costs - In light of the global economic downturn, certain MNCs have scaled back investments in IT and digitalisation globally. Nevertheless, within the rapidly expanding digital landscape in China, the nurturing of Chinese users has engendered a comparatively high expectation for digitalisation, convenience and timeliness. Timely fulfilment of the demand for business digitalisation is imperative to capturing the Chinese market.

B. Soaring geopolitical and compliance risks - MNCs operating in China confront external influences, particularly the pressure to comply with tightening digital regulations and geopolitical risks stemming from conflicts and political struggles.

C. Rise of local competitors - With robust backing from domestic digital economy policies and the continuous expansion of China's digital ecosystem, formidable local competitors are rapidly emerging. These competitors possess closer proximity to and a deeper understanding of local customers and user requirements, as well as significant cost advantages.

Seize the opportunities: unleashing the potential profits of the Chinese market

A. Positive government digital policies - From the 13th Five-year Plan' to the 14th Five-year Plan, both the central and local governments have outlined clear objectives and measures to foster the advancement of the digital economy. Supported by a series of digital policies and driven by the collaborative efforts of the government and enterprises, the domestic digital technology ecosystem has been undergoing innovative development, unleashing unprecedented market vitality.

B. Strong development momentum of digital technology ecosystem - With the maturation of its local digital technology ecosystem, China has achieved significant advancements in various areas of independent innovation, including IT infrastructure, cloud services, operating systems, data platforms, application systems, and so on. Local vendors possess extensive user bases, diverse technological capabilities and profound insights into consumer-level users for delivering exceptional customer experiences.

C. Enabling the digital environment - China has a substantial internet user base and widespread adoption of mobile payment systems, which generates a significant demand for digital products and services, presenting expansive opportunities for MNCs.

Strategic manoeuvring to surmount challenges and grab openings

In the current global economic slowdown, the development of China's local digital technology ecosystem and the strengthening of digital regulations present challenges and opportunities for MNCs. Ensuring business continuity has become a paramount concern for MNCs, given the geopolitical risks and escalating cyber and data security in China. Simultaneously, fully leveraging a localised digital ecosystem enables MNCs to deliver equivalent services at reduced costs while better aligning with Chinese consumer preferences to expand the local customer base, enhance customer loyalty and enable the exploration of cost-effective business opportunities. To maintain a competitive advantage and achieve stable business growth in the Chinese market, it is imperative to promptly embrace an 'in China, for China' strategy.

What is the 'in China, for China' strategy and how to implement it

Interpreted from the prism of digitalisation/IT, the 'in China, for China' strategy is a localised digital

> **Interpreted from the prism of digitalisation/IT, the 'in China, for China' strategy is a localised digital transformation enabling MNCs to thrive and adapt seamlessly to China's digital landscape, nurturing sustained progress in the Chinese market.**

transformation enabling MNCs to thrive and adapt seamlessly to China's digital landscape, nurturing sustained progress in the Chinese market. Typically, targeted strategic planning and implementation can be executed at three levels: strategy, planning and implementation.

Broadly speaking, a comprehensive end-to-end 'in China, for China' strategy entails a harmonious integration of strategic, planning and implementation aspects. MNCs can also align their efforts with their localisation strategies and contextual factors to achieve a customised approach, including the following steps.

1. Create a clear and defined localisation strategy

A well-defined strategic direction is crucial for a successful localised digital transformation. MNCs should customise localisation strategies in alignment with business purpose, risk tolerance and the level of digitalisation maturity in the local market. This involves considering elements such as objectives, consistency, scope, timeline and cost. The design of the strategy should adopt a holistic approach, analyse the company's business comprehensively and develop a roadmap.

2. Plan from enterprise architecture perspectives

At the organisational planning level, MNCs should design enterprise architectures in terms of business, applications, data, technology and security, as well as architecture governance.

a) **Business architecture design:** Clarify business relationships, anchor company vision and strategy, and provide guiding principles for subsequent content.

b) **Application architecture design:** Identify local digital initiatives, embrace business architecture, and present it to business users through digital means by fully leveraging the local digital ecosystem.

c) **Data architecture design:** Facilitate data integration, data value exploration, data governance and data compliance.

d) **Technology architecture design:** Provide infrastructure support at the foundation level for application and implementation of data architecture,

e) **Security architecture design:** Follow the principle of "security by design", proactively considering and mitigating compliance risks.

f) **Architecture governance design:** Accomplish the functioning of the architecture, strategically planning and designing appropriate organisational structures, process systems and standardised norms. Furthermore, implementing effective architectural governance is crucial to oversee and regulate the execution of these plans.

3. Implement and achieve 'in China, for China'

Throughout the implementation and operational phases, MNCs should adopt tailored measures, which include fostering close collaboration with company strategies and swiftly responding to evolving demands to develop customised digital products. Additionally, it is crucial to uphold full compliance with regulatory requirements, commit to contributing to economic development and maintain a degree of autonomy.

Conclusion

Amid escalating global uncertainties, the 'in China, for China' strategy emerges as an effective way for MNCs to overcome challenges and seize opportunities. This strategy ensures MNC global headquarters' leadership position while adapting to and leveraging China's digital landscape, minimising risks and potential losses associated with geopolitics and compliance, and achieving sustained, stable and expansive business growth in China. Simultaneously, beneficial lessons learned from successful practices in the Chinese market can be leveraged to enrich global operations of MNCs, achieving a win-win outcome. Eb

Vincent Guo holds the position of partner at **Ernst & Young (China) Advisory Limited Technology Consulting**. With a wealth of experience in digital services exceeding 15 years, his knowledge spans various areas, including 'China-for-China' strategy planning, digital transformation planning and implementation, IT strategy planning, digital compliance, data governance, third-party risk management, and so on. Vincent has overseen and achieved success in numerous large-scale and diverse projects, delivering professional services to MNCs.

Note: The views reflected in this article are the author's own and do not necessarily reflect the views of the global EY organisation or its member firms.

TALENT MARKET AND COMPENSATION

Development trends in Mainland China in 2023

by **Frank Redecker**

The 'in China, for China' strategic approach holds paramount importance among foreign-invested enterprises focussing on market relevance, customer satisfaction and competitive advantage by offering products and experiences specifically designed for the Chinese market. In addition to these factors, it is becoming increasingly important to emphasise cultural sensitivity, as it fosters trust, strengthens brand reputation, and plays a pivotal role in attracting and retaining the right talent. Organisations that demonstrate a strong commitment to the Chinese market and possess a deep understanding of the local context are more likely to appeal to top talent who value such dedication. In this article, **Frank Redecker** of **REACH Talent Consulting** discusses the results from the inaugural *2023 Industry Compensation White Paper*, a survey on industry compensation, which examines compensation trends across multiple industries.

The feedback from candidates collected for the report regarding the key factors influencing their decisionmaking can be summarised in five significant hiring and modern workplace trends that are reshaping the labour market:

1. Remote work, including the concept of home office, will continue to experience substantial growth, even beyond the pandemic.
2. The focus on diversity, equity and inclusion, along with work-life balance, will increasingly be of concern to job candidates.
3. Corporate culture and market position will remain pivotal in attracting and retaining employees, serving as differentiators for employers.

4. Inflation acceleration is influencing the changing needs of employees, including their expectations regarding compensation and benefits.

5. Changing demographics and an ageing population will pose significant challenges in hiring qualified labour in the coming years.

The findings of this research are based on feedback and data provided by over one million companies. The sample consists of 15.5 per cent from the manufacturing industry, 14.5 per cent from the information technology (IT) industry, approximately 11 per cent from the professional service industry, nine per cent from the automotive industry, and 4.5 per cent from the energy chemical industry. These key industries collectively account for about 55 per cent of all recruitment activities analysed.

With regard to distribution across different regions, the majority of activities and feedback were focussed on first- and second-tier cities, representing about 78 per cent of the total market.

The majority of companies analysed were private Chinese enterprises (85 per cent), followed by foreign-owned companies (five per cent) and joint ventures (1.5 per cent).

The data clearly reflects the economic impact of policy execution in the second quarter of 2022, showing a steady decline in salary increases compared to previous quarters. The average salary increase declined year-on-year (y-o-y) from 9.1 per cent in 2021 to approximately 6 per cent in 2022.

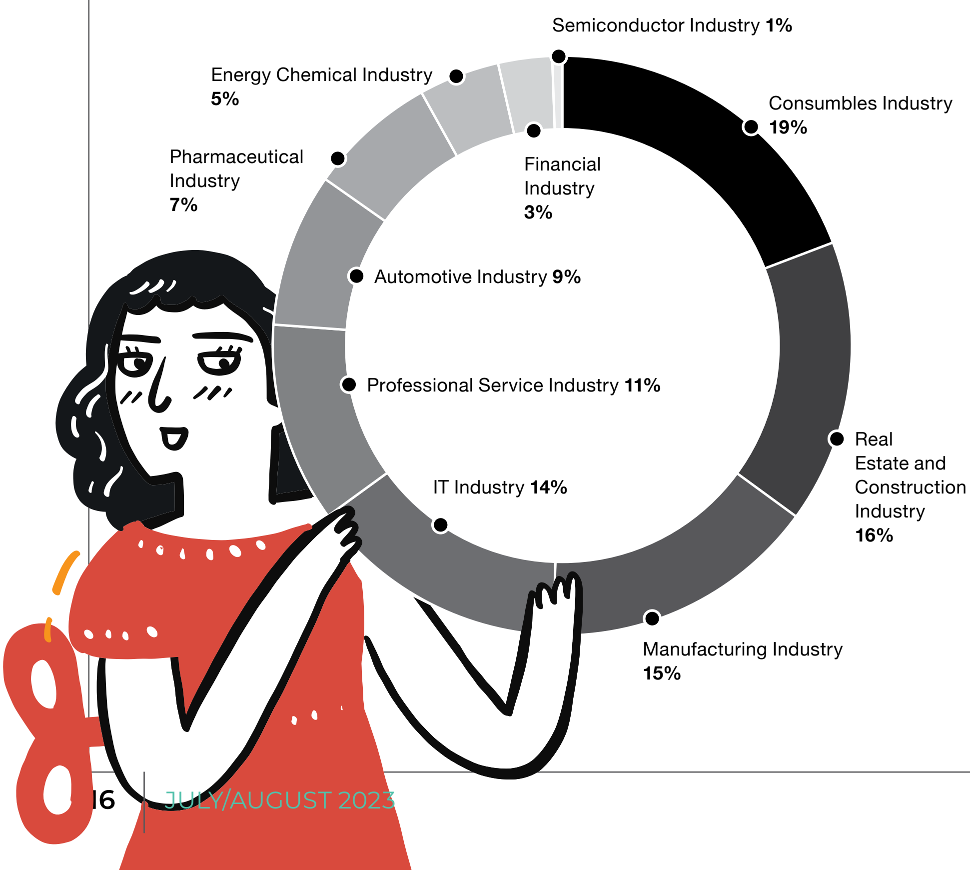
Industry highlights

The field of IT has evolved from what was referred to as the 'information society' to its current state, often described as the beginning of the 'intelligent society'. Talent specialising in IT innovation are shaping the future of this 'intelligent society'. However, due to the pandemic and geopolitical scenarios, there has been a noticeable decline in the demand for overall IT talent, with companies focussing more on cost control and increased efficiency. Nevertheless, the data indicates a surge in the recruitment of high-performing skilled workers and a stronger emphasis on talent retention to initiate new IT innovation processes. In this industry during the same timeframe, the average salary increase declined from 10.5 per cent in 2021 to approximately 6.7 per cent in 2022.

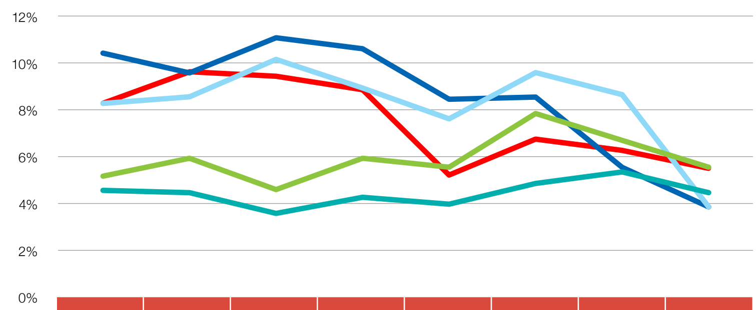
The manufacturing industry, with its technology- and labour-intensive classifications, is currently facing a significant 'labour shortage' or 'talent shortage' to meet its business needs. Recruiting skilled operators has become increasingly challenging due to demographic shifts in China's society and changes in candidates' career aspirations. Moreover, the lack of high-end intelligent manufacturing and technical talent reserves has compelled many companies within the manufacturing industry to seek individuals from various other industries, particularly those focussed on digital transformation. As a result, the average salary increase during 2022 in this field is at around 7.5 per cent, though this is down from just over nine per cent in 2021.

In the automotive industry, overall recruitment demand is on the rise, primarily driven by the transformation requirements faced by domestic traditional original equipment manufacturers. These companies need to invest more in domestic research and development for new energy vehicles while also reducing the time to market for new products. Consequently, there is an urgent need to attract exceptional talent in fields such as software

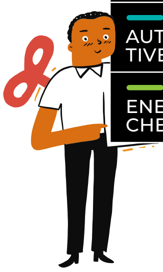
FIGURE 1:
INDUSTRIES COVERED BY THE SURVEY



SALARY GROWTH RATE



	2021Q1	2021Q2	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3	2022Q4
INDUSTRY-WIDE	8.32%	9.68%	9.47%	8.93%	5.34%	6.83%	6.32%	5.60%
IT	10.56%	9.71%	11.14%	10.71%	8.55%	8.61%	5.64%	3.90%
MANUFACTURING	8.32%	8.64%	10.26%	9.02%	7.67%	9.71%	8.73%	3.90%
AUTOMOTIVE	4.55%	4.49%	3.63%	4.29%	4.04%	4.84%	5.35%	4.50%
ENERGY CHEMICAL	5.27%	6.03%	4.67%	5.99%	5.64%	7.85%	6.75%	5.60%



development, energy storage and design, leading to an average salary increase in 2022 of 4.7 per cent, up from 4.2 per cent in 2021.

The global energy situation, marked by turbulence in recent years and the development of carbon peak and carbon neutrality strategies, is significantly changing transformation process requirements in the energy chemical industry. The pace of transformation has become a key determinant of future sustainability and success in this industry, similar to other sectors but driven by different factors. As a result, the continuous development and utilisation of new energy sources are expected to lead to increased investments in human capital, materials and financial resources within this industry. Report findings demonstrate a clear increase in overall recruitment within the energy chemical industry, with an average salary increase of 6.5 per cent, a jump up from 5.5 per cent in 2021.

Conclusions

In summary, the talent market in China is characterised by its size; high demand for skilled professionals; talent shortages in specific fields; an emphasis on education and skill development; the rise of entrepreneurship and startups; government initiatives to attract and retain talent; and the growing importance of digital skills. It is essential for organisations operating in China to understand the dynamics of this talent market in order to effectively attract, retain and leverage the right talent for their success.

For organisations that recognise the significance of attracting and retaining the right talent, they can drive their overall success by leveraging specialised skills and expertise. Additionally, a focus on talent retention and attraction enhances organisational culture, fosters positive team dynamics, increases employee engagement and satisfaction, minimises turnover costs, retains valuable knowledge, and helps build a positive employer brand that attracts high-quality candidates.

Considering the talent market's current development and the changes brought about by the post-pandemic business environment, it is evident that the 'in China, for China' strategy approach holds even greater importance. It not only ensures market relevance, customer satisfaction, competitive advantage and cultural sensitivity, but also plays a vital role in attracting and retaining top talent in China. EB

Note: The results in this article are extracted from the X-GIANTS Group's *2023 Industry Compensation White Paper*, the full version of which is available to download at https://www.wjx.cn/vm/wFN6LHP.aspx#

Frank Redecker, with more than 35 years' worldwide experience in senior management positions, is an elected **board member** of the **European Union Chamber of Commerce in China**, **Nanjing Chapter**, and founding partner and CEO of **REACH Talent Consulting Co Ltd.**

REACH is an independent partner company of X-GIANTS Group, a leading technology-driven HR solution service provider offering executive search, recruitment process outsourcing, flexible staffing, HR-SaaS, expert network and consulting solutions to support customers' success and sustainable growth. As the European business bridge, REACH aims to strengthen the services to European customers in China and oversea.

To support the development of effective talent attraction and retention strategies in China's post-pandemic business environment, we have undertaken the task of creating the inaugural edition of X-GIANTS' *2023 Industry Compensation White Paper* in order to enable companies to better plan their talent management processes, align talent expectations, and make informed HR decisions that enhance overall effectiveness. The data presented in the white paper serves as a valuable resource for agile personnel planning, including selection, recruitment, training, retention, and compensation management.

Cross-border Funds

China further expands currency conversion programme for MNCs

by **Arendse Huld**

While there has been a lot of focus recently on the difficulties foreign-invested enterprises (FIEs) operating in China are having with the cross-border transfer of data, the cross-border transfer of funds has also long been an issue for China branches of international companies. European Chamber members have often reported that getting funding from Chinese financial institutions can be burdensome for them as FIEs, while regulatory hurdles also make accessing their parent company's funds a challenging task.

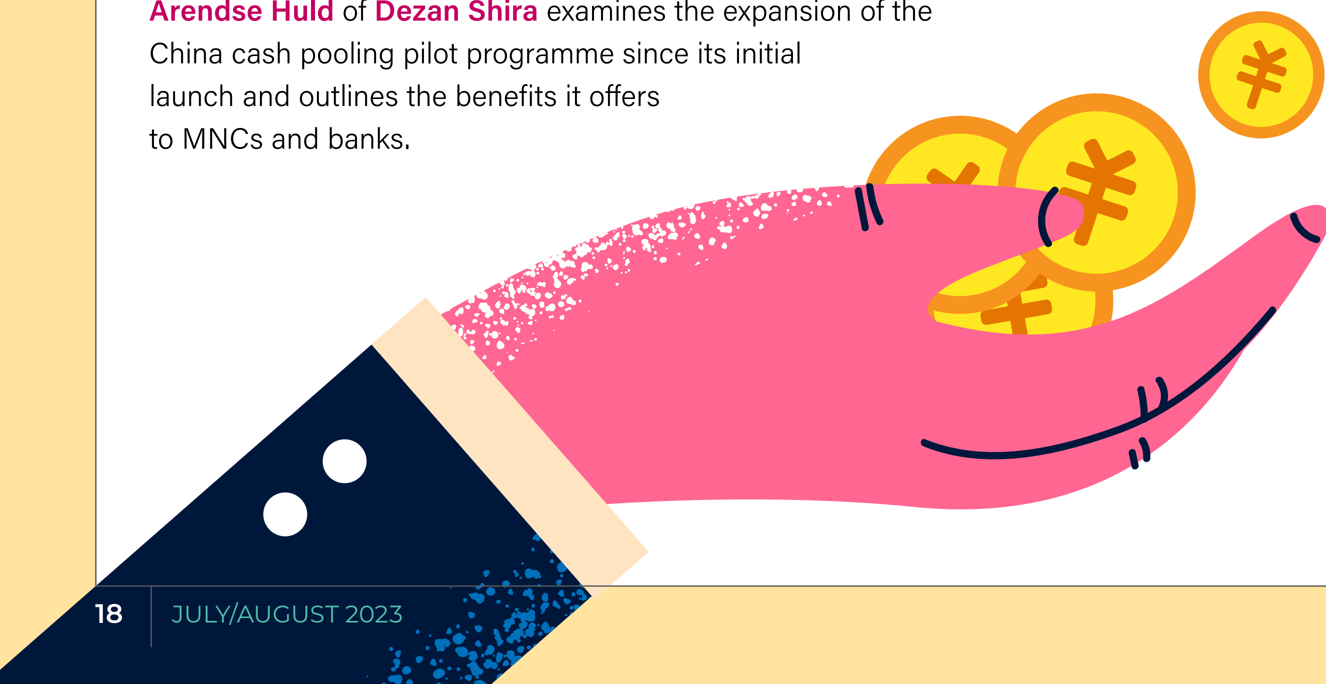
In a step towards alleviating these difficulties, the monetary authorities in China have upgraded a cash pooling pilot programme, enabling multinational corporations (MNCs) in specific regions to integrate cash pools consisting of both *renminbi* (RMB) and foreign currency. This upgrade facilitates the cross-border utilisation of funds. The most recent revision of the pilot programme provides enhanced flexibility to participating MNCs, allowing them to determine the collection ratio for foreign debt and overseas loans. In this article, **Arendse Huld** of **Dezan Shira** examines the expansion of the China cash pooling pilot programme since its initial launch and outlines the benefits it offers to MNCs and banks.

According to a joint announcement from the People's Bank of China (PBOC) and the State Administration for Foreign Exchange (SAFE) on 19th May 2023, the upgraded pilot programme will now allow MNCs to determine the collection ratio of foreign debts and overseas loans by themselves, among other changes.

The latest upgrade will initially be implemented as a pilot programme in Beijing and Guangdong. However, it is worth noting that the previous version of the pilot programme had already been expanded to multiple regions in July 2022.

Background

The China cash pooling pilot programme was first launched in March 2021, when the PBOC



and the SAFE released a joint statement announcing that certain multinationals in Beijing and Shenzhen would be permitted to integrate RMB and foreign currency cash pools to facilitate the use of cross-border funds.

Initially, 10 MNCs were selected for the pilot programme, five each in Beijing and Shenzhen, which included Sinochem Group, COFCO Corporation, China General Technology (Group) Holding, China Aviation Industry Corporation and Shell Group. These companies reportedly engaged in cross-border fund transactions worth a total of United States dollars (USD) 50 billion during the pilot programme's initial phase.

Within one year of its launch, the pilot programme in Shenzhen expanded to include 35 companies, including notable names like Walmart and Flex Ltd. In July 2022, the pilot programme's reach was extended to additional cities and provinces, including Shanghai, Guangdong, Shaanxi, Zhejiang, Qingdao and Hainan. Moreover, the scope of the programme itself was also expanded.

Who is eligible for the pilot programme?

The participating MNCs are selected by the local branch of the SAFE in each jurisdiction in which the pilot programme is running. According to the 2021 rules, the pilot programme is targeted at large multinationals with high credit ratings. In addition, the domestic and foreign member companies under the MNC must meet the following conditions:

1. Domestic member companies must have had an operating income in the previous year of at least Chinese yuan (CNY) 10 billion (USD 1.4 billion), and a total balance of payments in domestic and foreign currencies in the previous year of at least CNY 7 billion (USD 989 million).

2. Foreign member companies must have had a total operating income of at least CNY 2 billion (USD 282.5 million) in the previous year.

3. Both domestic and foreign member companies must have no record of violations of United Nations Security Council sanctions resolutions.

4. Domestic member companies must have no record of major violations of laws and regulations in the process of carrying out cross-border business in the past two years. Companies included in the list of enterprises with foreign exchange receipts and payments for trade should be classified as Class A companies and not be included in the key supervision list of companies settling in RMB for export goods trade under key supervision.

5. Foreign member companies must not belong to companies that are restricted and prohibited from overseas investment under the *Guiding Opinions on Further Guiding and Regulating the Direction of Overseas Investment (Guobanfa [2017] No. 74).*

What can the MNCs do under the pilot programme?

With the launch of the programme in 2021, the MNCs involved were permitted to integrate various existing cash pools to enable cross-border funds in RMB and foreign currencies between their domestic and overseas subsidiaries.

Under the programme, the cap on foreign debt for MNCs is set at two times the accrued owner's equity of the cash pool, which is in line with the SAFE's 2019 *Regulations on the Centralised Operation and Management of Cross-border Funds of Multinational Corporations*. Meanwhile, the cap on overseas lending is set at 0.8 times the accrued owner's equity of the fund pool. The pilot programme also facilitates the transfer and use of funds by allowing the foreign exchange settlement funds in the domestic capital account to be directly transferred to the domestic RMB capital account. Participating companies are also permitted to use domestic foreign exchange derivatives to hedge against the risks posed by currency exchange fluctuations.

Finally, participating MNCs can purchase a certain quota of foreign currency as needed, without seeking approval from the SAFE every time they want to buy foreign currency under the capital account, and can deposit the funds raised from the purchase of foreign currencies into the domestic account for overseas payments. The quota for foreign currency purchases is determined on a case-by-case basis by the SAFE.

In July 2022, when the pilot programme was expanded to more areas and companies, the scope of the programme itself was also broadened to allow MNCs to handle domestic and foreign currency centralised receipt and payment of their overseas member companies in China. Under this policy, the host company is allowed to centrally collect and pay the funds related to trade transactions between the overseas member companies listed in the cash pool and overseas trading

> **"Finally, in May 2023, the programme was further upgraded to allow MNCs to determine the collection ratio of foreign debt and overseas according to the macroprudential principle..."**

counterparts. These transactions will take up some of the centralised debt limit recorded in the cash pool and require an international balance of payments reporting.

Finally, in May 2023, the programme was further upgraded to allow MNCs to determine the collection ratio of foreign debt and overseas according to the macroprudential principle, thus increasing the freedom of cross-border capital operations. However, this policy is currently only being implemented in Beijing and Guangdong.

How will the programme help MNCs and banks?

The pilot programme brings substantial improvements to the efficiency of cross-border capital coordination and utilisation for MNCs. It enables them to effectively manage funds in both local and foreign currencies, resulting in reduced currency exchange risks and financial costs. Under current rules, RMB and foreign currency accounts must be managed separately and are subject to different rules, making coordination between the two difficult.

Meanwhile, enabling MNCs to purchase foreign currencies more easily will significantly help to reduce the risks of exchange rate fluctuations, and facilitates the management of cross-border funds, thereby cutting exchange costs and risks. Under the current rules, foreign currency purchases must be approved by the SAFE, greatly slowing the process.

The pilot programme is also beneficial to banks that are servicing the companies by "enhancing their overall capabilities in cross-border business services and risk management", according to the Beijing branch of the SAFE.

Finally, the pilot programme also helps to advance the internationalisation of the RMB, a core goal of the Chinese Government. In the announcement of the 2022 expansion of the pilot programme, the authorities stated that the programme will facilitate MNCs to carry cross-border payments in RMB.

Beyond the current scope of the pilot programme, the monetary authorities have stated that they will continue to optimise the programme to facilitate cross-border utilisation of mixed currency funds. It is also possible that the authorities will lower the requirements in the future so that more companies can participate, as the current bar means that the majority of companies are ineligible for the programme.

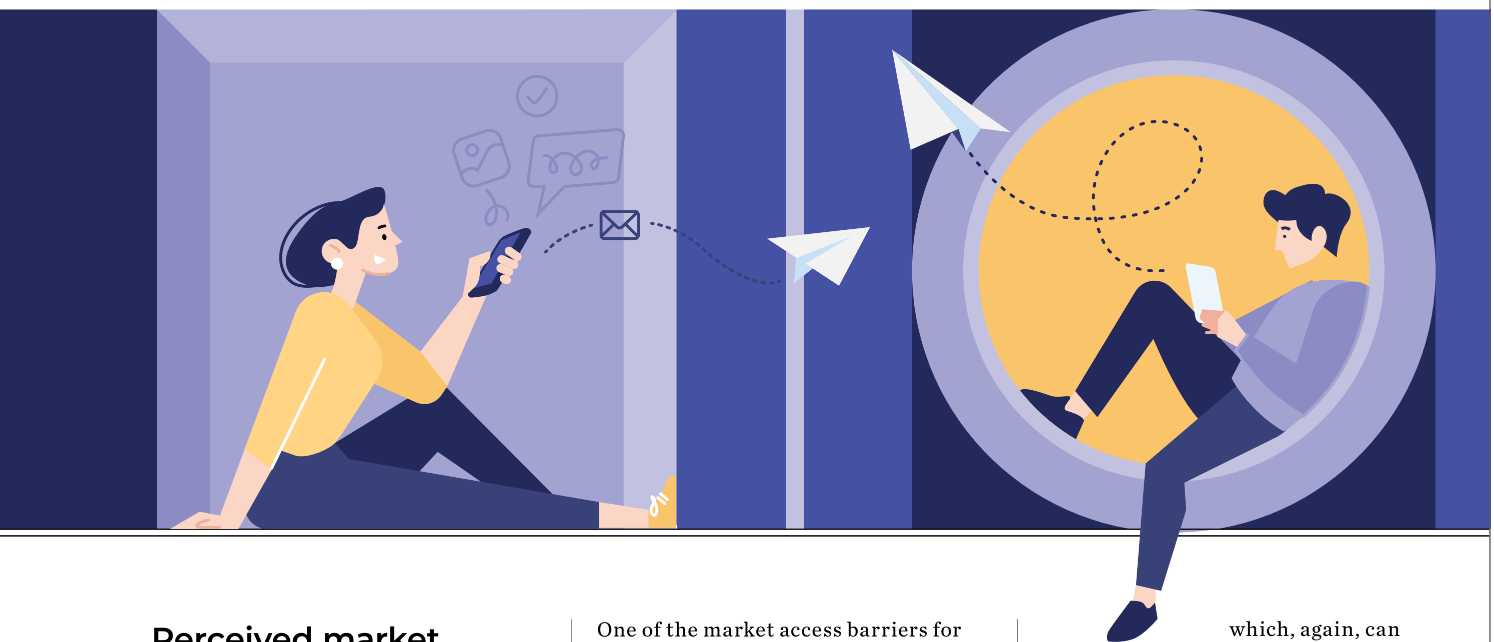
Dezan Shira & Associates has offices in Vietnam, Indonesia, Singapore, the United States, Germany, Italy, India, and Russia, in addition to our trade research facilities along the Belt & Road Initiative. We also have partner firms assisting foreign investors in The Philippines, Malaysia, Thailand and Bangladesh.

CHINA'S CYBERSECURITY LAW

Its controversial implementation thus far

by **Carlo D'Andrea** and **Shane Farrelly**

China's Cybersecurity Law, implemented in 2017, has been a topic of intense debate both domestically and internationally. The law aims to protect national security and regulate cyberspace activities within the country. However, it has received pushback for its potential impact on international trade and the overall cross-border digital landscape. **Carlo D'Andrea** and **Shane Farrelly** of **D'Andrea & Partners Legal Counsel** examine the storied implementation of China's Cybersecurity Law thus far.



Perceived market access and trade barriers

Even prior to its promulgation, critics argued that China's Cybersecurity Law had the potential to be used as a tool to protect domestic industries by erecting trade barriers. The law has been perceived as favouring Chinese competitors by imposing stringent rules and compliance requirements that foreign enterprises may find overly burdensome or costly; in effect, indirectly discouraging foreign investment and potentially stifling innovation and competition.

One of the market access barriers for foreign-invested enterprises (FIEs) arising from the Cybersecurity Law is the much-publicised requirement for data localisation, mandating that certain critical data and 'important data' collected by critical information infrastructure operators must be stored on servers within China's territory. This poses a significant challenge for foreign companies that operate globally and have existing data centres in other countries, as they are now being required to invest in building new infrastructure within China or partner with a local provider, which, again, can be costly and time-consuming.

Another potential barrier for foreign enterprises looking to comply with the law is the requirement for security assessments and certification. The Cybersecurity Law mandates that certain network products and services—such as routers, switches and servers, antivirus software, and firewalls, to name but a few—undergo security assessments and obtain certification before they can be sold in China.

These procedures are carried out by Chinese authorities and can be lengthy and expensive FIEs, especially technology companies, may find it challenging to meet the stringent requirements set by the authorities.

Additionally, the Cybersecurity Law empowers the Chinese Government to conduct security reviews of network products and services used in critical information infrastructure (CII) sectors. This provision raises concerns among foreign enterprises, as the security review process lacks transparency and can be used as a tool to target and block FIEs from operating in certain sectors. For example, foreign technology companies providing hardware or software solutions for CII sectors, such as telecommunications or energy, may face prolonged security review processes or even outright bans. This not only hampers market access but also discourages foreign investment in these sectors, limiting competition and stifling innovation.

Overall, these market access barriers present challenges for foreign enterprises to operate in China's market and effectively compete with domestic competitors. The perceived favouritism towards Chinese companies and the burden of compliance requirements can discourage foreign investment.

Ambiguities in interpretation and enforcement

Additionally, the enforcement of the Cybersecurity Law varies across different regions in China. Some local authorities may implement the law more strictly, while others may have a more relaxed approach. This inconsistency in enforcement practices understandably creates difficulties for companies operating in multiple regions, as they have to navigate and comply with different interpretations and requirements of the law.

For example, in Shanghai, local authorities have relaxed data localisation requirements for multinational companies (MNCs), allowing them to store data offshore, provided they meet certain conditions. In Beijing, there are well-established mechanisms and local regulations that require platforms to have dedicated content review teams, while smaller regions with fewer resources have a less rigorous approach to monitoring internet content. In Guangdong Province, for example, the local government has introduced additional rules allowing companies to conduct self-assessments on cross-border data transfers, which provides more flexibility to businesses.

The lack of clarity and consistency in the interpretation and enforcement of China's Cybersecurity Law adds complexity and challenges for foreign enterprises trying to understand and comply with the law's requirements. These ambiguities can lead to confusion and potential non-compliance, ultimately hindering foreign companies' ability to effectively navigate the regulatory landscape in China's cybersecurity domain.

Data privacy concerns

The broad language used in the Cybersecurity Law gives Chinese authorities the power to request and obtain any data from both foreign and domestic companies operating within China. This lack of specificity can create uncertainty for enterprises, especially regarding the types of data that may be accessed and reviewed. MNCs, especially those operating in sectors in which trade secrets and customer data protection are critical, worry that Chinese authorities may gain access to their sensitive information, such as proprietary technologies, research and development data, customer databases, and other valuable intellectual property. Unauthorised access to such confidential business information by Chinese authorities could lead to severe competitive disadvantages for foreign enterprises, as their trade secrets may be compromised or even stolen.

One example of data privacy concerns under the Cybersecurity Law is the case of Apple in China. In February 2018, Apple announced that it would transfer the iCloud data of Chinese customers to a local Chinese company's servers in order to comply with the Cybersecurity Law. This decision raised concerns about the access Chinese authorities would have to user data, potentially compromising user privacy.

By handing over control of its servers to a local company, Apple effectively created a scenario in which user data could potentially be accessed or monitored by Chinese authorities without the scrutiny and oversight typically associated with privacy protection. These concerns are particularly significant considering the amount of sensitive information that is often stored in iCloud accounts, including personal communications, photos, documents and more. The fear is that this data could be exploited or misused, potentially leading to violations of privacy and human rights.

The case of Apple in China serves as a notable example of the data privacy concerns that can arise under the Cybersecurity Law. It highlights the tension between complying with national laws and regulations and upholding global privacy standards, prompting discussions about how to balance data protection with government control and national security.

Conclusion

The implementation of China's Cybersecurity Law has raised concerns over potential trade barriers, enforcement inconsistencies and data privacy issues.

For foreign enterprises, conducting thorough assessments of their products and services to ensure they meet the security requirements and certifications mandated by the Cybersecurity Law can be a proactive approach that can help streamline the approval process and reduce delays. Chinese legislators should provide clearer guidelines and interpretations of the Cybersecurity Law and homogenise provisions nationally to reduce ambiguity. This will help foreign enterprises better understand and comply with the law's requirements, ultimately fostering a more predictable regulatory landscape.

Chinese legislators may also look to work with their international counterparts to develop common cybersecurity standards and practices (for example, the EU's General Data Protection Regulation (GDPR)). This collaboration can help bridge the gap between domestic and international cybersecurity regulations, and facilitate smoother cross-border operations.

By considering these solutions, both foreign enterprises and Chinese legislators can work towards a more balanced implementation of the Cybersecurity Law, in order to foster a competitive and innovative digital landscape while ensuring the protection of national security and data privacy.

D'Andrea & Partners Legal Counsel (DP Group) was founded in 2013 by Carlo Diego D'Andrea and Matteo Hanbin Zhi, both of whom have extensive backgrounds in Chinese and EU law. DP Group currently has four service entities: D'Andrea & Partners Legal Counsel; PHC Tax & Accounting Advisory; EASTANT Communication and Events; and Chance & Better Education Consulting. DP Group has branches around the world, with locations in several major developing economies.

24TH MAY
BEIJING

President Eskelund participates in the Global Trade and Investment Promotion Summit

President Eskelund (third from left) at the Global Trade and Investment Promotion Summit 2023
Photo: European Chamber

On 24th May 2023, European Chamber President Jens Eskelund took part in a panel discussion, with representatives from other foreign chambers, as part of the Global Trade and Investment Promotion Summit 2023, an event organised by the China Council for Promotion of International Trade. President Eskelund outlined the challenges and opportunities for European business in China and emphasised the importance of dialogue in addressing the European Union (EU) and China's trade imbalance. Vice Premier He Lifeng delivered a keynote speech at the event, in which he stressed China's intent to boost its attractiveness as a destination for foreign investment.

26TH MAY
BEIJING

VP Montoya speaks at Beijing International Youth Innovation and Development Forum

VP Miguel Montoya speaking at the Beijing International Youth Innovation and Development Forum
Photo: European Chamber

On 26th May, European Chamber Vice President (VP) Miguel Montoya delivered a speech on empowering the innovative development of young talent as part of the Beijing International Youth Innovation and Development Forum. Drawing on the Chamber's recent report, *China's Innovation Ecosystem: The Localisation Dilemma*, VP Montoya detailed factors that Chinese policymakers will need to address if China is to reach its huge potential as a hotspot for research and development (R&D).

31TH MAY
SOUTH CHINA

VP Zenkel addresses the 2023 Guangdong 21st Century Maritime Silk Road International Expo Theme Forum

VP Klaus Zenkel speaking at 2023 Guangdong 21st Century Maritime Silk Road International Expo Theme Forum
Photo: European Chamber

On 31st May, European Chamber VP and South China Chapter Chair Klaus Zenkel gave a speech on new energy vehicles (NEVs) as part of the 2023 Guangdong 21st Century Maritime Silk Road International Expo Theme Forum. VP Zenkel highlighted how NEVs are set to be an important growth driver in the future, as well as the need to ensure equitable access to government support and robust enforcement of intellectual property rights in relation to NEVs.

1ST JUNE
BEIJING

Chamber meets with Japanese Ministry of Economy, Trade and Industry, and Embassy of Japan in China

On 1st June, President Eskelund and Beijing Chapter General Manager (GM) Carl Hayward met with Tetsuro Fukunaga, director general (DG) of Japan's Ministry of Economy, Trade and Industry, as well as with representatives of the Embassy of Japan in China.

DG Fukunaga briefed the Chamber on the newly elected president of the Japanese Chamber of Commerce in China and encouraged more cooperation between the two chambers. He also detailed the main challenges Japanese companies are facing in China, which include the question of how to deal with Party cells, China's localisation policies and the detention of businesspeople. President Eskelund recognised these challenges and emphasised the importance of ensuring that foreign chambers operating in China align on common issues. He also introduced the Chamber's work on the topic of de-risking, and outlined why the EU's unequal balance of trade with China is a major concern and risks becoming a political issue.

27TH JUNE
SHANGHAI

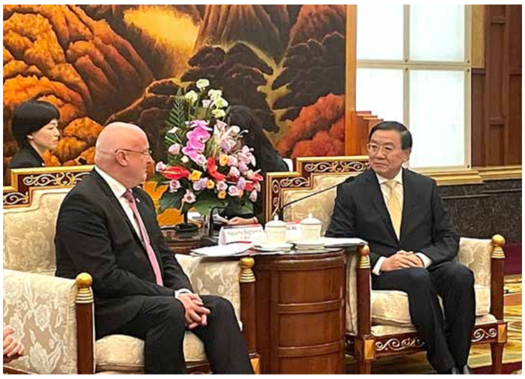
Shanghai Chapter meets with Hubei Provincial Department of Commerce

Shanghai Chapter meeting with DG Wang Jimin of the Hubei Provincial Department of Commerce
Photo: European Chamber

On 27th June, European Chamber VP and Shanghai Chapter Chair Carlo D'Andrea, and Shanghai Chapter GM Steven Basart, met with a delegation of officials led by Wang Jimin, DG of the Hubei Provincial Department of Commerce. They discussed the opportunities Hubei offers for European businesses, as well as the key findings of the Chamber's *Business Confidence Survey* (BCS) *2023*. The meeting concluded with both sides stating their desire to continue to work together in order to create a more attractive business environment for European companies operating in the region.

29TH JUNE
SOUTHWEST CHINA

Chamber discusses collaboration opportunities with Chengdu Mayor Wang Fengchao



VP Massimo Bagnasco meeting with Wang Fengchao, mayor of Chengdu
Photo: European Chamber

On June 29th, European Chamber VP and Southwest Chapter Chair Massimo Bagnasco led a delegation of Chamber members to a meeting with Wang Fengchao, mayor of Chengdu, which took place as part of the 17th EU-China Business & Technology Cooperation Fair. Mayor Wang provided an overview of Chengdu's economy and development, and called for periodic dialogue with the European Chamber to take place. VP Bagnasco outlined the key findings of the BCS 2023, as well as the main challenges faced by European businesses operating in Chengdu.

Interpretation of China's Measures of CBDT Security Assessment

by **Aaron Finlay**, **Tina Deng** and **Vivi He**

China's cybersecurity regime has become increasingly sophisticated over the past few years, with one of the latest regulations focussing on cross-border data transfer (CBDT), namely the *Measures of CBDT Security Assessment (Measures)*. This article by **Aaron Finlay**, **Tina Deng** and **Vivi He** of **Deloitte China** introduces some basic concepts in the context of CBDT in China, explores the core requirements and implications of the *Measures*, and suggests how European companies operating in China should respond to them.

Basic concepts in the context of CBDT in China

The *Measures* has a total of 20 articles, covering scope, assessment trigger criteria, the assessment process and required materials, among other aspects, and serves as a reference for companies that might engage in CBDT activities. The *Measures* are intended to regulate the CBDT activities of personal information and critical data, protect these data and promote the security of CBDT.

There are a few concepts in the context of CBDT in China that need to be clarified, including the following:

1. **Personal information:** This refers to any information produced by a particular natural person in its activities and that can be used to identify a particular natural person (name, address, date of birth, identification (ID) number).
2. **Sensitive personal information:** This is any information that is particularly sensitive and may bring significant risks to the rights and interests of the personal information subject (financial information, medical records, biometric data).
3. **Critical data:** This covers any electronic data that may endanger national security or the public interest once tampered with, destroyed, leaked, or illegally obtained or used.
4. **CBDT:** The following scenarios are all considered as CBDT in Chinese regulations: a) foreign organisations or person accessing or viewing personal information gathered in China, even though the data is stored within China; b) providing personal information or other critical data to entities located in China, but not registered or under the jurisdiction of China; and c) transferring organisations' internal data to foreign territories, including personal information or other critical data collected and processed.

Core requirements in the Measures

The following questions will be of concern for most companies: Do we need to complete the security assessment? If yes, what is the security assessment process and what types of materials do we need to prepare? The answers can be found in the following section.

Question 1: Do we need to complete the security assessment?

Article 4 of the *Measures* clarifies under which circumstances a security assessment will be triggered. If any one of the following conditions is met, companies should report to the central Cyberspace Administration of China (CAC) through its provincial branches to declare a security assessment:

1. **Data type:** if the CBDT activities involve critical data or fall under certain conditions, or involve personal information.
2. **Company type:** if the company is a critical information infrastructure operator (CIIO) or a data processor handling personal information of more than one million natural persons and transferring it overseas.
3. **Amount of data:** if the company is a data processor that has transferred the personal information of over 100,000 natural persons overseas, or sensitive personal information of over 10,000 natural persons overseas since 1st January of the previous year.

Question 2: What is the security assessment process?

Articles 5 to 13 of the *Measures* stipulate the security assessment declaration process, which could last more than 57 business days and involves multiple supervision bureaus, such as both the provincial and national CAC. To start with, companies need to perform a self-assessment against the CBDT risks. Then, if applicable, they should report to the national CAC through the provincial CAC for a security assessment. The CAC will determine if they accept the application and conduct the assessment. If a company passes the assessment, it can perform CBDT activities within the valid period. If it fails, it can apply for reassessment or must terminate those CBDT activities. For more details on the security assessment process, please refer to Figure 2.

Additionally, Article 6 of the *Measures* indicates that the following materials are needed to declare a CBDT security assessment: 1) report statement, 2) CBDT risk self-assessment report, 3) signed legal documents between the data processor and overseas recipients, and 4) other material deemed necessary.

How should companies respond and react?

To comply with CBDT regulations, companies should plan for both short-term responses and long-term solutions.

In the short-term, companies should first evaluate if the CBDT security assessment is applicable to them. If yes, the following four steps should be taken:

1. **Step 1:** Establish a 'war footing' working group and prepare the necessary resources. A *Measures* response team that can provide the necessary resources and make quick decisions should be immediately assembled. This team should be composed of three different roles: leaders, who provide resources and make decisions; coordinators, who are responsible for responding to the *Measures* and coordinating between different departments; and supporters, who are from different departments and provide the necessary departmental supports.
2. **Step 2:** Identify CBDT business scenarios and sort out CBDT business flow. Before a self-assessment is performed, companies need to understand 1) what their CBDT

Figure 1: Security Assessment Applicability Process Flow Chart

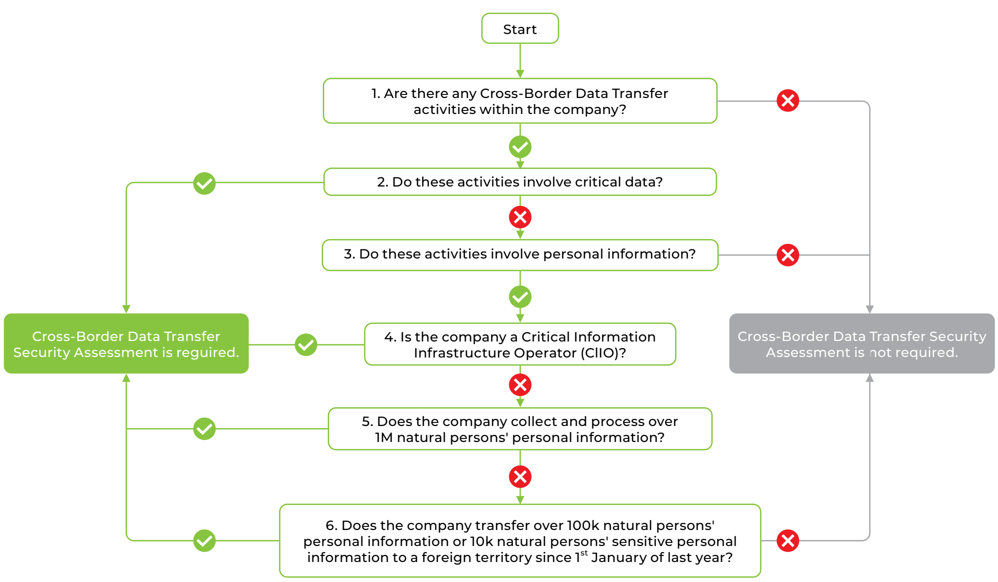
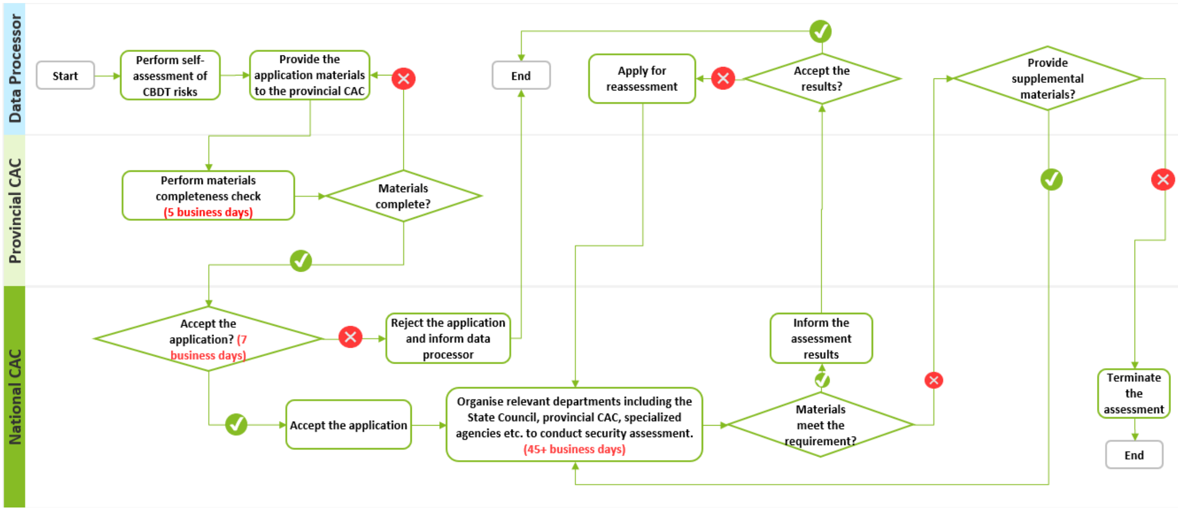


Figure 2: Security Assessment Process Flow Chart



scenarios are, 2) what data are transferred overseas, 3) who the data senders, transit parties and recipients are, 4) what is included in the agreement with the relevant parties, and 5) what management or technical controls are implemented with the relevant parties.

3. **Step 3:** Perform self-assessment of CBDT risks and remediation (if any). Regional and industry-related laws and regulations should be taken into consideration. Comprehensive assessments of the legal documents, management capabilities and technical capabilities of the data senders and recipients are necessary. It is also important to consider the legality, legitimacy and necessity of the CBDT activities. Last but not least, based on these assessments and analysis, act fast and remediate.

4. **Step 4:** Collect materials and file to the CAC. After the remediation, collect the necessary materials. Follow the security assessment declaration process specified in the *Measures* and file to the CAC. If the CAC rejects the request to perform CBDT activities, determine if it is necessary to apply for a reassessment.

CBDT security assessment is not a one-time activity, but more of a long-term mechanism that should be incorporated into a company's data security governance. According to Article 14 of the *Measures*, when the two-year validity period of the security assessment expires, or new scenarios arise that impact data security, companies need to apply for reassessment. A company should consider the following when designing a long-term CBDT security mechanism:

1. **Perform data classification**

   CBDT is part of data security management, therefore before considering transferring the data overseas, think about localisation based on the classification of the data.

2. **Optimise the data security and privacy compliance management system and establish a CBDT assessment process**

   Optimise the existing management system based on China's regulatory landscape and incorporate a CBDT management process, based on the *Measures*.

3. **Design data security technical solutions to ensure data security in the CBDT process**

   Based on the data life cycle as well as data classification, implement different technical solutions at different stages. Eb

Note: This article has been prepared by Deloitte China for general reference only. We recommend that readers consult a risk advisor before taking action on the relevant information.

Aaron Finley is the director for South China Business Development with Deloitte China. He is also a board member of the European Chamber South China Chapter. **Tina Deng** is partner with the Deloitte Risk Advisory Cyber Team with over 16 years of professional experience. She has extensive experience in data security and privacy data protection compliance consulting. **Vivi He** is partner with the Deloitte Risk Advisory Cyber Team with over 18 years of professional experience. As the leader of Deloitte's privacy protection group for Asia-Pacific in China, she is dedicated to global privacy compliance and cross region corporation.

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CHINA'S DAIRY SECTOR

Market, technical requirements and opportunities for EU producers

by **the EU SME Centre**

China is one of the world's largest dairy markets – and certainly the largest importer of dairy products. Although the sector was affected by a series of demand and price disruptions in 2022, it is expected to stabilise in 2023 before returning to growth in the following years. A key driver is the increased health awareness of Chinese people – one of the few positive outcomes of the COVID-19 pandemic. In a recent report on China's dairy sector, the **EU SME Centre** explains what opportunities, as well as persisting and new challenges, are facing European Union (EU) dairy producers in the Chinese market. This article outlines some of the insights included in that report.

Market overview

The average dairy consumption per capita in China is significantly lower than in the EU or other markets, but it has been growing significantly compared to previous years, driven by two main factors:

- **Government policies and initiatives:** Since the early 2000s, the Chinese Government has actively encouraged milk consumption, starting with the flagship 'School Milk Programme'. In particular milk and yoghurt are also key elements of the Healthy China Initiative (2019–2030). Government regulation and supervision of dairy products has been significantly enhanced, contributing to trust and confidence of Chinese consumers.
- **Growing awareness of the health benefits of dairy products:** Dairy products have positive effects on the immune system. Consumption of dairy products has been encouraged since the outset of the pandemic in early 2020 as a way to increase prevention, especially for vulnerable groups such as the elderly.

The Chinese dairy market is extremely competitive; market players are constantly changing while bigger brands are solidifying their positions in many segments. Three main trends can now be identified in China's dairy market (See Box 1).

BOX 1

Rising diversity

Milk and yoghurt are the most popular products, but many Chinese consumers in first- and second-tier cities are starting to have greater demand for:

- **diversification of products,** especially cheese and butter; and
- **new innovations** in terms of flavours, nutrition, packaging and promotions.

Preference for high-quality

Stronger awareness and upgraded consumption levels result in increasing attention given to the **ingredients list** and **efficacy claims**. This translates into willingness to pay more for quality products, especially in larger cities, as well as for dairy products targeting children.

Increasing local competition

Local companies have significantly increased their presence in the dairy sector. Their image has recovered thanks to improvements in quality management and effective marketing: many consumers, especially young ones, **increasingly prefer domestic brands and products**.

BOX 2 Infant formula only

Country eligibility

Only countries that have signed a protocol with China's GACC are authorised to export. 25 EU Member States have done so.

INFANT FORMULA?

No

Yes

Producer eligibility

Individual production establishments need to register on the GACC's China Import Food Enterprise Registration (CIFER) system, following the procedure for 'high-risk' products.

[Infant formula only] Product eligibility

Infant formula producers must complete a costly and lengthy registration procedure with the State Administration for Market Regulation (SAMR).

*Compliance with **CN food safety standards** for specific products*
(for example, GB 5420-2021 for milk, GB 11674-2010 for whey protein, GB 10765, 6, 7-2021 for infant formula, and so on)

*Compliance with **CN labelling standards and packaging requirements***
(for example. GB 28050-2011, GACC Decree 249, and so on)

Imported dairy products are generally still viewed as representing higher quality – particularly those from traditional exporting countries. In fact, China's dairy sector is characterised by strong country-related associations by Chinese consumers. The EU has a solid market share in China's dairy market: 36 per cent overall – with variations from 85 per cent for yoghurt and 65 per cent for infant formula, to 10 per cent for milk powder and butter (dominated by New Zealand, and to a lesser extent Australia).

Regulatory and technical requirements:

There are two main pathways to enter the Chinese market: through general trade or cross-border e-commerce (CBEC). The former is the traditional way to export products to China – but also the most difficult and time-consuming as it requires several approval procedures; the latter is less expensive and faster, though highly competitive and with some limitations. The process for general trade is summarised in Box 2.

The most challenging aspect is the registration of the production establishment on the GACC's CIFER system. The process is extremely complicated, takes several months and requires cooperation with the food safety authority in the country where the producer is based. A large amount of documentation must be provided, including on sensitive business information. As of June 2023, EU Member States only had a limited number of dairy production establishments successfully approved.

An additional regulatory layer—and challenge—exists for infant formula producers. Before initiating registration on the CIFER system, producers must first register their products with the SAMR. This process is extremely lengthy and costly, involves the appointment of a domestic responsible agency in China and several rounds of testing and technical review, combined potentially with onsite inspections of the production establishment. This requirement is stipulated in the *Administrative Measures of Product Formulation Registration of Infant Formula Milk Powder,* which were revised by the SAMR on 10th July 2023 (entering into force in October 2023). The revised measures were released

AT	BE	BU	CR	CY	CZ	DE	DK	EE	FI	FR	GR	HU
34	27	15	5	13	23	132	54	6	11	289	77	17

IR	IT	LT	LU	LV	NL	PL	PT	SK	SL	SP	SW
51	283	20	1	16	135	90	37	17	5	137	22

after the publication of the EU SME Centre report and therefore are not included there; but overall, compared with the previous version in force, the revised measures:

- expand the legal basis for rejecting the registration of infant formula products, for example, when the application materials submitted are untrue or fraudulent, when the scientific and safety basis of the product formula is deemed as insufficient, or when the applicant is considered not to have the research and development, production or supervision capabilities necessary for ensuring the product quality and safety;
- expand, from six to nine, the elements that cannot be specified on product labels and instructions, such as the use of vague and fuzzy statements such as “imported milk source”, “derived from foreign pastures”, “ecological pasture”, “imported raw materials”, “original ecological milk source”, “pollution-free milk source”, and so on; the image of babies and women cannot be used, together with wording such as “human emulsification” or “mother emulsification”; and
- may require onsite inspection of production establishments, including in cases involving major changes in the product formula, in the address of the production facility, or in any case further verification is required by the technical evaluators.

Opportunities, challenges and recommendations for EU exporters

European dairy exporters are strongly recommended to get involved in marketing and promotional activities in China, and actively support their local importer/distributor. What can be done largely depends on the stage of the company’s development within the Chinese market, as well as its resources and commitment. But in general, localisation of product design and communication is required, together with efforts to educate consumers.

The EU-China Geographical Indication Agreement also provides leveraging opportunities for EU producers during promotional activities. Among the 96 EU GI products included in the agreement and thus effectively protected in China, 11 are dairy products; and 19 more will become protected by 2025.

Finally, EU producers should remember that the European Commission, through the Research Executive Agency, co-finances campaigns and events to promote EU farm products worldwide – including dairy products in China, under the slogan “Enjoy, it’s from Europe”.

Country	Name registered in the EU	Chinese transliteration
Denmark	Danablu	丹麦蓝乳酪
France	Comté	孔泰 (奶酪)
	Roquefort	洛克福 (奶酪)
Greece	Φέτα / Feta	菲达奶酪
Italy	Asiago	艾斯阿格
	Gorgonzola	戈贡佐拉
	Grana Padano	帕达诺干奶酪
	Mozzarella di Bufala Campana	坎帕尼亚水牛马苏里拉奶酪
	Parmigiano Reggiano	帕马森雷加诺
	Pecorino Romano	佩克利诺罗马羊奶酪
	Taleggio	塔雷吉欧乳酪
Spain	Queso Manchego	曼切戈奶酪

Note: This article is based on the report *China’s dairy sector: market, technical requirements and opportunities for EU producers* by the EU SME Centre, available to download from their website, www.eusmecentre.org.cn.

The **EU SME Centre** is a non-profit initiative funded under the European Union’s Single Market Programme (SMP). The EU SME Centre provides a comprehensive range of hands-on support services to European small and medium-sized enterprises (SMEs) assisting them to establish, develop and maintain commercial activities in the Chinese market. By offering support through the provision of information, confidential advice, networking events and training, the Centre focusses on the crucial early stages of SMEs’ market penetration strategy. The Centre also acts as a platform facilitating coordination amongst EU Member State and public and private sector service providers to EU SMEs.

[1] A detailed illustration of how CBEC works, featuring four case studies, is provided in a recent EU SME Centre report: <https://www.eusmecentre.org.cn/publications/selling–to–china–via–cross–border–e–commerce/>

[2] An overview of the main challenges on CIFER registration is provided in a recent survey conducted by the EU SME Centre: <https://www.eusmecentre.org.cn/publications/fb–survey–results–customs–processes–and–the–cifer–system–2/>

ESG MANAGEMENT

Compliance and opportunities for European enterprises in China by **Bureau Veritas**

In recent years, enterprises are increasing efforts to stand out from their competitors through environmental, social and governance (ESG) management. People generally think that ESG management can help enterprises reduce operational risks through sustainable development and therefore attract more investors, and thus should be more of an issue for senior management. But in fact, as this article from **Bureau Veritas** explains, employees are also vital stakeholders of their enterprise, and they too should actively participate in daily ESG management as essential advocates and enablers.

In addition to strategic development and corporate governance, the working environment, compensation and welfare, and occupational health and safety should also be a focus for ESG management. As these are issues of major concern for employees, they should cooperate to present their actual needs in relation to ESG to the management team through their chosen communication channel. This may be particularly the case for European companies in China, which are likely to have such communication channels set up in their global operations.

Meanwhile, the new generation of job seekers have become the backbone of the employment market. They are also increasingly taking a company's ESG performance into account when job-hunting. Many expect enterprises to act to address climate change and take a stand on social issues of importance to them. This in turn is encouraging enterprises to improve their ESG management to better attract talented younger employees. For enterprises—including European companies in China—when formulating ESG strategies, they should consider how to promote and encourage younger employees to understand and participate in the construction of the corporate ESG culture, whether on a local basis or globally, so as to truly lead the management of enterprise ESG.

Though ESG investment and practices have only recently become popular in the Chinese marketplace, they have been in place in Europe for the past two decades.

The management status and market expectations of the two parties are very different. As many multinationals have their headquarters in Europe and manage their global supply chains from there, European enterprises operating in China tend to have a stronger ESG culture than their Chinese competitors. Large European enterprises generally have already established a relatively sound ESG management system, which will have contributed to the development of the global ESG market.

In terms of regulation, the European Union (EU) has also issued a series of directives (the Sustainable Finance Disclosures Regulation/the Corporate Sustainability Reporting Directive/ the Shareholder Rights Directive II), hoping to control the disclosure of ESG reports and the ESG-related service market with more unified standards. Likewise, the EU financial market is also more active on ESG: businesses are expected to disclose their ESG claims in a more transparent way and to reduce 'greenwashing' by adhering to more strict regulatory standards.

While many Chinese enterprises are still in the initial stage of ESG management, the main drivers behind ESG disclosures are clients and investors. At present, there are no mandatory disclosure requirements on ESG performance in Mainland China. Therefore, the Chinese market's current focus for ESG development is mainly on building awareness and introducing a unified disclosure system and guidance framework. Only after standardising ESG information disclosure can the ESG reports issued by enterprises be more credible and better guide related investment in the market.

For both Chinese and FIEs listed on Mainland China stock exchanges, except for those listing on the Hong Kong Stock Exchange, there are no unified mandatory ESG disclosure requirements. For the following enterprises, it is necessary to disclose a social responsibility performance report when disclosing their annual report:

1. Enterprises listed as Shenzhen 100 sample stocks on the Shenzhen Stock Exchange
2. Enterprises listed as Shanghai Governance Sector sample stocks on the Shanghai Stock Exchange
3. Enterprises listed on the KeChuang 50 Index on the Shanghai Stock Exchange
4. Enterprises listed on both Chinese and overseas exchanges
5. Financial companies

In addition, the Shanghai and Shenzhen stock exchanges also require disclosure of environmental pollution and safety accidents in key industries, including steel, coal, electricity, construction, chemicals, and food and wine manufacturing. Other types of listed enterprises can voluntarily prepare annual social responsibility reports for disclosure on exchanges' websites.

Therefore, for European enterprises in China, the current primary consideration is the EU's requirements for ESG disclosure, as these are relatively stringent and standardised. However, with the global trend towards ESG development and the improvement of the ESG management system in China, clearer and binding ESG regulations and guidelines are likely be introduced in China's and third-country markets in the near future.

European enterprises stand to benefit from this, as many have commenced ESG management earlier than their Chinese peers and are experienced in combining ESG considerations with daily management. They also are more likely to have personnel specialising in ESG already in place and capital investment completed. This will have given them extensive disclosure experience that will allow them to quickly comply with ESG-related regulations and policies.

Bureau Veritas is well-known globally in testing, inspection, certification and technical consulting services. Created in 1828 and headquartered in Paris, France, it now has around 1,500 offices and labs, and more than 75,000 staff members, in 140 countries. Bureau Veritas delivers professional services and innovative solutions to its 400,000 clients in multiple key industries, to ensure their products, facilities and production flows meet the required codes and standards of quality, health, safety, environmental protection and social responsibility. Restarting its China operation in 1993, Bureau Veritas has over 130 offices and labs, and more than 17,000 professional staff members in 55 cities across the country.

Trademark Squatting

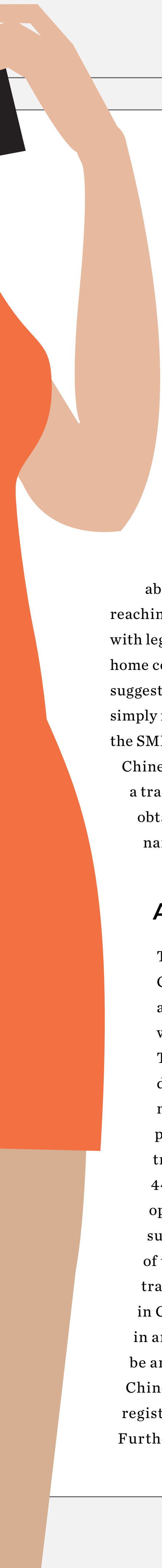
A case study from the **China IP SME Helpdesk**

Trademark squatting occurs when individuals or a group obtain in another jurisdiction the rights to the marks of a well-known brand or product, for the purpose of selling them to the original brand owner, sometimes at exorbitant prices. This can particularly be an issue for foreign-invested companies attempting to expand into the Chinese market, as China does not recognise trademarks registered in other jurisdictions and also follows a 'first-to-file' system. This case study by the **China IP SME Helpdesk** looks at how one Portuguese small and medium-sized enterprise (SME) discovered its trademark had been 'squatted', and the steps it took to deal with the situation.

Background

A Portuguese SME, specialising in women's accessories (purses, waist bags, handbags), decided to internationalise its business. The company was aiming at China's vast market, among others. Since the SME was a small family-run business that had little experience in international commerce, it decided to join a regional chamber of commerce to participate in their programme aimed at helping small companies to succeed in foreign markets. The SME participated in webinars, training and consultation sessions with experts to learn more about China's market. As members of the chamber of commerce, they regularly participated in various competitions, winning some awards and often being featured in the chamber's magazine.

After some time, the SME was contacted by a law firm in China, claiming that their brand name was being registered as a trademark with the China National Intellectual Property Administration (CNIPA). The law firm suggested that it could be an attempted case of trademark squatting and recommended presenting an opposition for a certain fee.



The SME had never had any actual business in China, nor had they yet interacted directly with any Chinese supplier, distributor or client. Furthermore, their brand was little known outside of Portugal. However, as China was among the SME's mid-term target markets, they realised that losing their trademark in China would seriously hinder future market access.

As the SME was suspicious about a random law firm in China reaching out, they decided to consult with legal professionals in their home country first. The legal expert suggested that the Chinese law firm was simply fishing for clients, but informed the SME that the issue was real – a Chinese entity had indeed initiated a trademark registration process to obtain rights to the SME's brand name.

Actions taken

The SME consulted with Chinese legal experts to learn about the chances of succeeding when presenting an opposition. The legal experts explained that despite the fact that China's new Trademark Law explicitly prohibits the registration of trademarks in bad faith (Article 44), it was still unlikely that the opposition would eventually succeed. Due to the principle of territoriality, the Portuguese trademark did not enjoy protection in China and proving bad faith in an opposition case would not be an easy task, especially as the Chinese entity was not trying to register many trademarks at a time. Furthermore, oppositions needed to be presented within a three-month window, which left insufficient time for the SME to investigate, collect evidence and have all relevant documentation prepared.

Instead of bringing an opposition, the legal experts recommended two possible ways forward:

- the SME could start a litigation process to seek cancellation of the bad-faith trademark registration and try to recover the trademark; or
- the SME could decide to rebrand the trademark in case it planned to enter the China market.

Weighing the costs involved, the SME eventually decided to translate their original brand name into Chinese as a solution of rebranding for the China market. Through transliteration, the SME designed a new Chinese brand name, phonetically similar to their original brand name (but not exactly), using Chinese characters with positive values.

After rebranding, the SME started the trademark registration process in China to ensure their rights over their new brand in the jurisdiction.

Lessons learnt

- Despite the improvements in China's legislation, trademark squatting is still commonplace, as squatters use it to make money by trying to sell the registered trademarks back to their original owners.
- When starting the internationalisation process, SMEs should protect their intellectual property in all of their target markets early on, even if they are not immediately planning to start business there (taking into consideration the local period of time for non-use cancellation actions). Often, trademark squatters also attend events organised by chambers or export promotion associations to learn about the brands that are preparing to enter the China market. This is especially the case with online activities, which are cost-effective to attend.
- Oppositions are usually an effective way to stop bad-faith trademark registrations, but before investing in opposition procedures, SMEs should first consult with legal experts to check the feasibility.
- Cancellation of bad-faith trademark registrations is possible; however, it takes time and requires an investment in a good attorney and evidence collection.
- Rebranding can be a cost-effective alternative, especially when the company's brand is not yet famous in China. Rebranding under Chinese names via transliteration of brand names can be a viable way of working around the squatting of international brands. E

CHINA
IP SME HELPDESK

The China IP SME Helpdesk supports SMEs from European Union (EU) Member States and from countries participating in the Single Market Programme to protect and enforce intellectual property (IP) rights in or relating to China, Hong Kong, Macao and Taiwan, through the provision of free information and services. The Helpdesk provides jargon-free, first-line, confidential advice on IP and related issues, along with training events, materials and online resources. Individual SMEs and SME intermediaries can submit their IP queries via email (question@china-iprhelpdesk.eu) and gain access to a panel of experts, in order to receive free and confidential first-line advice within three working days. The China IP SME Helpdesk is an EU initiative.

To learn more about the China IP SME Helpdesk and any aspect of IP in China, please visit our online portal: https://intellectual-property-helpdesk.ec.europa.eu/regional-helpdesks/china-ip-sme-helpdesk_en

#BECAUSE OFUS

Creating a level playing field for imported food

As the independent voice of European business in China since 2000, the European Chamber actively participates in China's legislative process and our advocacy activities are widely recognised by the Chinese authorities.

We launched our #becauseofus campaign in 2019 to show our gratitude for the joint advocacy efforts of all stakeholders: governments, think tanks, member companies and our own working group and desk managers. In *EURObiz* in 2023, we will present some further examples of our successful advocacy work.

In this edition, we look at **how the European Chamber encouraged creating a level playing field for imported food.**

Background

In China, there are over 1,400 mandatory national food safety standards that form a comprehensive regulatory system for the industry, which applies to both domestic and imported food. To guarantee a smooth transition each time new standards are introduced, a grace period is granted to food producers to adjust their products and labels, use up former packaging and labelling materials, and sell products manufactured or imported under the old standards to minimise packaging and food waste.

For food produced in China, the regulatory authority has been using the production date as the reference date for implementing new standards. This allows domestic products produced before the implementation date of new standards to continue to be sold until the end of their shelf life.

However, for imported food, the customs authority frequently uses the customs 'inspection date' as a reference when implementing new national standards. This is in accordance with the *Announcement on the Implementation Time of the New Standard for Imported Food,* issued in 2012 by the former General Administration of Quality Supervision, Inspection and Quarantine. Taking into account the time required for long-distance transportation and customs clearance, the implementation date of new standards for imported food shortens the grace period by two to three months in comparison to that granted to food produced in China, which is inconsistent with the World Trade Organization's National Treatment Principle.

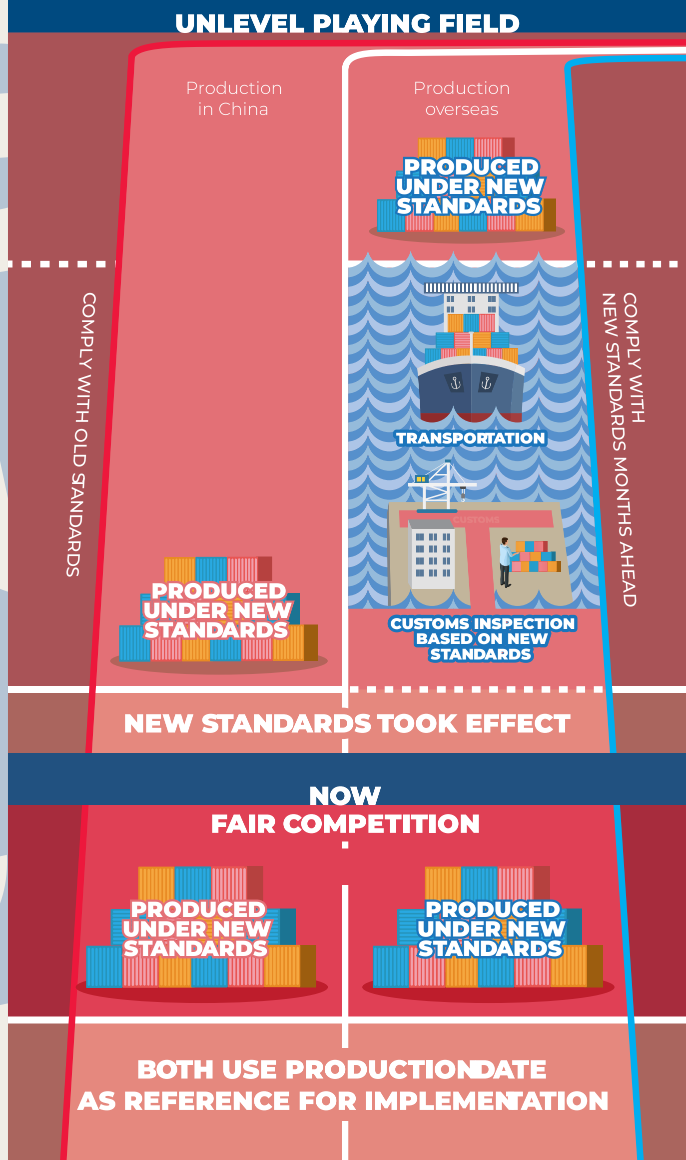
As a result, the uncertainty over the reference date for implementing new standards for imported food creates a trade barrier, as it often means that a large portion of imported food produced before new standards are implemented cannot enter the Chinese market. This increases production and operational pressure and costs for overseas food producers.

Advocacy efforts

Since 2014, the Agriculture, Food and Beverage Working Group and its Paediatric Nutrition Sub-working Group, Food for Special Medical Purpose Sub-working Group and Dairy Industry Sub-working Group have sent comments for each round of public consultation on food-related standards, and submitted advocacy letters on the trade barrier caused by the uncertainty regarding the reference date of implementing new standards for imported food. Advocacy efforts also focussed on related compliance issues regarding food packaging, labelling and testing methods, among others, for all food categories.

On 28th July 2022, the National Health Commission issued 36 new national food safety standards and three amendment lists, which were set to be implemented on 30th December 2022. This would have granted a grace period of merely half a year for the industry, which would have been even shorter for overseas manufacturers if the 'inspection date' were still to be used as the reference date for implementing these new standards for imported food.

On 1st December 2022, Jörg Wuttke, then president of the European Chamber, submitted an advocacy letter to the General Administration of Customs of China (GACC) on behalf of the working groups, recommending that the production date be used as the reference date when implementing new standards for imported food to level the playing field.



Result

On 30th December 2022, the GACC issued the *Notice on Inspection Requirements for Implementation of National Food Safety Standards for Infant Formula, Processed Cheese and other Imported Foods (Notice No. 136)* to clarify the regulation for the following food categories: infant formula, older infant formula, young children formula, processed cheese and cheese products, and condensed milk products.

Notice No. 136 confirms that products in those categories produced and imported before the implementation date of new national standards that comply with the old national standards can continue to be imported and sold until the end of their shelf life. This is the first official statement issued since 2012 to clarify the reference date for imported food. It guarantees that the listed imported foods can have the same reference date and grace period as their domestic counterparts, which helps to eliminate the former trade barrier that had resulted in significant material waste and production pressure for overseas producers.

Looking forward

The industry expects additional food categories to be included on the list as more standards come into effect, so that eventually all imported food categories could be regulated using the production date as the reference date. The European Chamber's Agriculture, Food and Beverage Working Group and its sub-working groups will continue to communicate with the GACC and advocate for the further removal of trade barriers for imported food, in order to advance EU-China trade and introduce a wider variety of European products to Chinese consumers.

Media Watch

President Eskelund being interviewed by *CCTV*
Media: *CCTN*
Date: 24th May 2023

Chamber comments on China's economic development

China's economy expanded at an annual rate of 4.5 per cent in the first quarter of 2023, boosted by the end of COVID-era restrictions. Yet more recent signals suggest that the revival is ebbing. China's economic prospects continue to be the focus of media, though international and domestic media hold contradictory stances.

On 23rd and 26th May respectively, *Bloomberg* and *NZZ* conducted interviews with former President Jörg Wuttke, who suggested that we are possibly facing a 'plateau China', with comparatively less economic growth over the next 10–20 years. President Eskelund, who was interviewed by *The Wall Street Journa*l on 30th May, shared the concern that uncertainty over China's long-term economic prospects is another factor in companies' investment decisions.

Domestic media also focussed on the recovery of the economy and business confidence in China. In an interview on 24th May with *CCTV*'s *Xinwen Lianbo* on the prospects of foreign companies operating in China, President Eskelund discussed the outlook for China continuing to contribute to opportunities for such enterprises.

Business Confidence Survey 2023 findings garner strong media interest

On 21st June, the European Chamber launched its *Business Confidence Survey 2023* (BCS), the findings of which show that there has been a significant deterioration of business sentiment since the previous survey. Within 48 hours of the report's publication, 46 original media mentions were recorded. An embargoed media roundtable was held on 16th June, and a media lunch, attended by eight journalists, was hosted by the Chamber on the launch day. Chamber President Jens Eskelund had interviews with *CNBC* (exclusive launch interview), *France 24, SRF, AFP, Phoenix TV* and *CCTV* on the day of the launch.

Top-tier international media showed a strong interest in this year's BCS, with featured articles published by outlets *Bloomberg*, *Reuters* and *The Wall Street Journal*. Media coverage focussed predominantly on the deterioration in business confidence over the past year, and how a minority of European businesses have already begun shifting investments away from China and/or onshoring/offshoring their China supply chains as a result.

Live interview with *CNBC* on the launch of the *Business Confidence Survey 2023*
Media: *CNBC*
Date: 21st June 2023

Chamber spokespeople comment on China's Anti-espionage Law and Foreign Relations Law

On 26th April, the Chinese Government passed a wide-ranging revision of the Anti-espionage Law. Heated discussion on the potential implications took place within international media in the following weeks. In early May, *The Wall Street Journal* and *The New York Times* both interviewed former Chamber President Wuttke on the revision and how it may hinder companies' ability to do businesses intelligence in China. *AP*, *Reuters* and *Radio Free Asia* also ran articles on how the changes heighten the uncertainty faced by businesses operating in China and risk undermining the attractiveness of China as an investment destination.

On 1st July, the revised Anti-espionage Law and the newly released Foreign Relations Law took effect, which led to several media outlets reaching out to the Chamber for comment. In an interview President Eskelund had with *Nikkei Asia* on the Anti-espionage Law, he said that a lot of business areas have become politicised and that, in ways, the Chinese Government is using securitisation and politicised ideology interchangeably. Regarding the Foreign Relations Law, the Chamber's statement, quoted by *Bloomberg*, highlighted that laws that are vaguely worded and broad in scope present compliance challenges and can also result in discretionary implementation, which is not conducive to attracting foreign investment or rebuilding business confidence among the foreign business community in China.


TECHNOLOGY | NEWS | VIDEO

TECHNOLOGY | Politics | Investing | Company News — Jun 28, 2023

China Enacts Foreign-Relations Law Targeting 'Western Hegemony'

Bloomberg News, Bloomberg News

Article by *Bloomberg* on China's Foreign Relations Law
Media: *Bloomberg*
Date: 28th June 2023

Tianjin Chapter Chair Christoph Schrempp being interviewed by *CCTV* on the Summer Davos Forum
Media: *CCTV*
Date: 29th June 2023

Tianjin chair, GM interviewed at Summer Davos Forum

On 27th June, the 14th Annual Meeting of the New Champions, also known as the Summer Davos, was held in Tianjin. With the theme of 'Entrepreneurship: The Driving Force of the Global Economy', the event attracted both domestic and international media coverage.

Domestic media focussed on the potential of China's market. In an interview with *CCTV*'s *Xinwen Lianbo* on 29th June, Tianjin Chapter Chair Christoph Schrempp discussed the potential for China's market and the willingness of European companies to play a role in the Chinese economy. In another interview he had with *CNR* on the same day, the potential for Tianjin's future development was explored.

International media tend to hold more negative views on China's economic prospects. In an interview with *The Washington Post*, Catherine Guo, general manager of the Tianjin Chapter, talked about Tianjin's outlook and pointed out that some chapter members are looking into relocating all or part of their operations to elsewhere in China.

Events Gallery

BEIJING, 7TH JUNE 2023

Government Affairs Conference 2023: Rebuilding Trust for Collaboration

- To successfully operate in China, European firms must be able to articulate what they contribute to China, and have constant ongoing dialogue with the Chinese Government.
- European companies should describe where China fits in their global organisation, be patient in delivering clear, concise, fact-based messages to stakeholders, be clear about what they ask and what they can do, and leverage the platform that the Chamber provides.
- The relationship between government affairs and business functions is getting closer; it helps businesses to navigate uncertainties and risks, identify concerns and better portray value and image.

BEIJING, 12TH JUNE 2023

Battling it out - Decoding the Global Industrial Strategy Race Episode I: Chips Act

- The European Union's (EU's) political imperative to compete with the United States (US) or China in the global semiconductor industry has potentially negative impacts on those less technologically advanced member states in the Union, due to the unbalanced distribution of resources.
- Currently in the EU, there is a small presence of downstream user industries that will provide first-tier demands for the semiconductor sector, which distinguishes it from countries like China.
- There is not much appetite from the US side for controlling legacy chips, mainly due to the lack of support from allies, the complexity of supply chains, and the huge revenue generated by US companies selling legacy chips to China that could further finance their R&D.

SHANGHAI, 21ST JUNE 2023

Business Confidence Survey Launch 2023

- As China's 'gateway to the west' and most international city, Shanghai provides a vivid snapshot of business sentiment and foreign investment trajectories.
- Shanghai's decreasing allure as a regional headquarters (HQ) hub is increasingly apparent, with less than one in 10 respondents considering Shanghai as a location to establish regional HQs.
- Although Shanghai is still considered a good place to do business, high costs and administrative burdens are holding it back.

TIANJIN, 10TH JUNE 2023

Tianjin 3rd Football Tournament and International Family Day

- This was the third annual nine-a-side football tournament.
- It attracted a record-high 14 teams: Schlote, Big Dutchman, Leybold, TURCK, Airbus (Tianjin) Final Assembly, Airbus Tianjin Delivery Centre, COFICAB, GEA, WAGO, NNIT, Flender, VWATJ, Odelo and Tianjin Plus.
- Tianjin Plus took the crown, NNIT was the runner-up and the third place went to Schlote together with the Big Dutchman.

NANJING, 3RD JUNE 2023

2023 BADMINTON SUMMER TOURNAMENT

- The tournament featured 12 teams, from BASF-YPC, Siemens Nanjing, Epiroc, Bosch, Suspa, tesa China, Fette, Brembo, Tietoevry, BSH, Esco and EMZ-Hanauer.
- Winners: 1st place – Epiroc; 2nd place – Siemens Nanjing; and 3rd place – BSH.
- A huge thanks to the sponsors, and Nanjing International School and Raffles Medical for the venue and first aid for so many years.

SOUTH CHINA, 16TH JUNE 2023

China's Innovation Ecosystem: The Localisation Dilemma Launch

- Some companies integrate their China R&D activities with their global operations, capitalising on the strengths of both regions, though a host of risks dissuade others from pursuing innovation initiatives in China.
- Survey participants acknowledged the growing complexity of the EU-China business landscape, shaped by geopolitical events such as the war in Ukraine and the intensifying US-China struggle for technological supremacy.
- The Intellectual Property (IP) Rights Working Group chair emphasised the vital role of IP protection in fostering innovation.

SOUTHWEST CHINA, 7TH JUNE 2023

The Future of Double Carbon: Carbon Management and Photovoltaic Green Supply Chain

- The largest share of anthropogenic carbon dioxide emissions comes from energy use, with the use in industry top, followed by transport, agriculture and construction.
- Product carbon footprint refers to the various greenhouse gas (GHG) emissions of a product in its whole life cycle, that is, the GHG emissions in all stages from raw materials to production (or provision of services), distribution, use and disposal/recycling.
- Life cycle assessment is an international standard method to systematically and quantitatively describe various resources, energy consumption and environmental emissions in the product life cycle and evaluate their environmental impact (i.e. ISO 14040 standard series).

Advisory Council News

Photo: se.com

Schneider Electric's first Sustainability School opens for enrolment

22nd May 2023 – Schneider Electric, the leader in the digital transformation of energy management and automation, announced that the Schneider Electric Sustainability School is open for enrolment. Free to access, the digital platform provides a range of interactive courses aimed at equipping companies and professionals with the knowledge and skills needed to improve their sustainability performance.

First launched internally to educate Schneider Electric employees to better support the company's partner ecosystem, the three-part programme is now available externally for professionals and companies of all sizes, empowering them to take a first step towards a more sustainable future.

Recognising that small and medium-sized enterprises (SMEs) often lack the knowledge and tools required to establish climate targets, measure impacts such as carbon emissions, and benchmark and disclose progress, the comprehensive training platform is designed to support them in embarking on their decarbonisation journey. Over three chapters, it covers a range of topics from energy efficiency and renewable energy to the circular economy and sustainable transportation.

Covestro receives Polyurethane Certificate for Solar Composite Frames from TÜV SÜD

25th May 2023 – At the 16th (2023) International Photovoltaic Power Generation and Smart Energy Conference and Exhibition (referred to as SNEC), Covestro was honoured with the polyurethane certificate for solar composite frames. The certificate was issued by TÜV SÜD, the world's leading certification and testing organisation for photovoltaic and smart energy products. The achievement solidifies Covestro's position as one of the pioneering companies worldwide to receive this prestigious certificate.

On the way to Net Zero: Bud APAC empowers value chain partners to achieve low carbon transition

2nd June 2023 – Budweiser Brewing Company APAC, the largest beer company in Asia Pacific, is pleased to announce the launch of a sustainability initiative that leverages its extensive supply chain network and expertise to reduce Scope 3 emissions and helps facilitate the low carbon transition of the beer industry. Unveiled at the company's Wenzhou Brewery in celebration of World Environment Day, the initiative reinforces Bud APAC's commitment to achieving 2025 Sustainability Goals, laying a foundation for delivering its ambition of net zero across the value chain by 2040.

Sanofi "all in" on AI and data science to speed breakthroughs for patients

13th June 2023 – Sanofi takes the next step in its company-wide digital transformation and rolls-out plai at scale. plai, Sanofi's industry-leading app developed with artificial intelligence (AI) platform company Aily Labs, delivers real-time, reactive data interactions and gives an unprecedented 360 degree view across all Sanofi activities. The app aggregates available company internal data across functions and harnesses the power of AI to provide timely insights and personalised "what if" scenarios to support thousands of Sanofi teams decision makers to take informed decisions in a simple and modern digital user experience.

D' Andrea & Partners hold the first Italian Design Icons Shenzhen

13th July 2023 – From 30th July to 2nd July, the acclaimed Italian Design Icons (IDI), conceived by DP Group and organised by Eastant Communication & Events, took place for the first time in Shenzhen. From the announcement of the event, the Shenzhen edition attracted enormous attention, as this is the first time since the launch of IDI in 2016 that has extended to southern China, outside Shanghai area and southwest China (Chengdu and Chongqing). The theme of this edition was 'Re-Generation: Design and New Technologies for a Better and Sustainable Future', echoing the last edition in Shanghai. Regeneration, considering its importance for decarbonisation, is an essential element for the DP Group ,as we believe that sustainable regeneration is the means to find a balance between the economy and local communities. We take great care in both promoting and achieving a zero environmental impact. The event brought the most innovative ideas in renewability and design to the Greater Bay Area.

Photo: IDI

Photo: syngenta.com

Syngenta utilising digital data capture to transform agriculture

Data is already transforming much of the modern world. In agricultural research, new forms of data are becoming available through Digital Data Capture (DDC). DDC promises to alter our ability to produce more nutritious food sustainably and in a way that reduces environmental harm and climate change by helping us understand the entire ecosystem like never before.

That is why Syngenta is pioneering the transformation of agriculture with DDC. The technology starts with a drone equipped with high-resolution cameras and multispectral sensors. The drones scan crop fields to create ultra-high-definition images yielding incredible data insights. Digital data also includes environmental sensors to get a deep understanding of the weather, soil, pests, and disease at our field trial sites, so we can leverage that data for grower's benefit. Our goal is to leave no data in the field and harvest every insight we can.

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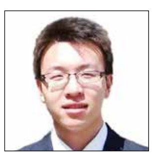

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[连心人的信念]

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