Content

Zhou Lihong
Chairwoman of China Chamber of Commerce to the European Union

Message from CCCEU

The China Chamber of Commerce to the European Union (CCCEU)'s office is only a stone's throw away from EU institutions nestled around Schuman Square in Brussels. On the front of the European Commission's Berlaymont building is a giant banner featuring "Next Generation EU", words that perfectly encapsulate the EU's vision in battling the COVID-19 pandemic. Equally eye-catching is a mural not far from the banner: On the main road running through central Brussels, a graffiti painting spells the enthusiastic shout-out: The Future is Europe.

It is the hope in these messages that inspired us as we wrote this report, at a time when the world is going through its darkest hour.

Economies are tanking simultaneously, while businesses struggle to weather the pandemic storm and people everywhere are grappling with once-in-a-lifetime challenges under the double whammy of COVID-19 and tectonic shifts in the global political landscape. At such times I keep asking myself: what can we, as Chinese companies in the EU, do to help the bloc get back on its feet and thrive again?

It is critical to have a thorough understanding of the EU agenda. At the CCCEU, we have been following closely the EU's ambitious green and digital transition, and its historic post-COVID-19 recovery plan. Additionally, we are also trying to explore opportunities in the crisis and break new ground.

In this report, you will find not only the latest sentiment on the EU's business environment and our members' most pressing concerns, but also solutions and recommendations based on in-depth research and discussions. As 2020 marks the 45th anniversary of diplomatic relations between China and the EU (then the European Economic Community), we focus on discussing how to strengthen, not the other way around, our partnership, particularly in the economy and trade.

Hence, we approach this report in a slightly different way compared to our previous one in 2019. When European institutions exchanging with China, reciprocity and a level playing field are two frequently mentioned expressions. By offering recommendations, we look at what the expressions mean, and the fundamental roles that European institutions should fulfill when improving the business environment for Chinese companies in the EU.

At this critical juncture in history, we propose eight recommendations for EU institutions that include deepening political will to forge greater mutual political trust with China, strengthening the two sides' alignment in long-term development goals and policies, cooperating in post-pandemic economic recovery and public health initiatives, enhancing trust in cyber security, and supporting exchanges among young Chinese and European business leaders.

It is our hope that these recommendations contribute to a more consistent and predictable macro-policy framework, one conducive to the development of Chinese companies in Europe.

We would love to hear any feedback from you.

Denis Depoux
Global Managing Director
of Roland Berger

Message from Roland Berger

2020 is the year that marks the 45th anniversary of the establishment of diplomatic relations between Europe and China. Despite the fair share of ups and downs, the relationship has been a fruitful one. Broad cooperation has been achieved in numerous sectors from trade to science and technology, from green development to health and culture. All this has been made possible by the mutual trust we have built throughout the years. Our friendship has been an enduring one, and together we have been striving towards a shared future. Having worked for decades with and in China, I saw with my own eyes how European companies established, grew and thrived in their host country, and was privileged to have played a part in bringing European and Chinese companies closer. Thanks to this field work, I can weigh the strategic significance of China to the European Union. According to the European Chamber of Commerce (EUCC) Business Confidence Survey, that Roland Berger has been supporting for the last 15 years, China remains a top-3 destination for new investment in 2020 for 65% of the Chamber's members, up 8 points since 2016.

A new cycle is possibly starting, driven by the transformation of the Chinese economy into a domestic consumption and services-driven economy, measured by the quality of its growth rather than mere GDP figures. This means that European companies will increasingly produce in China for the Chinese market, while Chinese companies will seek more value-added in their production and sales, along with growth abroad, to offset a slower domestic growth. Working with European companies will help bring the innovation and the know how needed, as well as develop overseas presence.

Acting for common future is our second collaboration with CCCEU on Chinese companies in the EU. Since the publication of the previous report, the world has been plunged into an unprecedented public health crisis and perhaps the worst economic decline in the last 80 years. 2020 is made all the more extraordinary due to uncertainty in the global economic and political landscape. Hence, it is our hope that this report can shed some light on this unique situation, while continuing with our on-going monitoring of the EU's business environment and the sentiment of Chinese enterprises to inform future analysis.

2019 was a year of change for EU-China partnership. With new leaders at the helm of the European Commission, Europe defined in March 2019 its strategy towards China, focusing on sustainability, fair competition in China and the world, market access and reciprocity. New initiatives were also rolled out to promote green development, digital transformation, economic and technological sovereignty, and jobs. Chinese companies can offer a lot in these fields, and are ready to contribute to the growth of European economies. While opportunities are emerging all the time, Chinese companies have been seeing growing hurdles due to tightening investment scrutiny and cyber and national security-related restrictions, themselves driven by complex geopolitical factors. In light of these uncertainties, Chinese companies became less eager to invest. Additionally, China and the EU were not always in agreement on the best course of action in response to COVID-19. Despite these headwinds, cooperation and mutual support are still the leitmotiv of our partnership. These nuances in the partnership are precisely what we are trying to capture in this report. With that, we aim to make recommendations on Chinese companies' top concerns in a way that balances their interests and those of the EU.

Going forward, I believe the EU-China partnership will continue to drive shared development through interconnectivity and open-minded cooperation, creating enormous opportunities for both sides in the process. Currently under negotiation, the bilateral investment accord is expected to take our economic ties to the next level. It is our hope that by identifying the current issues faced by Chinese companies in Europe, this report will help bring us closer and meet each other half way; and in doing that, help EU and China do our part to revive the global economy in the challenging circumstances in which we find ourselves.

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Introduction

The China Chamber of Commerce to the EU (CCCEU) is proud to present its second annual report since its inauguration in April 2019 in Brussels. *Acting for Common Future*, our 2020 Recommendation Report, aims to listen to the voices of Chinese companies in Europe to gain a full understanding of the real and complex business environment in which they operate. The report proposes a package of recommendations to EU institutions based on the experience of Chinese companies in Europe. We hope that the EU can build a highly effective regulatory framework and that market players from all countries can find ample and equal opportunities to thrive in the EU's process of integration and growing power at a critical time of pushbacks to economic globalization and multilateral trade cooperation, shrinking markets, rising protectionism, and global economic decline as a result of the COVID-19 pandemic. With equal opportunities, Chinese companies, alongside their European peers, will be able to help the EU emerge out of recession and continue to play their role as a growth engine in the global economy, hence attracting more Chinese companies to Europe and increasing Chinese investment in Europe.

The complexity of the situation dealt herein is unprecedented.

FIRST, there is new leadership in Europe this year, which brings its own set of opportunities and challenges: opportunities in the numerous blueprints, measures and regulations released, and in the ambitious roadmap unveiled under the German presidency of the European Union. All these provide new opportunities for Chinese companies, especially the EU's dual-core transition through digitalization and green growth, and the large-scale stimulus plans undertaken by the EU and its member countries offer incentives. Having said that, we have also noted an accelerating trend in market protection in recent years in general and since last year in particular. In 2019, the EU began to define China as a "competitor" and "systemic rival" in its policy narratives. Politicisation of issues, spillover of security screenings to non-security issues and investment scrutiny have created barriers for EU-China economic and trade cooperation. The change in narrative, increased scrutiny, and the EU's proposed legislation on foreign governments' subsidies are the three biggest hurdles for Chinese

THE CHANGE IN NARRATIVE, INCREASED SCRUTINY, AND THE EU'S PROPOSED LEGISLATION ON FOREIGN GOVERNMENTS' SUBSIDIES ARE THE THREE BIGGEST HURDLES FOR CHINESE COMPANIES IN EUROPE, SPELLING UNCERTAINTY FOR THEIR INVESTMENT, SURVIVAL AND DEVELOPMENT.

companies in Europe, spelling uncertainty for their investment, survival and development.

SECOND, 2020 is a milestone year as it marks 45 years of China-EU ties. Looking back, both China and Europe have seen enormous success. An increasingly integrated EU and an open China have been driving forces behind globalisation and a multilateralist global economic and trade system. The China-EU economic and trade partnership is a force to be reckoned with in the global market. As this extraordinary journey unfolded, Chinese companies did not sit idly on the sidelines. Rather, they witnessed, participated in and contributed to the growth of our partnership since its early days. During the past decade, Chinese companies achieved about 1.2 trillion euros in the EU, meanwhile, European companies made 3.1 trillion in China, about 2.6 times of the former. It reveals that China and the EU's economy are greatly correlated, while benefiting from each other.

LAST, 2020 is also a unique year due to the outbreak of COVID-19, which has triggered a global crisis of unprecedented proportions as it wreaked havoc on global supply chains and brought the movement of people and goods almost to a grinding halt. Chinese companies in Europe faced enormous challenges for survival and growth, and some

On December 24, 2019, the eastern Chinese city of Yiwu, home to the world's leading small commodities market, sent its 500th cargo trains to Europe in 2019. Loaded with 50 containers of commodities, the 500th train left Yiwu for Madrid.
PHOTO BY YIWU TIMEX INDUSTRIAL INVESTMENT CO., LTD.

even came under criticism and blame, much of which is unfounded, and yet took a toll on mutual trust and stability in economic and trade ties. Under these circumstances, we hope this report sheds light on the actual situation of Chinese companies in Europe, and provide constructive suggestions to take the partnership and cooperation to the next level.

This report consists of three chapters. Chapter 1 opens with an overview of the evolving EU regulatory environment over the past four decades and a half, with a special focus on the current framework under the new leadership. Chapter 2 assesses the business environment in the EU based on findings of surveys and interviews with Chinese companies in the EU. Chapter 3 proposes a package of recommendations for EU institutions, with a view to building a deeper, stronger China-EU economic and trade partnership to create the conditions for Chinese companies to have a more solid presence in EU markets and play a bigger role in European integration towards a better future for all.

Chapter I

Interdependent Economic and Trade Partnership & EU Policy Environment

As we celebrate 45 years of diplomatic relations, it is a good time to look back on Europe's journey of integration and China's process of reform and opening up. This will help us understand how China and the EU have come to form a solid partnership based on mutual benefit. When China began formal relations with the then European Economic Community on 6 May 1975, four of the EU's nine original members — Germany, France, the UK and Italy — had economies bigger than China. Now, the 27-member post-Brexit EU is home to 440 million people and the largest share of developed economies in the world. China, for its part, has become the second-largest economy in the world with over US$10,000 in per capita GDP, and is on track to complete the historic task of eradicating extreme poverty by the end of the year.

While the rise of China and the integration of Europe are important developments in their own right, the exchanges and mutual reinforcement between the two are even more remarkable. The experiences of European countries provided valuable lessons as China designed its transition roadmap. By building a business presence in China, European companies provided technology, talent and capital, and benefited from China's development in the process. In turn, China has become an increasingly important trade partner of Europe during the past two decades. Chinese demand and investment helped the European economy to emerge out of the slump triggered by the 2008 financial and subsequent debt crisis.

WITHOUT DOUBT, OUR PARTNERSHIP, IN PARTICULAR THE CHINA-EU ECONOMIC AND TRADE RELATIONSHIP, HAS NOT ALWAYS BEEN SMOOTH SAILING.

Without doubt, our partnership, in particular the China-EU economic and trade relationship, has not always been smooth sailing. In fact, since 2010, there has been a series of obstacles. Chinese solar panels were hit with antidumping and countervailing duties, Huawei and ZTE were accused of dumping, and Chinese steelmakers were criticised for excess capacity. Additionally, there are drawn-out disputes and controversies over China's market economy status and over the EU's investment and security screening, and sometimes these issues threaten to escalate.

Despite bumps in the road, the partnership has been one of shared growth during the past decades, thanks to commonly recognized rules based on mutual trust and interdependence built over the years. The EU has long been China's largest trading partner, only overtaken by the ASEAN in the first half of 2020. The EU has been China's largest source of imports and the second-largest export destination. For its part, China is the EU's second largest trading partner, the largest source of imports and second-largest export destination. In 2019, the EU and China registered US$705.11 billion in bilateral trade, 3.4% more than the previous year and 300 times higher than when we established ties in 1975. In recent years, total Chinese investment decreased in light of policy changes. In 2019, Chinese companies invested US$7.58 billion in the EU, while EU countries invested US$7.31 billion in China. Furthermore, Chinese companies in the EU achieved 218 billion euros of revenue with a 24-billion-euro gross profit in 2019, while European companies' Chinese affiliates contributed 406 billion euros of revenue with a 170-billion-euro gross profit. From 2010 to 2019, the aggregated revenue of all Chinese enterprises in the EU is about 1.2 trillion euros, and the number is 3.1 trillion euro for European companies in China, 2.6 time of the former. It goes without saying that the economic relationship between the two areas are more significant than ever.

The CCCEU donated masks to Italy when the pandemic hit the country early this year. PHOTO BY CCCEU

Interdependency has been increasing with growing cooperation in numerous fields, from finance to technology, from green development to transportation, from culture and education to health. In finance, broad-based cooperation is underway on a variety of areas including market liberalisation, investment and financing, green finance, and reforms to the global financial and monetary systems. China and the EU will continue to deepen these cooperative relationships and work to maintain the stability and security of each other's financial markets.

Based on the outcomes of the recent high-level economic and trade dialogue, China and the EU will continue to work together to push for the internalisation of RMB and the euro, facilitate dialogue on establishing international financial hubs and adopting sovereign digital currencies, and extend financial cooperation into new frontiers.

In science and technology, China and Europe have been working together to foster innovation through international science programmes and joint investment in infrastructure and research. In this regard, multi-year initiatives such as the China-EU Dragon Programme and the China-EU Co-Funding Mechanism on Research and Innovation have already reported progress.

In green development, broad-based cooperation is underway towards achieving Sustainable Development Goals. Numerous agreements have been signed, including the Joint Statement on the Implementation of China-EU Cooperation on Energy, launching platforms such as the EU-China Energy Cooperation Platform, which has been playing a growing role in championing global green transition and the 2030 Sustainable Development Agenda.

In transportation, growing interconnectivity over land, sea and air has increased the movement of people and goods. The China-Europe Railway Express has been growing at 120% CAGR (Compound Annual Growth Rate) since 2011, having made a total of 8,225 trips in 2019. In June 2020 alone, the express made 1,169 trips, setting a new record and supporting the fight against the COVID-19.

With the outbreak starting in early 2020, COVID-19, a global public health emergency, has taken a toll on the global economy, people's lives and the EU's growth. According to the Summer 2020 Economic Forecast by the European Commission, the eurozone and EU member countries can expect to see their economies decline by 8.7% and 8.3%, respectively. In response to COVID-19, the EU and some of its member states continue to take a conservative and exacting approach to foreign investment and security screening. Additionally, there is a trend towards protective measures, for instance, EU moves to strengthen protection of strategic assets, propose regulations on foreign subsidies, and levy carbon border tax and digital tax. Such policies have brought about more uncertainties for Chinese companies as they try to invest and survive in Europe, and are a cause of concern for most Chinese companies.

Nevertheless, we are encouraged to see that Chinese companies can still expect a promising macro-environment based on the policy documents issued by Germany during its presidency of the Council of the EU. These documents also tell us the direction of the EU's future development agenda, and areas that may be ripe with new opportunities for China-EU ties such as green development and finance. EU member countries have already reached consensus and rolled out historic measures, which includes a €750 billion stimulus package for post-COVID recovery, to be partially funded through international borrowing, with a view to helping countries severely hit by COVID-19 to revive their economies. Since assuming its six-month presidency as of 1 July 2020, Germany has called for strengthening solidarity for a Europe that is "stronger than ever." Germany also stated in its programme for the EU presidency that it wanted to "expand cooperation with China and work to foster greater reciprocity in all policy areas". Specifically, Germany aims to "make concrete progress in the negotiations of a bilateral investment agreement and on the issues of climate protection, biodiversity, global health and cooperation in Africa as well as to find common solutions to problems in the context of the COVID-19 pandemic". To achieve this, Germany called for "a top-level meeting between the EU and China as soon as possible". At the end of last year, German Chancellor Angela Merkel had proposed a historic China-EU summit with all 27 member states, which is visionary.

WITH THE WORLD AT A CROSSROADS, WE MUST ONCE AGAIN CHOOSE WITH WISDOM.

As China and the EU serve nearly 1.9 billion consumers combined, we are in a position to continue to deepen our long-standing partnership and tap into market potential to turn China and Europe into "dual engines" of global growth. Bilateral and global cooperation are crucial for tackling the pressing challenges in our world today. In the past four and a half decades, our partnership has grown closer thanks to open and inclusive cooperation, which has enabled extraordinary progress for China and Europe, providing valuable lessons. With the world at a crossroads, we must once again choose with wisdom. Embrace openness and cooperation, and we shall prove the doomsayers wrong.

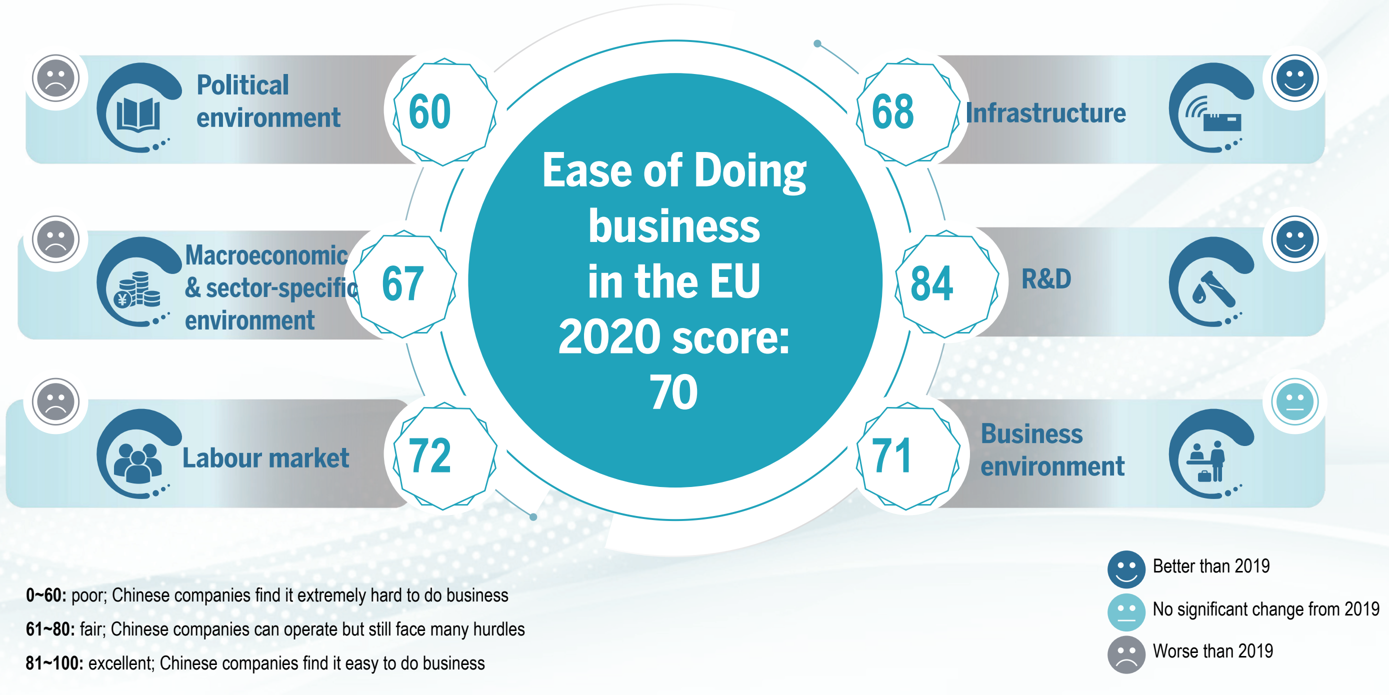
Chapter II

Assessment of the Ease of Doing Business in the EU by Chinese Companies

The opinions and findings in the chapter are based on CCCEU and Roland Berger's surveys and in-depth interviews.

Overall, Chinese companies have a less favourable view regarding the ease of doing business in the EU, with the total score dropping from 73 points in 2019 to 70 points. Close to 60% of survey participants cited "a slight decline", and 10% "a significant decline" when asked to assess the overall business environment.

Participating Chinese businesses and institutions have less favourable views of three aspects of the ease of doing business in the EU: political, economic and industrial, and talent.



• ***68%*** feel the EU has been tightening its China policy, evidenced by the politicising of investment reviews, spillover of security reviews to essentially non-security sensitive projects, and the introduction of digital tax in some countries, resulting in a less favourable political environment for business.

• ***72%*** believe that the EU market is more grim than last year as both demand and orders nosedived, and industrial and supply chains suffered under the prolonged impact of the COVID-19 outbreak.

• ***55%*** experience more difficulties in hiring European and foreign talent, partly due to the lack of visibility and reputation of Chinese companies in a region where local talent is already in short supply, and partly to the coronavirus hindering cross-border flow of talent.

They have slightly more favourable views than last year of the EU's infrastructure and supporting environment as well as science and research environment, and their view on the business environment remained the same. 56% see greater connectivity between China and the EU, thanks to convenient sea, land and air links, as well as a digital infrastructure that emerged and upgraded under the EU's Digital Strategy. 53% point out more smooth-running and frequent scientific exchanges and joint research, such as the China-EU Research and Innovation Partnership.

Despite the general decline in the ease of doing business, Chinese companies did not slow down their endeavours in the EU, focusing particularly on capacity building and localization. Some have already used Europe as an important base for their R&D and production capacity, while making more local hires. Chinese companies' European business have grown or upgraded in both volume and scale. Between 2013 and 2019, the number of Chinese companies in Germany, Italy, the Netherlands, etc., grew at a compound annual growth rate of 10%, much faster than their American or Japanese counterparts (which grew 1-7%).

At the same time, Chinese companies have created jobs, brought advanced technologies and contributed to the GDP of their host countries. In terms of GDP contribution and patent transfers to the EU, Chinese companies have been catching up fast with American and Japanese businesses. Between 2013 and 2019, Chinese companies led foreign enterprises with more than 30% and 20% compound annual growth rates in investment-generated GDP in Germany and Italy and local patent applications in Europe, respectively. The survey also found that if the ease of doing business improves, 60% would invest more in the EU, and close to 20% intend to increase their investment significantly, which would further boost jobs in the EU.

IF THE EASE OF DOING BUSINESS IMPROVES, 60% WOULD INVEST MORE IN THE EU, AND CLOSE TO 20% INTEND TO INCREASE THEIR INVESTMENT SIGNIFICANTLY

Survey participants urge the EU to pay attention to the impact of the pandemic on their business, avoid unnecessary reviews on investment or cyber security, include Chinese companies in digital transformation and green transition, facilitate their localization efforts, and create a more favourable environment for doing business. This report summarizes the 5 key concerns and focuses of Chinese companies and assessment of their impact.

FIRST, their biggest concern is the COVID-19 outbreak, which has had a tremendous impact on, and poses a grave challenge, to the European economy and Chinese companies in Europe. Many of them have experienced hardship and are struggling due to sharply reduced demand, disrupted supply chains, rising costs of transport and hindered flow of people. Despite the impact, Chinese companies have worked with their European partners to fight the coronavirus and for post-COVID economic recovery. At the government level, China and Europe have stayed in close touch, through "video and telephone diplomacy", and stepped up cooperation in public health. Researchers from both sides have worked together to develop vaccines. When the pandemic erupted in China earlier this year, European friends kindly gave a helping hand; later, when Europeans were hit by the virus, Chinese companies rushed to assist. They remain committed to Europe, albeit the pace of investment and business has been slowed down by COVID-19. The survey showed that over 95% of the Chinese companies did not lay off local employees, and instead worked hard to make sure that their employees stayed safe and healthy, and to reduce the negative impact on their business. Chinese ICT companies, in particular, helped with telecommuting and other means of digital transition in support of post-COVID recovery.

The biggest Huawei Flagship store was Opened on 5th of July 2019 in Madrid, with over 1,100 square meters, Huawei phones are greatly popular with many Europe people.
PHOTO FROM CFP

SECOND, digital transition and 5G security are their biggest focus. Chinese companies can play a major role in digitally transforming traditional industries, given their leading technologies, rich expertise and an open mind. Trip.com Group has been working with local tourism promotion agencies to make information such as attractions and tickets available on digital platforms so that foreign tourists can access easily, and using digital tools to analyse the high and low seasons for hotels and airlines. Chinese companies are training digital professionals and contributing to innovation: Huawei has rolled out the AI Developer Enablement Program in Europe, and Co-progress Education Group offers graduate and doctoral programs in digital technology in collaboration with French universities. Unisound, Wonderful Group and many other CCCEU members have plans to invest in Europe or attract European investment and technology to China. They are exploring the possibilities of establishing a China-Europe digital economy park and an e-commerce park.

However, restrictions based on speculation over cyber security have curbed the development of Chinese enterprises in part of the European market. With the UK excluding Huawei equipment from its 5G network, countries such as Italy and France have also spelt out their concerns over Chinese enterprises. As a matter of fact, enterprises like Huawei and ZTE are not attached to the Chinese government, and they get no special offers or government subsidies. As holders of 5G patents through independent research, they have paid royalty fees to third parties legally to obtain intellectual property licenses, and are able to provide their clients with high quality products. China, on the contrary, has always celebrated foreign products and services, bringing Ericsson and Nokia in to help build its own network. To restrict Chinese enterprises on the grounds of cyber security will cost the EU time and opportunities. It may impair the market vitality of ICT and its leading position in the global supply chain, which will only induce a lose-lose situation for both parties. Instead of trying to politicise the issue of cyber security, it is suggested the EU avoid a potentially vague and unfair cyber security review system, and to forge a fair and transparent regulation and procurement environment for Chinese digital businesses operating in the EU.

Recently, when implementing the strategy of the EU toolbox on 5G Cyber security stipulated by European Commission, some member states failed to adopt solely technology standards as evidence of security. Rather, they have treated technology suppliers from non-EU countries differently, even labelled them as high-risk businesses.

It is considered inappropriate to make such a distinction among enterprises based merely on the location of their parent companies. These measures have increased uncertainty on many levels, which will darken the prospects of telecom enterprises and their partners in the European market.

Some Chinese enterprises are worried that the EU's approach to 5G security will have a negative impact on the ecological chain of Chinese enterprises and the market itself. Chinese enterprises have been growing vigorously as China develops. They have created jobs around the globe and made their share of contribution to the prosperity of the world. They are no different from enterprises of the US, Europe, Africa or other regions of Asia. In Europe, Huawei and ZTE, the two most advanced 5G equipment suppliers,have created around 20,000 jobs locally, and as many as 300,000 indirect job opportunities. With the COVID-19 pandemic affecting the economic outlook and business confidence, employment stability matters more than ever to people's well-being.

20,000 jobs

HUAWEI & ZTE CREATING 20,000 LOCAL JOBS, 300,000 INDIRECT JOBS

THIRD, green development has become the common language and common agenda for China and Europe, but some Chinese enterprises face barriers to enter the European market.

China and Europe stand together in promoting green development. Both are advocates of the Paris Agreement, and both are fulfilling their international commitments and transforming them into a domestic development agenda.

Green development is one of China's five major development concepts, with ecological civilization being the development target of China's new era and pollution prevention being one of the three toughest battles for building a well-off society. Now, to most Chinese people, "Clear waters and green mountains are as good as mountains of gold and silver".

China is continuing to explore and pilot carbon markets as an active response to climate change and promote the implementation of the Paris Agreement. China is also a staunch supporter of the SDGs. Being a pioneer itself, the EU has always attached great importance to green and sustainable development. The European Commission, presided by Ursula von der Leyen, has launched important policy documents such as the European Green Deal and the EU Circular Economy Action Plan.

In the future, the two sides will tap into cooperation in the fields of green buildings, smart cities and clean energy. Chinese enterprises will further contribute to the EU's green and sustainable development. Chinese enterprises in Europe have done commendable work leveraging their own strengths and experience in fields such as green 5G, new energy, electric vehicles and ecological restoration. However, due to the inconsistency in standards and the long-standing misunderstanding of China's low-cost-products and state-owned enterprises, China's renewable energy and green automobile companies face obstructions in entering the European market.

FOURTH, while implementing an overlapping review system, the EU has put some Chinese enterprises at a disadvantage.

The EU has become increasingly defensive in its trade policy-making process. It has issued "EU-China — A Strategic Outlook" and other documents to reposition China, and introduced a number of measures to strengthen foreign investment and security review. The current problems of irrational investment review and unequal bidding and procurement have, to a certain extent, damaged the confidence of Chinese enterprises.

Workers are at work in the electric bus plant set up by Chinese electric vehicle (EV) maker BYD in Hungary's northern city Komarom.
PHOTO BY BYD EUROPE

In this context, Chinese enterprises, especially state-owned ones, are likely to face a set of complex scrutiny measures when investing in the EU, such as antitrust review, foreign investment screening, and foreign subsidy review, which have been nicknamed by some Chinese companies as “three mountains” that hinder their normal business operations on the continent. There are more qualitative standards than quantitative standards applied in these regulations, which may lead to discretionary power. In fact, SASAC (State-owned Assets Supervision and Administration Commission of the State Council) has only a small proportion of capital invested in SOEs. They are independent in decision-making procedures and bear responsibility for their own performance. In addition, most state-owned enterprises are listed on Chinese or overseas stock exchanges, and have a healthy corporate governance structure.

The investment and development of Chinese enterprises in Europe are market-oriented decisions. Since the EU and its member states apply different evaluation criteria, it may greatly reduce the certainty of transactions and affect the delivery schedule as enterprises have to make more than one declaration. Unnecessary reviews consume a lot of time and manpower for both sides and the EC as well. As a response to the entry of Chinese enterprises, the EU is advised to take an objective stance, and treat all enterprises equally in accordance with the principle of competitive neutrality.

FIFTH, local business activities of Chinese enterprises in Europe are becoming deeper and more diversified, but they still need to work to gain a better understanding of the EU market policies.

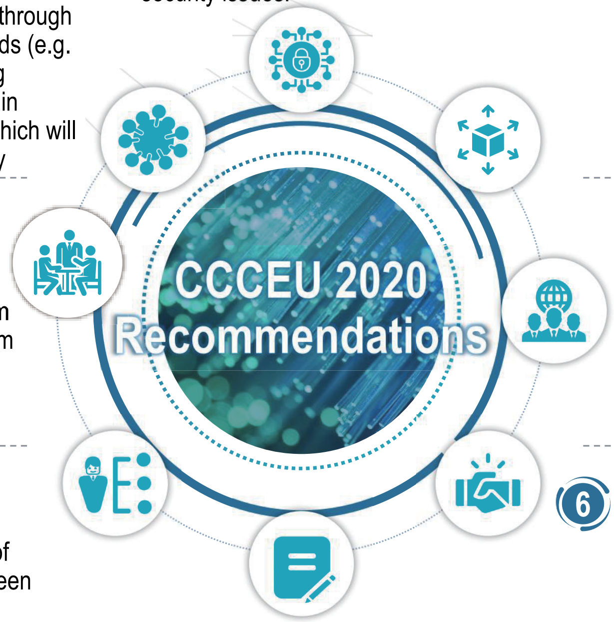
Apart from regular business activities such as sales of products and services, Chinese enterprises represented by Huawei, BGI, Fosun Group and Geely Automobile have set up local R&D centres and factories to open up new businesses. Chinese enterprises, such as China Unicom, Sany Heavy Industry and COSCO Shipping have fitted in with local communities and shouldered their social responsibility by increasing the proportion of local employees and working to promote local people's livelihood.

Since its inauguration in April 2019, the CCCEU has been advocating its members to fulfill their social responsibility and operate under environmentally-friendly conditions. The EU is known for its diverse cultures and languages, and a relatively complicated legal framework. Inevitably, some Chinese enterprises still find it difficult to fully understand the laws and regulations of the EU. They also face obstacles like insufficient communication and lack of high-end talents. Some of them have experienced red tape in work permits and less mutual recognition of standards. As mentioned above, there is still room for the EU to improve and coordinate with member states in the ease of the business environment for Chinese enterprises.

Chapter III

Policy recommendations for EU institutions

In previous chapters, we figured out the main characteristics and complexity of the year 2020 in the context of the China-EU partnership. We also took a deep dive into the EU's business ecosystem where Chinese companies operate. For most Chinese businesses in Europe, 2020 has been the toughest year due to the impact of COVID-19. Spillover and politicised approach to cyber security issues and investment screening have dampened the expectation of Chinese investors. After much deliberation, we propose eight recommendations for EU institutions with a view to encouraging dialogue and discussions and helping provide more Chinese companies with an opportunity to access the EU market in a more balanced, fair and reciprocal basis. With these recommendations, we hope to contribute to improving the EU's business environment in 2021 and beyond, and attract more Chinese investment to support the integration of Europe.



1 On mutual political trust: Political will is needed from the EU and member states to dialogue with China on long-term objectives, as dialogue will inform expectations and align policies, paving the way for a stronger partnership

2 On COVID-19 response: Collaboration is necessary to alleviate long-term impacts through producing global public goods (e.g. vaccines) and strengthening collaborative arrangements in prevention and response, which will contribute to global recovery

3 On cyber security: Dialogue and agreement are needed to prevent the misuse and politicization of cyber security issues.

4 On multilateralism: multilateralism should be safeguarded and strengthened by avoiding regulatory creep, resisting all forms of trade and investment protectionism and using protection measures prudently

5 On trade & investment: efforts are needed to conclude talks on the EU-China investment agreement, which could create opportunities for businesses and pave the way for a potential free trade agreement

6 On partnerships: China-EU PPPs should be encouraged. Multilateral platforms should also be put in place for a bigger role of Chinese companies in the EU's transformation and recovery

7 On sector-specific standards: Chinese companies should be more active in the EU's public consultations on policies and standards. More input will promote EU-China alignment in technical, engineering and other standards.

8 On youth exchange: opportunities of exchange between the young people of China and the EU and between young professionals in particular should be encouraged for a brighter future in our bilateral relations

FIRST, the EU could strengthen the political will to raise mutual trust with China and alignment in long-term objectives and policy planning. This will go a long way towards stabilizing expectations for the economies of China and the EU at a globally turbulent time.

In recent years, the international business environment has been severely undermined by certain countries. At such times and with clear vision, China and the EU have been united in leadership and commitment towards multilateralism and global cooperation, which are more important than ever before. We are encouraged to see that even as the world is struggling with challenges and setbacks due to

COVID-19, the leaders of China and Europe have been determined and unequivocal in their message to safeguard the liberalisation and facilitation of investment and trade.

In fact, now is the best time for China and the EU to have a deep understanding about each other's long-term objectives and policy plans. In China, public consultation is underway on the 14th Five-Year Plan (starting next year) of economic and social development, and the modernisation scheme for 2035, with sector-specific plans scheduled for release over the next two years. The EU, for its part, is in the process of implementing its green and digital transformation. In September 2020, the European Council, the European Commission and the European Parliament will host the Conference on the Future of Europe, a two-year initiative to deliberate on the blueprint for the region. China is also drafting plans for the bilateral partnership over the next five years. Additionally, the EU-China Strategic Agenda is also underway. All these plans have paved the way for EU institutions to engage in dialogue with China and strengthen alignment in long-term objectives and policies, control risks and come up with more feasible mid- to long-term cooperation plans and policy coordination. The CCCEU and its partners are ready to promote a more constructive trade partnership to jointly fulfil our long-term goals.

COSCO Shipping HIMALAYAS is unloading at the Port of Zeebrugge, Belgium.
PHOTO BY COSCO SHIPPING (EUROPE) GMBH

SECOND, the EU should act responsively and work with China to revive the global economy and prevent the health crisis from causing prolonged socioeconomic damage across the world. We must minimise its impact on our lives. We can do so through producing vaccines and other public health products and strengthening collaborative mechanisms in prevention and response.

According to WHO, by September 5, 2020, COVID-19 has infected more than 26 million people around the world, and requires an investment upwards of US$100 billion just to find a vaccine. Clearly, no country or region is equipped to deal with COVID-19 alone. Collaboration and sharing are the only way if we truly want to defeat the virus, which requires developing a vaccine as soon as we can and making it available to all those who need it. We also need to act together in prevention and control vis-à-vis public health emergencies to help countries strengthen their preparedness.

Chinese companies in Europe can play a bigger role in the health sector, especially in vaccine development, during the EU's economic recovery. Additionally, Chinese and European companies can work together to provide assistance to Africa and other less developed and fragile regions, in helping them enhance their response capacity to safeguard people's health and lives.

THIRD, initiating frank and thorough dialogue with China on cyber security and signing agreements of mutual trust are pressing issues to help prevent the spillover and politicisation of cyber security issues.

As the EU enters a critical stage in 5G infrastructure deployment, it would be in the best interests of the bloc and China to build a relationship based on mutual trust in cyber security. We can both benefit from open, uniform and transparent rules of screening and certification for all suppliers. We should avoid the discriminatory use of any criteria that target certain countries or certain types of businesses.

In infrastructure security, we could benefit from efforts to reach agreements that ensure the reliability of network devices and facilities and the physical security of their operating environment. Concerning cyber security, confidence-building mechanisms are necessary to prevent cyber attacks or cyber crimes. Regarding data security, work is needed to bring about alignment between GDPR and China's data security standards to enable mutual recognition of mechanisms for data security and protection. This can also provide more opportunities for meaningful cooperation between Chinese and

European companies in the digital realm.

FOURTH, the EU is called on to refrain from overregulation and excessive screening, and all forms of trade and investment protectionism so as to defend and improve the multilateral trading system.

Against the backdrop of the COVID-19 pandemic, the EU is called on to work hand in hand with China on the commitment to "refrain from raising new trade protectionist measures" to maintain multilateral trade liberalization. The EU and member states need to reduce unnecessary screening with better understanding of Chinese enterprises, and eliminate overregulation and discriminatory laws and practices to encourage Chinese enterprises to be a part of the development story across the EU. As we can see, the cost of FDI (foreign direct investment) into the EU will rise and procedures will be more complicated after the measures set out in the White Paper "on levelling the playing field as regards foreign subsidies" are translated into law. Feasibility studies are suggested before the EU adopts the news laws and regulations on trade and investment activities.

FEASIBILITY STUDIES ARE SUGGESTED BEFORE THE EU ADOPTS THE NEWS LAWS AND REGULATIONS ON TRADE AND INVESTMENT ACTIVITIES.

We have noticed that there has been rising protectionism within the EU in recent years, even when coping with the COVID-19 crisis. But as a matter of fact, opening up rather than tightening is the right solution to economic recovery. China is showing up in this way. The Chinese government has been providing a better business environment for foreign enterprises while advancing reform and opening up. For example, the government has revised the National Negative List (Special Administrative Measures for Foreign Investment Access) and FTZ Negative List (Special Administrative Measures for Foreign Investment Access in Pilot Free Trade Zones) for four consecutive years between 2017 and 2020. The number of items in the two lists has been cut to 33 from 93, and 30 from 122, respectively. Recently, China's doors have opened even wider, particularly in financial services and automobile manufacturing.

FIFTH, the EU should work closely with China to conclude negotiations on the EU-China Comprehensive Agreement on Investment (CAI) by the end of this year, turning the agreement into action as soon as possible and creating new opportunities for enterprises on both sides. At the same time, the feasibility study and negotiations for the EU-China Free Trade Agreement should be launched quickly to boost trade and accelerate economic growth for both sides.

After seven years of involvement, both sides have sped up negotiations on the CAI in 2020 and significant progress has been made. It is expected that the agreement will be concluded despite difficulties caused by the ongoing pandemic, bringing market opportunities and benefits to enterprises. On top of this, we hope negotiations for an FTA will be launched as soon as possible to further strengthen bilateral economic and trade cooperation.

Important breakthroughs have also been made in other bilateral agreements. The EU and China signed two landmark aviation agreements in May 2019 and it is estimated that during the first eight years of the agreements, 11,000 jobs will be created. The EU-China Geographical Indication (GI) Agreement will be signed soon. It is China's first comprehensive and high-quality bilateral agreement on GIs, which will cover 275 GI labels from both sides and result in better-quality trade of agricultural products. The CCCEU will work with partners from both sides to implement all the agreements.

SIXTH, economic and trade agreements achieved by the two sides should be implemented in a creative way by strengthening cooperation between the public and the private sector. Efforts are needed to establish a platform for multilateral cooperation to facilitate the participation of Chinese enterprises in the EU's economic transformation and post-pandemic recovery plan.

At the 8th High-Level Trade and Economic Dialogue, the two sides agreed on boosting the international role of the euro and the RMB and enhancing opening up and cooperation in the financial services sector. Chinese financial institutions will translate the consensus agreement into action as they fully see the opportunities brought by this. As noticed globally, the EU has announced its €750 billion economic recovery fund and bond issues will follow soon. Chinese financial companies are willing to join the efforts and are looking forward to fair treatment in the EU market.

Establishment of trust between the two sides is needed in the China-EU Public-Private-Partnership to help economies recover from COVID-19 and innovatively support the implementation of key agendas on digitization, green development and financial fields. The two sides could take the lead in setting up the foundation by encouraging financial institutions and other private actors to participate.

Meanwhile, we have noticed that both China and the EU place economic and trade cooperation with Africa high on the agenda. Chinese enterprises in the EU believe that Sino-EU joint efforts on investment and trade in Africa are feasible and achievable and are willing to join hands with European partners to explore the third market.

SEVENTH, the EU is called on to encourage and allow Chinese companies to participate in the EU's adoption of industry standards and technological R&D standards so that the time and HR costs for market access can be reduced by using common standards.

China is witnessing ever-increasing investment in, and trade with, the EU. It needs to participate in standards creation and standards alignment in different fields to improve market integration. Therefore, the EU, member states, leading companies and business associations should be open enough to hear the voice of key Chinese companies in fields such as digital transformation and green development when introducing policies and standards. Communication and exchange of information should be strengthened on standard authentication to make standards clearer and more operable. At the same time, more efforts are needed to introduce harmonized standards and improve mutual

CHINA IS WITNESSING EVER-INCREASING INVESTMENT IN, AND TRADE WITH, THE EU. IT NEEDS TO PARTICIPATE IN STANDARDS CREATION AND STANDARDS ALIGNMENT IN DIFFERENT FIELDS TO IMPROVE MARKET INTEGRATION.

recognition of different standards.

Many Chinese firms have been racing ahead in industries like ICT and AI. These firms could be a part of the EU's policy making or developing standards by providing useful advice. For example, Gaia-X has been listening to Google, Amazon and other global tech giants when developing its rules. We hope leading Chinese firms will be involved, too. It's also urgent to enhance dialogue and cooperation on standards alignment in transportation like high-speed rail manufacturing.

EIGHTH, the EU is called on to establish a mechanism with China for youth exchanges, especially for young business leaders from both sides, to prepare for the future of China-EU economic and trade relations.

EU institutions have been conducting visionary work, powering recovery measures by the new instrument Next Generation EU, which aims at building economic resilience while boosting green and digital transitions for the next generation.

In China, it's said that the youth is like the sun at eight or nine o'clock in the morning. The CCCEU calls for the establishment of a

China-EU young business leaders dialogue mechanism, which will be an innovative platform for communication and mutual understanding. Young people are encouraged to cooperate and be inclusive, and to be ready to take on important roles in the business or public spheres with the overall aim of facilitating China-EU partnerships and promoting peace and development.

The platforms for communication are necessary for young people from both sides. For the young generation in China, it is important to understand the diverse, multilingual and multi-cultural characteristics of the EU market and to learn about the EU's legal frameworks, customs, values, codes of conduct and management models.

On the other hand, young Europeans also need to learn more about China, Chinese culture, Chinese businesses and the Chinese market where they can find a variety of opportunities. The CCCEU is willing to work with our partners to participate in and advance exchanges between the youth.

Concluding remarks

There has been some light at the end of the tunnel amid the coronavirus pandemic. The 45 years of China-EU ties have almost coincided with the period of China's remarkable growth. Over the past few decades, the concept of "development is of overriding importance" has been guiding the Chinese people.

When meeting with President of the European Council Charles Michel and President of the European Commission von der Leyen via video link on June, 22, 2020, Chinese President Xi Jinping said that China and the EU should serve as two huge markets that promote global development and prosperity and the two major economies should play the role as dual engines to drive the recovery of the global economy.

Meanwhile, President von der Leyen said in an op-ed article in July: "Our Union should always be judged on what it can offer for the future. That vision of a common future enabled us to take every bold step in our history: uniting Europe after the Second World War or the end of the Cold War, creating our common market and introducing our common currency. Today, it is that same pioneering vision enabling us to make another historic step for our Union."

Interdependence and close cooperation between the two sides can turn the vision of President Xi and President von der Leyen into reality. But the world is facing great changes and unprecedented difficulties, so we have to be strong-willed and innovative, full of courage, hope, vitality and wisdom. The EU needs more inclusive and visionary thinking, and to exercise independent judgement. China also needs to open its door even wider to the world, helping Chinese enterprises go global as well as attracting foreign companies to maintain and promote China-EU economic and trade relations.

As two great civilizations, two major forces and two big markets, the EU and China have the capacity to serve as the "twin engines" for global economic recovery. We have to choose the right way at this historic juncture: making joint efforts to help the world quickly get out of the coronavirus crisis and driving the global economy out of a slump to create a better future.

Appendix

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About us

CHINA CHAMBER OF COMMERCE TO THE EU (CCCEU)

The CCCEU is an active bridge-builder that mainly helps Chinese enterprises in Europe chart the way for increased China-EU economic interaction. Founded by Bank of China (Luxembourg) S.A., China Three Gorges (Europe) S.A. and COSCO Shipping Europe GmbH in August 2018, Brussels-based China Chamber of Commerce to the EU now represents up to 70 Members and chambers in member states, covering about 1,000 Chinese enterprises in the EU.

Email: info@ccceu.eu | website: en.ccceu.eu

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